EQUITY RESIDENTIAL
Form 10-Q
November 06, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended SEPTEMBER 30, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number: 1-12252

EQUITY RESIDENTIAL

(Exact Name of Registrant as Specified in its Charter)

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

(312) 474-1300

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

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

The number of Common Shares of Beneficial Interest, $0.01 par value, outstanding on September 30, 2008 was 272,022,884.

EQUITY RESIDENTIAL

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands except for share amounts)

(Unaudited)

	September 30, 2008	December 31, 2007
ASSETS		
Investment in real estate		
Land	$ 3,653,808	$ 3,607,305
Depreciable property	13,760,599	13,556,681
Projects under development	852,597	828,530
Land held for development	366,822	340,834
Investment in real estate	18,633,826	18,333,350
Accumulated depreciation	(3,422,371)	(3,170,125)
Investment in real estate, net	15,211,455	15,163,225
Cash and cash equivalents	530,050	50,831
Investments in unconsolidated entities	3,131	3,547
Deposits restricted	395,658	253,276
Escrow deposits mortgage	21,834	20,174
Deferred financing costs, net	54,210	56,271
Other assets	150,986	142,453
Total assets	**$ 16,367,324**	**$ 15,689,777**
LIABILITIES AND SHAREHOLDERS EQUITY		
Liabilities:		
Mortgage notes payable	$ 4,493,886	$ 3,605,971
Notes, net	5,607,519	5,763,762
Lines of credit	-	139,000
Accounts payable and accrued expenses	173,658	109,385
Accrued interest payable	79,572	124,717
Other liabilities	313,629	322,975
Security deposits	64,066	62,159
Distributions payable	141,629	141,244
Total liabilities	**10,873,959**	**10,269,213**
Commitments and contingencies		
Minority Interests:		
Operating Partnership	310,572	331,626
Preference Interests and Units	184	184
Partially Owned Properties	26,506	26,236
Total Minority Interests	**337,262**	**358,046**
Shareholders equity:		
Preferred Shares of beneficial interest, $0.01 par value; 100,000,000 shares authorized; 1,961,975 shares issued and outstanding as of September 30, 2008 and 1,986,475 shares issued	209,049	209,662

and outstanding as of December 31, 2007		
Common Shares of beneficial interest, $0.01 par value; 1,000,000,000 shares authorized; 272,022,884 shares issued and outstanding as of September 30, 2008 and 269,554,661 shares issued and outstanding as of December 31, 2007	2,720	2,696
Paid in capital	4,323,140	4,266,538
Retained earnings	647,871	599,504
Accumulated other comprehensive loss	(26,677)	(15,882)
Total shareholders equity	**5,156,103**	**5,062,518**
Total liabilities and shareholders equity	**$ 16,367,324**	**$ 15,689,777**

See accompanying notes

2

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands except per share data)

(Unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Quarter Ended September 30, 2008	Quarter Ended September 30, 2007
REVENUES				
Rental income	$ 1,566,821	$ 1,440,041	$ 535,932	$ 498,868
Fee and asset management	7,397	6,937	2,387	2,234
Total revenues	1,574,218	1,446,978	538,319	501,102
EXPENSES				
Property and maintenance	409,755	378,586	141,555	132,162
Real estate taxes and insurance	162,470	149,521	55,206	49,765
Property management	59,536	68,960	18,902	21,698
Fee and asset management	6,154	6,604	1,983	2,100
Depreciation	437,935	420,347	152,157	143,987
General and administrative	34,040	33,182	9,849	12,366
Impairment	2,800	1,020	2,097	626
Total expenses	1,112,690	1,058,220	381,749	362,704
Operating income	461,528	388,758	156,570	138,398
Interest and other income	11,019	12,335	2,838	6,119
Interest:				
Expense incurred, net	(355,035)	(360,207)	(120,304)	(128,214)
Amortization of deferred financing costs	(6,751)	(7,853)	(2,411)	(2,031)
Income before income and other taxes, allocation to Minority Interests, income from investments in unconsolidated entities, net gain on sales of unconsolidated entities and land parcels and discontinued operations	110,761	33,033	36,693	14,272
Income and other tax (expense) benefit	(5,941)	(1,468)	(1,317)	(770)
Allocation to Minority Interests:				
Operating Partnership, net	(5,880)	(856)	(2,124)	(417)
Preference Interests and Units	(11)	(437)	(4)	(3)
Partially Owned Properties	(1,765)	(997)	(106)	(218)
Income from investments in unconsolidated entities	60	185	250	548
Net gain on sales of unconsolidated entities	-	2,629	-	2,629
Net gain on sales of land parcels	2,976	5,230	2,976	714
Income from continuing operations, net of minority interests	100,200	37,319	36,368	16,755
Discontinued operations, net of minority interests	351,135	829,026	141,873	440,952
Net income	451,335	866,345	178,241	457,707
Preferred distributions	(10,887)	(19,157)	(3,628)	(4,317)
Premium on redemption of Preferred Shares	-	(6,144)	-	(6,144)

Net income available to Common Shares	$ 440,448	$ 841,044	$ 174,613	$ 447,246
Earnings per share basic:				
Income from continuing operations available to Common Shares	$ 0.33	$ 0.04	$ 0.12	$ 0.02
Net income available to Common Shares	$ 1.63	$ 2.97	$ 0.65	$ 1.64
Weighted average Common Shares outstanding	269,582	282,847	270,345	272,086
Earnings per share diluted:				
Income from continuing operations available to Common Shares	$ 0.33	$ 0.04	$ 0.12	$ 0.02
Net income available to Common Shares	$ 1.62	$ 2.93	$ 0.64	$ 1.62
Weighted average Common Shares outstanding	290,267	306,052	290,795	294,331
Distributions declared per Common Share outstanding	$ 1.4475	$ 1.3875	$ 0.4825	$ 0.4625

See accompanying notes

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

(Amounts in thousands except per share data)

(Unaudited)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Quarter Ended September 30, 2008	Quarter Ended September 30, 2007
Comprehensive income:				
Net income	$ 451,335	$ 866,345	$ 178,241	$ 457,707
Other comprehensive income (loss) derivative and other instruments:				
Unrealized holding (losses) gains arising during the period	(12,723)	3,849	(7,144)	(2,242)
Losses reclassified into earnings from other comprehensive income	1,928	1,501	712	449
Comprehensive income	$ 440,540	$ 871,695	$ 171,809	$ 455,914

See accompanying notes

4

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30, 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 451,335	$ 866,345
Adjustments to reconcile net income to net cash provided by operating activities:		
Allocation to Minority Interests:		
Operating Partnership	29,089	56,974
Preference Interests and Units	11	437
Partially Owned Properties	1,765	997
Depreciation	447,936	466,035
Amortization of deferred financing costs	6,751	9,520
Amortization of discounts and premiums on debt	(3,494)	(3,835)
Amortization of deferred settlements on derivative instruments	893	466
Impairment	2,856	1,020
(Income) from investments in unconsolidated entities	(60)	(185)
Distributions from unconsolidated entities return on capital	71	76
Net (gain) on sales of unconsolidated entities	-	(2,629)
Net (gain) on sales of land parcels	(2,976)	(5,230)
Net (gain) on sales of discontinued operations	(365,052)	(847,490)
(Gain) loss on debt extinguishments	(225)	3,339
Unrealized loss (gain) on derivative instruments	68	(1)
Compensation paid with Company Common Shares	16,753	14,963
Other operating activities, net	-	164
Changes in assets and liabilities:		
(Increase) decrease in deposits restricted	(2,086)	1,509
(Increase) in other assets	(16,167)	(2,176)
Increase in accounts payable and accrued expenses	66,078	40,686
(Decrease) in accrued interest payable	(45,145)	(1,250)
(Decrease) in other liabilities	(19,829)	(15,023)
Increase in security deposits	1,907	4,124
Net cash provided by operating activities	570,479	588,836
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in real estate acquisitions	(344,231)	(1,575,814)
Investment in real estate development/other	(399,339)	(327,936)
Improvements to real estate	(131,365)	(185,301)
Additions to non-real estate property	(2,050)	(5,962)
Interest capitalized for real estate under development	(45,117)	(30,753)
Proceeds from disposition of real estate, net	829,125	1,824,979
Proceeds from disposition of unconsolidated entities	2,629	-
Investments in unconsolidated entities	-	(191)
Distributions from unconsolidated entities return of capital	405	13
(Increase) decrease in deposits on real estate acquisitions, net	(168,936)	62,674
(Increase) decrease in mortgage deposits	(1,660)	2,486
Acquisition of Minority Interests Partially Owned Properties	(20)	-
Other investing activities, net	-	1,200

Net cash (used for) investing activities	(260,559)	(234,605)

See accompanying notes

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30, 2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:		
Loan and bond acquisition costs	$ (6,199)	$ (23,118)
Mortgage notes payable:		
Proceeds	1,242,425	646,930
Restricted cash	28,390	(124,774)
Lump sum payoffs	(359,782)	(348,270)
Scheduled principal repayments	(18,949)	(18,536)
Prepayment premiums/fees	(41)	(3,339)
Notes, net:		
Proceeds	-	993,031
Lump sum payoffs	(147,124)	(100,000)
Scheduled principal repayments	-	(4,286)
Gain on debt extinguishments	266	-
Lines of credit:		
Proceeds	841,000	15,543,000
Repayments	(980,000)	(15,363,000)
(Payments on) proceeds from settlement of derivative instruments	(13,256)	2,370
Proceeds from sale of Common Shares	5,085	5,715
Proceeds from exercise of options	16,772	10,870
Common Shares repurchased and retired	(10,935)	(1,136,844)
Redemption of Preferred Shares	-	(175,000)
Premium on redemption of Preferred Shares	(4)	(14)
Payment of offering costs	(88)	(175)
Other financing activities, net	(8)	(7)
Contributions Minority Interests Partially Owned Properties	1,842	10,600
Distributions:		
Common Shares	(391,072)	(400,907)
Preferred Shares	(10,893)	(22,313)
Preference Interests and Units	(11)	(450)
Minority Interests Operating Partnership	(26,309)	(26,955)
Minority Interests Partially Owned Properties	(1,810)	(16,302)
Net cash provided by (used for) financing activities	169,299	(551,774)
Net increase (decrease) in cash and cash equivalents	479,219	(197,543)
Cash and cash equivalents, beginning of period	50,831	260,277
Cash and cash equivalents, end of period	$ 530,050	$ 62,734

See accompanying notes

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2008	**2007**
SUPPLEMENTAL INFORMATION:		
Cash paid for interest, net of amounts capitalized	$ 402,810	$ 368,545
Net cash paid (received) for income and other taxes	$ 2,302	$ (266)
Real estate acquisitions/dispositions/other:		
Mortgage loans assumed	$ 24,946	$ 197,801
Valuation of OP Units issued	$ 849	$ -
Mortgage loans (assumed) by purchaser	$ -	$ (76,744)
Amortization of deferred financing costs:		
Investment in real estate, net	$ (1,509)	$ (755)
Deferred financing costs, net	$ 8,260	$ 10,275
Amortization of discounts and premiums on debt:		
Investment in real estate, net	$ (3)	$ -
Mortgage notes payable	$ (4,717)	$ (4,688)
Notes, net	$ 1,226	$ 853
Amortization of deferred settlements on derivative instruments:		
Other liabilities	$ (1,035)	$ (1,035)
Accumulated other comprehensive loss	$ 1,928	$ 1,501
Unrealized loss (gain) on derivative instruments:		
Other assets	$ (3,777)	$ (2,322)
Mortgage notes payable	$ 3,992	$ 4,330
Notes, net	$ 1,011	$ 2,201
Other liabilities	$ 11,279	$ (8,077)
Accumulated other comprehensive loss	$ (12,437)	$ 3,867

(Payments on) proceeds from settlement of derivative instruments:				
Other assets	$	(39)	$	2,375
Other liabilities	$	(13,217)	$	(5)
Repurchase of notes, net not yet settled:				
Other liabilities	$	(11,356)	$	-

See accompanying notes

EQUITY RESIDENTIAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business

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

EQR is the general partner of, and as of September 30, 2008 owned an approximate 94.1% ownership interest in, ERP Operating Limited Partnership, an Illinois limited partnership (the Operating Partnership). The Company is structured as an umbrella partnership REIT (UPREIT), under which all property ownership and business operations are conducted through the Operating Partnership and its subsidiaries. References to the Company include EQR, the Operating Partnership and those entities owned or controlled by the Operating Partnership and/or EQR.

As of September 30, 2008, the Company, directly or indirectly through investments in title holding entities, owned all or a portion of 554 properties in 23 states and the District of Columbia consisting of 147,326 units. The ownership breakdown includes (table does not include various uncompleted development properties):

	Properties	Units
Wholly Owned Properties	481	127,440
Partially Owned Properties:		
Consolidated	28	5,709
Unconsolidated	44	10,446
Military Housing (Fee Managed)	1	3,731
	554	147,326

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. Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

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

The balance sheet at December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

For further information, including definitions of capitalized terms not defined herein, refer to the consolidated financial statements and footnotes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2007.

Income and Other Taxes

Due to the structure of the Company as a REIT and the nature of the operations of its operating properties, no provision for federal income taxes has been made at the EQR level. Historically, the Company has generally only incurred certain state and local income, excise and franchise taxes. The Company has elected Taxable REIT Subsidiary (TRS) status for certain of its corporate subsidiaries, primarily those entities engaged in condominium conversion and corporate housing activities and as a result, these entities will incur both federal and state income taxes on any taxable income of such entities.

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates for which the temporary differences are expected to be recovered or settled. The effect of deferred tax assets and liabilities are recognized in earnings in the period enacted. The Company s deferred tax assets are generally the result of tax affected amortization of goodwill, differing depreciable lives on capitalized assets and the timing of expense recognition for certain accrued liabilities. As of September 30, 2008, the Company has recorded a deferred tax asset of approximately $12.5 million, which was fully offset by a valuation allowance due to the uncertainty in forecasting future TRS taxable income.

Other

The Company adopted SFAS No. 123(R), *Share-Based Payment*, as required effective January 1, 2006. SFAS No. 123(R) requires all companies to expense share-based compensation (such as share options), as well as making other revisions to SFAS No. 123. As the Company began expensing all share-based compensation effective January 1, 2003, the adoption of SFAS No. 123(R) did not have a material effect on its consolidated statements of operations or financial position.

The Company adopted the disclosure provisions of SFAS No. 150 and FSP No. FAS 150-3, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,* effective December 31, 2003. SFAS No. 150 and FSP No. FAS 150-3 require the Company to make certain disclosures regarding noncontrolling interests that are classified as equity in the financial statements of a subsidiary but would be classified as a liability in the parent s financial statements under SFAS No. 150 (e.g., minority interests in consolidated limited-life subsidiaries). The Company is presently the controlling partner in various consolidated partnerships consisting of 28 properties and 5,709 units and various uncompleted development properties having a minority interest book value of $26.5 million at September 30, 2008. Some of these partnerships contain provisions that require the partnerships to be liquidated through the sale of its 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 proceeds of liquidation to the Minority Interests in these Partially Owned Properties only to the extent that the net proceeds received by the partnerships from the sale of its assets warrant a distribution based on the partnership agreements. As of September 30, 2008, the Company estimates the value of Minority Interest distributions would have been approximately $102.0 million (Settlement Value) had the partnerships been liquidated. This Settlement Value is based on estimated third party consideration realized by the partnerships upon disposition of the Partially Owned Properties and is net of all other assets and liabilities, including yield maintenance on the mortgages encumbering the properties, that would have been due on September 30, 2008 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 Minority Interests in the Company s Partially Owned Properties is subject to change. To the extent that the partnerships underlying assets are worth less than the underlying liabilities, the Company has no obligation to remit any consideration to the Minority Interests in

Partially Owned Properties.

In July 2006, the FASB ratified the consensus in FIN No. 48, *Accounting for Uncertainty in Income Taxes*. FIN No. 48 creates a single model to address uncertainty in income tax positions and prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition and clearly scopes income taxes out of SFAS No. 5, *Accounting for Contingencies*. The Company adopted FIN No. 48 as required effective January 1, 2007. The adoption of FIN No. 48 did not have a material effect on the consolidated results of operations or financial position.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosure about fair value measurements. The Company adopted SFAS No. 157 as required effective January 1, 2008. The adoption of SFAS No. 157 did not have a material effect on the consolidated results of operations or financial position. See Note 11 in the Notes to Consolidated Financial Statements for further discussion.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 provides a Fair Value Option under which a company may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial instruments. The Fair Value Option will be available on a contract-by-contract basis with changes in fair value recognized in earnings as those changes occur. SFAS No. 159 is effective beginning January 1, 2008, but the Company has decided not to adopt this optional standard.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations*. SFAS No. 141(R) will significantly change the accounting for business combinations. Under SFAS No. 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141(R) will change the accounting treatment for certain specific acquisition related items including: (1) expensing acquisition related costs as incurred; (2) valuing noncontrolling interests at fair value at the acquisition date; and (3) expensing restructuring costs associated with an acquired business. SFAS No. 141(R) also includes a substantial number of new disclosure requirements. SFAS No. 141(R) is to be applied prospectively to business combinations for which the acquisition date is on or after January 1, 2009. We expect SFAS No. 141(R) will have an impact on our accounting for future business combinations once adopted, but we are currently assessing the impact it will have on the consolidated results of operations and financial position.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. SFAS No. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary (minority interest) is an ownership interest in the consolidated entity that should be reported as equity in the Consolidated Financial Statements and separate from the parent company s equity. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the Consolidated Statements of Operations, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. This statement is effective for the Company on January 1, 2009. The Company is currently evaluating the impact SFAS No. 160 will have on its consolidated results of operations and financial position.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133*. SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. Among other requirements, entities are required to provide enhanced disclosures about: (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (3) how derivative instruments and related hedged items affect an entity s financial position, financial performance and cash flows. SFAS No. 161 is effective for the Company on January 1, 2009. The Company is currently evaluating the impact SFAS No. 161 will have on its consolidated financial statements.

In May 2008, the FASB issued FSP No. APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)* (APB 14-1). APB 14-1 requires the issuer of certain convertible debt instruments that may be settled in cash on conversion to separately account for the liability and equity components of the instrument in a manner that reflects the issuer s nonconvertible debt borrowing rate. APB 14-1, which is applied retrospectively, is effective for the Company beginning January 1, 2009. The adoption of APB 14-1 will affect the accounting for the Operating Partnership s $650.0 million 3.85% convertible unsecured notes with a maturity date of August 2026. The Company believes that APB 14-1 will result in a reduction to earnings of approximately $0.03 to $0.04 per share in 2009.

3. Shareholders Equity and Minority Interests

The following tables present the changes in the Company s issued and outstanding Common Shares and OP Units for the nine months ended September 30, 2008:

	2008
Common Shares	
Common Shares outstanding at January 1,	269,554,661
Common Shares Issued:	
Conversion of Series E Preferred Shares	26,148
Conversion of Series H Preferred Shares	1,448
Conversion of OP Units	1,361,962
Exercise of options	621,192
Employee Share Purchase Plan	149,832
Restricted share grants, net	478,802
Common Shares Other:	
Repurchased and retired	(171,161)
Common Shares outstanding at September 30,	**272,022,884**
OP Units	
OP Units outstanding at January 1,	18,420,320
OP Units issued through consolidations	19,017
Conversion of OP Units to Common Shares	(1,361,962)
OP Units outstanding at September 30,	**17,077,375**
Total Common Shares and OP Units outstanding at September 30,	**289,100,259**
OP Units Ownership Interest in Operating Partnership	5.9%
OP Units Issued:	
Consolidations per unit	$44.64
Consolidations valuation	$0.8 million

During the nine months ended September 30, 2008, the Company repurchased 171,161 of its Common Shares at an average price of $36.78 per share for total consideration of $6.3 million. These shares were retired subsequent to the repurchases. Of the total shares repurchased, 71,161 shares were repurchased from employees at an average price of $38.25 per share (the average of the then current market prices) to cover the minimum statutory tax withholding obligations related to the vesting of employees restricted shares. The remaining 100,000 shares were repurchased in the open market at an average price of $35.74 per share. The Company also

funded $4.6 million in January 2008 for the settlement of 125,000 Common Shares that were repurchased in December 2007 and recorded as other liabilities at December 31, 2007. EQR has authorization to repurchase an additional $469.3 million of its shares as of September 30, 2008.

The equity positions of various individuals and entities that contributed their properties to the Operating Partnership in exchange for OP Units are collectively referred to as the Minority Interests Operating Partnership . Subject to certain restrictions, the Minority Interests Operating Partnership may exchange their OP Units for EQR Common Shares on a one-for-one basis.

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

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

The following table presents the Company s issued and outstanding Preferred Shares as of September 30, 2008 and December 31, 2007:

				Amounts in thousands	
	Redemption Date (1) (2)	*Conversion Rate (2)*	*Annual Dividend per Share (3)*	*September 30, 2008*	*December 31, 2007*
Preferred Shares of beneficial interest, $0.01 par value; 100,000,000 shares authorized:					
7.00% Series E Cumulative Convertible Preferred; liquidation value $25 per share; 338,616 and 362,116 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	11/1/98	1.1128	$1.75	$ 8,465	$ 9,053
7.00% Series H Cumulative Convertible Preferred; liquidation value $25 per share; 23,359 and 24,359 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively	6/30/98	1.4480	$1.75	584	609
8.29% Series K Cumulative Redeemable Preferred; liquidation value $50 per share; 1,000,000 shares issued and outstanding at September 30, 2008 and December 31, 2007	12/10/26	N/A	$4.145	50,000	50,000
6.48% Series N Cumulative Redeemable Preferred; liquidation value $250 per share; 600,000 shares issued and outstanding at September 30, 2008 and December 31, 2007 (4)	6/19/08	N/A	$16.20	150,000	150,000
				$ 209,049	$ 209,662

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

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

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

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

The following table presents the Operating Partnership s issued and outstanding Junior Convertible Preference Units (the Junior Preference Units) as of September 30, 2008 and December 31, 2007:

				Amounts in thousands	
	Redemption Date (2)	*Conversion Rate (2)*	*Annual Dividend per Unit (1)*	*September 30, 2008*	*December 31, 2007*
Junior Preference Units:					
Series B Junior Convertible Preference Units; liquidation value $25 per unit; 7,367 units issued and outstanding at September 30, 2008 and December 31, 2007	7/29/09	1.020408	$2.00	$ 184	$ 184
				$ 184	$ 184

(1) Dividends on the Junior Preference Units are payable quarterly at various pay dates.

(2) On or after the tenth anniversary of the issuance (the Redemption Date), the Series B Junior Preference Units may be converted into OP Units at the option of the Operating Partnership based on the contractual conversion rate. Prior to the Redemption Date, the holders may elect to convert the Series B Junior Preference Units to OP Units under certain circumstances based on the contractual conversion rate. The contractual rate is based upon a ratio dependent upon the closing price of EQR s Common Shares.

4. Real Estate

The following table summarizes the carrying amounts for investment in real estate (at cost) as of September 30, 2008 and December 31, 2007 (amounts in thousands):

	September 30, 2008	December 31, 2007
Land	$ 3,653,808	$ 3,607,305
Depreciable property:		
Buildings and improvements	12,715,349	12,665,706
Furniture, fixtures and equipment	1,045,250	890,975
Projects under development:		
Land	186,970	225,960
Construction-in-progress	665,627	602,570
Land held for development:		
Land	296,474	296,129

Construction-in-progress	70,348	44,705
Investment in real estate	18,633,826	18,333,350
Accumulated depreciation	(3,422,371)	(3,170,125)
Investment in real estate, net	$ 15,211,455	$ 15,163,225

During the nine months ended September 30, 2008, the Company acquired the entire equity interest in the following from unaffiliated parties (purchase price in thousands):

	Properties	Units	Purchase Price
Rental Properties	6	1,837	$ 336,863
Uncompleted Developments	-	-	31,705
Total	6	1,837	$ 368,568

The Company also acquired all of its partners interests in one partially owned property containing 144 units for $5.9 million and two partially owned land parcels for $1.6 million. In addition, the Company made an additional payment of $1.3 million related to an April 2006 acquisition of a partner s interest in a now wholly-owned property, partially funded through the issuance of 19,017 OP Units valued at $0.8 million.

During the nine months ended September 30, 2008, the Company disposed of the following to unaffiliated parties (sales price in thousands):

	Properties/ Parcels	Units	Sales Price
Rental Properties	34	8,795	$ 806,999
Condominium Conversion Properties	3	98	21,644
Land Parcel (one)	-	-	3,300
Total	37	8,893	$ 831,943

The Company recognized a net gain on sales of discontinued operations and a net gain on sales of land parcels of approximately $365.1 million and $3.0 million, respectively, on the above sales.

5. Commitments to Acquire/Dispose of Real Estate

As of October 30, 2008, the Company had entered into separate agreements to acquire the following (purchase price in thousands):

	Properties/ Parcels	Units	Purchase Price
Operating Properties	2	482	$ 58,779
Land Parcels	2	-	42,650
Total	4	482	$ 101,429

As of October 30, 2008, in addition to the properties that were subsequently disposed of as discussed in Note 16, the Company had entered into separate agreements to dispose of the following (sales price in thousands):

	Properties	Units	Sales Price
Operating Properties:			
Wholly Owned	3	731	$ 46,750
Partially Owned Unconsolidated	2	466	27,025
Total Operating Properties	5	1,197	$ 73,775

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 table summarizes the Company s investments in partially owned entities as of September 30, 2008 (amounts in thousands except for project and unit amounts):

	Consolidated					Unconsolidated
	Development Projects					
	Held for and/or Under Development	Completed, Not Stabilized (4)	Completed and Stabilized	Other	Total	Institutional Joint Ventures
Total projects (1)	-	2	5	21	28	44
Total units (1)	-	410	1,405	3,894	5,709	10,446
Debt Secured (2):						
EQR Ownership (3)	$ 467,172	$ 75,867	$ 141,206	$ 288,976	$ 973,221	$ 121,200
Minority Ownership	-	-	-	13,321	13,321	363,600
Total (at 100%)	$ 467,172	$ 75,867	$ 141,206	$ 302,297	$ 986,542	$ 484,800

(1) Project and unit counts exclude all uncompleted development projects until those projects are substantially completed.
(2) All debt is non-recourse to the Company with the exception of $106.0 million in mortgage bonds on various development projects.
(3) Represents the Company s current economic ownership interest.
(4) Projects included here are substantially complete. However, they may still require additional exterior and interior work for all units to be available for leasing.

7. Deposits Restricted

The following table presents the Company s restricted deposits as of September 30, 2008 and December 31, 2007 (amounts in thousands):

	September 30, 2008	December 31, 2007
Tax deferred (1031) exchange proceeds	$ 232,581	$ 63,795
Earnest money on pending acquisitions	2,950	3,050
Restricted deposits on debt (1)	105,101	133,491
Resident security and utility deposits	41,689	39,889
Other	13,337	13,051
Totals	$ 395,658	$ 253,276

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

8. Mortgage Notes Payable

As of September 30, 2008, the Company had outstanding mortgage debt of approximately $4.5 billion.

During the nine months ended September 30, 2008, the Company:

Repaid $378.7 million of mortgage loans;
Assumed $24.9 million of mortgage debt on an uncompleted development property in connection with its acquisition;

- Obtained $500.0 million of mortgage loan proceeds through the issuance of an 11.5 year cross-collateralized loan with a fixed stated interest rate for 10.5 years at 5.19% secured by 13 properties;
- Obtained $550.0 million of mortgage loan proceeds through the issuance of an 11.5 year cross-collateralized loan with a fixed stated interest rate for 10.5 years at approximately 6% secured by 15 properties; and
- Obtained an additional $192.4 million of new mortgage loans primarily on development properties.

The Company recorded approximately $41,000 and $0.1 million of prepayment penalties and write-offs of unamortized deferred financing costs, respectively, as additional interest related to debt extinguishment of mortgages during the nine months ended September 30, 2008.

As of September 30, 2008, scheduled maturities for the Company s outstanding mortgage indebtedness were at various dates through September 1, 2048. At September 30, 2008, the interest rate range on the Company s mortgage debt was 1.90% to 12.465%. During the nine months ended September 30, 2008, the weighted average interest rate on the Company s mortgage debt was 5.19%.

9. Notes

As of September 30, 2008, the Company had outstanding unsecured notes of approximately $5.6 billion.

During the quarter ended September 30, 2008, the Company repurchased $28.5 million of its 4.75% fixed rate public notes due June 15, 2009 at a discount to par of approximately 0.9% and recognized debt extinguishment gains of $0.3 million and wrote-off approximately $45,000 of unamortized deferred financing costs. As of September 30, 2008, a transaction to repurchase $11.5 million of the $28.5 million notes had not yet settled and is recorded as other liabilities on the consolidated balance sheets. See Note 16 in the Notes to Consolidated Financial Statements for a discussion of additional repurchases made subsequent to September 30, 2008.

As of September 30, 2008, scheduled maturities for the Company s outstanding notes were at various dates through 2029. At September 30, 2008, the interest rate range on the Company s notes was 2.99% to 7.57%. During the nine months ended September 30, 2008, the weighted average interest rate on the Company s notes was 5.47%.

10. Lines of Credit

The Operating Partnership has a $1.5 billion unsecured revolving credit facility maturing on February 28, 2012, with the ability to increase available borrowings by an additional $500.0 million by adding additional banks to the facility or obtaining the agreement of existing banks to increase their commitments. Advances under the credit facility bear interest at variable rates based upon LIBOR at various interest periods plus a spread dependent upon the Operating Partnership s credit rating or based on bids received from the lending group. EQR has guaranteed the Operating Partnership s credit facility up to the maximum amount and for the full term of the facility.

During the nine months ended September 30, 2008, one of the providers of the Operating Partnership s unsecured revolving credit facility declared bankruptcy and as a result, the availability of a portion of the credit facility is uncertain and likely not available. Under the existing terms of the credit facility, the provider s share is up to $75.0 million of potential borrowings. If the Operating Partnership is unable to draw upon the provider s portion of the credit facility, the Operating Partnership s unsecured revolving credit facility would potentially be reduced to $1.425 billion of potential borrowings. The Operating Partnership is currently negotiating with other banks to replace this provider in the credit facility. The obligation to fund by all of the other providers has not changed.

As of September 30, 2008, the amount available on the credit facility was $1.34 billion (net of $84.1 million which was restricted/dedicated to support letters of credit and net of the $75.0 million discussed above). During the nine months ended September 30, 2008, the weighted average interest rate under the credit facility was 4.29%.

11. Derivative and Other Fair Value Instruments

The following table summarizes the consolidated derivative instruments at September 30, 2008 (dollar amounts are in thousands):

	Fair Value Hedges (1)	Forward Starting Swaps (2)	Development Cash Flow Hedges (3)
Current Notional Balance	$ 385,693	$ 300,000	$ 235,690
Lowest Possible Notional	$ 385,693	$ 300,000	$ 48,126
Highest Possible Notional	$ 387,694	$ 300,000	$ 375,008
Lowest Interest Rate	3.245%	4.573%	4.059%
Highest Interest Rate	4.800%	5.059%	6.000%
Earliest Maturity Date	2009	2019	2009
Latest Maturity Date	2012	2019	2011
Estimated Asset (Liability) Fair Value	$ 3,688	$ (6,301)	$ (2,236)

(1) Fair Value Hedges Converts outstanding fixed rate debt to a floating interest rate.
(2) Forward Starting Swaps Designed to partially fix the interest rate in advance of a planned future debt issuance.
(3) Development Cash Flow Hedges Converts outstanding floating rate debt to a fixed interest rate.

On September 30, 2008, the net derivative instruments were reported at their fair value as other liabilities of approximately $8.7 million and other assets of $3.9 million. As of September 30, 2008, there were approximately $27.0 million in deferred losses, net, included in accumulated other comprehensive loss. Based on the estimated fair values of the net derivative instruments at September 30, 2008, the Company may recognize an estimated $5.5 million of accumulated other comprehensive loss as additional interest expense during the twelve months ending September 30, 2009.

In February 2008, the Company paid approximately $13.2 million to terminate three forward starting swaps in conjunction with the issuance of a $500.0 million 11.5 year mortgage loan. The entire amount has been deferred as a component of accumulated other comprehensive loss and will be recognized as an increase to interest expense over the first ten years of the mortgage loan.

SFAS No. 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

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

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

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

The Company s derivative positions are valued using models developed by the respective counterparty as well as models developed internally by the Company that use as their basis readily observable market parameters (such as forward yield curves and credit default swap data) and are classified within Level 2 of the valuation hierarchy. In addition, employee holdings other than EQR Common Shares within the supplemental executive retirement plan (the SERP) have a fair value of $58.6 million as of September 30, 2008 and are included in other assets and other liabilities on the consolidated balance sheet. These SERP investments are valued using quoted market prices for identical assets and are classified within Level 1 of the valuation hierarchy.

12. Earnings Per Share

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

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007	Quarter Ended September 30, 2008	Quarter Ended September 30, 2007
Numerator for net income per share basic:				
Income from continuing operations, net of minority interests	$ 100,200	$ 37,319	$ 36,368	$ 16,755
Preferred distributions	(10,887)	(19,157)	(3,628)	(4,317)
Premium on redemption of Preferred Shares	-	(6,144)	-	(6,144)
Income from continuing operations available to Common Shares, net of minority interests	89,313	12,018	32,740	6,294
Discontinued operations, net of minority interests	351,135	829,026	141,873	440,952
Numerator for net income per share basic	$ 440,448	$ 841,044	$ 174,613	$ 447,246
Numerator for net income per share diluted:				
Income from continuing operations, net of minority interests	$ 100,200	$ 37,319	$ 36,368	$ 16,755
Preferred distributions	(10,887)	(19,157)	(3,628)	(4,317)
Premium on redemption of Preferred Shares	-	(6,144)	-	(6,144)
Effect of dilutive securities:				
Allocation to Minority Interests Operating Partnership, net	5,880	856	2,124	417
Income from continuing operations available to Common Shares	95,193	12,874	34,864	6,711
Discontinued operations	374,344	885,144	151,041	471,404
Numerator for net income per share diluted	$ 469,537	$ 898,018	$ 185,905	$ 478,115
Denominator for net income per share basic and diluted:				
Denominator for net income per share basic	269,582	282,847	270,345	272,086
Effect of dilutive securities:				
OP Units	17,840	19,140	17,398	18,891
Share options/restricted shares	2,845	4,065	3,052	3,354
Denominator for net income per share diluted	290,267	306,052	290,795	294,331
Net income per share basic	$ 1.63	$ 2.97	$ 0.65	$ 1.64
Net income per share diluted	$ 1.62	$ 2.93	$ 0.64	$ 1.62
Net income per share basic:				
Income from continuing operations available to Common Shares, net of minority interests	$ 0.331	$ 0.042	$ 0.121	$ 0.023
Discontinued operations, net of minority interests	1.303	2.931	0.525	1.621
Net income per share basic	$ 1.634	$ 2.973	$ 0.646	$ 1.644
Net income per share diluted:				
Income from continuing operations available to Common Shares	$ 0.328	$ 0.042	$ 0.120	$ 0.022
Discontinued operations	1.290	2.892	0.519	1.602

Net income per share diluted	$	1.618	$	2.934	$	0.639	$	1.624

Convertible preferred shares/units that could be converted into 432,445 and 713,604 weighted average Common Shares for the nine months ended September 30, 2008 and 2007, respectively, and 419,822 and 488,324 weighted average Common Shares for the quarters ended September 30, 2008 and 2007, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effects would be anti-dilutive. In addition, the effect of the Common Shares that could ultimately be issued upon the conversion/exchange of the Operating Partnership s $650.0 million exchangeable senior notes was not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

13. Discontinued Operations

The Company has presented separately as discontinued operations in all periods the results of operations for all consolidated assets disposed of on or after January 1, 2002 (the date of adoption of SFAS No. 144), all operations related to active condominium conversion properties effective upon their respective transfer into a TRS and all properties held for sale, if any.

The components of discontinued operations are outlined below and include the results of operations for the respective periods that the Company owned such assets during the nine months and quarters ended September 30, 2008 and 2007 (amounts in thousands).

	Nine Months Ended September 30,		Quarter Ended September 30,	
	2008	2007	2008	2007
REVENUES				
Rental income	$ 39,722	$ 168,232	$ 6,597	$ 39,857
Total revenues	39,722	168,232	6,597	39,857
EXPENSES (1)				
Property and maintenance	16,289	58,158	3,908	15,312
Real estate taxes and insurance	5,312	22,208	756	5,252
Property management	(11)	287	18	23
Depreciation	10,001	45,688	1,605	10,307
General and administrative	24	14	7	4
Impairment	56	-	-	-
Total expenses	31,671	126,355	6,294	30,898
Discontinued operating income	8,051	41,877	303	8,959
Interest and other income	252	185	126	43
Interest (2):				
Expense incurred, net	(29)	(3,725)	(2)	(746)
Amortization of deferred financing costs	-	(1,667)	-	(5)
Income and other tax benefit (expense)	1,018	984	359	1,166
Discontinued operations	9,292	37,654	786	9,417
Minority Interests Operating Partnership	(576)	(2,387)	(48)	(608)
Discontinued operations, net of minority interests	8,716	35,267	738	8,809
Net gain on sales of discontinued operations	365,052	847,490	150,255	461,987
Minority Interests Operating Partnership	(22,633)	(53,731)	(9,120)	(29,844)
Gain on sales of discontinued operations, net of minority interests	342,419	793,759	141,135	432,143
Discontinued operations, net of minority interests	$ 351,135	$ 829,026	$ 141,873	$ 440,952

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

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

For the properties sold and/or held for sale during the nine months ended September 30, 2008 (excluding condominium conversion properties), the investment in real estate, net of accumulated depreciation balance at December 31, 2007 was $457.6 million.

The net real estate basis of the Company s active condominium conversion properties owned by the TRS and included in discontinued operations (excludes the Company s halted conversions as they are now held for use), which were included in investment in real estate, net in the consolidated balance sheets, was $39.7 million and $47.5 million at September 30, 2008 and December 31, 2007, respectively.

14. Commitments and Contingencies

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

The Company is party to a housing discrimination lawsuit brought by a non-profit civil rights organization in April 2006 in the U.S. District Court for the District of Maryland. The suit alleges that the Company designed and built approximately 300 of its properties in violation of the accessibility requirements of the Fair Housing Act and Americans with Disabilities Act. The suit seeks actual and punitive damages, injunctive relief (including modification of non-compliant properties), costs and attorneys fees. The Company believes it has a number of viable defenses, including that a majority of the named properties were completed before the operative dates of the statutes in question and/or were not designed or built by the Company. Accordingly, the Company is defending the suit vigorously. Due to the pendency of the Company s defenses and the uncertainty of many other critical factual and legal issues, it is not possible to determine or predict the outcome of the suit and as a result, no amounts have been accrued at September 30, 2008. While no assurances can be given, the Company does not believe that the suit, if adversely determined, would have a material adverse effect on the Company.

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

The Company has established a reserve and recorded a corresponding reduction to its net gain on sales of discontinued operations related to potential liabilities associated with its condominium conversion activities. The reserve covers potential product liability related to each conversion. The Company periodically assesses the adequacy of the reserve and makes adjustments as necessary. During the nine months ended September 30, 2008, the Company recorded additional reserves of approximately $0.3 million for current projects and $3.2 million for various projects sold prior to 2008 and paid approximately $0.3 million in settlements. As a result, the Company had total reserves of approximately $10.6 million at September 30, 2008. While no assurances can be given, the Company does not believe that the ultimate resolution of these potential liabilities, if adversely determined, would have a material adverse effect on the Company.

As of September 30, 2008, the Company has 10 projects totaling 3,568 units in various stages of development with estimated completion dates ranging through June 30, 2011. Some of the projects are developed solely by the Company, while others are co-developed with various third party development partners. The development venture agreements with partners are primarily deal-specific, with differing terms regarding profit-sharing, equity contributions, returns on investment, buy-sell agreements and other customary provisions. The partner is most often the general or managing partner of the development venture. The typical buy-sell arrangements contain appraisal rights and provisions that provide the right, but not the obligation, for the Company to acquire the partner s interest in the project at fair market value upon the expiration of a negotiated time period (typically two to five years after substantial completion of the project). However, the buy-sell provisions with one partner covering three projects does require the Company to purchase the partner s interest in the projects at fair market value five years following the receipt of the final certificate of occupancy on the last developed property (in Q1 2009). Based on current estimates, the ultimate payment to the partner, if any, will not be material to the Company s financial position and liquidity.

15. Reportable Segments

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

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

The Company s fee and asset management, development (including FIN No. 46 partially owned properties), condominium conversion and corporate housing (Equity Corporate Housing or ECH) activities are immaterial and do not individually meet the threshold requirements of a reportable segment as provided for in SFAS No. 131 and as such, have been aggregated in the tables presented below.

All revenues are from external customers and there is no customer who contributed 10% or more of the Company s total revenues during the nine months and quarters ended September 30, 2008 and 2007, respectively.

The primary financial measure for the Company s rental real estate segment is net operating income (NOI), which represents rental income less: 1) property and maintenance expense; 2) real estate taxes and insurance expense; and 3) property management expense (all as reflected in the accompanying consolidated statements of operations). The Company believes that NOI is helpful to investors as a supplemental measure of the operating performance of a real estate company because it is a direct measure of the actual operating results of the Company s apartment communities. Current year NOI is compared to prior year NOI and current year budgeted NOI as a measure of financial performance. The following tables present NOI for each segment from our rental real estate specific to continuing operations for the nine months and quarters ended September 30, 2008 and 2007, respectively, as well as total assets at September 30, 2008 (amounts in thousands):

	Nine Months Ended September 30, 2008					
	Northeast	Northwest	Southeast	Southwest	Other (3)	Total
Rental income:						
Same store (1)	$ 392,167	$ 283,265	$ 287,688	$ 345,437	$ -	$ 1,308,557
Non-same store/other (2) (3)	64,486	22,018	47,640	37,954	86,166	258,264
Total rental income	456,653	305,283	335,328	383,391	86,166	1,566,821
Operating expenses:						
Same store (1)	142,846	98,521	118,167	118,536	-	478,070
Non-same store/other (2) (3)	26,638	9,339	19,722	20,534	77,458	153,691
Total operating expenses	169,484	107,860	137,889	139,070	77,458	631,761
NOI:						
Same store (1)	249,321	184,744	169,521	226,901	-	830,487
Non-same store/other (2) (3)	37,848	12,679	27,918	17,420	8,708	104,573
Total NOI	$ 287,169	$ 197,423	$ 197,439	$ 244,321	$ 8,708	$ 935,060
Total assets	$ 4,982,980	$ 2,674,484	$ 3,074,941	$ 3,171,281	$ 2,463,638	$ 16,367,324

(1) Same store includes properties owned for all of both periods ending September 30, 2008 and September 30, 2007 which represented 115,713 units.
(2) Non-same store includes properties acquired after January 1, 2007.
(3) Other includes ECH, development, condominium conversion overhead of $2.1 million and other corporate operations. Also reflects a $10.5 million elimination of rental income recorded in Northeast, Northwest, Southeast and Southwest operating segments related to ECH.

	Nine Months Ended September 30, 2007					
	Northeast	Northwest	Southeast	Southwest	Other (3)	Total
Rental income:						
Same store (1)	$ 375,618	$ 264,133	$ 286,679	$ 337,052	$ -	$ 1,263,482
Non-same store/other (2) (3)	29,768	10,430	35,604	24,016	76,741	176,559
Total rental income	405,386	274,563	322,283	361,068	76,741	1,440,041
Operating expenses:						
Same store (1)	138,401	96,447	116,481	116,752	-	468,081
Non-same store/other (2) (3)	15,545	4,437	13,603	13,032	82,369	128,986
Total operating expenses	153,946	100,884	130,084	129,784	82,369	597,067
NOI:						
Same store (1)	237,217	167,686	170,198	220,300	-	795,401
Non-same store/other (2) (3)	14,223	5,993	22,001	10,984	(5,628)	47,573
Total NOI	$ 251,440	$ 173,679	$ 192,199	$ 231,284	$ (5,628)	$ 842,974

(1) Same store includes properties owned for all of both periods ending September 30, 2008 and September 30, 2007 which represented 115,713 units.
(2) Non-same store includes properties acquired after January 1, 2007.
(3) Other includes ECH, development, condominium conversion overhead of $3.7 million and other corporate operations. Also reflects a $13.0 million elimination of rental income recorded in Northeast, Northwest, Southeast and Southwest operating segments related to ECH.

	Quarter Ended September 30, 2008					
	Northeast	Northwest	Southeast	Southwest	Other (3)	Total
Rental income:						
Same store (1)	$ 136,042	$ 101,352	$ 108,275	$ 121,141	$ -	$ 466,810
Non-same store/other (2) (3)	22,593	2,897	4,655	7,832	31,145	69,122
Total rental income	158,635	104,249	112,930	128,973	31,145	535,932
Operating expenses:						
Same store (1)	48,451	35,530	44,799	42,864	-	171,644
Non-same store/other (2) (3)	7,985	1,356	2,136	4,492	28,050	44,019
Total operating expenses	56,436	36,886	46,935	47,356	28,050	215,663
NOI:						
Same store (1)	87,591	65,822	63,476	78,277	-	295,166
Non-same store/other (2) (3)	14,608	1,541	2,519	3,340	3,095	25,103
Total NOI	$ 102,199	$ 67,363	$ 65,995	$ 81,617	$ 3,095	$ 320,269

(1) Same store includes properties owned for all of both quarters ending September 30, 2008 and September 30, 2007 which represented 122,380 units.
(2) Non-same store includes properties acquired after July 1, 2007.
(3) Other includes ECH, development, condominium conversion overhead of $0.7 million and other corporate operations. Also reflects a $3.8 million elimination of rental income recorded in Northeast, Northwest, Southeast and Southwest operating segments related to ECH.

	Quarter Ended September 30, 2007					
	Northeast	Northwest	Southeast	Southwest	Other (3)	Total
Rental income:						
Same store (1)	$ 129,824	$ 94,605	$ 107,898	$ 118,930	$ -	$ 451,257
Non-same store/other (2) (3)	10,671	1,595	460	4,742	30,143	47,611
Total rental income	140,495	96,200	108,358	123,672	30,143	498,868
Operating expenses:						
Same store (1)	46,395	34,941	44,206	41,729	-	167,271
Non-same store/other (2) (3)						