

EQUITY RESIDENTIAL
Form 10-Q
August 04, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
 QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended JUNE 30, 2016

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

For the transition period from _____ to _____

Commission File Number: 1-12252 (Equity Residential)
Commission File Number: 0-24920 (ERP Operating Limited Partnership)

EQUITY RESIDENTIAL
ERP OPERATING LIMITED PARTNERSHIP
(Exact name of registrant as specified in its charter)

Maryland (Equity Residential)	13-3675988 (Equity Residential)
Illinois (ERP Operating Limited Partnership)	36-3894853 (ERP Operating Limited Partnership)
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
Two North Riverside Plaza, Chicago, Illinois 60606	(312) 474-1300
(Address of principal executive offices) (Zip Code)	(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Equity Residential Yes No ERP Operating Limited Partnership Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Equity Residential Yes No ERP Operating Limited Partnership Yes No

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

Equity Residential:

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

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ERP Operating Limited Partnership:

Large accelerated filer

Accelerated filer

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

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

Equity Residential Yes No ERP Operating Limited Partnership Yes No

The number of EQR Common Shares of Beneficial Interest, \$0.01 par value, outstanding on July 29, 2016 was 365,556,105.

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EXPLANATORY NOTE

This report combines the reports on Form 10-Q for the quarterly period ended June 30, 2016 of Equity Residential and ERP Operating Limited Partnership. Unless stated otherwise or the context otherwise requires, references to “EQR” mean Equity Residential, a Maryland real estate investment trust (“REIT”), and references to “ERPOP” mean ERP Operating Limited Partnership, an Illinois limited partnership. References to the “Company,” “we,” “us” or “our” mean collectively EQR, ERPOP and those entities/subsidiaries owned or controlled by EQR and/or ERPOP. References to the “Operating Partnership” mean collectively ERPOP and those entities/subsidiaries owned or controlled by ERPOP. The following chart illustrates the Company's and the Operating Partnership's corporate structure:

EQR is the general partner of, and as of June 30, 2016 owned an approximate 96.1% ownership interest in, ERPOP. The remaining 3.9% interest is owned by limited partners. As the sole general partner of ERPOP, EQR has exclusive control of ERPOP's day-to-day management.

The Company is structured as an umbrella partnership REIT (“UPREIT”) and EQR contributes all net proceeds from its various equity offerings to ERPOP. In return for those contributions, EQR receives a number of OP Units (see definition below) in ERPOP equal to the number of Common Shares 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 ERPOP, which is one of the reasons why the Company is structured in the manner shown above. Based on the terms of ERPOP's partnership agreement, OP Units can be exchanged with Common Shares on a one-for-one basis. The Company maintains a one-for-one relationship between the OP Units of ERPOP issued to EQR and the Common Shares.

The Company believes that combining the reports on Form 10-Q of EQR and ERPOP 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 EQR consists of the same members as the management of ERPOP.

The Company believes it is important to understand the few differences between EQR and ERPOP in the context of how EQR and ERPOP operate as a consolidated company. All of the Company's property ownership, development and related business operations are conducted through the Operating Partnership and EQR has no material assets or liabilities other than its investment in ERPOP. EQR's primary function is acting as the general partner of ERPOP. EQR also issues equity from time to time and guarantees certain debt of ERPOP, as disclosed in this report. EQR does not have any indebtedness as all debt is incurred by the Operating Partnership. 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 EQR, which are contributed to

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the capital of ERPOP in exchange for additional partnership interests in ERPOP (“OP Units”) (on a one-for-one Common Share per OP Unit basis) or additional preference units in ERPOP (on a one-for-one preferred share per preference 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 and/or commercial paper program, the issuance of secured and unsecured debt and equity securities and proceeds received from disposition of certain properties and joint ventures.

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 financial statements and as noncontrolling interests in the Company's financial statements. The noncontrolling interests in the Operating Partnership's financial statements include the interests of unaffiliated partners in various consolidated partnerships and development joint venture partners. The noncontrolling interests in the Company's financial statements include the same noncontrolling interests at the Operating Partnership level and limited partner OP Unit holders of the Operating Partnership. The differences between shareholders' equity and partners' capital result from differences in the equity issued at the Company and Operating Partnership levels.

To help investors understand the 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 each entity's debt, noncontrolling interests and shareholders' equity or partners' capital, as applicable; and a combined Management's Discussion and Analysis of Financial Condition and Results of Operations section that includes discrete information related to each entity.

This report also includes separate Part I, Item 4. 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.

As general partner with control of ERPOP, EQR consolidates ERPOP for financial reporting purposes, and EQR essentially has no assets or liabilities other than its investment in ERPOP. Therefore, the assets and liabilities of the Company and the Operating Partnership are the same on their respective financial statements. 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.

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EQUITY RESIDENTIAL
CONSOLIDATED BALANCE SHEETS
(Amounts in thousands except for share amounts)
(Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Investment in real estate		
Land	\$5,835,195	\$5,864,046
Depreciable property	18,474,391	18,037,087
Projects under development	799,947	1,122,376
Land held for development	138,221	158,843
Investment in real estate	25,247,754	25,182,352
Accumulated depreciation	(5,119,342)	(4,905,406)
Investment in real estate, net	20,128,412	20,276,946
Real estate held for sale	—	2,181,135
Cash and cash equivalents	497,843	42,276
Investments in unconsolidated entities	65,952	68,101
Deposits – restricted	77,587	55,893
Escrow deposits – mortgage	61,711	56,946
Other assets	398,417	428,899
Total assets	\$21,229,922	\$23,110,196
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable, net	\$4,147,999	\$4,685,134
Notes, net	4,362,995	5,848,956
Line of credit and commercial paper	—	387,276
Accounts payable and accrued expenses	186,629	187,124
Accrued interest payable	58,175	85,221
Other liabilities	333,551	366,387
Security deposits	64,242	77,582
Distributions payable	191,403	209,378
Total liabilities	9,344,994	11,847,058
Commitments and contingencies		
Redeemable Noncontrolling Interests – Operating Partnership	478,324	566,783
Equity:		
Shareholders' equity:		
Preferred Shares of beneficial interest, \$0.01 par value; 100,000,000 shares authorized; 745,600 shares issued and outstanding as of June 30, 2016 and December 31, 2015	37,280	37,280
Common Shares of beneficial interest, \$0.01 par value; 1,000,000,000 shares authorized; 365,550,636 shares issued and outstanding as of June 30, 2016 and 364,755,444 shares issued and outstanding as of December 31, 2015	3,656	3,648
Paid in capital	8,718,365	8,572,365
Retained earnings	2,524,788	2,009,091

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Accumulated other comprehensive (loss)	(123,511)	(152,016)
Total shareholders' equity	11,160,578	10,470,368
Noncontrolling Interests:		
Operating Partnership	241,748	221,379
Partially Owned Properties	4,278	4,608
Total Noncontrolling Interests	246,026	225,987
Total equity	11,406,604	10,696,355
Total liabilities and equity	\$21,229,922	\$23,110,196

See accompanying notes

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EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Amounts in thousands except per share data)

(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2016	2015	2016	2015
REVENUES				
Rental income	\$1,211,104	\$1,341,114	\$594,939	\$676,508
Fee and asset management	3,133	4,369	215	2,604
Total revenues	1,214,237	1,345,483	595,154	679,112
EXPENSES				
Property and maintenance	205,472	242,565	96,307	118,005
Real estate taxes and insurance	157,611	169,551	77,415	83,119
Property management	44,486	44,557	20,991	21,792
General and administrative	35,013	35,421	18,296	15,659
Depreciation	349,012	388,803	176,127	194,282
Total expenses	791,594	880,897	389,136	432,857
Operating income	422,643	464,586	206,018	246,255
Interest and other income	59,583	6,650	56,525	6,481
Other expenses	(4,060)	(1,700)	(1,504)	(1,770)
Interest:				
Expense incurred, net	(299,964)	(219,648)	(86,472)	(110,866)
Amortization of deferred financing costs	(7,739)	(5,127)	(2,345)	(2,538)
Income before income and other taxes, (loss) income from investments in unconsolidated entities, net gain (loss) on sales of real estate properties and land parcels and discontinued operations	170,463	244,761	172,222	137,562
Income and other tax (expense) benefit	(763)	(369)	(413)	(326)
(Loss) income from investments in unconsolidated entities	(1,904)	15,429	(800)	12,466
Net gain on sales of real estate properties	3,780,835	228,753	57,356	148,802
Net gain (loss) on sales of land parcels	11,722	(1)	—	—
Income from continuing operations	3,960,353	488,573	228,365	298,504
Discontinued operations, net	(122)	269	35	114
Net income	3,960,231	488,842	228,400	298,618
Net (income) attributable to Noncontrolling Interests:				
Operating Partnership	(152,089)	(18,413)	(8,780)	(11,354)
Partially Owned Properties	(1,545)	(1,487)	(781)	(844)
Net income attributable to controlling interests	3,806,597	468,942	218,839	286,420
Preferred distributions	(1,545)	(1,724)	(772)	(833)
Premium on redemption of Preferred Shares	—	(2,789)	—	—
Net income available to Common Shares	\$3,805,052	\$464,429	\$218,067	\$285,587
Earnings per share – basic:				
Income from continuing operations available to Common Shares	\$10.43	\$1.28	\$0.60	\$0.79

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Net income available to Common Shares	\$10.43	\$1.28	\$0.60	\$0.79
Weighted average Common Shares outstanding	364,820	363,288	365,047	363,476
Earnings per share – diluted:				
Income from continuing operations available to Common Shares	\$10.36	\$1.27	\$0.59	\$0.78
Net income available to Common Shares	\$10.36	\$1.27	\$0.59	\$0.78
Weighted average Common Shares outstanding	382,012	380,346	382,065	380,491
Distributions declared per Common Share outstanding	\$9.0075	\$1.105	\$0.50375	\$0.5525

See accompanying notes

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EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Continued)

(Amounts in thousands except per share data)

(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2016	2015	2016	2015
Comprehensive income:				
Net income	\$3,960,231	\$488,842	\$228,400	\$298,618
Other comprehensive income:				
Other comprehensive (loss) income – derivative instruments:				
Unrealized holding (losses) gains arising during the period	(4,467)	(112)	(1,561)	11,676
Losses reclassified into earnings from other comprehensive income	32,922	8,911	4,268	4,573
Other comprehensive income (loss) – foreign currency:				
Currency translation adjustments arising during the period	50	(502)	(25)	(82)
Other comprehensive income	28,505	8,297	2,682	16,167
Comprehensive income	3,988,736	497,139	231,082	314,785
Comprehensive (income) attributable to Noncontrolling Interests	(154,734)	(20,219)	(9,664)	(12,817)
Comprehensive income attributable to controlling interests	\$3,834,002	\$476,920	\$221,418	\$301,968

See accompanying notes

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June	
	30,	2015
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$3,960,231	\$488,842
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	349,012	388,803
Amortization of deferred financing costs	7,739	5,127
Amortization of above/below market leases	1,708	1,691
Amortization of discounts and premiums on debt	(19,010)	(5,611)
Amortization of deferred settlements on derivative instruments	32,850	8,751
Write-off of pursuit costs	2,563	1,651
Loss (income) from investments in unconsolidated entities	1,904	(15,429)
Distributions from unconsolidated entities – return on capital	1,482	2,193
Net (gain) on sales of investment securities and other investments	(55,156)	(387)
Net (gain) on sales of real estate properties	(3,780,835)	(228,753)
Net (gain) loss on sales of land parcels	(11,722)	1
Net (gain) on sales of discontinued operations	(15)	—
Realized/unrealized loss on derivative instruments	—	51
Compensation paid with Company Common Shares	20,729	24,017
Changes in assets and liabilities:		
Decrease (increase) in deposits – restricted	9,121	(288)
(Increase) in mortgage deposits	(840)	(382)
Decrease (increase) in other assets	29,944	(4,553)
Increase in accounts payable and accrued expenses	7,837	22,350
(Decrease) in accrued interest payable	(27,046)	(2,409)
(Decrease) in other liabilities	(42,080)	(11,097)
(Decrease) increase in security deposits	(13,340)	479
Net cash provided by operating activities	475,076	675,047
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in real estate – acquisitions	(160,680)	(136,995)
Investment in real estate – development/other	(312,853)	(324,343)
Capital expenditures to real estate	(74,450)	(81,962)
Non-real estate capital additions	(3,259)	(1,955)
Interest capitalized for real estate under development	(28,386)	(30,432)
Proceeds from disposition of real estate, net	6,415,181	379,863
Investments in unconsolidated entities	(1,829)	(4,786)
Distributions from unconsolidated entities – return of capital	524	26,147
Proceeds from sale of investment securities and other investments	68,528	387
(Increase) in deposits on real estate acquisitions and investments, net	(30,815)	(31,247)
Decrease (increase) in mortgage deposits	46	(226)
Net cash provided by (used for) investing activities	5,872,007	(205,549)

See accompanying notes

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EQUITY RESIDENTIAL
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Amounts in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt financing costs	\$(437)	\$(6,352)
Mortgage deposits	(3,971)	(4,169)
Mortgage notes payable, net:		
Lump sum payoffs	(556,499)	(121,488)
Scheduled principal repayments	(4,740)	(5,028)
Notes, net:		
Proceeds	—	746,391
Lump sum payoffs	(1,500,000)	(300,000)
Line of credit and commercial paper:		
Line of credit proceeds	246,000	3,553,000
Line of credit repayments	(246,000)	(3,886,000)
Commercial paper proceeds	1,324,784	2,266,924
Commercial paper repayments	(1,712,472)	(2,267,500)
(Payments on) settlement of derivative instruments	—	(13,938)
Proceeds from Employee Share Purchase Plan (ESPP)	2,023	2,610
Proceeds from exercise of options	26,141	33,984
Redemption of Preferred Shares	—	(9,820)
Premium on redemption of Preferred Shares	—	(2,789)
Payment of offering costs	—	(40)
Other financing activities, net	(33)	(33)
Contributions – Noncontrolling Interests – Operating Partnership		1
Distributions:		
Common Shares	(3,306,704)	(382,441)
Preferred Shares	(1,545)	(1,724)
Noncontrolling Interests – Operating Partnership	(130,383)	(15,062)
Noncontrolling Interests – Partially Owned Properties	(27,681)	(3,995)
Net cash (used for) financing activities	(5,891,516)	(417,469)
Net increase in cash and cash equivalents	455,567	52,029
Cash and cash equivalents, beginning of period	42,276	40,080
Cash and cash equivalents, end of period	\$497,843	\$92,109

See accompanying notes

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EQUITY RESIDENTIAL
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Amounts in thousands)
(Unaudited)

Six Months Ended
June 30,
2016 2015

SUPPLEMENTAL INFORMATION:

Cash paid for interest, net of amounts capitalized	\$313,480	\$218,965
Net cash paid for income and other taxes	\$1,166	\$895
Real estate acquisitions/dispositions/other:		
Mortgage loans assumed	\$43,400	\$—
Amortization of deferred financing costs:		
Other assets	\$1,527	\$1,527
Mortgage notes payable, net	\$2,617	\$1,607
Notes, net	\$3,595	\$1,993
Amortization of discounts and premiums on debt:		
Mortgage notes payable, net	\$(21,476)	\$(7,420)
Notes, net	\$2,054	\$1,233
Line of credit and commercial paper	\$412	\$576
Amortization of deferred settlements on derivative instruments:		
Other liabilities	\$(72)	\$(160)
Accumulated other comprehensive income	\$32,922	\$8,911
Write-off of pursuit costs:		
Investment in real estate, net	\$2,072	\$1,260
Deposits – restricted	\$—	\$330
Other assets	\$390	\$61
Accounts payable and accrued expenses	\$101	\$—
Loss (income) from investments in unconsolidated entities:		
Investments in unconsolidated entities	\$1,122	\$(16,767)
Other liabilities	\$782	\$1,338
Distributions from unconsolidated entities – return on capital:		
Investments in unconsolidated entities	\$1,482	\$2,125
Other liabilities	\$—	\$68
Realized/unrealized loss on derivative instruments:		
Other assets	\$(8,390)	\$(3,873)
Notes, net	\$8,390	\$2,358
Other liabilities	\$4,467	\$1,678
Accumulated other comprehensive income	\$(4,467)	\$(112)
Investments in unconsolidated entities:		
Investments in unconsolidated entities	\$(929)	\$(1,291)
Other liabilities	\$(900)	\$(3,495)
Debt financing costs:		
Mortgage notes payable, net	\$(437)	\$—
Notes, net	\$—	\$(6,352)
Other:		
Foreign currency translation adjustments	\$(50)	\$502

See accompanying notes

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2016
SHAREHOLDERS' EQUITY	
PREFERRED SHARES	
Balance, beginning of year	\$37,280
Balance, end of period	\$37,280
COMMON SHARES, \$0.01 PAR VALUE	
Balance, beginning of year	\$3,648
Exercise of share options	6
Share-based employee compensation expense:	
Restricted shares	2
Balance, end of period	\$3,656
PAID IN CAPITAL	
Balance, beginning of year	\$8,572,365
Common Share Issuance:	
Conversion of OP Units into Common Shares	271
Exercise of share options	26,135
Employee Share Purchase Plan (ESPP)	2,023
Share-based employee compensation expense:	
Restricted shares	9,625
Share options	2,733
ESPP discount	357
Supplemental Executive Retirement Plan (SERP)	801
Change in market value of Redeemable Noncontrolling Interests – Operating Partnership	99,190
Adjustment for Noncontrolling Interests ownership in Operating Partnership	4,865
Balance, end of period	\$8,718,365
RETAINED EARNINGS	
Balance, beginning of year	\$2,009,091
Net income attributable to controlling interests	3,806,597
Common Share distributions	(3,289,355)
Preferred Share distributions	(1,545)
Balance, end of period	\$2,524,788
ACCUMULATED OTHER COMPREHENSIVE (LOSS)	
Balance, beginning of year	\$(152,016)
Accumulated other comprehensive (loss) income – derivative instruments:	
Unrealized holding (losses) arising during the period	(4,467)
Losses reclassified into earnings from other comprehensive income	32,922
Accumulated other comprehensive income – foreign currency:	

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Currency translation adjustments arising during the period	50
Balance, end of period	\$(123,511)

See accompanying notes

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EQUITY RESIDENTIAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

(Amounts in thousands)

(Unaudited)

Six
Months
Ended
June 30,
2016

NONCONTROLLING INTERESTS

OPERATING PARTNERSHIP

Balance, beginning of year	\$221,379
Issuance of restricted units to Noncontrolling Interests	1
Conversion of OP Units held by Noncontrolling Interests into OP Units held by General Partner	(271)
Equity compensation associated with Noncontrolling Interests	13,903
Net income attributable to Noncontrolling Interests	152,089
Distributions to Noncontrolling Interests	(129,757)
Change in carrying value of Redeemable Noncontrolling Interests – Operating Partnership	(10,731)
Adjustment for Noncontrolling Interests ownership in Operating Partnership	(4,865)
Balance, end of period	\$241,748

PARTIALLY OWNED PROPERTIES

Balance, beginning of year	\$4,608
Net income attributable to Noncontrolling Interests	1,545
Distributions to Noncontrolling Interests	(27,714)
Other	25,839
Balance, end of period	\$4,278

See accompanying notes

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Table of ContentsERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

(Unaudited)

	June 30, 2016	December 31, 2015
ASSETS		
Investment in real estate		
Land	\$5,835,195	\$5,864,046
Depreciable property	18,474,391	18,037,087
Projects under development	799,947	1,122,376
Land held for development	138,221	158,843
Investment in real estate	25,247,754	25,182,352
Accumulated depreciation	(5,119,342)	(4,905,406)
Investment in real estate, net	20,128,412	20,276,946
Real estate held for sale	—	2,181,135
Cash and cash equivalents	497,843	42,276
Investments in unconsolidated entities	65,952	68,101
Deposits – restricted	77,587	55,893
Escrow deposits – mortgage	61,711	56,946
Other assets	398,417	428,899
Total assets	\$21,229,922	\$23,110,196
LIABILITIES AND CAPITAL		
Liabilities:		
Mortgage notes payable, net	\$4,147,999	\$4,685,134
Notes, net	4,362,995	5,848,956
Line of credit and commercial paper	—	387,276
Accounts payable and accrued expenses	186,629	187,124
Accrued interest payable	58,175	85,221
Other liabilities	333,551	366,387
Security deposits	64,242	77,582
Distributions payable	191,403	209,378
Total liabilities	9,344,994	11,847,058
Commitments and contingencies		
Redeemable Limited Partners	478,324	566,783
Capital:		
Partners' Capital:		
Preference Units	37,280	37,280
General Partner	11,246,809	10,585,104
Limited Partners	241,748	221,379
Accumulated other comprehensive (loss)	(123,511)	(152,016)
Total partners' capital	11,402,326	10,691,747
Noncontrolling Interests – Partially Owned Properties	4,278	4,608
Total capital	11,406,604	10,696,355
Total liabilities and capital	\$21,229,922	\$23,110,196

See accompanying notes

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Table of ContentsERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Amounts in thousands except per Unit data)

(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2016	2015	2016	2015
REVENUES				
Rental income	\$1,211,104	\$1,341,114	\$594,939	\$676,508
Fee and asset management	3,133	4,369	215	2,604
Total revenues	1,214,237	1,345,483	595,154	679,112
EXPENSES				
Property and maintenance	205,472	242,565	96,307	118,005
Real estate taxes and insurance	157,611	169,551	77,415	83,119
Property management	44,486	44,557	20,991	21,792
General and administrative	35,013	35,421	18,296	15,659
Depreciation	349,012	388,803	176,127	194,282
Total expenses	791,594	880,897	389,136	432,857
Operating income	422,643	464,586	206,018	246,255
Interest and other income	59,583	6,650	56,525	6,481
Other expenses	(4,060)	(1,700)	(1,504)	(1,770)
Interest:				
Expense incurred, net	(299,964)	(219,648)	(86,472)	(110,866)
Amortization of deferred financing costs	(7,739)	(5,127)	(2,345)	(2,538)
Income before income and other taxes, (loss) income from investments in unconsolidated entities, net gain (loss) on sales of real estate properties and land parcels and discontinued operations	170,463	244,761	172,222	137,562
Income and other tax (expense) benefit	(763)	(369)	(413)	(326)
(Loss) income from investments in unconsolidated entities	(1,904)	15,429	(800)	12,466
Net gain on sales of real estate properties	3,780,835	228,753	57,356	148,802
Net gain (loss) on sales of land parcels	11,722	(1)	—	—
Income from continuing operations	3,960,353	488,573	228,365	298,504
Discontinued operations, net	(122)	269	35	114
Net income	3,960,231	488,842	228,400	298,618
Net (income) attributable to Noncontrolling Interests – Partially Owned Properties	(1,545)	(1,487)	(781)	(844)
Net income attributable to controlling interests	\$3,958,686	\$487,355	\$227,619	\$297,774
ALLOCATION OF NET INCOME:				
Preference Units	\$1,545	\$1,724	\$772	\$833
Premium on redemption of Preference Units	\$—	\$2,789	\$—	\$—
General Partner	\$3,805,052	\$464,429	\$218,067	\$285,587
Limited Partners	152,089	18,413	8,780	11,354

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Net income available to Units	\$3,957,141	\$482,842	\$226,847	\$296,941
Earnings per Unit – basic:				
Income from continuing operations available to Units	\$10.43	\$1.28	\$0.60	\$0.79
Net income available to Units	\$10.43	\$1.28	\$0.60	\$0.79
Weighted average Units outstanding	378,612	376,880	378,934	377,063
Earnings per Unit – diluted:				
Income from continuing operations available to Units	\$10.36	\$1.27	\$0.59	\$0.78
Net income available to Units	\$10.36	\$1.27	\$0.59	\$0.78
Weighted average Units outstanding	382,012	380,346	382,065	380,491
Distributions declared per Unit outstanding	\$9.0075	\$1.105	\$0.50375	\$0.5525

See accompanying notes

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ERP OPERATING LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Continued)

(Amounts in thousands except per Unit data)

(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2016	2015	2016	2015
Comprehensive income:				
Net income	\$3,960,231	\$488,842	\$228,400	\$298,618
Other comprehensive income:				
Other comprehensive (loss) income – derivative instruments:				
Unrealized holding (losses) gains arising during the period	(4,467)	(112)	(1,561)	11,676
Losses reclassified into earnings from other comprehensive income	32,922	8,911	4,268	4,573
Other comprehensive income (loss) – foreign currency:				
Currency translation adjustments arising during the period	50	(502)	(25)	(82)
Other comprehensive income	28,505	8,297	2,682	16,167
Comprehensive income	3,988,736	497,139	231,082	314,785
Comprehensive (income) attributable to Noncontrolling Interests – Partially Owned Properties	(1,545)	(1,487)	(781)	(844)
Comprehensive income attributable to controlling interests	\$3,987,191	\$495,652	\$230,301	\$313,941

See accompanying notes

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Table of ContentsERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$3,960,231	\$488,842
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	349,012	388,803
Amortization of deferred financing costs	7,739	5,127
Amortization of above/below market leases	1,708	1,691
Amortization of discounts and premiums on debt	(19,010)	(5,611)
Amortization of deferred settlements on derivative instruments	32,850	8,751
Write-off of pursuit costs	2,563	1,651
Loss (income) from investments in unconsolidated entities	1,904	(15,429)
Distributions from unconsolidated entities – return on capital	1,482	2,193
Net (gain) on sales of investment securities and other investments	(55,156)	(387)
Net (gain) on sales of real estate properties	(3,780,835)	(228,753)
Net (gain) loss on sales of land parcels	(11,722)	1
Net (gain) on sales of discontinued operations	(15)	—
Realized/unrealized loss on derivative instruments	—	51
Compensation paid with Company Common Shares	20,729	24,017
Changes in assets and liabilities:		
Decrease (increase) in deposits – restricted	9,121	(288)
(Increase) in mortgage deposits	(840)	(382)
Decrease (increase) in other assets	29,944	(4,553)
Increase in accounts payable and accrued expenses	7,837	22,350
(Decrease) in accrued interest payable	(27,046)	(2,409)
(Decrease) in other liabilities	(42,080)	(11,097)
(Decrease) increase in security deposits	(13,340)	479
Net cash provided by operating activities	475,076	675,047
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in real estate – acquisitions	(160,680)	(136,995)
Investment in real estate – development/other	(312,853)	(324,343)
Capital expenditures to real estate	(74,450)	(81,962)
Non-real estate capital additions	(3,259)	(1,955)
Interest capitalized for real estate under development	(28,386)	(30,432)
Proceeds from disposition of real estate, net	6,415,181	379,863
Investments in unconsolidated entities	(1,829)	(4,786)
Distributions from unconsolidated entities – return of capital	524	26,147
Proceeds from sale of investment securities and other investments	68,528	387
(Increase) in deposits on real estate acquisitions and investments, net	(30,815)	(31,247)
Decrease (increase) in mortgage deposits	46	(226)
Net cash provided by (used for) investing activities	5,872,007	(205,549)

See accompanying notes

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ERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Amounts in thousands)
(Unaudited)

	Six Months Ended June 30,	
	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt financing costs	\$(437)	\$(6,352)
Mortgage deposits	(3,971)	(4,169)
Mortgage notes payable, net:		
Lump sum payoffs	(556,499)	(121,488)
Scheduled principal repayments	(4,740)	(5,028)
Notes, net:		
Proceeds	—	746,391
Lump sum payoffs	(1,500,000)	(300,000)
Line of credit and commercial paper:		
Line of credit proceeds	246,000	3,553,000
Line of credit repayments	(246,000)	(3,886,000)
Commercial paper proceeds	1,324,784	2,266,924
Commercial paper repayments	(1,712,472)	(2,267,500)
(Payments on) settlement of derivative instruments	—	(13,938)
Proceeds from EQR's Employee Share Purchase Plan (ESPP)	2,023	2,610
Proceeds from exercise of EQR options	26,141	33,984
Redemption of Preference Units	—	(9,820)
Premium on redemption of Preference Units	—	(2,789)
Payment of offering costs	—	(40)
Other financing activities, net	(33)	(33)
Contributions – Limited Partners	1	1
Distributions:		
OP Units – General Partner	(3,306,704)	(382,441)
Preference Units	(1,545)	(1,724)
OP Units – Limited Partners	(130,383)	(15,062)
Noncontrolling Interests – Partially Owned Properties	(27,681)	(3,995)
Net cash (used for) financing activities	(5,891,516)	(417,469)
Net increase in cash and cash equivalents	455,567	52,029
Cash and cash equivalents, beginning of period	42,276	40,080
Cash and cash equivalents, end of period	\$497,843	\$92,109

See accompanying notes

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Table of ContentsERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

(Unaudited)

Six Months Ended
June 30,
2016 2015

SUPPLEMENTAL INFORMATION:

Cash paid for interest, net of amounts capitalized	\$313,480	\$218,965
Net cash paid for income and other taxes	\$1,166	\$895
Real estate acquisitions/dispositions/other:		
Mortgage loans assumed	\$43,400	\$—
Amortization of deferred financing costs:		
Other assets	\$1,527	\$1,527
Mortgage notes payable, net	\$2,617	\$1,607
Notes, net	\$3,595	\$1,993
Amortization of discounts and premiums on debt:		
Mortgage notes payable, net	\$(21,476)	\$(7,420)
Notes, net	\$2,054	\$1,233
Line of credit and commercial paper	\$412	\$576
Amortization of deferred settlements on derivative instruments:		
Other liabilities	\$(72)	\$(160)
Accumulated other comprehensive income	\$32,922	\$8,911
Write-off of pursuit costs:		
Investment in real estate, net	\$2,072	\$1,260
Deposits – restricted	\$—	\$330
Other assets	\$390	\$61
Accounts payable and accrued expenses	\$101	\$—
Loss (income) from investments in unconsolidated entities:		
Investments in unconsolidated entities	\$1,122	\$(16,767)
Other liabilities	\$782	\$1,338
Distributions from unconsolidated entities – return on capital:		
Investments in unconsolidated entities	\$1,482	\$2,125
Other liabilities	\$—	\$68
Realized/unrealized loss on derivative instruments:		
Other assets	\$(8,390)	\$(3,873)
Notes, net	\$8,390	\$2,358
Other liabilities	\$4,467	\$1,678
Accumulated other comprehensive income	\$(4,467)	\$(112)
Investments in unconsolidated entities:		
Investments in unconsolidated entities	\$(929)	\$(1,291)
Other liabilities	\$(900)	\$(3,495)
Debt financing costs:		
Mortgage notes payable, net	\$(437)	\$—
Notes, net	\$—	\$(6,352)
Other:		
Foreign currency translation adjustments	\$(50)	\$502

See accompanying notes

Table of ContentsERP OPERATING LIMITED PARTNERSHIP
CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2016
PARTNERS' CAPITAL	
PREFERENCE UNITS	
Balance, beginning of year	\$37,280
Balance, end of period	\$37,280
GENERAL PARTNER	
Balance, beginning of year	\$10,585,104
OP Unit Issuance:	
Conversion of OP Units held by Limited Partners into OP Units held by General Partner	271
Exercise of EQR share options	26,141
EQR's Employee Share Purchase Plan (ESPP)	2,023
Share-based employee compensation expense:	
EQR restricted shares	9,627
EQR share options	2,733
EQR ESPP discount	357
Net income available to Units – General Partner	3,805,052
OP Units – General Partner distributions	(3,289,355)
Supplemental Executive Retirement Plan (SERP)	801
Change in market value of Redeemable Limited Partners	99,190
Adjustment for Limited Partners ownership in Operating Partnership	4,865
Balance, end of period	\$11,246,809
LIMITED PARTNERS	
Balance, beginning of year	\$221,379
Issuance of restricted units to Limited Partners	1
Conversion of OP Units held by Limited Partners into OP Units held by General Partner	(271)
Equity compensation associated with Units – Limited Partners	13,903
Net income available to Units – Limited Partners	152,089
Units – Limited Partners distributions	(129,757)
Change in carrying value of Redeemable Limited Partners	(10,731)
Adjustment for Limited Partners ownership in Operating Partnership	(4,865)
Balance, end of period	\$241,748
ACCUMULATED OTHER COMPREHENSIVE (LOSS)	
Balance, beginning of year	\$(152,016)
Accumulated other comprehensive (loss) income – derivative instruments:	
Unrealized holding (losses) arising during the period	(4,467)
Losses reclassified into earnings from other comprehensive income	32,922
Accumulated other comprehensive income – foreign currency:	
Currency translation adjustments arising during the period	50
Balance, end of period	\$(123,511)

See accompanying notes
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ERP OPERATING LIMITED PARTNERSHIP
 CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL (Continued)
 (Amounts in thousands)
 (Unaudited)

Six
 Months
 Ended
 June 30,
 2016

NONCONTROLLING INTERESTS

NONCONTROLLING INTERESTS – PARTIALLY OWNED PROPERTIES

Balance, beginning of year	\$4,608
Net income attributable to Noncontrolling Interests	1,545
Distributions to Noncontrolling Interests	(27,714)
Other	25,839
Balance, end of period	\$4,278

See accompanying notes

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EQUITY RESIDENTIAL
 ERP OPERATING LIMITED PARTNERSHIP
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

1. Business

Equity Residential (“EQR”), a Maryland real estate investment trust (“REIT”) formed in March 1993, is an S&P 500 company focused on the acquisition, development and management of high quality apartment properties in top United States growth markets. ERP Operating Limited Partnership (“ERPOP”), an Illinois limited partnership, was formed in May 1993 to conduct the multifamily residential property business of Equity Residential. EQR has elected to be taxed as a REIT. References to the “Company,” “we,” “us” or “our” mean collectively EQR, ERPOP and those entities/subsidiaries owned or controlled by EQR and/or ERPOP. References to the “Operating Partnership” mean collectively ERPOP and those entities/subsidiaries owned or controlled by ERPOP. Unless otherwise indicated, the notes to consolidated financial statements apply to both the Company and the Operating Partnership.

EQR is the general partner of, and as of June 30, 2016 owned an approximate 96.1% ownership interest in, ERPOP. All of the Company’s property ownership, development and related business operations are conducted through the Operating Partnership and EQR has no material assets or liabilities other than its investment in ERPOP. EQR issues public equity from time to time but does not have any indebtedness as all debt is incurred by the Operating Partnership. 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.

As of June 30, 2016, the Company, directly or indirectly through investments in title holding entities, owned all or a portion of 315 properties located in 11 states and the District of Columbia consisting of 79,458 apartment units. The ownership breakdown includes (table does not include various uncompleted development properties):

	Properties	Apartment Units
Wholly Owned Properties	291	73,853
Master-Leased Properties – Consolidated	3	853
Partially Owned Properties – Consolidated	18	3,471
Partially Owned Properties – Unconsolidated	3	1,281
	315	79,458

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) and certain reclassifications considered necessary for a fair presentation have been included. Certain reclassifications have been made to the prior period financial statements in order to conform to the current year presentation. These reclassifications did not have an impact on net income previously reported. Operating results for the six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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

The balance sheets at December 31, 2015 have been derived from the audited financial statements at that date but do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

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For further information, including definitions of capitalized terms not defined herein, refer to the consolidated financial statements and footnotes thereto included in the Company's and the Operating Partnership's Annual Report on Form 10-K for the year ended December 31, 2015.

Income and Other Taxes

Due to the structure of EQR as a REIT and the nature of the operations of its operating properties, no provision for federal income taxes has been made at the EQR level. In addition, ERPOP generally is not liable for federal income taxes as the partners recognize their proportionate share of income or loss in their tax returns; therefore no provision for federal income taxes has been made at the ERPOP level. Historically, the Company has generally only incurred certain state and local income, excise and franchise taxes. The Company has elected Taxable REIT Subsidiary ("TRS") status for certain of its corporate subsidiaries and as a result, these entities will incur both federal and state income taxes on any taxable income of such entities after consideration of any net operating losses.

Deferred tax assets and liabilities applicable to the TRS are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates for which the temporary differences are expected to be recovered or settled. The effects of changes in tax rates on deferred tax assets and liabilities are recognized in earnings in the period enacted. The Company's deferred tax assets are generally the result of tax affected suspended interest deductions, net operating losses, differing depreciable lives on capitalized assets and the timing of expense recognition for certain accrued liabilities. As of June 30, 2016, the Company has recorded a deferred tax asset, which is fully offset by a valuation allowance due to the uncertainty of realization.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (the "FASB") issued a comprehensive new revenue recognition standard entitled Revenue from Contracts with Customers that will supersede nearly all existing revenue recognition guidance. The new standard specifically excludes lease revenue. The new standard's core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Companies will likely need to use more judgment and make more estimates than under current revenue recognition guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration, if any, to include in the transaction price and allocating the transaction price to each separate performance obligation. The new standard will be effective for the Company beginning on January 1, 2018 and early adoption will be permitted beginning on January 1, 2017. The new standard may be applied retrospectively to each prior period presented or prospectively with the cumulative effect recognized as of the date of adoption. The Company has not yet selected a transition method and is currently evaluating the impact of adopting the new standard on its consolidated results of operations and financial position.

In August 2014, the FASB issued a new standard that will explicitly require management to assess an entity's ability to continue as a going concern and to provide related footnote disclosures in certain circumstances. In connection with each annual and interim period, management will assess whether there is substantial doubt about an entity's ability to continue as a going concern within one year after the issuance date. Disclosures will be required if conditions give rise to substantial doubt. However, to determine the specific disclosures, management will need to assess whether its plans will alleviate substantial doubt. The new standard is effective for the annual period ending after December 15, 2016 and for interim periods thereafter. The Company does not expect that this will have a material effect on its consolidated results of operations or financial position.

In February 2015, the FASB issued new consolidation guidance which makes changes to both the variable interest model and the voting model. Among other changes, the new standard specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. Generally, only a single limited partner that is able to exercise substantive kick-out rights will consolidate. The Company adopted this standard as required effective January 1, 2016. While adoption of this standard did not result in any changes to conclusions about whether a joint venture was consolidated or unconsolidated, the Company has determined that certain of its joint ventures and the Operating Partnership now qualify as variable interest entities ("VIEs") and therefore require additional disclosures. See Note 6 for further discussion.

In April 2015, the FASB issued a new standard which requires companies to present debt financing costs as a direct deduction from the carrying amount of the associated debt liability rather than as an asset, consistent with the presentation of debt discounts on the consolidated balance sheets. Companies will be permitted to present debt issuance costs related to line of credit arrangements as an asset and amortize these costs over the term of the arrangement, regardless of whether there are any outstanding

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borrowings on the arrangement. The new standard must be applied retrospectively to all prior periods presented in the consolidated financial statements. The Company adopted this standard as required effective January 1, 2016 and other than presentation on the consolidated balance sheets, it did not have a material effect on its consolidated results of operations or financial position. As of June 30 2016, \$5.3 million, \$17.6 million and \$23.8 million of deferred financing costs were included within other assets, mortgage notes payable, net and notes, net, respectively, on the consolidated balance sheets. As of December 31, 2015, the following amounts of deferred financing costs were reclassified (amounts in thousands):

	December 31, 2015		
	As Originally Presented	Reclassification Adjustments	As Presented Herein
Deferred financing costs, net	\$54,004	\$ (54,004)	\$—
Other assets	\$422,027	\$ 6,872	\$428,899
Mortgage notes payable, net	\$4,704,870	\$ (19,736)	\$4,685,134
Notes, net	\$5,876,352	\$ (27,396)	\$5,848,956

In January 2016, the FASB issued a new standard which requires companies to measure all equity securities with readily determinable fair values at fair value on the balance sheet, with changes in fair value recognized in net income. The new standard will be effective for the Company beginning on January 1, 2018. The Company does not expect that this will have a material effect on its consolidated results of operations or financial position.

In February 2016, the FASB issued a new leases standard which sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessees and lessors). The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term of greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The new standard is expected to impact the Company's consolidated financial statements as the Company has certain operating ground lease arrangements for which it is the lessee. The new standard will be effective for the Company beginning on January 1, 2019, with early adoption permitted. The Company is currently evaluating the impact of adopting the new standard on its consolidated results of operations and financial position.

In March 2016, the FASB issued a new standard which simplifies several aspects of the accounting for employee share-based payment transactions, including income tax consequences, classification of awards as equity or liability, statement of cash flows classification and policy election options for forfeitures. The new standard will be effective for the Company beginning on January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact of adopting the new standard on its consolidated results of operations and financial position.

Other

The Company is the controlling partner in various consolidated partnerships owning 18 properties and 3,471 apartment units having a noncontrolling interest book value of \$4.3 million at June 30, 2016. The Company is required to make certain disclosures regarding noncontrolling interests in consolidated limited-life subsidiaries. Of the consolidated entities described above, the Company is the controlling partner in limited-life partnerships owning five properties having a noncontrolling interest deficit balance of \$9.2 million. These five partnership agreements contain

provisions that require the partnerships to be liquidated through the sale of their assets upon reaching a date specified in each respective partnership agreement. The Company, as controlling partner, has an obligation to cause the property owning partnerships to distribute the proceeds of liquidation to the Noncontrolling Interests in these Partially Owned Properties only to the extent that the net proceeds received by the partnerships from the sale of their assets warrant a distribution based on the partnership agreements. As of June 30, 2016, the Company estimates the value of Noncontrolling Interest distributions for these five properties would have been approximately \$54.6 million ("Settlement Value") had the partnerships been liquidated. This Settlement Value is based on estimated third party consideration realized by the partnerships upon disposition of the five Partially Owned Properties and is net of all other assets and liabilities, including yield maintenance on the mortgages encumbering the properties, that would have been due on June 30, 2016 had those mortgages been prepaid. Due to, among other things, the inherent uncertainty in the sale of real estate assets, the amount of any potential distribution to the Noncontrolling Interests in the Company's Partially Owned Properties is subject to change. To the extent that the partnerships'

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underlying assets are worth less than the underlying liabilities, the Company has no obligation to remit any consideration to the Noncontrolling Interests in these Partially Owned Properties.

3. Equity, Capital and Other Interests

Equity and Redeemable Noncontrolling Interests of Equity Residential

The following tables present the changes in the Company's issued and outstanding Common Shares and "Units" (which includes OP Units and restricted units) for the six months ended June 30, 2016:

	2016
Common Shares	
Common Shares outstanding at January 1,	364,755,444
Common Shares Issued:	
Conversion of OP Units	9,840
Exercise of share options	599,634
Employee Share Purchase Plan (ESPP)	33,065
Restricted share grants, net	152,653
Common Shares outstanding at June 30,	365,550,636
Units	
Units outstanding at January 1,	14,427,164
Restricted unit grants, net	289,273
Conversion of OP Units to Common Shares	(9,840)
Units outstanding at June 30,	14,706,597
Total Common Shares and Units outstanding at June 30,	380,257,233
Units Ownership Interest in Operating Partnership	3.9 %

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

The Operating Partnership has the right but not the obligation to make a cash payment instead of issuing Common Shares to any and all holders of Noncontrolling Interests – Operating Partnership Units requesting an exchange of their OP Units with EQR. Once the Operating Partnership elects not to redeem the Noncontrolling Interests – Operating Partnership Units for cash, EQR is obligated to deliver Common Shares to the exchanging holder of the Noncontrolling Interests – Operating Partnership Units.

The Noncontrolling Interests – Operating Partnership Units are classified as either mezzanine equity or permanent equity. If EQR is required, either by contract or securities law, to deliver registered Common Shares, such Noncontrolling Interests – Operating Partnership are differentiated and referred to as "Redeemable Noncontrolling Interests – Operating Partnership". Instruments that require settlement in registered shares cannot be classified in permanent equity as it is not always completely within an issuer's control to deliver registered shares. Therefore, settlement in cash is assumed and that responsibility for settlement in cash is deemed to fall to the Operating Partnership as the primary source of cash for EQR, resulting in presentation in the mezzanine section of the balance

sheet. The Redeemable Noncontrolling Interests – Operating Partnership are adjusted to the greater of carrying value or fair market value based on the Common Share price of EQR at the end of each respective reporting period. EQR has the ability to deliver unregistered Common Shares for the remaining portion of the Noncontrolling Interests – Operating Partnership Units that are classified in permanent equity at June 30, 2016 and December 31, 2015.

The carrying value of the Redeemable Noncontrolling Interests – Operating Partnership is allocated based on the number of Redeemable Noncontrolling Interests – Operating Partnership Units in proportion to the number of Noncontrolling Interests – Operating Partnership Units in total. Such percentage of the total carrying value of Units which is ascribed to the Redeemable Noncontrolling Interests – Operating Partnership is then adjusted to the greater of carrying value or fair market value as described above. As of June 30, 2016, the Redeemable Noncontrolling Interests – Operating Partnership have a redemption value of

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approximately \$478.3 million, which represents the value of Common Shares that would be issued in exchange for the Redeemable Noncontrolling Interests – Operating Partnership Units.

The following table presents the changes in the redemption value of the Redeemable Noncontrolling Interests – Operating Partnership for the six months ended June 30, 2016 (amounts in thousands):

	2016
Balance at January 1,	\$566,783
Change in market value	(99,190)
Change in carrying value	10,731
Balance at June 30,	\$478,324

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

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

The following table presents the Company's issued and outstanding Preferred Shares as of June 30, 2016 and December 31, 2015:

	Redemption Date (1)	Annual Dividend per Share (2)	Amounts in thousands	
			June 30, 2016	December 31, 2015
Preferred Shares of beneficial interest, \$0.01 par value; 100,000,000 shares authorized: 8.29% Series K Cumulative Redeemable Preferred; liquidation value \$50 per share; 745,600 shares issued and outstanding at June 30, 2016 and December 31, 2015	12/10/26	\$4.145	\$37,280	\$ 37,280
			\$37,280	\$ 37,280

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

(2)Dividends on Preferred Shares are payable quarterly.

Capital and Redeemable Limited Partners of ERP Operating Limited Partnership

The following tables present the changes in the Operating Partnership's issued and outstanding Units and in the limited partners' Units for the six months ended June 30, 2016:

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	2016
General and Limited Partner Units	
General and Limited Partner Units outstanding at January 1,	379,182,608
Issued to General Partner:	
Exercise of EQR share options	599,634
EQR's Employee Share Purchase Plan (ESPP)	33,065
EQR's restricted share grants, net	152,653
Issued to Limited Partners:	
Restricted unit grants, net	289,273
General and Limited Partner Units outstanding at June 30,	380,257,233
Limited Partner Units	
Limited Partner Units outstanding at January 1,	14,427,164
Limited Partner restricted unit grants, net	289,273
Conversion of Limited Partner OP Units to EQR Common Shares	(9,840)
Limited Partner Units outstanding at June 30,	14,706,597
Limited Partner Units Ownership Interest in Operating Partnership	3.9 %

The Limited Partners of the Operating Partnership as of June 30, 2016 include various individuals and entities that contributed their properties to the Operating Partnership in exchange for OP Units, as well as the equity positions of the holders of restricted units. Subject to certain exceptions (including the "book-up" requirements of restricted units), Limited Partners may exchange their Units with EQR for Common Shares on a one-for-one basis. The carrying value of the Limited Partner Units (including redeemable interests) is allocated based on the number of Limited Partner Units in total in proportion to the number of Limited Partner Units in total plus the number of General Partner Units. Net income is allocated to the Limited Partner Units based on the weighted average ownership percentage during the period.

The Operating Partnership has the right but not the obligation to make a cash payment instead of issuing Common Shares to any and all holders of Limited Partner Units requesting an exchange of their OP Units with EQR. Once the Operating Partnership elects not to redeem the Limited Partner Units for cash, EQR is obligated to deliver Common Shares to the exchanging limited partner.

The Limited Partner Units are classified as either mezzanine equity or permanent equity. If EQR is required, either by contract or securities law, to deliver registered Common Shares, such Limited Partner Units are differentiated and referred to as "Redeemable Limited Partner Units". Instruments that require settlement in registered shares cannot be classified in permanent equity as it is not always completely within an issuer's control to deliver registered shares. Therefore, settlement in cash is assumed and that responsibility for settlement in cash is deemed to fall to the Operating Partnership as the primary source of cash for EQR, resulting in presentation in the mezzanine section of the balance sheet. The Redeemable Limited Partner Units are adjusted to the greater of carrying value or fair market value based on the Common Share price of EQR at the end of each respective reporting period. EQR has the ability to deliver unregistered Common Shares for the remaining portion of the Limited Partner Units that are classified in permanent equity at June 30, 2016 and December 31, 2015.

The carrying value of the Redeemable Limited Partner Units is allocated based on the number of Redeemable Limited Partner Units in proportion to the number of Limited Partner Units in total. Such percentage of the total carrying value of Limited Partner Units which is ascribed to the Redeemable Limited Partner Units is then adjusted to the greater of carrying value or fair market value as described above. As of June 30, 2016, the Redeemable Limited Partner Units have a redemption value of approximately \$478.3 million, which represents the value of Common Shares that would be issued in exchange for the Redeemable Limited Partner Units.

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The following table presents the changes in the redemption value of the Redeemable Limited Partners for the six months ended June 30, 2016 (amounts in thousands):

	2016
Balance at January 1,	\$566,783
Change in market value	(99,190)
Change in carrying value	10,731
Balance at June 30,	\$478,324

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EQR contributes all net proceeds from its various equity offerings (including proceeds from exercise of options for Common Shares) to ERPOP. In return for those contributions, EQR receives a number of OP Units in ERPOP equal to the number of Common Shares it has issued in the equity offering (or in the case of a preferred equity offering, a number of preference units in ERPOP equal in number and having the same terms as the preferred shares issued in the equity offering).

The following table presents the Operating Partnership's issued and outstanding "Preference Units" as of June 30, 2016 and December 31, 2015:

	Redemption Date (1)	Annual Dividend per Unit (2)	Amounts in thousands	
			June 30, 2016	December 31, 2015
Preference Units:				
8.29% Series K Cumulative Redeemable Preference Units; liquidation value \$50 per unit; 745,600 units issued and outstanding at June 30, 2016 and December 31, 2015	12/10/26	\$4.145	\$37,280	\$ 37,280
			\$37,280	\$ 37,280

(1) On or after the redemption date, redeemable preference units may be redeemed for cash at the option of the Operating Partnership, in whole or in part, at a redemption price equal to the liquidation price per unit, plus accrued and unpaid distributions, if any, in conjunction with the concurrent redemption of the corresponding Company Preferred Shares.

(2) Dividends on Preference Units are payable quarterly.

Other

In September 2009, the Company announced the establishment of an At-The-Market ("ATM") share offering program which would allow EQR to sell Common Shares from time to time into the existing trading market at current market prices as well as through negotiated transactions. Per the terms of ERPOP's partnership agreement, EQR contributes the net proceeds from all equity offerings to the capital of ERPOP in exchange for additional OP Units (on a one-for-one Common Share per OP Unit basis). On June 29, 2016, the Company extended the program maturity to June 2019. EQR has the authority to issue 13.0 million shares under this program but has not issued any shares since September 14, 2012.

Effective June 16, 2016, the Board of Trustees approved an increase to the Company's share repurchase program to allow for the potential repurchase of up to 13.0 million Common Shares (12,968,760 Common Shares were available for repurchase prior to such increase). No shares were repurchased during the six months ended June 30, 2016 and as a result at June 30, 2016, EQR has authorization to repurchase up to 13.0 million of its shares under the repurchase program.

4. Real Estate, Real Estate Held for Sale and Lease Intangibles

The following table summarizes the carrying amounts for the Company's investment in real estate (at cost) as of June 30, 2016 and December 31, 2015 (amounts in thousands):

	June 30, 2016	December 31, 2015
Land	\$5,835,195	\$5,864,046
Depreciable property:		
Buildings and improvements	16,735,299	16,346,829

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Furniture, fixtures and equipment	1,269,413	1,207,098
In-Place lease intangibles	469,679	483,160
Projects under development:		
Land	188,563	284,995
Construction-in-progress	611,384	837,381
Land held for development:		
Land	98,549	120,007
Construction-in-progress	39,672	38,836
Investment in real estate	25,247,754	25,182,352
Accumulated depreciation	(5,119,342)	(4,905,406)
Investment in real estate, net	\$20,128,412	\$20,276,946

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The following table summarizes the carrying amounts for the Company's above and below market ground and retail lease intangibles as of June 30, 2016 and December 31, 2015 (amounts in thousands):

Description	Balance Sheet Location	June 30, 2016	December 31, 2015
Assets			
Ground lease intangibles – below market	Other Assets	\$ 178,251	\$ 178,251
Retail lease intangibles – above market	Other Assets	1,260	1,260
Lease intangible assets		179,511	179,511
Accumulated amortization		(15,712)	(13,451)
Lease intangible assets, net		\$ 163,799	\$ 166,060
Liabilities			
Ground lease intangibles – above market	Other Liabilities	\$ 2,400	\$ 2,400
Retail lease intangibles – below market	Other Liabilities	5,270	5,270
Lease intangible liabilities		7,670	7,670
Accumulated amortization		(3,967)	(3,414)
Lease intangible liabilities, net		\$ 3,703	\$ 4,256

During the six months ended June 30, 2016 and 2015, the Company amortized approximately \$2.2 million and \$2.2 million, respectively, of above and below market ground lease intangibles which is included (net increase) in property and maintenance expense in the accompanying consolidated statements of operations and comprehensive income and approximately \$0.5 million and \$0.5 million, respectively, of above and below market retail lease intangibles which is included (net increase) in rental income in the accompanying consolidated statements of operations and comprehensive income. During the quarters ended June 30, 2016 and 2015, the Company amortized approximately \$1.1 million and \$1.1 million, respectively, of above and below market ground lease intangibles which is included (net increase) in property and maintenance expense in the accompanying consolidated statements of operations and comprehensive income and approximately \$0.3 million and \$0.3 million, respectively, of above and below market retail lease intangibles which is included (net increase) in rental income in the accompanying consolidated statements of operations and comprehensive income.

The following table provides a summary of the aggregate amortization expense for above and below market ground lease intangibles and retail lease intangibles for each of the next five years (amounts in thousands):

	Remaining 2016	2017	2018	2019	2020	2021
Ground lease intangibles	\$ 2,161	\$ 4,321	\$ 4,321	\$ 4,321	\$ 4,321	\$ 4,321
Retail lease intangibles	(444)	(540)	(71)	(71)	(71)	(67)
Total	\$ 1,717	\$ 3,781	\$ 4,250	\$ 4,250	\$ 4,250	\$ 4,254

Acquisitions and Dispositions

During the six months ended June 30, 2016, the Company acquired the entire equity interest in the following from unaffiliated parties (purchase price in thousands):

	Properties	Apartment Units	Purchase Price
Rental Properties – Consolidated (1)	3	479	\$ 204,134
Total	3	479	\$ 204,134

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(1) Purchase price includes an allocation of approximately \$80.9 million to land and \$123.2 million to depreciable property.

During the six months ended June 30, 2016, the Company disposed of the following to unaffiliated parties (sales price in thousands):

	Properties	Apartment Units	Sales Price
Rental Properties – Consolidated (1)	83	26,890	\$6,427,403
Land Parcels – Consolidated	—	—	27,455
Total	83	26,890	\$6,454,858

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(1) Includes the Starwood Portfolio sale (see further discussion below) representing 72 operating properties consisting of 23,262 apartment units for \$5.365 billion.

The Company recognized a net gain on sales of real estate properties of approximately \$3.8 billion (inclusive of \$3.2 billion on the Starwood Portfolio sale) and a net gain on sales of land parcels of approximately \$11.7 million on the above sales.

Starwood Disposition

Following the approval by the Company's Board of Trustees, the Company executed an agreement with controlled affiliates of Starwood Capital Group ("Starwood") on October 23, 2015 to sell a portfolio of 72 operating properties consisting of 23,262 apartment units located in five markets across the United States for \$5.365 billion (the "Starwood Transaction" or "Starwood Portfolio"). As of December 31, 2015, Starwood had deposited \$250.0 million in cash into escrow as earnest money, which was non-refundable unless the Company defaulted on the sales agreement. On January 26 and 27, 2016, the Company closed on the sale of the entire portfolio described above. As a result, the Starwood Transaction met the held for sale criteria at December 31, 2015. In accordance with this classification, the Company ceased depreciation on all assets in the Starwood Portfolio as of November 1, 2015 and the following assets were classified as held for sale in the accompanying consolidated balance sheets at December 31, 2015 (amounts in thousands):

	December 31, 2015
Land	\$ 602,737
Depreciable property:	
Buildings and improvements	2,386,489
Furniture, fixtures and equipment	335,565
In-Place lease intangibles	35,554
Real estate held for sale before accumulated depreciation	3,360,345
Accumulated depreciation	(1,179,210)
Real estate held for sale	\$ 2,181,135

The following table provides the operating segments/locations of the properties and apartment units sold in the Starwood Transaction, which represents substantially all of the assets in the Company's South Florida and Denver markets and certain assets in the Washington D.C., Seattle and Los Angeles markets. The sale of these properties represents the continuation of the Company's long-term strategy of investing in high barrier to entry urban markets. See Note 11 for further discussion.

Markets/Metro Areas	Properties	Apartment Units
South Florida	33	10,742
Denver	18	6,635
Washington D.C.	10	3,020
Seattle	8	1,721
Los Angeles	3	1,144
Total	72	23,262

The Company used proceeds from the Starwood Transaction and other sales discussed above to pay a special dividend of \$8.00 per share/unit (approximately \$3.0 billion) on March 10, 2016 to shareholders and holders of OP Units of record as of March 3, 2016. The Company used the majority of the remaining proceeds to reduce aggregate indebtedness in order to make the transaction leverage neutral. See Note 8 for further discussion.

5. Commitments to Acquire/Dispose of Real Estate

The Company has not entered into any separate agreements to acquire rental properties or land parcels as of August 4, 2016.

In addition to the properties and land parcel that were subsequently disposed of as discussed in Note 14, the Company has entered into separate agreements to dispose of the following (sales price in thousands):

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	Properties	Apartment Units	Sales Price
Rental Properties	9	1,344	\$ 191,680
Land Parcels (two)	—	—	36,150
Total	9	1,344	\$ 227,830

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

6. Investments in Partially Owned Entities

The Company has co-invested in various properties with unrelated third parties which are either consolidated or accounted for under the equity method of accounting (unconsolidated). The following tables and information summarize the Company's investments in partially owned entities as of June 30, 2016 (amounts in thousands except for property and apartment unit amounts):

	Consolidated (VIE)	Unconsolidated (Non-VIE)	Unconsolidated (VIE) (1)	Total
Total properties	18	2	1	3
Total apartment units	3,471	945	336	1,281

Balance sheet information at 6/30/16 (at 100%):

ASSETS

Investment in real estate	\$ 667,414	\$ 234,807	\$ 229,685	\$ 464,492
Accumulated depreciation	(214,810)	(27,615)	(51,053)	(78,668)
Investment in real estate, net	452,604	207,192	178,632	385,824
Cash and cash equivalents	17,860	6,860	1,068	7,928
Investments in unconsolidated entities	48,127			