ESSEX PORTFOLIO LP
Form 10-K
March 02, 2015

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

FORM 10-K

(MARK ONE)

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

For the fiscal year ended December 31, 2014
OR

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

FOR THE TRANSITION PERIOD FROM ___________ TO _____________
Commission file number: 1-13106 (Essex Property Trust, Inc.)
Commission file number: 333-44467-01 (Essex Portfolio, L.P.)

ESSEX PROPERTY TRUST, INC.
ESSEX PORTFOLIO, L.P.
(Exact name of Registrant as Specified in its Charter)

Maryland (Essex Property Trust, Inc.)	77-0369576 (Essex Property Trust, Inc.)
California (Essex Portfolio, L.P.)	77-0369575 (Essex Portfolio, L.P.)
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

925 East Meadow Drive
Palo Alto, California 94303
(Address of Principal Executive Offices including Zip Code)
(650) 494-3700
(Registrant's Telephone Number, Including Area Code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $.0001 par value (Essex Property Trust, Inc.)	New York Stock Exchange
7.125% Series H Cumulative Redeemable Preferred Stock (Essex Property Trust, Inc.)	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Essex Property Trust, Inc.   Yes o No x   Essex Portfolio, L.P.   Yes o No x

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

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).
Essex Property Trust, Inc.   Yes x No o   Essex Portfolio, L.P.   Yes x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.
Essex Property Trust, Inc.   o   Essex Portfolio, L.P.   o

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

Essex Property Trust, Inc.:

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

Essex Portfolio, L.P.:

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Essex Property Trust, Inc.   Yes o No x   Essex Portfolio, L.P.   Yes o No x

As of June 30, 2014, the aggregate market value of the voting stock held by non-affiliates of Essex Property Trust, Inc. was $11,430,740,862. The aggregate market value was computed with reference to the closing price on the New York Stock Exchange on such date. Shares of common stock held by executive officers, directors and holders of more than ten percent of the outstanding common stock have been excluded from this calculation because such persons may be deemed to be affiliates. This exclusion does not reflect a determination that such persons are affiliates for any other purposes. There is no public trading market for the common units of Essex Portfolio, L.P. As a result, the aggregate market value of the common units held by non-affiliates of Essex Portfolio, L.P., cannot be determined.

As of February 24, 2015, 65,125,801 shares of common stock ($.0001 par value) of Essex Property Trust, Inc. were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:
The following document is incorporated by reference in Part III of the Annual Report on Form 10-K: Proxy statement for the annual meeting of stockholders of Essex Property Trust, Inc. to be filed within 120 days of December 31, 2014.

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2014 of Essex Property Trust, Inc. and Essex Portfolio, L.P. Unless stated otherwise or the context otherwise requires, references to “ESS” mean Essex Property Trust, Inc., a Maryland corporation that operates as a self-administered and self-managed real estate investment trust (“REIT”), and references to “EPLP” mean Essex Portfolio, L.P. (the “Operating Partnership”). Unless stated otherwise or the context otherwise requires, references to the “Company,” “Essex,” “we,” “us” or “our” mean collectively ESS EPLP and those entities/subsidiaries owned or controlled by ESS and/or EPLP. References to the “Operating Partnership” mean collectively EPLP and those entities/subsidiaries owned or controlled by EPLP.

ESS is the general partner of, and as of December 31, 2014 owned an approximate 96.7% ownership interest in EPLP. The remaining 3.3% interest is owned by limited partners. As the sole general partner of EPLP, ESS has exclusive control of EPLP's day-to-day management.

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

The Company believes that combining the reports on Form 10-K of ESS and EPLP into this single report provides the following benefits:

- enhances investors' understanding of the Company and the Operating Partnership by enabling investors to view the business as a whole in the same manner as management views and operates the business;
- eliminates duplicative disclosure and provides a more streamlined and readable presentation since a substantial portion of the disclosure applies to both the Company and the Operating Partnership; and
- creates time and cost efficiencies through the preparation of one combined report instead of two separate reports.

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

All of the Company's property ownership, development and related business operations are conducted through the Operating Partnership and ESS has no material assets, other than its investment in EPLP. ESS's primary function is acting as the general partner of EPLP. As general partner with control of the Operating Partnership, the Company consolidates the Operating Partnership for financial reporting purposes. Therefore, the assets and liabilities of the Company and the Operating Partnership are the same on their respective financial statements. ESS also issues equity from time to time and guarantees certain debt of EPLP, as disclosed in this report. The Operating Partnership holds substantially all of the assets of the Company, including the Company's ownership interests in its joint ventures. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from equity offerings by the Company, which are contributed to the capital of the Operating Partnership in exchange for additional limited partnership interests in the Operating Partnership (“OP Units”) (on a one-for-one share of common stock per OP Unit basis), the Operating Partnership generates all remaining capital required by the Company's business. These sources include the Operating Partnership's working capital, net cash provided by operating activities, borrowings under its revolving credit facility, the issuance of secured and unsecured debt and equity securities and proceeds received from disposition of certain properties and joint ventures.

The Company believes it is important to understand the few differences between ESS and EPLP in the context of how ESS and EPLP operate as a consolidated company. Shareholders' equity, partners' capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of the Company and those of the Operating Partnership. The limited partners of the Operating Partnership are accounted for as partners' capital in the Operating Partnership's consolidated financial statements and as noncontrolling interests in the Company's consolidated financial statements. The noncontrolling interests in the Operating Partnership's consolidated financial statements include the interests of unaffiliated partners in various consolidated partnerships and development joint venture partners. The noncontrolling interests in the Company's consolidated financial statements include (i) the same noncontrolling interests as presented in the Operating Partnership’s consolidated financial statements and (ii) limited partner OP Unit holders of the Operating Partnership. The differences between stockholders' equity and partners' capital result from differences in the equity issued at the Company and Operating Partnership levels.

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

This report also includes separate Part II, Item 9A. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of the Company and the Operating Partnership in order to establish that the requisite certifications have been made and that the Company and the Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

In order to highlight the differences between the Company and the Operating Partnership, the separate sections in this report for the Company and the Operating Partnership specifically refer to the Company and the Operating Partnership. In the sections that combine disclosure of the Company and the Operating Partnership, this report refers to actions or holdings as being actions or holdings of the Company. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and joint ventures and holds assets and debt, reference to the Company is appropriate because the Company is one business and the Company operates that business through the Operating Partnership. The separate discussions of the Company and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company on a consolidated basis and how management operates the Company.

ESSEX PROPERTY TRUST, INC.
ESSEX PORTFOLIO, L.P.
2014 ANNUAL REPORT ON FORM 10-K

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PART I
Forward Looking Statements

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements are described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the section, "Forward Looking Statements." Actual results could differ materially from those set forth in each forward-looking statement. Certain factors that might cause such a difference are discussed in this report, including Item in 1A, Risk Factors of this Form 10-K.

Item 1. Business

OVERVIEW

Essex Property Trust, Inc. ("Essex" or the "Company") is a Maryland corporation that operates as a self-administered and self-managed real estate investment trust ("REIT"). The Company owns all of its interest in its real estate investments directly or indirectly through Essex Portfolio, L.P. (the "Operating Partnership" or "EPLP"). The Company is the sole general partner of the Operating Partnership and as of December 31, 2014 owns a 96.7% general partnership interest. In this report, the terms "Essex" or the "Company" also refer to Essex Property Trust, Inc., its Operating Partnership and those entities owned or controlled by the Operating Partnership.

The Company has elected to be treated as a REIT for federal income tax purposes, commencing with the year ended December 31, 1994 as the Company completed an initial public offering on June 13, 1994. In order to maintain compliance with REIT tax rules, the Company utilizes taxable REIT subsidiaries for various revenue generating or investment activities. All taxable REIT subsidiaries are consolidated by the Company.

The Company is engaged primarily in the ownership, operation, management, acquisition, development and redevelopment of predominantly apartment communities. As of December 31, 2014, the Company owned or held an interest in 239 communities, aggregating 57,455 units, located along the West Coast, as well as four commercial buildings (totaling approximately 325,200 square feet), and twelve active development projects with 2,920 units in various stages of development (collectively, the "Portfolio").

The Company's website address is http://www.essex.com. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, and the Proxy Statement for its Annual Meeting of Stockholders are available, free of charge, on its website as soon as practicable after the Company files the reports with the U.S. Securities and Exchange Commission ("SEC").

BUSINESS STRATEGIES

The following is a discussion of the Company's business strategies in regards to real estate investment and management.

Business Strategies

Research Driven Approach to Investments – The Company believes that successful real estate investment decisions and portfolio growth begin with extensive regional economic research and local market knowledge. The Company continually assesses markets where the Company operates, as well as markets where the Company considers future investment opportunities by evaluating the following:

- Focus on markets in major metropolitan areas that have regional population in excess of one million;
- Constraints on new supply driven by: (i) low availability of developable land sites where competing housing could be economically built; (ii) political growth barriers, such as protected land, urban growth boundaries, and potential lengthy and expensive development permit processes; and (iii) natural limitations to development, such as mountains or waterways;
- Rental demand is enhanced by affordability of rents relative to costs of for-sale housing; and
- Housing demand that is based on job growth, proximity to jobs, high median incomes and the quality of life including related commuting factors.

Recognizing that all real estate markets are cyclical, the Company regularly evaluates the results of its regional economic, and local market research, and adjusts the geographic focus of its portfolio accordingly. The Company seeks to increase its Portfolio allocation in markets projected to have the strongest local economies and to decrease such allocations in markets projected to have declining economic conditions. Likewise, the Company also seeks to increase its Portfolio allocation in markets that have attractive property valuations and to decrease such allocations in markets that have inflated valuations and low relative yields.

Property Operations – The Company manages its communities by focusing on activities that may generate above-average rental growth, tenant retention/satisfaction and long-term asset appreciation. The Company intends to achieve this by utilizing the strategies set forth below:

- Property Management – Oversee delivery of and quality of the housing provided to our residents and manage the properties financial performance.
- Capital Preservation –Asset Management is responsible for the planning, budgeting and completion of major capital improvement projects at the Company's communities.
- Business Planning and Control – Comprehensive business plans are implemented in conjunction with significant investment decisions. These plans include benchmarks for future financial performance, based on collaborative discussions between on-site managers and senior management.
- Development and Redevelopment – The Company focuses on acquiring and developing apartment communities in supply constrained markets, and redeveloping its existing communities to improve the financial and physical aspects of the Company's communities.

CURRENT BUSINESS ACTIVITIES

Merger with BRE Properties, Inc.

On April 1, 2014, Essex completed the merger with BRE Properties, Inc. ("BRE"). In connection with the closing of the merger, (1) BRE merged into a wholly owned subsidiary of Essex, and (2) each outstanding share of BRE common stock was converted into (i) 0.2971 shares (the "Stock Consideration") of Essex common stock, and (ii) $7.18 in cash, (the "Cash Consideration"), plus cash in lieu of fractional shares for total consideration of approximately $4.3 billion. The Cash Consideration was adjusted as a result of the authorization and declaration of a special distribution to the stockholders of BRE of $5.15 per share of BRE common stock payable to BRE stockholders of record as of the close of business on March 31, 2014 (the "Special Dividend"). The Special Dividend was payable as a result of the closing of the sale of certain interests in assets of BRE to certain parties, which closed on March 31, 2014. Pursuant to the terms of the merger agreement, the amounts payable as a Special Dividend reduced the Cash Consideration of $12.33 payable by Essex in the merger to $7.18 per share of BRE common stock.

Essex issued approximately 23.1 million shares of Essex common stock as Stock Consideration in the merger. For purchase accounting, the value of the common stock issued by Essex upon the consummation of the merger was determined based on the closing price of BRE's common stock on the closing date of the merger. As a result of Essex being admitted to the S&P 500 on the same date as the closing of the merger, Essex's common stock price experienced significantly higher than usual trading volume and the closing price of $174 per share was significantly higher than its volume-weighted average trading price for the days before and after April 1, 2014. BRE's common stock did not experience the same proportionate increase in common stock price leading up to April 1, 2014. As a result, given that a substantial component of the purchase price is an exchange of equity instruments, Essex used the closing price of BRE's common stock on April 1, 2014 of $61 per share, less the Cash Consideration, as the fair value of the equity consideration. After deducting the Special Dividend and the Cash Consideration per share, this resulted in a value of $48.67 per share of BRE common stock which is the equivalent of approximately $164 per share of Essex common stock issued.

Acquisitions of Real Estate

Acquisitions are an important component of the Company’s business plan, and during 2014, the Company and its co-investments acquired ownership interests in seven communities comprising of 2,578 units for $640.7 million. The following is a summary of 2014 acquisitions ($ in millions):

			Essex Ownership				Purchase
Property Name	Location	Units	Percentage		Ownership	Quarter in 2014	Price
The Avery	Los Angeles, CA	121	100	%	EPLP	Q1 2014	$35.0
Piedmont	Bellevue, WA	396	100	%	EPLP	Q2 2014	76.8
Collins on Pine	Seattle, WA	76	100	%	EPLP	Q2 2014	29.2
Paragon	Fremont, CA	301	100	%	EPLP	Q3 2014	111.0
Apex	Milpitas, CA	366	100	%	EPLP	Q3 2014	150.0
Ellington at Bellevue	Bellevue, WA	220	100	%	EPLP	Q3 2014	58.7
Palm Valley (1)	San Jose, CA	1,098	50	%	JV	Q4 2014	180.0
Total 2014		2,578					$640.7

(1) The Palm Valley purchase price represents the Company's share of the property.

Dispositions of Real Estate

As part of its strategic plan to own quality real estate in supply-constrained markets, the Company continually evaluates all the communities and sells those which no longer meet its strategic criteria. The Company may use the capital generated from the dispositions to invest in higher-return communities or other real estate investments, or repay unsecured and line of credit debts. The Company believes that the sale of these communities will not have a material impact on its future results of operations or cash flows nor will their sale materially affect its ongoing operations. Generally, the Company seeks to have any impact of earnings dilution resulting from these dispositions offset by the positive impact of its acquisitions, development and redevelopment activities.

During 2014, the Company sold four apartment communities, Vista Capri, Coldwater Canyon, Mt. Sutro, and Pinnacle Town Center for a total of $120.4 million, resulting in total gains of $43.6 million.

During 2014, Essex Apartment Value Fund II, L.P. (“Fund II”) sold Davey Glen for $23.8 million and Alderwood Park for $23.5 million. In connection with the sales, Fund II incurred a prepayment penalty on debt of which the Company’s pro rata share was $0.2 million. The total gains on the transactions in 2014 were $23.3 million, of which the Company’s share was $6.6 million.

Development Pipeline

The Company defines development projects as new communities that are in various stages of active development, or are in the process of leasing activities prior to stabilization. As of December 31, 2014, the Company had two consolidated development projects and ten joint venture development projects comprised of 2,920 units for an estimated cost of $1.5 billion, of which $420.0 million remains to be expended.

The Company defines the predevelopment projects as proposed communities in negotiation or in the entitlement process with an expected high likelihood of becoming entitled development projects. As of December 31, 2014, the Company had various consolidated predevelopment projects. The Company may also acquire land for future development purposes or sale.

The following table sets forth information regarding the Company’s development pipeline ($ in millions):

Development Pipeline	Location	Essex Ownership	%	Units	As of 12/31/2014 Incurred Project Cost	Estimated Project Cost[1]
Development Projects - Consolidated						
MB 360	San Francisco, CA	100	%	360	$226	$275
Radius	Redwood City, CA	100	%	264	163	172
Total - Consolidated Development Projects				624	389	447
Development Projects - Joint Venture						
Epic - Phase III	San Jose, CA	55	%	200	64	97
The Dylan	West Hollywood, CA	50	%	184	78	78
Mosso II	San Francisco, CA	55	%	282	143	150
Park 20	San Mateo, CA	55	%	197	74	77
One South Market	San Jose, CA	55	%	312	120	145
The Village	Walnut Creek, CA	50	%	49	60	89
Emme	Emeryville, CA	55	%	190	62	62
Owens	Pleasanton, CA	55	%	255	26	89
Hacienda	Pleasanton, CA	55	%	251	16	86
Century Towers	San Jose, CA	50	%	376	40	172
Total - Joint Venture Development Projects				2,296	683	1,045
Predevelopment Projects - Consolidated						
Other Projects	various	100	%	—	45	45
Total - Predevelopment Projects				—	45	45
Grand Total - Development and Predevelopment Pipeline				2,920	$1,117	$1,537

[1] Includes incurred costs and estimated costs to complete these development projects. For predevelopment projects, only incurred costs are included in estimated costs.

Redevelopment Pipeline

The Company defines redevelopment pipeline as existing properties owned or recently acquired, which have been targeted for additional investment by the Company with the expectation of increased financial returns through property improvement. During redevelopment, apartment units may not be available for rent and, as a result, may have less than stabilized operations. As of December 31, 2014, the Company had ownership interests in three redevelopment communities aggregating 963 apartment units with estimated redevelopment costs of $122.0 million, of which approximately $96.4 million remains to be expended.

Long Term Debt

During 2014, the Company repaid $24.1 million of principal outstanding on its secured mortgage debt at an average interest rate of 4.9%.

In April 2014, the Company issued $400 million of 3.875% senior unsecured notes that mature in May 2024. The interest is payable semi-annually in arrears on May 1 and November 1 of each year, commencing November 1, 2014 until the maturity date in May 2024. The Company used the net proceeds of this offering to repay indebtedness under the Company's $1.0 billion unsecured line of credit facility and for other general corporate purposes. The carrying value of the 2024 Notes, net of discount was $397.2 million as of December 31, 2014.

In April 2014, the Company, assumed $900.0 million aggregate principal amount of BRE's 5.500% senior notes due 2017; 5.200% senior notes due 2021; and 3.375% senior notes due 2023 (together "BRE Notes"). The carrying value of the BRE Notes, net of premium, was $934.7 million as of December 31, 2014. Also, in connection with the Merger, the Company assumed approximately $711.3 million of secured debt with remaining loan terms ranging from one to seven years and a weighted average interest rate of 5.6%.

Bank Debt

As of December 31, 2014, Fitch Ratings ("Fitch"), Moody's Investor Service, and Standard and Poor's ("S&P") credit agencies rated Essex Property Trust, Inc. and Essex Portfolio, L.P. BBB+/Stable, Baa2/Stable, and BBB/Stable, respectively.

In January 2014, the Company increased the capacity of the unsecured line of credit facility from $600.0 million to $1.0 billion and included an accordion feature pursuant to which the Company could expand to $1.5 billion. This facility matures in December 2017 with one 18-month extension, exercisable at the Company's option. In January 2015, the facility maturity date was extended to December 31, 2018 with one 18-month extension, exercisable by the Company. The facility carries an interest rate based on its current credit ratings of LIBOR plus 0.95%.

In January 2014, the Company extended the $25.0 million working capital unsecured line of credit for two additional years and reduced the pricing which carries an interest rate based on a tiered rate structure tied to Fitch and S&P ratings on the credit facility of LIBOR plus 0.95%.

In January 2014, the Company reduced the pricing on its $350.0 million unsecured term loan by 15 basis points to LIBOR plus 1.05%. In December 2014, the Company repaid $125.0 million outstanding on this term loan.

Equity Transactions

Essex issued approximately 23,067,446 shares of Essex common stock as Stock Consideration in the BRE merger. Excluding shares issued in connection with the BRE merger, during 2014, ESS issued 2,964,315 shares of common stock at an average share price of $181.56 for proceeds of $534.0 million, net of fees and commissions. During the first quarter of 2015 through February 24, 2015, ESS has issued 636,021 shares of common stock at an average price of $224.76 for proceeds of $142.0 million, net of fees and commissions. ESS contributed the net proceeds to the Operating Partnership and used the proceeds to fund external growth and for general corporate purposes.

Co-investments

The Company has entered into, and may continue in the future to enter into, joint ventures or partnerships (including limited liability companies) through which we own an indirect economic interest in less than 100% of the community or land owned directly by the joint venture or partnership. For each joint venture the Company holds a 50% to 55% non-controlling interest in the venture and will earn customary management fees and may earn development, asset property management fees and may also earn a promote interest.

The Company has also made, and may continue in the future to make, preferred equity investments in various multifamily development projects. The Company earns a preferred rate of return on these investments.

OFFICES AND EMPLOYEES

The Company is headquartered in Palo Alto, California, and has regional offices in Woodland Hills, California; Irvine, California; San Diego, California and Bellevue, Washington. As of December 31, 2014, the Company had 1,725 employees.

INSURANCE

The Company purchases general liability and all risk property, including loss of rent, insurance coverage for each of its communities. The Company also purchases limited earthquake, terrorism, environmental and flood insurance. There are certain types of losses which may not be covered or could exceed coverage limits. The insurance programs are subject to deductibles and self-insured retentions in varying amounts. The Company utilizes a wholly owned insurance subsidiary, Pacific Western Insurance LLC ("PWI") to self-insure certain earthquake and all risk losses. As of December 31, 2014, PWI has cash and marketable securities of approximately $57.6 million, and is consolidated in the Company's financial statements.

All the communities are located in areas that are subject to earthquake activity. The Company evaluates its financial loss exposure to seismic events by using actuarial loss models developed by the insurance industry and property vulnerability based on structural evaluations of seismic consultants. The Company manages this exposure, where considered appropriate, desirable, and cost-effective, by upgrading properties to increase their resistance to forces caused by seismic events, by considering available funds and coverages provided by PWI and/or by purchasing seismic insurance. Since 2013, the Company accessed the commercial marketplace to purchase Earthquake insurance for certain properties.

In addition, the Company carries other types of insurance coverage related to a variety of risks and exposures, including cyber-attack.

Based on market conditions, the Company may change or potentially eliminate insurance coverages, or increase levels of self-insurance. Further, we cannot assure you that the company will not incur losses, which could be material, due to uninsured risks, deductibles and self-insured retentions, and/or losses in excess of coverage limits.

COMPETITION

There are numerous housing alternatives that compete with the Company's communities in attracting residents. These include other apartment communities, condominiums and single-family homes. If the demand for the Company's communities is reduced or if competitors develop and/or acquire competing housing, rental rates and occupancy may drop which may have a material adverse effect on the Company's financial condition and results of operations.

The Company faces competition from other real estate investment trusts, businesses and other entities in the acquisition, development and operation of apartment communities. Some competitors are larger and have greater financial resources than the Company. This competition may result in increased costs of apartment communities the Company acquires and or develops.

WORKING CAPITAL

The Company believes that cash flows generated by its operations, existing cash and marketable securities balances, availability under existing lines of credit, access to capital markets and the ability to generate cash from the disposition of real estate are sufficient to meet all of its reasonably anticipated cash needs during 2015.

The timing, source and amounts of cash flows provided by financing activities and used in investing activities are sensitive to changes in interest rates and other fluctuations in the capital markets environment, which can affect the Company's plans for acquisitions, dispositions, development and redevelopment activities.

ENVIRONMENTAL CONSIDERATIONS

See the discussion under the caption, "Risks Related to Real Estate Investments and Our Operations - The Company's Portfolio may have environmental liabilities" in Item 1A, Risk Factors, for information concerning the potential effect of environmental regulations on its operations, which discussion under the caption "The Company's Portfolio may have environmental liabilities" is incorporated by reference into this Item 1.

OTHER MATTERS

Certain Policies of the Company

The Company intends to continue to operate in a manner that will not subject it to regulation under the Investment Company Act of 1940. The Company has in the past five years and may in the future (i) issue securities senior to its common stock, (ii) fund acquisition activities with borrowings under its line of credit and (iii) offer shares of common stock and/or units of limited partnership interest in the Operating Partnership or affiliated partnerships as partial consideration for property acquisitions. The Company from time to time acquires partnership interests in partnerships and joint ventures, either directly or indirectly through subsidiaries of the Company, when such entities' underlying assets are real estate.

The Company invests primarily in apartment communities that are located in predominantly coastal markets within Southern California, the San Francisco Bay Area, and the Seattle metropolitan area. The Company currently intends to continue to invest in apartment communities in such regions. However, these practices may be reviewed and modified periodically by management.

ITEM 1A: RISK FACTORS

For purposes of this section, the term “stockholders” means the holders of shares of Essex Property Trust, Inc.’s common stock and preferred stock. Set forth below are the risks that we believe are material to Essex Property Trust, Inc.’s stockholders and Essex Portfolio, L.P.’s unit holders. You should carefully consider the following factors in evaluating our company, our properties and our business.

Our business, operating results, cash flows and financial condition are subject to various risks and uncertainties, including, without limitation, those set forth below, any one of which could cause our actual operating results to vary materially from recent results or from our anticipated future results.

Risks Related to Real Investments and Our Operations

General real estate investment risks may adversely affect property income and values. Real estate investments are subject to a variety of risks. If the communities do not generate sufficient income to meet operating expenses, including debt service and capital expenditures, cash flow and the ability to make distributions to stockholders will be adversely affected. Income from the communities may be further adversely affected by, among other things, the following factors:

- the general economic climate;
- local economic conditions in which the communities are located, such as oversupply of housing or a reduction in demand for rental housing;
- the attractiveness of the communities to tenants;
- competition from other available housing;
- rent control or stabilization laws or other laws regulating housing; and
- the Company’s ability to provide for adequate maintenance and insurance.

As leases at the communities expire, tenants may enter into new leases on terms that are less favorable to the Company. Income and real estate values also may be adversely affected by such factors as applicable laws (e.g., the Americans with Disabilities Act of 1990 and tax laws). Real estate investments are relatively illiquid and, therefore, the Company’s ability to vary its portfolio promptly in response to changes in economic or other conditions may be quite limited.

Short-term leases expose us to the effects of declining market rents. Substantially all of our apartment leases are for a term of one year or less. Because these leases generally permit the residents to leave at the end of the lease term without penalty, our rental revenues are impacted by declines in market rents more quickly than if our leases were for longer terms.

The Company may not realize the expected benefits of its merger with BRE because of transition difficulties and other challenges. As a result of its merger with BRE Properties, Inc., the Company will face various additional risks, including, among others, the following:

- the Company has incurred substantial expenses related to the merger;
- the Company may be unable to integrate BRE successfully and realize the anticipated synergies and other benefits of the merger or do so within the anticipated timeframe;
- properties acquired pursuant to the merger are subject to property value reassessments by taxing authorities, which may in turn lead to property tax increases that are higher than anticipated;
- the Company's future results will suffer if the Company does not effectively manage its expanded operations resulting from the merger; and
- joint ventures entered into in connection with the merger could be adversely affected by the Company’s lack of sole decision-making authority, its reliance on its joint venture partner’s financial condition and disputes between the Company and its joint venture partner.

Any of these risks could adversely affect the Company's business and financial results.

We may pursue acquisitions, dispositions, investments and joint ventures, which could adversely affect our results of operations. We may make acquisitions of and investments in businesses that offer complementary properties and communities to augment our market coverage, or enhance our property offerings, such as our recent acquisition of BRE. We may also enter into strategic alliances or joint ventures to achieve these goals. We cannot assure you that we will be able to identify suitable acquisition, investment, alliance, or joint venture opportunities, that we will be able to consummate any such transactions or relationships on terms and conditions acceptable to us, or that such transactions or relationships will be successful. In addition, our original estimates and assumptions used in assessing any acquisition may be inaccurate, and we may not realize the expected financial or strategic benefits of any such acquisition. From time to time, we may also divest portions of our business that are no longer strategically important or exit minority investments, which could materially affect our FFO, cash flows and results of operations.

These transactions or any other acquisitions or dispositions involve risks and uncertainties. For example, the integration of acquired businesses may not be successful and could result in disruption to other parts of our business. To integrate acquired businesses, we must implement our management information systems, operating systems and internal controls, and assimilate and manage the personnel of the acquired operations. There can be no assurance that all pre-acquisition property due diligence will have identified all material issues that might arise with respect to such acquired business and its properties.

Any acquisition may also cause us to assume liabilities and ongoing lawsuits, acquire goodwill and other non-amortizable intangible assets that will be subject to impairment testing and potential impairment charges, incur amortization expense related to certain intangible assets, increase our expenses and working capital requirements, and subject us to litigation, which would reduce our return on invested capital. In addition, if the businesses or properties that we acquire have a different pricing or cost structure than we do, such acquisitions may adversely affect our profitability and reduce our overall margin. Failure to manage and successfully integrate the acquisitions we make or to improve margins of the acquired businesses and products could materially harm our business, operating results and margins. Any dispositions we may make may also result in ongoing obligations to us following any such divestiture, for example as a result of any transition services or indemnities we agree to provide to the purchaser in any such transaction, which may result in additional expenses and may adversely affect our financial condition and results of operation.

Any future acquisitions we make may also require significant additional debt or equity financing, which, in the case of debt financing, would increase our leverage and potentially affect our credit ratings and, in the case of equity or equity-linked financing, would be dilutive to our existing stockholders. We also assumed a significant amount of debt in connection with our acquisition of BRE, which is secured by the substantial majority of the properties acquired. Any downgrades in our credit ratings associated with an acquisition could adversely affect our ability to borrow by resulting in more restrictive borrowing terms. As a result of the foregoing, we also may not be able to complete acquisitions or other strategic transactions in the future to the same extent as in the past, or at all. These and other factors could harm our ability to achieve anticipated levels of profitability at acquired operations or realize other anticipated benefits of an acquisition, and could adversely affect our business, financial condition and results of operations. All of the above factors apply to our acquisition of BRE.

National and regional economic environments can negatively impact the Company’s operating results. During the recent past, a confluence of factors has resulted in job losses, turmoil and volatility in the capital markets, and caused a national and global recession. The Company's forecast for the national economy assumes growth of the gross domestic product of the national economy and the economies of the west coast states. In the event of another recession, the Company could incur reductions in rental rates, occupancy levels, property valuations and increases in operating costs such as advertising and turnover expenses.

Inflation/Deflation may affect rental rates and operating expenses. Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses.

Acquisitions of communities may fail to meet expectations. The Company intends to continue to acquire apartment communities. However, there are risks that acquisitions will fail to meet the Company’s expectations. The Company’s estimates of future income, expenses and the costs of improvements or redevelopment that are necessary to allow the Company to market an acquired apartment community as originally intended may prove to be inaccurate. The Company expects to finance future acquisitions, in whole or in part, under various forms of secured or unsecured financing or through the issuance of partnership units by the Operating Partnership or related partnerships or additional equity by the Company. The use of equity financing, rather than debt, for future developments or acquisitions could dilute the interest of the Company’s existing stockholders. If the Company finances new acquisitions under existing lines of credit, there is a risk that, unless the Company obtains substitute financing, the Company may not be able to secure further lines of credit for new development or such lines of credit may be not available on advantageous terms.

Development and redevelopment activities may be delayed, not completed, and/or not achieve expected results. The Company pursues development and redevelopment projects and these projects generally require various governmental and other approvals, which have no assurance of being received. The Company’s development and redevelopment activities generally entail certain risks, including the following:

- funds may be expended and management's time devoted to projects that may not be completed;

- construction costs of a project may exceed original estimates possibly making the project economically unfeasible;
- projects may be delayed due to, without limitation, adverse weather conditions, labor or material shortage;
- occupancy rates and rents at a completed project may be less than anticipated; and
- expenses at completed development projects may be higher than anticipated.

These risks may reduce the funds available for distribution to the Company's stockholders. Further, the development and redevelopment of communities is also subject to the general risks associated with real estate investments. For further information regarding these risks, please see the risk factor titled "General real estate investment risks may adversely affect property income and values."

The geographic concentration of the Company's communities and fluctuations in local markets may adversely impact the Company's financial condition and operating results. The Company generated significant amounts of rental revenues for the year ended December 31, 2014, from the Company's communities concentrated in Southern California (Los Angeles, Orange, Santa Barbara, San Diego, and Ventura counties), Northern California (the San Francisco Bay Area), and the Seattle metropolitan area. For the year ended December 31, 2014, 80% of the Company's rental revenues were generated from communities located in California. This geographic concentration could present risks if local property market performance falls below expectations. The economic condition of these markets could adversely affect underlying asset values and the occupancy, property revenues, and expenses of the Company's communities. The financial results of major local employers also may impact the cash flow and value of certain of the communities. This could have a negative impact on the Company's financial condition and operating results, which could affect the Company's ability to pay expected dividends to its stockholders and the Operating Partnership's ability to pay expected distributions to unit holders.

Our property taxes could increase due to reassessment or property tax rate changes. Real property taxes on our properties may increase as our properties are reassessed by taxing authorities or as property tax rates change. Thus, our real estate taxes in the State of Washington could increase as a result of property value reassessments or increased property tax rates in that state. A current California law commonly referred to as Proposition 13 generally limits annual real estate tax increases on California properties to 2% of assessed value. However, under Proposition 13, property tax reassessment generally occurs as a result of a "change in ownership" of a property, as specially defined for purposes of those rules. Because the property taxing authorities may not determine whether there has been a "change in ownership" or the actual reassessed value of a property for a period of time after a transaction has occurred, we may not know the impact of a potential reassessment for a considerable amount of time following a particular transaction. Therefore, the amount of property taxes we are required to pay could increase substantially from the property taxes we currently pay or have paid in the past, including on a retroactive basis. In addition, from time to time voters and lawmakers have announced initiatives to repeal or amend Proposition 13 to eliminate its application to commercial and industrial property and/or introduce split tax roll legislation. Such initiatives, if successful, would increase the assessed value and/or tax rates applicable to commercial property in California, including our apartment communities. An increase in the assessed value of our properties or our property tax rates could adversely impact our financial condition and results of operations.

Competition in the apartment community market may adversely affect operations and the rental demand for the Company's communities. There are numerous housing alternatives that compete with the Company's communities in attracting residents. These include other apartment communities and single-family homes that are available for rent in the markets in which the communities are located. If the demand for the Company's communities is reduced or if competitors develop and/or acquire competing apartment communities, rental rates may drop, which may have a material adverse effect on the Company's financial condition and results of operations. The Company also faces competition from other real estate investment trusts, businesses and other entities in the acquisition, development and operation of apartment communities. This competition may result in an increase in costs and prices of apartment communities that the Company acquires and/or develops.

Bond compliance requirements may limit income from certain communities. At December 31, 2014, the Company had approximately $179.2 million of variable rate tax-exempt financing. This tax-exempt financing provides for certain deed restrictions and restrictive covenants. The Company expects to engage in tax-exempt financings in the future. The Code and rules and regulations thereunder impose various restrictions, conditions and requirements in order to allow the note holder to exclude interest on qualified bond obligations from gross income for federal income tax purposes. The Code also requires that at least 20% of apartment units be made available to residents with gross incomes that do not exceed a specified percentage, generally 50%, of the median income for the applicable family size as determined by the Housing and Urban Development Department of the federal government. Certain state and local authorities may impose additional rental restrictions. These restrictions may limit income from the tax-exempt financed communities if the Company is required to lower rental rates to attract residents who satisfy the median income test. If the Company does not reserve the required number of apartment homes for residents satisfying these income requirements, the tax-exempt status of the bonds may be terminated, the obligations under the bond documents may be accelerated and the Company may be subject to additional contractual liability.

Investments in mortgages and other real estate securities could affect the Company's ability to make distributions to stockholders. The Company may invest in securities related to real estate, which could adversely affect the Company's ability to make distributions to stockholders. The Company may purchase securities issued by entities which own real estate and invest in mortgages or unsecured debt obligations. These mortgages may be first, second or third mortgages that may or may not be insured or otherwise guaranteed. In general, investments in mortgages include the following risks:

- that the value of mortgaged property may be less than the amounts owed, causing realized or unrealized losses;
- the borrower may not pay indebtedness under the mortgage when due, requiring the Company to foreclose, and the amount recovered in connection with the foreclosure may be less than the amount owed;
- that interest rates payable on the mortgages may be lower than the Company's cost of funds; and
- in the case of junior mortgages, that foreclosure of a senior mortgage could eliminate the junior mortgage.

If any of the above were to occur, it could adversely affect cash flows from operations and the Company's ability to make expected dividends to stockholders and the Operating Partnership's ability to make expected distributions to unit holders.

Compliance with laws benefiting disabled persons may require the Company to make significant unanticipated expenditures or impact the Company's investment strategy. A number of federal, state and local laws (including the Americans with Disabilities Act) and regulations exist that may require modifications to existing buildings or restrict certain renovations by requiring improved access to such buildings by disabled persons and may require other structural features which add to the cost of buildings under construction. Legislation or regulations adopted in the future may impose further burdens or restrictions on the Company with respect to improved access by disabled persons. The costs of compliance with these laws and regulations may be substantial.

The Company's Portfolio may have environmental liabilities. Under various federal, state and local environmental and public health laws, regulations and ordinances we have been from time to time, and may be required in the future, regardless of knowledge or responsibility, to investigate and remediate the effects of hazardous or toxic substances or petroleum product releases at our properties (including in some cases naturally occurring substances such as methane and radon gas) and may be held liable under these laws or common law to a governmental entity or to third parties for response costs, property damage, personal injury or natural resources damages and for investigation and remediation costs incurred as a result of the contamination resulting from such releases. While the Company is unaware of any such response action required or damage claims associated with its existing properties which individually or in aggregate would have a materially adverse effect on our business, assets, financial condition or results of operations, potential future costs and damage claims may be substantial and could exceed any insurance coverage we may or may not have for such events. Further, the presence of such substances, or the failure to properly remediate the contamination, may adversely affect our ability to borrow against, develop, sell or rent the affected property. In addition, some environmental laws create or allow a government agency to impose a lien on the contaminated site in favor of the government for damages and costs it incurs as a result of the contamination.

Certain environmental laws impose liability for release of asbestos-containing materials ("ACMs") into the air, and third parties may seek recovery from owners or operators of apartment communities for personal injury associated with ACMs. In connection with the ownership (direct or indirect), operation, management and development of our communities, the Company could be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may be potentially liable for removal or remediation costs, as well as certain other costs, including governmental fines and costs related to injuries of persons and property.

Investments in real property create a potential for environmental liabilities on the part of the owner of such real property. The Company carries certain limited insurance coverage for this type of environmental risk as to its properties; however, such coverage is not fully available for all properties and, as to those properties for which limited coverage is fully available it may not apply to certain claims arising from known conditions present on those properties. In general, in connection with the ownership, operation, financing, management and development of its communities, the Company may be potentially liable for removal or clean-up costs, as well as certain other costs and environmental liabilities. The Company may also be subject to governmental fines and costs related to injuries to third persons and damage to their property.

Properties which we intend to acquire undergo a pre-acquisition Phase I environmental site assessment before acquisition intended to afford the Company protection against so-called “owner liability” under the primary federal environmental law, as well as further environmental assessment, which generally does not involve invasive techniques such as soil or ground water sampling except where conditions warranting such further assessment are identified and seller’s consent is obtained. While such assessments are conducted in accordance with applicable “appropriate inquiry" standards, no assurance can be given that all environmental conditions present will be discovered or that the full nature and extent of those conditions which are discovered will be adequately ascertained and quantified.

In connection with our ownership, operation and development of communities, from time to time we undertake remedial action in response to the presence of subsurface or other contaminants, including contaminants in soil, groundwater and soil vapor beneath or affecting our buildings. The Company does so under appropriate environmental regulatory requirements with the objective of obtaining regulatory closure or a no further action determination that will allow for future use, development and sale of any impacted community.

Mold growth may occur when excessive moisture accumulates in buildings or on building materials, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Although the occurrence of mold at multifamily and other structures, and the need to remediate such mold, is not a new phenomenon, there has been increased awareness in recent years that certain molds may in some instances lead to adverse health effects, including allergic or other reactions. The Company has adopted policies for promptly addressing and resolving reports of mold when it is detected, and to minimize any impact mold might have on residents of the property. The Company believes its mold policies and proactive response to address any known existence reduces its risk of loss from these cases; however, no assurance can be provided that the Company has identified and responded to all mold occurrences.

California has enacted legislation commonly referred to as "Proposition 65" requiring that "clear and reasonable" warnings be given to consumers who are exposed to chemicals known to the State of California to cause cancer or reproductive toxicity, including tobacco smoke. Although the Company has sought to comply with Proposition 65 requirements, the Company cannot assure you that the Company will not be adversely affected by litigation relating to Proposition 65.

Methane gas is a naturally-occurring gas that is commonly found below the surface in several areas, particularly in the Southern California coastal areas. Methane is a non-toxic gas, but can be flammable and can be explosive at sufficient concentrations when in confined spaces and exposed to an ignition source. Naturally-occurring, methane gas is regulated at the state and federal level as a greenhouse gas but is not otherwise regulated as a hazardous substance, however some local governments, such as the County of Los Angeles, have imposed requirements that new buildings install detection and/or venting systems in areas where naturally occurring methane gas is known to be located and can accumulate. Methane gas is also associated with certain industrial activities, such as former municipal waste landfills. Radon is also a naturally-occurring gas that is found below the surface. The Company cannot assure you that it will not be adversely affected by costs related to its compliance with methane or radon gas related requirements or litigation costs related to methane or radon gas.

We cannot assure you that costs or liabilities incurred as a result of environmental matters will not affect our ability to make distributions to stockholders, or that such costs or liabilities will not have a material adverse effect on our financial condition and results of operations; provided, however, the Company is unaware of any pending or threatened alleged claim resulting from such matters which would have a material adverse effect on the Company’s financial condition, results of operations or cash flows.

Adverse changes in laws may affect the Company's liability relating to its properties and its operations. Increases in real estate taxes and income, service and transfer taxes cannot always be passed through to residents or users in the form of higher rents, and may adversely affect the Company's cash available for distribution and its ability to make distributions to its stockholders and pay amounts due on its debt. Similarly, changes in laws increasing the potential liability for environmental conditions existing on properties or increasing the restrictions on discharges or other conditions, as well as changes in laws affecting development, construction and safety requirements, may result in significant unanticipated expenditures, which could have a material adverse effect on the Company and its ability to make distributions to its stockholders and pay amounts due on our debt. For example, the California statute known as "SB375" provides that, in order to reduce greenhouse emissions, there should be regional planning to coordinate housing needs with regional transportation. Such planning could lead to restrictions on property development that adversely affect the Company. In addition, future enactment of rent control or rent stabilization laws or other laws regulating multifamily housing, as well as any lawsuits against the Company arising from such rent control or other laws, may reduce rental revenues or increase operating costs.

Risks Related to Our Indebtedness and Financings

Capital and credit market conditions may affect the Company’s access to sources of capital and/or the cost of capital, which could negatively affect the Company’s business, results of operations, cash flows and financial condition. In periods when the capital and credit markets experience significant volatility, the amounts, sources and cost of capital available to the Company may be adversely affected. The Company’s current balance sheet, the debt capacity available on the unsecured line of credit with a diversified bank group, access to the public and private placement debt markets and secured debt financing providers such as Fannie Mae and Freddie Mac provides some insulation from volatile capital markets.

Historically, the Company has utilized borrowing from Fannie Mae and Freddie Mac. There are no assurances that these entities will lend to the Company in the future. Beginning in 2011, the Company has primarily utilized unsecured debt and has repaid secured debt at or near their respective maturity and has placed less reliance on agency mortgage debt financing. The Administration and lawmakers have proposed potential options for the future of agency mortgage finance in the U.S. that could involve the phase out of Fannie Mae and Freddie Mac. While we believe Fannie Mae and Freddie Mac will continue to provide liquidity to our sector, should they discontinue doing so, have their mandates changed or reduced or be disbanded or reorganized by the government, it would reduce our access to debt capital and could adversely affect our ability to finance or refinance existing indebtedness at competitive rates and it may adversely affect our ability to sell assets. In general, to the extent that the Company's access to capital and credit is at a higher cost than the Company has experienced in recent years (reflected in higher interest rates for debt financing or a lower stock price for equity financing without corresponding change to investment cap rates) the Company's ability to make acquisitions, develop communities, obtain new financing, and refinance existing borrowing at competitive rates could adversely impact the Company's financial standing and related credit rating.

Debt financing has inherent risks. At December 31, 2014, the Company had approximately $5.1 billion of indebtedness (including $660.6 million of variable rate indebtedness, of which $225.0 million is subject to interest rate swaps effectively fixing the interest rate and $153.2 million is subject to interest rate cap protection). The Company is subject to the risks normally associated with debt financing, including the following:

- cash flow may not be sufficient to meet required payments of principal and interest;
- inability to refinance maturing indebtedness on encumbered apartment communities;
- inability to comply with debt covenants could cause an acceleration of the maturity date; and
- paying debt before the scheduled maturity date could result in prepayment penalties.

The Company may not be able to refinance its indebtedness. This indebtedness includes secured mortgages, and the communities subject to these mortgages could be foreclosed upon or otherwise transferred to the lender. This could cause the Company to lose income and asset value. The Company may be required to refinance the debt at higher interest rates or on terms that may not be as favorable as the terms of existing indebtedness.

Debt financing of communities may result in insufficient cash flow to service debt. Where appropriate, the Company intends to continue to use leverage to increase the rate of return on the Company's investments and to provide for additional investments that the Company could not otherwise make. There is a risk that the cash flow from the communities will be insufficient to meet both debt payment obligations and the distribution requirements of the real estate investment trust provisions of the Internal Revenue Code of 1986, as amended (the "Code"). The Company may obtain additional debt financing in the future through mortgages on some or all of the communities. These mortgages may be recourse, non-recourse, or cross-collateralized.

Our ability to make payments on and to refinance our indebtedness and to fund our operations, working capital and capital expenditures, depends on our ability to generate cash in the future. To a certain extent, our cash flow is subject to general economic, industry, regional, financial, competitive, operating, legislative, regulatory, taxation and other factors, many of which are beyond our control.

As of December 31, 2014, the Company had 68 consolidated communities encumbered by debt. With respect to the 68 communities encumbered by debt, all of them are secured by deeds of trust relating solely to those communities. The holders of this indebtedness will have rights with respect to these communities and lenders may seek foreclosure of communities which would reduce the Company's income and net asset value, and its ability to service other debt.

Rising interest rates may affect the Company's costs of capital and financing activities and results of operation. Interest rates could increase, which could result in higher interest expense on the Company's variable rate indebtedness or increase interest rates when refinancing maturing fixed rate debt. Prolonged interest rate increases could negatively impact the Company's ability to make acquisitions and develop apartment communities with positive economic returns on investment and the Company's ability to refinance existing borrowings.

Interest rate hedging arrangements may result in losses. Periodically, the Company has entered into agreements to reduce the risks associated with increases in interest rates, and may continue to do so. Although these agreements may partially protect against rising interest rates, they also may reduce the benefits to the Company if interest rates decline. If a hedging arrangement is not indexed to the same rate as the indebtedness that is hedged, the Company may be exposed to losses to the extent that the rate governing the indebtedness and the rate governing the hedging arrangement change independently of each other. Finally, nonperformance by the other party to the hedging arrangement may subject the Company to increased credit risks. In order to minimize counterparty credit risk, the Company enters into hedging arrangements only with financial institutions that have a current rating of A or higher.

A downgrade in the Company's investment grade credit rating could materially and adversely affect its business and financial condition. The Company plans to manage its operations to maintain its investment grade credit rating with a capital structure consistent with its current profile, but there can be no assurance that it will be able to maintain its current credit ratings. Any downgrades in terms of ratings or outlook by any of the rating agencies could have a material adverse impact on the Company’s cost and availability of capital, which could in turn have a material adverse impact on its financial condition, results of operations and liquidity.

Changes in the Company’s financing policy may lead to higher levels of indebtedness. The Company’s organizational documents do not limit the amount or percentage of indebtedness that may be incurred. The Company has adopted a policy of maintaining a limit on debt financing consistent with the existing covenants required to maintain the Company’s unsecured line of credit bank facility, unsecured debt and senior unsecured bonds. If the Company changed this policy, the Company could incur more debt, which could result in a default under the Company's existing indebtedness, thereby causing such indebtedness to become due and payable, and an increase in debt service requirements that could adversely affect the Company’s financial condition and results of operations. Such increased debt could exceed the underlying value of the communities.

Risks Related to Our Organization and Ownership of Essex’s Stock

The Company depends on its key personnel. The Company’s success depends on its ability to attract and retain executive officers, senior officers and company managers. There is substantial competition for qualified personnel in the real estate industry and the loss of any of the Company’s key personnel could have an adverse effect on the Company.

The price per share of the Company’s stock may fluctuate significantly. The market price per share of the Company’s common stock may fluctuate significantly in response to many factors, including without limitation:

- regional, national and global economic conditions;
- actual or anticipated variations in the Company’s quarterly operating results or dividends;
- changes in the Company’s funds from operations or earnings estimates;
- issuances of common stock, preferred stock or convertible debt securities;
- publication of research reports about the Company or the real estate industry;
- the general reputation of real estate investment trusts and the attractiveness of their equity securities in comparison to other equity securities (including securities issued by other real estate based companies);
- general stock and bond market conditions, including changes in interest rates on fixed income securities, that may lead prospective purchasers of the Company’s stock to demand a higher annual yield from dividends;
- availability to capital markets and cost of capital;
- a change in analyst ratings or the Company’s credit ratings;
- terrorist activity may adversely affect the markets in which the Company’s securities trade, possibly increasing market volatility and causing erosion of business and consumer confidence and spending; and
- natural disasters such as earthquakes.

Many of the factors listed above are beyond the Company’s control. These factors may cause the market price of shares of the Company’s common stock to decline, regardless of the Company’s financial condition, results of operations, or business prospects.

The Company’s future issuances of common stock, preferred stock or convertible debt securities could adversely affect the market price of the Company’s common stock. In order to finance the Company’s acquisition and development activities, the Company has issued and sold common stock, preferred stock and convertible debt securities. For example, during the years ended December 31, 2014 and 2013, the Company issued 3.0 million (excluding shares issued in connection with the BRE merger) and 0.9 million shares of common stock for $534.0 million and $138.4 million, net of fees and commissions, respectively. The Company may in the future sell further shares of common stock, including pursuant to its equity distribution programs with Cantor Fitzgerald & Co., Barclays Capital Inc., BMO Capital Markets Corp., BNP Paribas Securities Corp., Citigroup Global Markets Inc., Jefferies LLC

("Jefferies"), J.P. Morgan Securities LLC ("JP Morgan"), Liquidnet, Inc., Mitsubishi UFJ Securities (USA), Inc., and UBS Securities LLC ("UBS").

In 2014, the Company filed a new shelf registration statement with the SEC, allowing the Company to sell an undetermined number of equity and debt securities as defined in the prospectus. Future sales of common stock, preferred stock or convertible debt securities may dilute stockholder ownership in the Company and could adversely affect the market price of the common stock.

The Company’s joint ventures and joint ownership of communities and partial interests in corporations and limited partnerships could limit the Company’s ability to control such communities and partial interests. Instead of purchasing and developing apartment communities directly, the Company has invested and may continue to invest in joint ventures. Joint venture partners often have shared control over the development and operation of the joint venture assets. Therefore, it is possible that a joint venture partner in an investment might become bankrupt, or have economic or business interests or goals that are inconsistent with the Company’s business interests or goals, or be in a position to take action contrary to the Company’s instructions or requests, or its policies or objectives. Consequently, a joint venture partners’ actions might subject property owned by the joint venture to additional risk. Although the Company seeks to maintain sufficient influence over any joint venture to achieve its objectives, the Company may be unable to take action without its joint venture partners’ approval, or joint venture partners could take actions binding on the joint venture without its consent. A joint venture partner might fail to approve decisions that are in the Company’s best interest. Should a joint venture partner become bankrupt, the Company could become liable for such partner’s share of joint venture liabilities. In some instances, the Company and the joint venture partner may each have the right to trigger a buy-sell arrangement, which could cause the Company to sell its interest, or acquire a partner’s interest, at a time when the Company otherwise would have not have initiated such a transaction.

From time to time, the Company, through the Operating Partnership, invests in corporations, limited partnerships, limited liability companies or other entities that have been formed for the purpose of acquiring, developing, financing, or managing real property. In certain circumstances, the Operating Partnership’s interest in a particular entity may be less than a majority of the outstanding voting interests of that entity. Therefore, the Operating Partnership’s ability to control the daily operations of such an entity may be limited. Furthermore, the Operating Partnership may not have the power to remove a majority of the board of directors (in the case of a corporation) or the general partner or partners (in the case of a limited partnership) of such an entity in the event that its operations conflict with the Operating Partnership’s objectives. The Operating Partnership may not be able to dispose of its interests in such an entity. In the event that such an entity becomes insolvent, the Operating Partnership may lose up to its entire investment in and any advances to the entity. The Company may also incur losses if any guarantees or indemnifications were made by the Company. The Company also owns properties indirectly under "downREIT" structures. The Company has, and in the future may, enter into transactions that could require the Company to pay the tax liabilities of partners, which contribute assets into downREITs, joint ventures or the Operating Partnership, in the event that certain taxable events, which are within the Company’s control, occur. Although the Company plans to hold the contributed assets or defer recognition of gain on sale pursuant to the like-kind exchange rules under Section 1031 of the Code, the Company can provide no assurance that the Company will be able to do so and if such tax liabilities were incurred they could have a material impact on its financial position.

The Company’s Chairman is involved in other real estate activities and investments, which may lead to conflicts of interest. The Company’s Chairman, George M. Marcus is not an employee of the Company, and is involved in other real estate activities and investments, which may lead to conflicts of interest. Mr. Marcus owns interests in various other real estate-related businesses and investments. He is the Chairman of the Marcus & Millichap Company (“MMC”), which is a parent company of a diversified group of real estate service, investment and development firms. Mr. Marcus is also the Co-Chairman of Marcus & Millichap, Inc. (“MMI”), and Mr. Marcus owns a controlling interest in MMI. MMI is a national brokerage firm listed on the NYSE that underwent its initial public offering in 2013.

Mr. Marcus has agreed not to divulge any confidential or proprietary information that may be received by him in his capacity as Chairman of the Company to any of his affiliated companies and that he will absent himself from any and all resolutions by the Company's Board of Directors regarding any proposed acquisition and/or development of an apartment community where it appears that there may be a conflict of interest with any of his affiliated companies. Notwithstanding this agreement, Mr. Marcus and his affiliated entities may potentially compete with the Company in acquiring and/or developing apartment communities, which competition may be detrimental to the Company. In addition, due to such potential competition for real estate investments, Mr. Marcus and his affiliated entities may have a conflict of interest with the Company, which may be detrimental to the interests of the Company’s stockholders.

The influence of executive officers, directors and significant stockholders may be detrimental to holders of common stock. As of December 31, 2014, George M. Marcus, the Chairman of the Company's Board of Directors, wholly or partially owned 1.6 million shares of common stock (including shares issuable upon exchange of limited partnership interests in the Operating Partnership and certain other partnerships, indirectly held common shares and assuming exercise of all vested options), respectively. Mr. Marcus currently does not have majority control over the Company. However, he currently has, and likely will continue to have, significant influence with respect to the election of directors and approval or disapproval of significant corporate actions. Consequently, his influence could result in decisions that do not reflect the interests of all the Company's stockholders.

Under the partnership agreement of the Operating Partnership, the consent of the holders of limited partnership interests is generally required for certain amendments of the agreement and for certain extraordinary actions. Through their ownership of limited partnership interests and their positions with the Company, the Company's directors and executive officers, including Mr. Marcus, have substantial influence on the Company. Consequently, their influence could result in decisions that do not reflect the interests of all stockholders.

The voting rights of preferred stock may allow holders of preferred stock to impede actions that otherwise benefit holders of common stock. Essex currently has outstanding shares of 7.125% Series H Cumulative Redeemable Preferred Stock ("Series H Preferred Stock"). In general, the holders of the Company's outstanding shares of Series H Preferred Stock do not have any voting rights. However, if full distributions are not made on outstanding Series H Preferred Stock for six quarterly distributions periods, the holders of Series H Preferred Stock, together with holders of other series of preferred stock upon which like voting rights have been conferred, will have the right to elect two additional directors to serve on Essex's Board of Directors.

These voting rights continue until all distributions in arrears and distributions for the current quarterly period on the Series H Preferred Stock have been paid in full. At that time, the holders of the Series H Preferred Stock are divested of these voting rights, and the term of office of the directors so elected immediately terminates. While any shares of the Company's Series H Preferred Stock are outstanding, the Company may not, without the consent of the holders of two-thirds of the outstanding shares of Series H Preferred Stock:

- authorize or create any class or series of stock that ranks senior to the Series H Preferred Stock with respect to the payment of dividends, rights upon liquidation, dissolution or winding-up of the Company's business; or
- amend, alter or repeal the provisions of the Company's Charter, including by merger or consolidation, that would materially and adversely affect the rights of the Series H Preferred Stock; provided that in the case of a merger or consolidation, so long as the Series H Preferred Stock remains outstanding with the terms thereof materially unchanged or the holders of shares of Series H Preferred Stock receive shares of stock or other equity securities with rights, preferences, privileges and voting powers substantially similar to that of the Series H Preferred Stock, the occurrence of such merger or consolidation shall not be deemed to materially and adversely affect the rights of the holders of the Series H Preferred Stock.

These voting rights of the holders of the Series H Preferred Stock and of other preferred stock may allow such holders to impede or veto actions that would otherwise benefit the holders of the Company's common stock.

The indentures governing our notes contain restrictive covenants that limit our operating flexibility. The indentures that govern our publicly registered notes contain financial and operating covenants that, among other things, restrict our ability to take specific actions, even if we believe them to be in our best interest, including restrictions on our ability to:

- consummate a merger, consolidation or sale of all or substantially all of our assets; and
- incur additional secured and unsecured indebtedness.

The instruments governing our other unsecured indebtedness require us to meet specified financial covenants, including covenants relating to net worth, fixed charge coverage, debt service coverage, the amounts of total indebtedness and secured indebtedness, leverage and certain investment limitations. These covenants may restrict our ability to expand or fully pursue our business strategies. Our ability to comply with these provisions and those contained in the indentures governing the notes, may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments or other events adversely impacting us. The breach of any of these covenants, including those contained in our indentures, could result in a default under our indebtedness, which could cause those and other obligations to become due and payable. If any of our indebtedness is accelerated, we may not be able to repay it.

The Maryland business combination law may not allow certain transactions between the Company and its affiliates to proceed without compliance with such law. Under Maryland law, "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as any person (and certain affiliates of such person) who beneficially owns ten percent or more of the voting power of the then-outstanding voting stock. The law also requires a supermajority stockholder vote for such transactions. This means that the transaction must be approved by at least:

- 80% of the votes entitled to be cast by holders of outstanding voting shares; and
- Two-thirds of the votes entitled to be cast by holders of outstanding voting shares other than shares held by the interested stockholder with whom the business combination is to be effected.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors prior to the time that the interested stockholder becomes an interested stockholder. These voting provisions do not apply if the stockholders receive a minimum price, as defined under Maryland law. As permitted by the statute, the Board of Directors of the Company irrevocably has elected to exempt any business combination by the Company, George M. Marcus, who is the chairman of the Company, and MMC or any entity owned or controlled by Mr. Marcus and MMC. Consequently, the five-year prohibition and supermajority vote requirement described above will not apply to any business combination between the Company, Mr. Marcus, or MMC. As a result, the Company may in the future enter into business combinations with Mr. Marcus and MMC, without compliance with the supermajority vote requirements and other provisions of the Maryland Business Combination Act.

Anti-takeover provisions contained in the Operating Partnership agreement, charter, bylaws, and certain provisions of Maryland law could delay, defer or prevent a change in control. While the Company is the sole general partner of the Operating Partnership, and generally has full and exclusive responsibility and discretion in the management and control of the Operating Partnership, certain provisions of the Operating Partnership agreement place limitations on the Company's ability to act with respect to the Operating Partnership. Such limitations could delay, defer or prevent a transaction or a change in control that might involve a premium price for the Company's stock or otherwise be in the best interest of the stockholders or that could otherwise adversely affect the interest of the Company's stockholders. The partnership agreement provides that if the limited partners own at least 5% of the outstanding units of partnership interest in the Operating Partnership, the Company cannot, without first obtaining the consent of a majority-in-interest of the limited partners in the Operating Partnership, transfer all or any portion of the Company's general partner interest in the Operating Partnership to another entity. Such limitations on the Company's ability to act may result in the Company's being precluded from taking action that the Board of Directors believes is in the best interests of the Company's stockholders.

The Company's Charter authorizes the issuance of additional shares of common stock or preferred stock and the setting of the preferences, rights and other terms of such preferred stock without the approval of the holders of the common stock. The Company may establish one or more series of preferred stock that could delay, defer or prevent a transaction or a change in control. Such a transaction might involve a premium price for the Company's stock or otherwise be in the best interests of the holders of common stock. Also, such a class of preferred stock could have dividend, voting or other rights that could adversely affect the interest of holders of common stock.

The Company's Charter contains other provisions that may delay, defer or prevent a transaction or a change in control that might be in the best interest of the Company's stockholders. The Charter contains ownership provisions limiting the transferability and ownership of shares of capital stock, which may have the effect of delaying, deferring or preventing a transaction or a change in control. For example, subject to receiving an exemption from the Board of Directors, potential acquirers may not purchase more than 6% in value of the stock (other than qualified pension trusts which can acquire 9.9%). This may discourage tender offers that may be attractive to the holders of common stock and limit the opportunity for stockholders to receive a premium for their shares of common stock.

The Maryland General Corporation Law restricts the voting rights of shares deemed to be "control shares." Under the Maryland General Corporation Law, "control shares" are those which, when aggregated with any other shares held by the acquirer, entitle the acquirer to exercise voting power within specified ranges. Although the Bylaws exempt the Company from the control share provisions of the Maryland General Corporation Law, the Board of Directors may amend or eliminate the provisions of the Bylaws at any time in the future. Moreover, any such amendment or elimination of such provision of the Bylaws may result in the application of the control share provisions of the Maryland General Corporation Law not only to control shares which may be acquired in the future, but also to control shares previously acquired. If the provisions of the Bylaws are amended or eliminated, the control share provisions of the Maryland General Corporation Law could delay, defer or prevent a transaction or change in control that might involve a premium price for the stock or otherwise be in the best interests of the Company's stockholders.

The Company’s Charter and bylaws also contain other provisions that may impede various actions by stockholders without approval of the Company’s board of directors, which in turn may delay, defer or prevent a transaction, including a change in control. Those provisions include:

- directors may be removed, without cause, only upon a two-thirds vote of stockholders, and with cause, only upon a majority vote of stockholders;

- the Company’s board can fix the number of directors and fill vacant directorships upon the vote of a majority of the directors;
- stockholders must give advance notice to nominate directors or propose business for consideration at a stockholders’ meeting; and
- for stockholders to call a special meeting, the meeting must be requested by not less than a majority of all the votes entitled to be cast at the meeting.

A breach of the Company’s privacy or information security systems could materially adversely affect the Company’s business and financial condition. The protection of customer, employee, and company data is critically important to the Company. Our business requires us, including some of our vendors, to use and store personally identifiable and other sensitive information of its customers and employees. The collection and use of personally identifiable information is governed by federal and state laws and regulations. Privacy and information security laws continue to evolve and may be inconsistent from one jurisdiction to another. Compliance with all such laws and regulations may increase the Company’s operating costs and adversely impact the Company’s ability to market the Company’s properties and services.

The security measures put in place by the Company, and such vendors, cannot provide absolute security, and the Company and our vendors' information technology infrastructure may be vulnerable to criminal cyber-attacks or data security incidents due to employee error, malfeasance, or other vulnerabilities. Any such incident could compromise the Company’s or such vendors' networks, and the information stored by the Company or such vendors could be accessed, misused, publicly disclosed, corrupted, lost, or stolen, resulting in fraud, including wire fraud related to Company assets, or other harm. Moreover, if a data security incident or breach affects the Company’s systems or such vendors' systems or results in the unauthorized release of personally identifiable information, the Company’s reputation and brand could be materially damaged and the Company may be exposed to a risk of loss or litigation and possible liability, which could result in a material adverse effect on the Company’s business, results of operations, and financial condition.

In the third quarter of 2014, the Company discovered and reported that certain of its computer networks containing personal and proprietary information were compromised by a cyber-intrusion. Based on information from our forensic investigation, the Company has confirmed that evidence exists of exfiltration of data on Company systems. The precise nature of the data has not yet been identified, and the Company does not presently have any evidence that data belonging to the Company has been misused.

After detecting unusual activity, the Company took immediate steps to assess and contain the intrusion and secure its systems. The Company retained independent forensic computer experts to analyze the impacted data systems and is consulting with law enforcement. The investigation into this cyber-intrusion is ongoing, and the Company is working as quickly as possible to identify whether any employee or resident data may be at risk. As a precaution, the Company has purchased identity protection services for all current residents and employees.

As described in Note 16, "Commitments and Contingencies", of our notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report on Form 10-K, on December 19, 2014, a punitive class action was filed against the Company in the U.S. District Court for the Northern District of California, entitled Foster v. Essex Property Trust, Inc. alleging that the Company failed to properly secure the personally-identifying information of its residents. At this point, the Company is unable to predict the developments in, outcome of, and/or economic and/or other consequences of such pending litigation or future litigation or predict the developments in, outcome of, and/or other consequences arising as a result of any potential government inquiries related to this matter.

The Company has recorded $1.6 million and $2.8 million in cyber-intrusion expenses in the fourth quarter and year ended December 31, 2014, respectively, including legal fees, investigative fees, costs of communications with the Company’s residents and employees, and identity protection services. The Company expects to incur additional costs as investigation and remediation efforts continue. Such costs are not currently estimable but could be material to the Company’s future operating results.

Privacy and information security risks have generally increased in recent years because of the proliferation of new technologies and the increased sophistication and activities of perpetrators of cyber-attacks. In light of this recent network intrusion, we have dedicated additional Company resources to strengthening the security of the Company's computer systems. In the future, the Company may be required to expend additional resources to continue to enhance the Company's information security measures and/or to investigate and remediate any information security vulnerabilities. Despite these steps, there can be no assurance that the Company will not suffer a similar data security incident in the future, that unauthorized parties will not gain access to sensitive data stored on the Company's systems, or that any such incident will be discovered in a timely manner. Further, the techniques used by criminals to obtain unauthorized access to sensitive data are often novel or change frequently; accordingly, the Company may be unable to anticipate these techniques or implement adequate preventative measures.

Employee theft or fraud could result in loss. Certain of our employees have access to, or signature authority with respect to, bank accounts or other company assets, which exposes us to the risk of fraud or theft. In addition, certain employees have access to key information technology (IT) infrastructure and to tenant and other information that is commercially valuable. Should any employee compromise our IT systems, or misappropriate tenant or other information, we could incur losses, including significant financial or reputational harm, from which full recovery cannot be assured. We also may not have insurance that covers any losses in full or that covers losses from particular criminal acts. As of December 31, 2014, potential liabilities for theft or fraud are not quantifiable and an estimate of possible loss cannot be made.

The Company may incur general uninsured losses. The Company purchases general liability and all risk property, including Loss of Rent, insurance coverage for each of its communities. The Company also purchases limited earthquake, terrorism, environmental and flood insurance. There are certain types of losses which may not be covered or could exceed coverage limits. The insurance programs are subject to deductibles and self-insured retentions in varying amounts. The Company utilizes a wholly owned insurance subsidiary, Pacific Western Insurance LLC ("PWI") to self-insure certain earthquake and all risk losses. As of December 31, 2014, PWI has cash and marketable securities of approximately $57.6 million, and is consolidated in the Company's financial statements.

All the communities are located in areas that are subject to earthquake activity. The Company evaluates its financial loss exposure to seismic events by using actuarial loss models developed by the insurance industry and property vulnerability based on structural evaluations of seismic consultants. The Company manages this exposure, where considered appropriate, desirable, and cost-effective, by upgrading properties to increase their resistance to forces caused by seismic events, by considering available funds and coverages provided by PWI and/or by purchasing seismic insurance. Since 2013, the Company accessed the commercial marketplace to purchase Earthquake insurance for certain high-density properties.

In addition, the Company carries other types of insurance coverage related to a variety of risks and exposures, including cyber-attack.

Based on market conditions, the Company may change or potentially eliminate insurance coverages, or increase levels of self-insurance. Further, we cannot assure you that the company will not incur losses, which could be material, due to uninsured risks, deductibles and self-insured retentions, and/or losses in excess of coverage limits.

Although the Company may carry insurance for potential losses associated with its communities, employees, residents, and compliance with applicable laws, it may still incur losses due to uninsured risks, deductibles, copayments or losses in excess of applicable insurance coverage and those losses may be material. In the event of a substantial loss, insurance coverage may not be able to cover the full replacement cost of the Company’s lost investment, or the insurance carrier may become insolvent and not be able to cover the full amount of the insured losses. Changes in building codes and ordinances, environmental considerations and other factors might also affect the Company’s ability to replace or renovate an apartment community after it has been damaged or destroyed.

Risk of accidental death due to fire, natural disasters or other hazards. The accidental death of persons living in our communities due to fire, natural disasters or other hazards could have a material adverse effect on our business and results of operations. Our insurance coverage may not cover all losses associated with such events, and we may experience difficulty marketing communities where such any such events have occurred, which could have a material adverse effect on our business and results of operations.

Any material weaknesses identified in the Company's internal control over financial reporting could have an adverse effect on the Company’s stock price. Section 404 of the Sarbanes-Oxley Act of 2002 requires the Company to evaluate and report on its internal control over financial reporting. If the Company identifies one or more material weaknesses in its internal control over financial reporting, the Company could lose investor confidence in the accuracy and completeness of its financial reports, which in turn could have an adverse effect on the Company’s stock price.

Changes in the system for establishing U.S. accounting standards may materially and adversely affect our reported results of operations. Accounting for public companies in the United States has historically been conducted in accordance with generally accepted accounting principles as in effect in the United States (“GAAP”). GAAP is established by the Financial Accounting Standards Board (the “FASB”), an independent body whose standards are recognized by the SEC as authoritative for publicly held companies. The International Accounting Standards Board (the “IASB”) is a London-based independent board established in 2001 and charged with the development of International Financial Reporting Standards ("IFRS"). IFRS generally reflects accounting practices that prevail in Europe and in developed nations around the world.

We are monitoring the SEC's activity with respect to the proposed adoption of IFRS by United States public companies. It is unclear at this time how the SEC will propose that GAAP and IFRS be harmonized if the proposed change is adopted. In addition, switching to a new method of accounting and adopting IFRS would be a complex undertaking. We would potentially need to develop new systems and controls based on the principles of IFRS. Since these are new endeavors, and the precise requirements of the pronouncements ultimately to be adopted are not now known, the magnitude of costs associated with this conversion are uncertain.

We are currently evaluating the impact of the adoption of IFRS on our financial position and results of operations. Such evaluation cannot be completed, however, without more clarity regarding the specific IFRS standards that would potentially be adopted. Until there is more certainty with respect to the IFRS standards that could be adopted, prospective investors should consider that our conversion to IFRS could have a material adverse impact on our reported results of operations.

Tax Risks

There are various U.S. tax risks in connection with an investment in the Company and in Essex Portfolio, L.P. The Company has elected to be taxed as a REIT under the Code. The Company's qualification as a REIT (i) requires it to satisfy numerous annual and quarterly requirements, including income tests and asset tests, established under highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations, and (ii) involves the determination of various factual matters and circumstances not entirely within the Company's control. Although the Company intends that its current organization and method of operation enable it to qualify as a REIT, it cannot assure you that it so qualifies or that it will be able to remain so qualified in the future. Future legislation, new regulations, administrative interpretations or court decisions (any of which could have retroactive effect) could adversely affect the Company's ability to qualify as a REIT or adversely affect the Company's stockholders. If the Company fails to qualify as a REIT in any taxable year, the Company would be subject to U.S. federal income tax (including any applicable alternative minimum tax) on the Company's taxable income at corporate rates, and the Company would not be allowed to deduct dividends paid to its stockholders in computing its taxable income. The Company would also be disqualified from treatment as a REIT for the four taxable years following the year in which the Company failed to qualify. The additional tax liability would reduce its net earnings available for investment or distribution to stockholders, and the Company would no longer be required to make distributions to its stockholders.

The Company has established several taxable REIT subsidiaries ("TRSs"). The TRSs must pay U.S. federal income tax on their taxable income. While the Company will attempt to ensure that its dealings with its TRSs do not adversely affect its REIT qualification, it cannot provide assurances that it will successfully achieve that result. Furthermore, the Company may be subject to a 100% penalty tax, or its TRSs may be denied deductions, to the extent dealings between the Company and its TRSs are not deemed to be arm's length in nature. The Company intends that its dealings with its TRSs will be on an arm's length basis. No assurances can be given, however, that the Internal Revenue Service will not challenge such dealings.

From time to time, the Company may transfer or otherwise dispose of some of its properties. Under the Code, any gain resulting from transfers of properties that the Company holds as inventory or primarily for sale to customers in the ordinary course of business would be treated as income from a prohibited transaction subject to a 100% penalty tax. Since the Company acquires properties for investment purposes, it does not believe that its occasional transfers or disposals of property should be treated as prohibited transactions. However, whether property is held for investment purposes depends on all the facts and circumstances surrounding the particular transaction. The Internal Revenue Service may contend that certain transfers or disposals of properties by the Company are prohibited transactions. If the Internal Revenue Service were to argue successfully that a transfer or disposition of property constituted a prohibited transaction, then the Company would be required to pay a 100% penalty tax on any gain allocable to it from the prohibited transaction, and the Company's ability to retain proceeds from real property sales may be jeopardized. Income from a prohibited transaction might adversely affect the Company's ability to satisfy the income tests for qualification as a REIT for U.S. federal income tax purposes. Therefore, no assurances can be given that the Company will be able to satisfy the income tests for qualification as a REIT if the Company transferred or disposed of property in a transaction treated as a prohibited transaction.

Dividends paid by REITs to U.S. stockholders that are individuals, trusts or estates are generally not eligible for the reduced tax rate applicable to qualified dividends received from non-REIT corporations (the maximum rate on qualified dividends is currently 23.8%). U.S. individual, trust or estate stockholders who receive dividends from a REIT that are not designated as capital gain dividends will be taxed on such dividends at ordinary income rates (at a current maximum rate of 43.4%). This may cause investors to view REIT investments to be less attractive than investments in non-REIT corporations, which in turn may adversely affect the value of stock in REITs, including the Company's stock.

Non-U.S. investors that invest in the Company should be aware of the following U.S. federal income tax considerations in connection with such investment. First, distributions by the Company from its current and accumulated earnings and profits are subject to a 30% U.S. withholding tax in the hands of non-U.S. investors, unless the 30% may be reduced by an applicable income tax treaty. Such distributions may also be subject to a 30% withholding tax under the "Foreign Account Tax Compliance Act" ("FATCA") unless a non-U.S. investor complies with certain requirements prescribed by FATCA. Second, distributions by the Company that are attributable to gains from dispositions of U.S. real property ("capital gain dividends") will be treated as income that is effectively connected with a U.S. trade or business in the hands of a non-U.S. investor, such that a non-U.S. investor will have U.S. federal income tax payment and filing obligations with respect to capital gain dividends. Furthermore, capital gain dividends are subject to an additional 30% "branch profits tax" (which may be reduced by an applicable income tax treaty) in the hands of a non-U.S. investor that is a corporation. Third, any gain derived by a non-U.S. investor on a disposition of such investor's stock in the Company will subject such investor to U.S. federal income tax payment and filing requirements if the Company were not treated as a domestically-controlled REIT. A REIT is "domestically controlled" if less than 50% of the REIT's capital stock, by value, has been owned directly or indirectly by persons who are not qualifying U.S. persons during a continuous five-year period ending on the date of disposition or, if shorter, during the entire period of the REIT's existence. The Company believes that it is a domestically-controlled REIT, but no assurances can be given in this regard. Even if the Company were not a domestically-controlled REIT, however, under a special exception non-U.S. investors should not have U.S. federal income tax payment and filing obligations on a disposition of their stock in the Company if (i) they did not own more than 5% of such stock at any time during the one-year period ending on the date of the disposition, and (ii) the Company's stock continues to be regularly traded on an established securities market located in the United States. Non-U.S. investors should consult with their independent advisors as to the above U.S. tax considerations and other U.S. tax consequences of an investment in the Company's stock, in light of their particular circumstances.

The Company believes that its operating partnership, Essex Portfolio, L.P., will continue to qualify to be treated as a partnership for U.S. federal income tax purposes. As a partnership, Essex Portfolio, L.P. is not subject to U.S. federal income tax on its income. Instead, each of its partners will be required to pay tax on such partner's allocable share of the income of Essex Portfolio, L.P. No assurances can be given, however, that the Internal Revenue Service will not challenge Essex Portfolio, L.P.'s status as a partnership for U.S. federal income tax purposes, or that a court would not sustain such a challenge. If the Internal Revenue Service were successful in treating Essex Portfolio, L.P. as a corporation for U.S. federal income tax purposes, the Company could fail to meet the income tests and/or the asset tests applicable to REITs and, accordingly, cease to qualify as a REIT. Also, the failure of Essex Portfolio, L.P. to qualify as a partnership would cause it to become subject to federal and state corporate income tax, which would reduce significantly the amount of cash available for distribution to its partners.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's Portfolio as of December 31, 2014 (including communities owned by unconsolidated joint ventures, but excluding communities underlying preferred equity investments) was comprised of 239 apartment communities (comprising 57,455 apartment units), of which 27,125 units are located in Southern California, 17,604 units are located in the San Francisco Bay Area, and 12,174 units are located in the Seattle metropolitan area. The Company's apartment communities accounted for 99.0% of the Company's revenues for the year ended December 31, 2014.

Occupancy Rates

Financial occupancy is defined as the percentage resulting from dividing actual rental revenue by total possible rental revenue. When calculating actual rents for occupied units and market rents for vacant units, delinquencies and concessions are not taken into account. Total possible rental revenue represents the value of all apartment units, with occupied units valued at contractual rental rates pursuant to leases and vacant units valued at estimated market rents.   The Company believes that financial occupancy is a meaningful measure of occupancy because it considers the value of each vacant unit at its estimated market rate. Financial occupancy may not completely reflect short-term trends in physical occupancy and financial occupancy rates as disclosed by other REITs may not be comparable to the Company's calculation of financial occupancy. Market rates are determined using a variety of factors such as effective rental rates at the property based on recently signed leases and asking rates for comparable properties in the market. The recently signed effective rates at the property are used as the starting point in the determination of the market rates of vacant units. The Company then increases or decreases these rates based on the supply and demand in the apartment community's market. The Company will check the reasonableness of these rents based on its position within the market and compare the rents against the asking rents by comparable properties in the market.

For communities that are development properties in lease-up without stabilized occupancy figures, the Company believes the physical occupancy rate is the appropriate performance metric. While a community is in the lease-up phase, the Company's primary motivation is to stabilize the property which may entail the use of rent concessions and other incentives, and thus financial occupancy which is based on contractual revenue is not considered the best metric to quantify occupancy.

Communities

The Company's communities are primarily suburban garden-style communities and town homes comprising multiple clusters of two and three-story buildings situated on three to fifteen acres of land. As of December 31, 2014, the Company's communities include 163 garden-style, 72 mid-rise, and 4 high-rise communities. The communities have an average of approximately 240 units, with a mix of studio, one, two and some three-bedroom units. A wide variety of amenities are available at the Company's communities, including covered parking, fireplaces, swimming pools, clubhouses with fitness facilities, volleyball and playground areas and tennis courts.

The Company hires, trains and supervises on-site service and maintenance personnel. The Company believes that the following primary factors enhance the Company's ability to retain tenants:

- located near employment centers;
- attractive communities that are well maintained; and
- proactive customer service.

Commercial Buildings

The Company's corporate headquarters is located in two office buildings with approximately 39,600 square feet located at 925/935 East Meadow Drive, Palo Alto, California.   The Company owns an office building with approximately 107,720 square feet located in Irvine, California, of which the Company occupies approximately 5,000 square feet at December 31, 2014. The Company owns Essex-Hollywood, a 34,000 square foot commercial building and a 138,915 square foot retail site in Santa Clara, California as future development sites that are currently 100% leased.

The following tables describe the Company's operating portfolio as of December 31, 2014. The first table describes the Company's communities and the second table describes the Company's other real estate assets.   (See Note 7 of the Company's consolidated financial statements for more information about the Company's secured mortgage debt and Schedule III for a list of secured mortgage loans related to the Company's Portfolio.)

	Rentable	Year

Communities (1)	Location	Units	Square Footage	Year Built	Acquired	Occupancy(2)
Southern California						
Alpine Village	Alpine, CA	301	254,400	1971	2002	97%
Anavia	Anaheim, CA	250	312,343	2009	2010	96%
Barkley, The (3)(4)	Anaheim, CA	161	139,800	1984	2000	97%
Park Viridian	Anaheim, CA	320	254,600	2008	2014	96%
Bonita Cedars	Bonita, CA	120	120,800	1983	2002	97%
Camarillo Oaks	Camarillo, CA	564	459,000	1985	1996	96%
Camino Ruiz Square	Camarillo, CA	160	105,448	1990	2006	97%

Communities (1)	Location	Units	Rentable Square Footage	Year Built	Year Acquired	Occupancy(2)
Enclave at Town Square (34)	Chino Hills, CA	124	89,948	1987	2014	97%
The Heights I & II (34)	Chino Hills, CA	332	324,370	2004	2014	96%
The Summit (5)	Chino Hills, CA	125	98,420	1989	2014	96%
Pinnacle at Otay Ranch	Chula Vista, CA	364	384,192	2001	2014	95%
Mesa Village	Clairemont, CA	133	43,600	1963	2002	97%
Villa Siena	Costa Mesa, CA	272	262,842	1974	2014	96%
Emerald Pointe	Diamond Bar, CA	160	134,816	1989	2014	96%
Regency at Encino	Encino, CA	75	78,487	1989	2009	96%
The Havens (34)	Fountain Valley, CA	440	414,040	1969	2014	96%
Valley Park	Fountain Valley, CA	160	169,700	1969	2001	98%
Capri at Sunny Hills (4)	Fullerton, CA	100	128,100	1961	2001	97%
Haver Hill (5)	Fullerton, CA	264	224,130	1973	2012	96%
Pinnacle at Fullerton	Fullerton, CA	192	174,336	2004	2014	96%
Wilshire Promenade	Fullerton, CA	149	128,000	1992	1997	96%
Montejo (4)	Garden Grove, CA	124	103,200	1974	2001	97%
CBC Apartments	Goleta, CA	148	91,538	1962	2006	97%
The Sweeps	Goleta, CA	91	88,370	1967	2006	97%
416 on Broadway	Glendale, CA	115	126,782	2009	2010	97%
Hampton Court	Glendale, CA	83	71,500	1974	1999	95%
Hampton Place	Glendale, CA	132	141,500	1970	1999	95%
Devonshire	Hemet, CA	276	207,200	1988	2002	96%
Jefferson at Hollywood	Hollywood, CA	270	238,119	2010	2014	94%
Huntington Breakers	Huntington Beach, CA	342	241,700	1984	1997	94%
The Huntington	Huntington Beach, CA	276	202,256	1975	2012	97%
Axis 2300	Irvine, CA	115	170,714	2010	2010	95%
Hillsborough Park	La Habra, CA	235	215,500	1999	1999	97%
Village Green	La Habra, CA	272	175,762	1971	2014	96%
The Palms at Laguna Niguel	Laguna Niguel, CA	460	362,136	1988	2014	96%
Trabuco Villas	Lake Forest, CA	132	131,000	1985	1997	98%
Madrid Apartments (6)	Mission Viejo, CA	230	228,099	2000	2012	97%
Marbrisa	Long Beach, CA	202	122,800	1987	2002	96%
Pathways	Long Beach, CA	296	197,700	1975 (7)	1991	96%
5600 Wilshire	Los Angeles, CA	284	243,910	2008	2014	95%
Alessio	Los Angeles, CA	624	552,716	2001	2014	95%
The Avery (4)	Los Angeles, CA	121	129,393	2014	2014	73%
Belmont Station	Los Angeles, CA	275	225,000	2008	2008	97%
Bellerive	Los Angeles, CA	63	79,296	2011	2011	97%
Bunker Hill	Los Angeles, CA	456	346,600	1968	1998	92%
Catalina Gardens	Los Angeles, CA	128	117,585	1987	2014	97%
Cochran Apartments	Los Angeles, CA	58	51,400	1989	1998	97%
Kings Road	Los Angeles, CA	196	132,100	1979	1997	95%
Gas Company Lofts (5)	Los Angeles, CA	251	226,666	2004	2013	96%
Marbella, The	Los Angeles, CA	60	50,108	1991	2005	97%

Pacific Electric Lofts (6)	Los Angeles, CA	314	277,980	2006	2012	94%

Communities (1)	Location	Units	Rentable Square Footage	Year Built	Year Acquired	Occupancy(2)
Park Catalina	Los Angeles, CA	90	72,864	2002	2012	96%
Park Place	Los Angeles, CA	60	48,000	1988	1997	97%
Regency Palm Court (5)	Los Angeles, CA	116	54,844	1987	2014	96%
Santee Court	Los Angeles, CA	165	132,040	2004	2010	97%
Santee Village	Los Angeles, CA	73	69,817	2011	2011	97%
Tiffany Court	Los Angeles, CA	101	74,538	1987	2014	98%
Wilshire La Brea	Los Angeles, CA	478	354,972	2014	2014	65%
Windsor Court (5)	Los Angeles, CA	95	51,266	1987	2014	96%
Windsor Court	Los Angeles, CA	58	46,600	1988	1997	97%
Aqua at Marina Del Rey	Marina Del Rey, CA	500	479,312	2001	2014	95%
Marina City Club (8)	Marina Del Rey, CA	101	127,200	1971	2004	97%
Mirabella	Marina Del Rey, CA	188	176,800	2000	2000	97%
Mira Monte	Mira Mesa, CA	355	262,600	1982	2002	96%
Hillcrest Park	Newbury Park, CA	608	521,900	1973	1998	96%
Fairways (9)	Newport Beach, CA	74	107,100	1972	1999	95%
Muse	North Hollywood, CA	152	135,292	2011	2011	97%
Candlewood North	Northridge, CA	189	166,910	1964	2014	97%
Canyon Creek (34)	Northridge, CA	200	148,150	1986	2014	95%
Country Villas	Oceanside, CA	180	179,700	1976	2002	96%
Mission Hills	Oceanside, CA	282	244,000	1984	2005	97%
Renaissance at Uptown Orange	Orange, CA	460	432,836	2007	2014	96%
Mariners Place	Oxnard, CA	105	77,200	1987	2000	98%
Monterey Villas	Oxnard, CA	122	122,100	1974	1997	96%
Tierra Vista	Oxnard, CA	404	387,100	2001	2001	96%
Arbors Parc Rose (6)	Oxnard, CA	373	503,196	2001	2011	95%
Monterra del Mar	Pasadena, CA	123	74,400	1972	1997	92%
Monterra del Rey	Pasadena, CA	84	73,100	1972	1999	92%
Monterra del Sol	Pasadena, CA	85	69,200	1972	1999	92%
Stuart at Sierra Madre Villa	Pasadena, CA	188	168,630	2007	2014	95%
Villa Angelina	Placentia, CA	256	217,600	1970	2001	96%
Fountain Park	Playa Vista, CA	705	608,900	2002	2004	97%
Highridge (4)	Rancho Palos Verdes, CA	255	290,200	1972 (10)	1997	95%
Cortesia at Rancho Santa Margarita	Rancho Santa Margarita, CA	308	277,580	1999	2014	95%
Pinnacle at Talega	San Clemente, CA	362	355,764	2002	2014	96%
Allure at Scripps Ranch	San Diego, CA	194	207,052	2002	2014	97%
Bernardo Crest	San Diego, CA	216	205,548	1988	2014	97%
Cambridge Park	San Diego, CA	320	317,958	1998	2014	96%
Carmel Creek	San Diego, CA	348	384,216	2000	2014	96%
Carmel Landing	San Diego, CA	356	283,426	1989	2014	96%
Carmel Summit	San Diego, CA	246	225,880	1989	2014	97%
CentrePointe	San Diego, CA	224	126,700	1974 (11)	1997	94%
Domain	San Diego, CA	379	345,044	2013	2013	93%
Esplanade (34)	San Diego, CA	616	479,600	1986	2014	96%

Montanosa	San Diego, CA	472	414,968	1990	2014	96%

Communities (1)	Location	Units	Rentable Square Footage	Year Built	Year Acquired	Occupancy(2)
Summit Park	San Diego, CA	300	229,400	1972	2002	96%
Essex Skyline at MacArthur Place (12)	Santa Ana, CA	349	512,791	2008	2012	96%
Fairhaven (4)	Santa Ana, CA	164	135,700	1970	2001	97%
Parkside Court (34)	Santa Ana, CA	210	152,400	1986	2014	96%
Hope Ranch Collection	Santa Barbara, CA	108	126,700	1965&73	2007	98%
Bridgeport Coast (35)	Santa Clarita, CA	188	168,198	2006	2014	95%
Hidden Valley (13)	Simi Valley, CA	324	310,900	2004	2004	97%
Meadowood	Simi Valley, CA	320	264,500	1986	1996	96%
Pinnacle at MacArthur Place	South Coast Metro, CA	253	262,867	2002	2014	97%
Shadow Point	Spring Valley, CA	172	131,200	1983	2002	96%
The Fairways at Westridge (35)	Valencia, CA	234	223,330	2004	2014	96%
Vistas of West Hills (35)	Valencia, CA	220	221,119	2009	2014	96%
Allegro	Valley Village, CA	97	127,812	2010	2010	96%
Lofts at Pinehurst, The	Ventura, CA	118	71,100	1971	1997	98%
Pinehurst (14)	Ventura, CA	28	21,200	1973	2004	97%
Woodside Village	Ventura, CA	145	136,500	1987	2004	97%
Walnut Heights	Walnut, CA	163	146,700	1964	2003	97%
The Huxley (29)	West Hollywood, CA	187	154,776	2014	2014	67%
Reveal (6)	Woodland Hills, CA	438	414,892	2010	2011	95%
Avondale at Warner Center	Woodland Hills, CA	446	331,000	1970 (15)	1997	97%
		27,125	24,095,190			95%
Northern California						
Belmont Terrace	Belmont, CA	71	72,951	1974	2006	95%
Fourth & U	Berkeley, CA	171	146,255	2010	2010	96%
The Commons	Campbell, CA	264	153,168	1973	2010	96%
The Pointe at Cupertino (17)	Cupertino, CA	116	135,200	1963	1998	94%
Connolly Station (36)	Dublin, CA	309	286,348	2014	2014	93%
Avenue 64	Emeryville, CA	224	196,896	2007	2014	95%
Foster's Landing	Foster City, CA	490	415,130	1987	2014	95%
Stevenson Place	Fremont, CA	200	146,200	1971	1983	97%
Mission Peaks	Fremont, CA	453	404,034	1995	2014	96%
Mission Peaks II	Fremont, CA	336	294,720	1989	2014	96%
Paragon Apartments	Fremont, CA	301	267,047	2013	2014	97%
Boulevard	Fremont, CA	172	131,200	1978 (18)	1996	97%
Briarwood (6)	Fremont, CA	160	111,160	1978	2011	96%
The Woods (6)	Fremont, CA	160	105,280	1978	2011	96%
City Centre (35)	Hayward, CA	192	175,420	2000	2014	97%
City View	Hayward, CA	572	462,400	1975 (19)	1998	97%
Lafayette Highlands	Lafayette, CA	150	151,790	1973	2014	96%
Sharon Green	Menlo Park, CA	296	328,024	1970	2014	95%
Apex	Milpitas, CA	366	350,961	2014	2014	96%

Regency at Mountain View (5)	Mountain View, CA	142	127,600	1970	2013	95%
Bridgeport	Newark, CA	184	139,000	1987 (20)	1987	97%
The Landing Jack London Sq	Oakland, CA	282	257,796	2001	2014	95%
The Grand	Oakland, CA	243	205,026	2009	2009	97%

			Rentable		Year	
Communities (1)	Location	Units	Square Footage	Year Built	Acquired	Occupancy(2)
San Marcos	Richmond, CA	432	407,600	2003	2003	97%
Bennett Lofts	San Francisco, CA	165	184,713	2004	2012	86%
Fox Plaza	San Francisco, CA	443	230,017	1968	2013	95%
Mosso I	San Francisco, CA	181	223,222	2014	2014	32%
Park West	San Francisco, CA	126	90,060	1958	2012	94%
101 San Fernando	San Jose, CA	323	296,078	2001	2010	97%
Bella Villagio	San Jose, CA	231	227,511	2004	2010	97%
Epic - Phase I & II (21)	San Jose, CA	569	472,236	2013	2013	86%
Esplanade	San Jose, CA	278	279,000	2002	2004	96%
Fountains at River Oaks	San Jose, CA	226	209,954	1990	2014	96%
Museum Park	San Jose, CA	117	121,329	2002	2014	96%
Palm Valley (29)	San Jose, CA	1,098	1,132,284	2008	2014	97%
The Carlyle	San Jose, CA	132	129,200	2000	2000	97%
The Waterford	San Jose, CA	238	219,600	2000	2000	97%
Willow Lake	San Jose, CA	508	471,744	1989	2012	95%
Lakeshore Landing	San Mateo, CA	308	223,972	1988	2014	95%
Hillsdale Garden	San Mateo, CA	697	611,505	1948	2006	97%
Deer Valley	San Rafael, CA	171	167,238	1996	2014	97%
Bel Air	San Ramon, CA	462	391,000	1988	1995	96%
Canyon Oaks	San Ramon, CA	250	237,894	2005	2007	97%
Crow Canyon	San Ramon, CA	400	337,064	1992	2014	96%
Foothill/Twins Creeks	San Ramon, CA	132	155,100	1985	1997	95%
Mill Creek at Windermere	San Ramon, CA	400	381,060	2005	2007	97%
Twin Creeks/Foothill	San Ramon, CA	44	51,700	1985	1997	95%
1000 Kiely	Santa Clara, CA	121	128,486	1971	2011	96%
Le Parc	Santa Clara, CA	140	113,200	1975	1994	96%
Marina Cove (22)	Santa Clara, CA	292	250,200	1974 (23)	1994	96%
Riley Square (6)	Santa Clara, CA	156	126,900	1972	2012	95%
Villa Granada	Santa Clara, CA	270	238,841	2010	2014	96%
Chestnut Street Apartments	Santa Cruz, CA	96	87,640	2002	2008	98%
Harvest Park	Santa Rosa, CA	104	116,628	2004	2007	96%
Bristol Commons	Sunnyvale, CA	188	142,600	1989	1995	96%
Brookside Oaks (4)	Sunnyvale, CA	170	119,900	1973	2000	95%
Lawrence Station	Sunnyvale, CA	336	297,188	2012	2014	97%
Magnolia Lane (24)	Sunnyvale, CA	32	31,541	2001	2007	95%
Magnolia Square (4)	Sunnyvale, CA	156	110,824	1969	2007	95%
Montclaire	Sunnyvale, CA	390	294,100	1973 (25)	1988	97%
Reed Square	Sunnyvale, CA	100	95,440	1970	2011	95%
Solstice	Sunnyvale, CA	280	571,466	2014	2014	87%
Summerhill Park	Sunnyvale, CA	100	78,500	1988	1988	94%
Via	Sunnyvale, CA	284	309,421	2011	2011	96%
Windsor Ridge	Sunnyvale, CA	216	161,800	1989	1989	97%
Vista Belvedere	Tiburon, CA	76	78,300	1963	2004	95%
Tuscana	Tracy, CA	30	29,088	2007	2007	99%
Verandas (35)	Union City, CA	282	199,092	1989	2014	97%

	17,604	15,895,842	95%

Seattle, Washington Metropolitan Area

Communities (1)	Location	Units	Rentable Square Footage	Year Built	Year Acquired	Occupancy(2)
Belcarra	Bellevue, WA	296	241,567	2009	2014	96%
BellCentre	Bellevue, WA	248	181,288	2001	2014	96%
Cedar Terrace	Bellevue, WA	180	174,200	1984	2005	97%
Courtyard off Main	Bellevue, WA	109	108,388	2000	2010	96%
Ellington at Bellevue	Bellevue, WA	220	165,794	1994	2014	95%
Emerald Ridge	Bellevue, WA	180	144,000	1987	1994	96%
Foothill Commons	Bellevue, WA	388	288,300	1978 (26)	1990	95%
Palisades, The	Bellevue, WA	192	159,700	1977	1990	97%
Park Highland	Bellevue, WA	250	224,750	1993	2014	94%
Piedmont	Bellevue, WA	396	348,969	1969	2014	94%
Sammamish View	Bellevue, WA	153	133,500	1986	1994	97%
Woodland Commons	Bellevue, WA	302	217,878	1978 (27)	1990	95%
Bothell Ridge (34)	Bothell, WA	214	167,370	1988	2014	96%
Canyon Pointe	Bothell, WA	250	210,400	1990	2003	95%
Inglenook Court	Bothell, WA	224	183,600	1985	1994	96%
Pinnacle Sonata	Bothell, WA	268	343,095	2000	2014	96%
Salmon Run at Perry Creek	Bothell, WA	132	117,100	2000	2000	98%
Stonehedge Village	Bothell, WA	196	214,800	1986	1997	97%
Highlands at Wynhaven	Issaquah, WA	333	424,674	2000	2008	95%
Park Hill at Issaquah	Issaquah, WA	245	277,700	1999	1999	97%
Wandering Creek	Kent, WA	156	124,300	1986	1995	97%
Ascent	Kirkland, WA	90	75,840	1988	2012	96%
Bridle Trails	Kirkland, WA	108	99,700	1986 (28)	1997	97%
Corbella at Juanita Bay	Kirkland, WA	169	103,339	1978	2010	96%
Evergreen Heights	Kirkland, WA	200	188,300	1990	1997	95%
Slater 116	Kirkland, WA	108	81,415	2013	2013	93%
Montebello	Kirkland, WA	248	272,734	1996	2012	95%
Aviara (16)	Mercer Island, WA	166	147,033	2013	2014	94%
Laurels at Mill Creek	Mill Creek, WA	164	134,300	1981	1996	97%
Parkwood at Mill Creek	Mill Creek, WA	240	257,160	1989	2014	96%
The Elliot at Mukilteo (4)	Mukilteo, WA	301	245,900	1981	1997	97%
Castle Creek	Newcastle, WA	216	191,900	1995	1995	96%
Delano/Bon Terra	Redmond, WA	126	116,340	2005	2011	98%
Elevation	Redmond, WA	157	138,916	1986	2010	97%
Redmond Hill West (6)	Redmond, WA	442	350,275	1985	2011	95%
Shadowbrook	Redmond, WA	416	338,880	1986	2014	96%
The Trails of Redmond	Redmond, WA	423	376,000	1985	2014	96%
Vesta (6)	Redmond, WA	440	381,675	1998	2011	95%
Brighton Ridge	Renton, WA	264	201,300	1986	1996	97%
Fairwood Pond	Renton, WA	194	189,200	1997	2004	96%
Forest View	Renton, WA	192	182,500	1998	2003	97%
Pinnacle on Lake Washington	Renton, WA	180	190,908	2001	2014	96%
Annaliese	Seattle, WA	56	48,216	2009	2013	95%
The Audrey at Belltown	Seattle, WA	137	94,119	1992	2014	96%

Ballinger Commons (34)	Seattle, WA	485	407,253	1989	2014	96%
The Bernard	Seattle, WA	63	43,151	2008	2011	96%
Cairns, The	Seattle, WA	100	70,806	2006	2007	96%

Communities (1)	Location	Units	Rentable Square Footage	Year Built	Year Acquired	Occupancy(2)
Citywalk (34)	Seattle, WA	102	92,010	1988	2014	96%
Collins on Pine	Seattle, WA	76	53,474	2013	2014	98%
Domaine	Seattle, WA	92	79,421	2009	2012	96%
Expo (29)	Seattle, WA	275	190,176	2012	2012	95%
Fountain Court	Seattle, WA	320	207,000	2000	2000	95%
Joule (30)	Seattle, WA	295	191,109	2010	2010	96%
Taylor 28	Seattle, WA	197	155,630	2008	2014	97%
Vox	Seattle, WA	58	42,173	2013	2013	95%
Wharfside Pointe	Seattle, WA	142	119,200	1990	1994	93%
		12,174	10,508,726			96%
Pinnacle South Mountain (36)	Phoenix, AZ	552	569,876	1988	2014	94%
Total/Weighted Average		57,455	51,069,634			95%

Other real estate assets (1)	Location	Tenants	Square Footage	Year Built	Year Acquired	Occupancy (2)
925 / 935 East Meadow Drive (31)	Palo Alto, CA	1	39,600	1988 / 1962	1997 / 2007	100%
6230 Sunset Blvd (32)	Los Angeles, CA	1	34,000	1938	2006	100%
17461 Derian Ave (33)	Irvine, CA	8	107,720	1983	2000	98%
Santa Clara Retail	Santa Clara, CA	3	138,915	1970	2011	100%
		13	320,235			99%

Footnotes to the Company’s Portfolio Listing as of December 31, 2014

(1) Unless otherwise specified, the Company has a 100% ownership interest in each community.

(2) For communities, occupancy rates are based on financial occupancy for the year ended December 31, 2014; for the commercial buildings or properties which have not yet stabilized, or have insufficient operating history, occupancy rates are based on physical occupancy as of December 31, 2014. For an explanation of how financial occupancy and physical occupancy are calculated, see “Properties-Occupancy Rates” in this Item 2.

(3) The community is subject to a ground lease, which, unless extended, will expire in 2082.

(4) The Company holds a 1% special limited partner interest in the partnerships which own these apartment communities. These investments were made under arrangements whereby EMC became the 1% sole general partner and the other limited partners were granted the right to require the applicable partnership to redeem their interest for cash. Subject to certain conditions, the Company may, however, elect to deliver an equivalent number of shares of the Company’s common stock in satisfaction of the applicable partnership’s cash redemption obligation.

(5) This community is owned by Wesco III. The Company has a 50% interest in Wesco III which is accounted for using the equity method of accounting.

(6) This community is owned by Wesco I. The Company has a 50% interest in Wesco I which is accounted for using the equity method of accounting.

(7) The Company completed a $10.8 million redevelopment in 2009.

(8) This community is subject to a ground lease, which, unless extended, will expire in 2067.

(9)

This community is subject to a ground lease, which, unless extended, will expire in 2027.

(10) The Company completed a $16.6 million redevelopment in 2010.

(11) The Company is in the late phases of performing a $13.0 million redevelopment.

(12) The Company has a 97% interest and an executive vice president of the Company has a 3% interest in this community.

(13) The Company has a 75% member interest.

(14) The community is subject to a ground lease, which, unless extended, will expire in 2028.

(15) The Company completed a $12.0 million redevelopment in 2008.

(16) This community is subject to a ground lease, which, unless extended, will expire in 2030.

(17) The Company is in the process of performing a $10.0 million redevelopment.

(18) The Company completed an $8.9 million redevelopment in 2008.
(19) The Company completed a $9.4 million redevelopment in 2009.
(20) The Company completed a $4.6 million redevelopment in 2009.
(21) The Company has 55% ownership in this community. The community is being developed in three phases with one remaining phase currently under development.
(22) A portion of this community on which 84 units are presently located is subject to a ground lease, which, unless extended, will expire in 2028.
(23) The Company is in the process of performing a $14.1 million redevelopment.
(24) The community is subject to a ground lease, which, unless extended, will expire in 2070.
(25) The Company completed a $12.5 million redevelopment in 2009.
(26) The Company completed a $36.3 million redevelopment in 2012, which included the construction of 28 in-fill units in 2009.
(27) The Company completed the construction of 66 additional apartment homes in 2012 and is in the process of performing a redevelopment for a total cost of $15.4 million.
(28) The Company completed a $5.1 million redevelopment and completed construction of 16 units of the community's 108 units in 2006.
(29) The Company has 50% ownership in each of these communities which is accounted for using the equity method of accounting.
(30) The Company has 99% ownership in this community.
(31) The Company occupies 100% of this property.
(32) The property is leased through July 2015 to a single tenant.
(33) The Company occupies 5% of space in this property.
(34) This community is owned by BEXAEW. The Company has a 50% interest in BEXAEW which is accounted for using the equity method of accounting.
(35) This community is owned by Wesco IV. The Company has a 50% interest in Wesco IV which is accounted for using the equity method of accounting.
(36) The Company has a 55% ownership in this community.

Item 3. Legal Proceedings

The information, which regards lawsuits, other proceedings and claims, set forth in Note 16, "Commitments and Contingencies", of our notes to consolidated financial statements included in Part IV, Item 15 of this Annual Report on Form 10-K is incorporated by reference into this Item 3.

In addition to such matters referred to in said Note 16, the Company is subject to various other legal and/or regulatory proceedings arising in the course of its business operations. We believe that, with respect to such matters that we are currently a party to, the ultimate disposition of any such matter will not result in a material adverse effect on the Company's financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not Applicable.

Part II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The shares of the Company’s common stock are traded on the New York Stock Exchange (“NYSE”) under the symbol ESS. ESS common stock has been traded on the NYSE since June 13, 1994. The high, low and closing price per share of common stock reported on the NYSE for the quarters indicated are as follows:

Quarter Ended	High	Low	Close
December 31, 2014	$211.91	$206.35	$206.60
September 30, 2014	$180.65	$178.27	$178.75
June 30, 2014	$185.66	$183.36	$184.91
March 31, 2014	$171.70	$166.95	$170.05
December 31, 2013	$165.44	$137.53	$143.51
September 30, 2013	$172.16	$139.64	$147.70
June 30, 2013	$171.11	$147.56	$158.92
March 31, 2013	$156.36	$147.06	$150.58

The closing price of ESS stock as of February 24, 2015 was $223.17.

There is no established public trading market for Essex Portfolio, L.P.'s OP Units.

Holders

The approximate number of holders of record of the shares of ESS common stock was 1,551 as of February 24, 2015. This number does not include stockholders whose shares are held in investment accounts by other entities. ESS believes the actual number of stockholders is greater than the number of holders of record.

As of February 24, 2015, there were 174 holders of record of Essex Portfolio, L.P.'s OP Units, including ESS.

Return of Capital

Under provisions of the Internal Revenue Code of 1986, as amended, the portion of the cash dividend, if any, that exceeds earnings and profits is considered a return of capital. The return of capital is generated due to a variety of factors, including the deduction of non-cash expenses, primarily depreciation, in the determination of earnings and profits.

The status of the cash dividends distributed for the years ended December 31, 2014, 2013, and 2012 related to common stock, and Series F, G and H preferred stock for tax purposes are as follows:

	2014		2013		2012	
Common Stock						
Ordinary income	70.03	%	77.34	%	70.58	%
Capital gain	21.95	%	17.64	%	8.75	%
Unrecaptured section 1250 capital gain	8.02	%	5.02	%	7.97	%
Return of capital	—	%	—	%	12.70	%
	100.00	%	100.00	%	100.00	%

	2014		2013		2012	
Series F, G, and H Preferred stock						
Ordinary income	70.03	%	77.34	%	80.85	%
Capital gains	21.95	%	17.64	%	10.02	%
Unrecaptured section 1250 capital gain	8.02	%	5.02	%	9.13	%
	100.00	%	100.00	%	100.00	%

Dividends and Distributions

Since ESS’s initial public offering on June 13, 1994, ESS and the Operating Partnership have paid regular quarterly dividends/distributions to its stockholders and unitholders. ESS paid the following dividends per share of common stock and the Operating Partnership paid the following distributions per limited partner OP unit:

Year Ended	Annual Dividend/Distribution	Quarter Ended	2014	2013	2012
1995	$ 1.69	March 31,	$1.21	$1.21	$1.10
1996	$ 1.72	June 30,	$1.30	$1.21	$1.10
1997	$ 1.77	September 30,	$1.30	$1.21	$1.10
1998	$ 1.95	December 31,	$1.30	$1.21	$1.10
1999	$ 2.15				
2000	$ 2.38	Annual Dividend/Distribution	$5.11	$4.84	$4.40
2001	$ 2.80				
2002	$ 3.08				
2003	$ 3.12				
2004	$ 3.16				
2005	$ 3.24				
2006	$ 3.36				
2007	$ 3.72				
2008	$ 4.08				
2009	$ 4.12				
2010	$ 4.13				
2011	$ 4.16				

Future dividends/distributions by ESS and the Operating Partnership will be at the discretion of the Board of Directors of ESS and will depend on the actual cash flows from operations of the Company, its financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code, applicable legal restrictions and such other factors as the Board of Directors deem relevant. There are currently no contractual restrictions on ESS and the Operating Partnership present or future ability to pay dividends and distributions.

The Board of Directors has declared a dividend/distribution for the first quarter of 2015 of $1.44 per share. The dividend/distribution will be payable on April 15, 2015 to shareholders/unitholders of record as of March 31, 2015.

Future distributions by Essex Portfolio, L.P., will be at the discretion of the Board of Directors of Essex Portfolio, L.P.'s general partner, Essex Property Trust, Inc. and will depend on our actual cash flows from operations, our financial condition, capital requirements, Essex Property Trust, Inc.'s annual distribution requirements under the REIT provisions of the Internal Revenue Code, applicable legal restrictions and such other factors as the Board of Directors deem relevant. There are currently no contractual restrictions on Essex Portfolio, L.P.'s present or future ability to pay distributions.

Dividend Reinvestment and Share Purchase Plan

ESS has adopted a dividend reinvestment and share purchase plan designed to provide holders of common stock with a convenient and economical means to reinvest all or a portion of their cash dividends in shares of common stock and to acquire additional shares of common stock through voluntary purchases. Computershare, LLC, which serves as ESS transfer agent, administers the dividend reinvestment and share purchase plan. For a copy of the plan, contact Computershare, LLC at (312) 360-5354.

Securities Authorized for Issuance under Equity Compensation Plans

See the Company's disclosure in the 2015 Proxy Statement under the heading "Equity Compensation Plan Information", which disclosure is incorporated herein by reference.

Issuance of Registered Equity Securities

In April 2014, Essex issued approximately 23,067,446 shares of Essex common stock as Stock Consideration in the BRE merger at an average price of $163.82.

During 2014, ESS sold 2,964,315 shares of common stock for proceeds of $534.0 million, net of commissions, at an average price of $181.56. During the first quarter of 2015 through February 24, 2015, ESS has issued 636,021 shares of common stock at an average price of $224.76 for proceeds of $142.0 million, net of fees and commissions. These sales were pursuant to a registration statement and ESS used the net proceeds from the stock offerings to pay down debt, fund redevelopment and development pipelines, fund acquisitions, and for general corporate purposes.