EQUITY RESIDENTIAL
Form 10-Q
August 04, 2017
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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, 2017

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) Illinois (ERP Operating Limited Partnership) (State or other jurisdiction of incorporation or organization)	13-3675988 (Equity Residential) 36-3894853 (ERP Operating Limited Partnership) (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.

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Equity Residential:

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Small reporting company
Emerging growth company		

ERP Operating Limited Partnership:

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a small reporting company)	Small reporting company
Emerging growth company		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Equity Residential ERP Operating Limited Partnership

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 28, 2017 was 367,313,257.

EXPLANATORY NOTE

This report combines the reports on Form 10-Q for the quarterly period ended June 30, 2017 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, 2017 owned an approximate 96.4% ownership interest in, ERPOP. The remaining 3.6% interest is owned by limited partners. As the sole general partner of ERPOP, EQR has exclusive control of ERPOP's day-to-day management. 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 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. The Company may acquire properties in transactions that include the issuance of OP Units as consideration for the acquired properties. Such transactions may, in certain circumstances, enable the sellers to defer in whole or in part, the recognition of taxable income or gain that might otherwise result from the sales. This 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 because the Company maintains a one-for-one relationship between the OP Units of ERPOP issued to EQR and the outstanding 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.

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, the net proceeds of which it is obligated to contribute to ERPOP, 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

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equity offerings by EQR, which are contributed to 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 venture interests.

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. 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, 2017	December 31, 2016
ASSETS		
Investment in real estate		
Land	$5,927,949	$5,899,862
Depreciable property	19,123,571	18,730,579
Projects under development	325,823	637,168
Land held for development	112,474	118,816
Investment in real estate	25,489,817	25,386,425
Accumulated depreciation	(5,671,510)	(5,360,389)
Investment in real estate, net	19,818,307	20,026,036
Cash and cash equivalents	37,719	77,207
Investments in unconsolidated entities	59,246	60,141
Deposits – restricted	254,378	76,946
Escrow deposits – mortgage	21,016	64,935
Other assets	445,909	398,883
Total assets	$20,636,575	$20,704,148
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable, net	$3,743,363	$4,119,181
Notes, net	4,456,365	4,848,079
Line of credit and commercial paper	764,361	19,998
Accounts payable and accrued expenses	137,920	147,482
Accrued interest payable	48,823	60,946
Other liabilities	324,002	350,466
Security deposits	63,648	62,624
Distributions payable	191,717	192,296
Total liabilities	9,730,199	9,801,072
Commitments and contingencies		
Redeemable Noncontrolling Interests – Operating Partnership	380,519	442,092
Equity:		
Shareholders' equity:		
Preferred Shares of beneficial interest, $0.01 par value; 100,000,000 shares	37,280	37,280

authorized; 745,600 shares issued and outstanding as of June 30, 2017 and December 31, 2016		
Common Shares of beneficial interest, $0.01 par value; 1,000,000,000 shares authorized; 367,298,765 shares issued and outstanding as of June 30, 2017 and 365,870,924 shares issued and outstanding as of December 31, 2016	3,673	3,659
Paid in capital	8,838,804	8,758,422
Retained earnings	1,511,899	1,543,626
Accumulated other comprehensive (loss)	(101,151)	(113,909)
Total shareholders’ equity	10,290,505	10,229,078
Noncontrolling Interests:		
Operating Partnership	229,049	221,297
Partially Owned Properties	6,303	10,609
Total Noncontrolling Interests	235,352	231,906
Total equity	10,525,857	10,460,984
Total liabilities and equity	$ 20,636,575	$ 20,704,148

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,	
	2017	2016	2017	2016
REVENUES				
Rental income	$1,216,219	$1,211,104	$612,299	$594,939
Fee and asset management	361	3,133	181	215
Total revenues	1,216,580	1,214,237	612,480	595,154
EXPENSES				
Property and maintenance	201,924	205,472	99,316	96,307
Real estate taxes and insurance	169,231	157,611	87,503	77,415
Property management	43,841	44,486	21,589	20,991
General and administrative	27,799	35,013	13,626	18,296
Depreciation	358,864	349,012	179,896	176,127
Total expenses	801,659	791,594	401,930	389,136
Operating income	414,921	422,643	210,550	206,018
Interest and other income	1,763	59,583	1,162	56,525
Other expenses	(2,132)	(4,060)	(1,042)	(1,504)
Interest:				
Expense incurred, net	(197,434)	(299,964)	(91,224)	(86,472)
Amortization of deferred financing costs	(4,383)	(7,739)	(2,087)	(2,345)
Income before income and other taxes, (loss) from investments in unconsolidated entities, net gain (loss) on sales of real estate properties and land parcels and discontinued operations	212,735	170,463	117,359	172,222
Income and other tax (expense) benefit	(482)	(763)	(220)	(413)
(Loss) from investments in unconsolidated entities	(1,755)	(1,904)	(682)	(800)
Net gain on sales of real estate properties	124,433	3,780,835	87,726	57,356
Net gain (loss) on sales of land parcels	19,170	11,722	(23)	—
Income from continuing operations	354,101	3,960,353	204,160	228,365
Discontinued operations, net	—	(122)	—	35
Net income	354,101	3,960,231	204,160	228,400
Net (income) attributable to Noncontrolling Interests:				
Operating Partnership	(12,765)	(152,089)	(7,354)	(8,780)
Partially Owned Properties	(1,553)	(1,545)	(765)	(781)

Net income attributable to controlling interests	339,783	3,806,597	196,041	218,839
Preferred distributions	(1,546)	(1,545)	(773)	(772)
Net income available to Common Shares	$338,237	$3,805,052	$195,268	$218,067
Earnings per share – basic:				
Income from continuing operations available to Common Shares	$0.92	$10.43	$0.53	$0.60
Net income available to Common Shares	$0.92	$10.43	$0.53	$0.60
Weighted average Common Shares outstanding	366,713	364,820	366,820	365,047
Earnings per share – diluted:				
Income from continuing operations available to Common Shares	$0.92	$10.36	$0.53	$0.59
Net income available to Common Shares	$0.92	$10.36	$0.53	$0.59
Weighted average Common Shares outstanding	382,505	382,012	382,692	382,065
Distributions declared per Common Share outstanding	$1.0075	$9.0075	$0.50375	$0.50375

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,	
	2017	2016	2017	2016
Comprehensive income				
Net income	$354,101	$3,960,231	$204,160	$228,400
Other comprehensive income (loss):				
Other comprehensive income (loss) – derivative instruments:				
Unrealized holding gains (losses) arising during the period	3,507	(4,467)	3,507	(1,561)
Losses reclassified into earnings from other comprehensive income	9,251	32,922	4,668	4,268
Other comprehensive income (loss) – foreign currency:				
Currency translation adjustments arising during the period	—	50	—	(25)
Other comprehensive income	12,758	28,505	8,175	2,682
Comprehensive income	366,859	3,988,736	212,335	231,082
Comprehensive (income) attributable to Noncontrolling Interests	(14,782)	(154,734)	(8,416)	(9,664)
Comprehensive income attributable to controlling interests	$352,077	$3,834,002	$203,919	$221,418

See accompanying notes

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EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$354,101	$3,960,231
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	358,864	349,012
Amortization of deferred financing costs	4,383	7,739
Amortization of above/below market leases	1,717	1,708
Amortization of discounts and premiums on debt	3,359	(19,010)
Amortization of deferred settlements on derivative instruments	9,246	32,850
Write-off of pursuit costs	1,546	2,563
Loss from investments in unconsolidated entities	1,755	1,904
Distributions from unconsolidated entities – return on capital	1,345	1,482
Net (gain) on sales of investment securities and other investments	—	(55,156)
Net (gain) on sales of real estate properties	(124,433)	(3,780,835)
Net (gain) on sales of land parcels	(19,170)	(11,722)
Net (gain) on sales of discontinued operations	—	(15)
Compensation paid with Company Common Shares	15,027	20,729
Changes in assets and liabilities:		
Decrease in deposits – restricted	310	9,121
Decrease (increase) in mortgage deposits	900	(840)
(Increase) decrease in other assets	(39,845)	29,944
Increase in accounts payable and accrued expenses	24,503	7,837
(Decrease) in accrued interest payable	(12,123)	(27,046)
(Decrease) in other liabilities	(32,476)	(42,080)
Increase (decrease) in security deposits	1,024	(13,340)
Net cash provided by operating activities	550,033	475,076
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in real estate – acquisitions	(57,066)	(160,680)
Investment in real estate – development/other	(175,887)	(312,853)
Capital expenditures to real estate	(89,297)	(74,450)
Non-real estate capital additions	(654)	(3,259)
Interest capitalized for real estate under development	(16,626)	(28,386)
Proceeds from disposition of real estate, net	297,298	6,415,181
Investments in unconsolidated entities	(2,488)	(1,829)
Distributions from unconsolidated entities – return of capital	113	524

Proceeds from sale of investment securities and other investments	—	68,528
(Increase) in deposits on real estate acquisitions and investments, net	(177,742)	(30,815)
(Increase) decrease in mortgage deposits	(4,108)	46
Net cash (used for) provided by investing activities	(226,457)	5,872,007

See accompanying notes

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EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt financing costs	$(2)	$(437)
Mortgage deposits	47,127	(3,971)
Mortgage notes payable, net:		
Lump sum payoffs	(370,420)	(556,499)
Scheduled principal repayments	(6,971)	(4,740)
Notes, net:		
Lump sum payoffs	(394,077)	(1,500,000)
Line of credit and commercial paper:		
Line of credit proceeds	890,000	246,000
Line of credit repayments	(625,000)	(246,000)
Commercial paper proceeds	2,608,895	1,324,784
Commercial paper repayments	(2,131,500)	(1,712,472)
Proceeds from Employee Share Purchase Plan (ESPP)	2,111	2,023
Proceeds from exercise of options	8,143	26,141
Payment of offering costs	(36)	—
Other financing activities, net	(40)	(33)
Contributions – Noncontrolling Interests – Partially Owned Properties	125	—
Contributions – Noncontrolling Interests – Operating Partnership	—	1
Distributions:		
Common Shares	(369,244)	(3,306,704)
Preferred Shares	(2,318)	(1,545)
Noncontrolling Interests – Operating Partnership	(13,913)	(130,383)
Noncontrolling Interests – Partially Owned Properties	(5,944)	(27,681)
Net cash (used for) financing activities	(363,064)	(5,891,516)
Net (decrease) increase in cash and cash equivalents	(39,488)	455,567
Cash and cash equivalents, beginning of period	77,207	42,276
Cash and cash equivalents, end of period	$37,719	$497,843

See accompanying notes

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EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2017	2016
SUPPLEMENTAL INFORMATION:		
Cash paid for interest, net of amounts capitalized	$197,336	$313,480
Net cash paid for income and other taxes	$624	$1,166
Real estate acquisitions/dispositions/other:		
Mortgage loans assumed	$—	$43,400
Amortization of deferred financing costs:		
Other assets	$1,206	$1,527
Mortgage notes payable, net	$1,378	$2,617
Notes, net	$1,799	$3,595
Amortization of discounts and premiums on debt:		
Mortgage notes payable, net	$195	$(21,476)
Notes, net	$1,196	$2,054
Line of credit and commercial paper	$1,968	$412
Amortization of deferred settlements on derivative instruments:		
Other liabilities	$(5)	$(72)
Accumulated other comprehensive income	$9,251	$32,922
Write-off of pursuit costs:		
Investment in real estate, net	$1,505	$2,072
Other assets	$21	$390
Accounts payable and accrued expenses	$20	$101
Loss from investments in unconsolidated entities:		
Investments in unconsolidated entities	$1,025	$1,122
Other liabilities	$730	$782
Realized/unrealized (gain) loss on derivative instruments:		
Other assets	$(2,877)	$(8,390)
Notes, net	$(630)	$8,390
Other liabilities	$—	$4,467
Accumulated other comprehensive income	$3,507	$(4,467)
Investments in unconsolidated entities:		
Investments in unconsolidated entities	$(1,588)	$(929)
Other liabilities	$(900)	$(900)
Debt financing costs:		
Mortgage notes payable, net	$—	$(437)
Notes, net	$(2)	$—

Other:		
Foreign currency translation adjustments	$—	$(50)

See accompanying notes

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EQUITY RESIDENTIAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2017
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	$3,659
Conversion of OP Units into Common Shares	11
Exercise of share options	2
Share-based employee compensation expense:	
Restricted shares	1
Balance, end of period	$3,673
PAID IN CAPITAL	
Balance, beginning of year	$8,758,422
Common Share Issuance:	
Conversion of OP Units into Common Shares	14,611
Exercise of share options	8,141
Employee Share Purchase Plan (ESPP)	2,111
Share-based employee compensation expense:	
Restricted shares	5,381
Share options	5,979
ESPP discount	414
Offering costs	(36)
Supplemental Executive Retirement Plan (SERP)	(666)
Change in market value of Redeemable Noncontrolling Interests – Operating Partnership	30,351
Adjustment for Noncontrolling Interests ownership in Operating Partnership	14,096
Balance, end of period	$8,838,804
RETAINED EARNINGS	
Balance, beginning of year	$1,543,626
Net income attributable to controlling interests	339,783
Common Share distributions	(369,964)
Preferred Share distributions	(1,546)
Balance, end of period	$1,511,899
ACCUMULATED OTHER COMPREHENSIVE (LOSS)	

Balance, beginning of year	$(113,909)
Accumulated other comprehensive income – derivative instruments:	
Unrealized holding gains arising during the period	3,507
Losses reclassified into earnings from other comprehensive income	9,251
Balance, end of period	$(101,151)

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, 2017
NONCONTROLLING INTERESTS	
OPERATING PARTNERSHIP	
Balance, beginning of year	$221,297
Conversion of OP Units held by Noncontrolling Interests into OP Units held by General Partner	(14,622)
Equity compensation associated with Noncontrolling Interests	5,869
Net income attributable to Noncontrolling Interests	12,765
Distributions to Noncontrolling Interests	(13,386)
Change in carrying value of Redeemable Noncontrolling Interests – Operating Partnership	31,222
Adjustment for Noncontrolling Interests ownership in Operating Partnership	(14,096)
Balance, end of period	$229,049
PARTIALLY OWNED PROPERTIES	
Balance, beginning of year	$10,609
Net income attributable to Noncontrolling Interests	1,553
Contributions by Noncontrolling Interests	125
Distributions to Noncontrolling Interests	(5,984)
Balance, end of period	$6,303

See accompanying notes

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ERP OPERATING LIMITED PARTNERSHIP

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

(Unaudited)

	June 30, 2017	December 31, 2016
ASSETS		
Investment in real estate		
Land	$5,927,949	$5,899,862
Depreciable property	19,123,571	18,730,579
Projects under development	325,823	637,168
Land held for development	112,474	118,816
Investment in real estate	25,489,817	25,386,425
Accumulated depreciation	(5,671,510)	(5,360,389)
Investment in real estate, net	19,818,307	20,026,036
Cash and cash equivalents	37,719	77,207
Investments in unconsolidated entities	59,246	60,141
Deposits – restricted	254,378	76,946
Escrow deposits – mortgage	21,016	64,935
Other assets	445,909	398,883
Total assets	$20,636,575	$20,704,148
LIABILITIES AND CAPITAL		
Liabilities:		
Mortgage notes payable, net	$3,743,363	$4,119,181
Notes, net	4,456,365	4,848,079
Line of credit and commercial paper	764,361	19,998
Accounts payable and accrued expenses	137,920	147,482
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Other liabilities	324,002	350,466
Security deposits	63,648	62,624
Distributions payable	191,717	192,296
Total liabilities	9,730,199	9,801,072
Commitments and contingencies		
Redeemable Limited Partners	380,519	442,092
Capital:		
Partners' Capital:		
Preference Units	37,280	37,280
General Partner	10,354,376	10,305,707

Limited Partners	229,049	221,297
Accumulated other comprehensive (loss)	(101,151)	(113,909)
Total partners' capital	10,519,554	10,450,375
Noncontrolling Interests – Partially Owned Properties	6,303	10,609
Total capital	10,525,857	10,460,984
Total liabilities and capital	$ 20,636,575	$ 20,704,148

See accompanying notes

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ERP OPERATING LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Amounts in thousands except per Unit data)

(Unaudited)

	Six Months Ended June 30, 2017	2016	Quarter Ended June 30, 2017	2016
REVENUES				
Rental income	$1,216,219	$1,211,104	$612,299	$594,939
Fee and asset management	361	3,133	181	215
Total revenues	1,216,580	1,214,237	612,480	595,154
EXPENSES				
Property and maintenance	201,924	205,472	99,316	96,307
Real estate taxes and insurance	169,231	157,611	87,503	77,415
Property management	43,841	44,486	21,589	20,991
General and administrative	27,799	35,013	13,626	18,296
Depreciation	358,864	349,012	179,896	176,127
Total expenses	801,659	791,594	401,930	389,136
Operating income	414,921	422,643	210,550	206,018
Interest and other income	1,763	59,583	1,162	56,525
Other expenses	(2,132)	(4,060)	(1,042)	(1,504)
Interest:				
Expense incurred, net	(197,434)	(299,964)	(91,224)	(86,472)
Amortization of deferred financing costs	(4,383)	(7,739)	(2,087)	(2,345)
Income before income and other taxes, (loss) from investments in unconsolidated entities, net gain (loss) on sales of real estate properties and land parcels and discontinued operations	212,735	170,463	117,359	172,222
Income and other tax (expense) benefit	(482)	(763)	(220)	(413)
(Loss) from investments in unconsolidated entities	(1,755)	(1,904)	(682)	(800)
Net gain on sales of real estate properties	124,433	3,780,835	87,726	57,356
Net gain (loss) on sales of land parcels	19,170	11,722	(23)	—
Income from continuing operations	354,101	3,960,353	204,160	228,365
Discontinued operations, net	—	(122)	—	35
Net income	354,101	3,960,231	204,160	228,400
Net (income) attributable to Noncontrolling Interests – Partially Owned	(1,553)	(1,545)	(765)	(781)

Properties				
Net income attributable to controlling interests	$352,548	$3,958,686	$203,395	$227,619
ALLOCATION OF NET INCOME:				
Preference Units	$1,546	$1,545	$773	$772
General Partner	$338,237	$3,805,052	$195,268	$218,067
Limited Partners	12,765	152,089	7,354	8,780
Net income available to Units	$351,002	$3,957,141	$202,622	$226,847
Earnings per Unit – basic:				
Income from continuing operations available to Units	$0.92	$10.43	$0.53	$0.60
Net income available to Units	$0.92	$10.43	$0.53	$0.60
Weighted average Units outstanding	379,619	378,612	379,733	378,934
Earnings per Unit – diluted:				
Income from continuing operations available to Units	$0.92	$10.36	$0.53	$0.59
Net income available to Units	$0.92	$10.36	$0.53	$0.59
Weighted average Units outstanding	382,505	382,012	382,692	382,065
Distributions declared per Unit outstanding	$1.0075	$9.0075	$0.50375	$0.50375

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,	
	2017	2016	2017	2016
Comprehensive income				
Net income	$354,101	$3,960,231	$204,160	$228,400
Other comprehensive income (loss):				
Other comprehensive income (loss) – derivative instruments:				
Unrealized holding gains (losses) arising during the period	3,507	(4,467)	3,507	(1,561)
Losses reclassified into earnings from other comprehensive income	9,251	32,922	4,668	4,268
Other comprehensive income (loss) – foreign currency:				
Currency translation adjustments arising during the period	—	50	—	(25)
Other comprehensive income	12,758	28,505	8,175	2,682
Comprehensive income	366,859	3,988,736	212,335	231,082
Comprehensive (income) attributable to Noncontrolling Interests – Partially Owned Properties	(1,553)	(1,545)	(765)	(781)
Comprehensive income attributable to controlling interests	$365,306	$3,987,191	$211,570	$230,301

See accompanying notes

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ERP OPERATING LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$354,101	$3,960,231
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	358,864	349,012
Amortization of deferred financing costs	4,383	7,739
Amortization of above/below market leases	1,717	1,708
Amortization of discounts and premiums on debt	3,359	(19,010)
Amortization of deferred settlements on derivative instruments	9,246	32,850
Write-off of pursuit costs	1,546	2,563
Loss from investments in unconsolidated entities	1,755	1,904
Distributions from unconsolidated entities – return on capital	1,345	1,482
Net (gain) on sales of investment securities and other investments	—	(55,156)
Net (gain) on sales of real estate properties	(124,433)	(3,780,835)
Net (gain) on sales of land parcels	(19,170)	(11,722)
Net (gain) on sales of discontinued operations	—	(15)
Compensation paid with Company Common Shares	15,027	20,729
Changes in assets and liabilities:		
Decrease in deposits – restricted	310	9,121
Decrease (increase) in mortgage deposits	900	(840)
(Increase) decrease in other assets	(39,845)	29,944
Increase in accounts payable and accrued expenses	24,503	7,837
(Decrease) in accrued interest payable	(12,123)	(27,046)
(Decrease) in other liabilities	(32,476)	(42,080)
Increase (decrease) in security deposits	1,024	(13,340)
Net cash provided by operating activities	550,033	475,076
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in real estate – acquisitions	(57,066)	(160,680)
Investment in real estate – development/other	(175,887)	(312,853)
Capital expenditures to real estate	(89,297)	(74,450)
Non-real estate capital additions	(654)	(3,259)
Interest capitalized for real estate under development	(16,626)	(28,386)
Proceeds from disposition of real estate, net	297,298	6,415,181
Investments in unconsolidated entities	(2,488)	(1,829)
Distributions from unconsolidated entities – return of capital	113	524

Proceeds from sale of investment securities and other investments	—	68,528
(Increase) in deposits on real estate acquisitions and investments, net	(177,742)	(30,815)
(Increase) decrease in mortgage deposits	(4,108)	46
Net cash (used for) provided by investing activities	(226,457)	5,872,007

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, 2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt financing costs	$(2)	$(437)
Mortgage deposits	47,127	(3,971)
Mortgage notes payable, net:		
Lump sum payoffs	(370,420)	(556,499)
Scheduled principal repayments	(6,971)	(4,740)
Notes, net:		
Lump sum payoffs	(394,077)	(1,500,000)
Line of credit and commercial paper:		
Line of credit proceeds	890,000	246,000
Line of credit repayments	(625,000)	(246,000)
Commercial paper proceeds	2,608,895	1,324,784
Commercial paper repayments	(2,131,500)	(1,712,472)
Proceeds from EQR's Employee Share Purchase Plan (ESPP)	2,111	2,023
Proceeds from exercise of EQR options	8,143	26,141
Payment of offering costs	(36)	—
Other financing activities, net	(40)	(33)
Contributions – Noncontrolling Interests – Partially Owned Properties	125	—
Contributions – Limited Partners	—	1
Distributions:		
OP Units – General Partner	(369,244)	(3,306,704)
Preference Units	(2,318)	(1,545)
OP Units – Limited Partners	(13,913)	(130,383)
Noncontrolling Interests – Partially Owned Properties	(5,944)	(27,681)
Net cash (used for) financing activities	(363,064)	(5,891,516)
Net (decrease) increase in cash and cash equivalents	(39,488)	455,567
Cash and cash equivalents, beginning of period	77,207	42,276
Cash and cash equivalents, end of period	$37,719	$497,843

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, 2017	2016
SUPPLEMENTAL INFORMATION:		
Cash paid for interest, net of amounts capitalized	$197,336	$313,480
Net cash paid for income and other taxes	$624	$1,166
Real estate acquisitions/dispositions/other:		
Mortgage loans assumed	$—	$43,400
Amortization of deferred financing costs:		
Other assets	$1,206	$1,527
Mortgage notes payable, net	$1,378	$2,617
Notes, net	$1,799	$3,595
Amortization of discounts and premiums on debt:		
Mortgage notes payable, net	$195	$(21,476)
Notes, net	$1,196	$2,054
Line of credit and commercial paper	$1,968	$412
Amortization of deferred settlements on derivative instruments:		
Other liabilities	$(5)	$(72)
Accumulated other comprehensive income	$9,251	$32,922
Write-off of pursuit costs:		
Investment in real estate, net	$1,505	$2,072
Other assets	$21	$390
Accounts payable and accrued expenses	$20	$101
Loss from investments in unconsolidated entities:		
Investments in unconsolidated entities	$1,025	$1,122
Other liabilities	$730	$782
Realized/unrealized (gain) loss on derivative instruments:		
Other assets	$(2,877)	$(8,390)
Notes, net	$(630)	$8,390
Other liabilities	$—	$4,467
Accumulated other comprehensive income	$3,507	$(4,467)
Investments in unconsolidated entities:		
Investments in unconsolidated entities	$(1,588)	$(929)
Other liabilities	$(900)	$(900)
Debt financing costs:		
Mortgage notes payable, net	$—	$(437)
Notes, net	$(2)	$—

Other:		
Foreign currency translation adjustments	$—	$(50)

See accompanying notes

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ERP OPERATING LIMITED PARTNERSHIP

CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2017
PARTNERS' CAPITAL	
PREFERENCE UNITS	
Balance, beginning of year	$37,280
Balance, end of period	$37,280
GENERAL PARTNER	
Balance, beginning of year	$10,305,707
OP Unit Issuance:	
Conversion of OP Units held by Limited Partners into OP Units held by General Partner	14,622
Exercise of EQR share options	8,143
EQR's Employee Share Purchase Plan (ESPP)	2,111
Share-based employee compensation expense:	
EQR restricted shares	5,382
EQR share options	5,979
EQR ESPP discount	414
Net income available to Units – General Partner	338,237
OP Units – General Partner distributions	(369,964)
Offering costs	(36)
Supplemental Executive Retirement Plan (SERP)	(666)
Change in market value of Redeemable Limited Partners	30,351
Adjustment for Limited Partners ownership in Operating Partnership	14,096
Balance, end of period	$10,354,376
LIMITED PARTNERS	
Balance, beginning of year	$221,297
Conversion of OP Units held by Limited Partners into OP Units held by General Partner	(14,622)
Equity compensation associated with Units – Limited Partners	5,869
Net income available to Units – Limited Partners	12,765
Units – Limited Partners distributions	(13,386)
Change in carrying value of Redeemable Limited Partners	31,222
Adjustment for Limited Partners ownership in Operating Partnership	(14,096)
Balance, end of period	$229,049
ACCUMULATED OTHER COMPREHENSIVE (LOSS)	
Balance, beginning of year	$(113,909)
Accumulated other comprehensive income – derivative instruments:	

Unrealized holding gains arising during the period	3,507
Losses reclassified into earnings from other comprehensive income	9,251
Balance, end of period	$(101,151)

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, 2017
NONCONTROLLING INTERESTS	
NONCONTROLLING INTERESTS – PARTIALLY OWNED PROPERTIES	
Balance, beginning of year	$10,609
Net income attributable to Noncontrolling Interests	1,553
Contributions by Noncontrolling Interests	125
Distributions to Noncontrolling Interests	(5,984)
Balance, end of period	$6,303

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 rental apartment properties in urban and high-density suburban coastal gateway 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, 2017 owned an approximate 96.4% 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, the net proceeds of which it is obligated to contribute to ERPOP, 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, 2017, the Company, directly or indirectly through investments in title holding entities, owned all or a portion of 301 properties located in 10 states and the District of Columbia consisting of 77,034 apartment units. The ownership breakdown includes (table does not include various uncompleted development properties):

	Properties	Apartment Units
Wholly Owned Properties	279	72,021
Master-Leased Properties – Consolidated	3	853
Partially Owned Properties – Consolidated	17	3,215
Partially Owned Properties – Unconsolidated	2	945
	301	77,034

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, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017.

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, 2016 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.

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, 2016.

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, 2017, the Company has recorded a deferred tax asset, which is fully offset by a valuation allowance due to the uncertainty of realization. The Company currently anticipates electing REIT status for its primary TRS upon filing the 2016 tax return in the third quarter of 2017. This election will be retroactive to January 1, 2016.

Recently Issued 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 may be applied retrospectively to each prior period presented or prospectively with the cumulative effect, if any, recognized as of the date of adoption. The Company anticipates selecting the modified retrospective transition method with a cumulative effect recognized as of the date of adoption and will adopt the new standard effective January 1, 2018, when effective. The Company is continuing to evaluate the standard; however, we do not expect its adoption to have a significant impact on the consolidated financial statements, as in excess of 90% of total revenues consist of rental income from leasing arrangements, which is specifically excluded from the standard. In addition, the Company's fee and asset management activities are immaterial now that it sold its interest in Joint Base Lewis McChord in 2016 and given the nature of its disposition transactions, there should be no changes in accounting under the new standard.

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 principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessors and lessees). The new standard requires the following:

- Lessors – Leases will be accounted for using an approach that is substantially equivalent to existing guidance for operating, sales-type and financing leases, but aligned with the new revenue recognition standard. Lessors will be required to allocate lease payments to separate lease and non-lease components of each lease agreement, with the non-lease components evaluated under the new revenue recognition standard.

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- Lessees – Leases will be accounted for using a dual approach, classifying leases as either operating or finance 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 on a straight-line basis over the term of the lease (for operating leases) or based on an effective interest method with a front-loaded expense recognition (for finance leases). A lessee is also required to record a right-of-use asset and a lease liability on its balance sheet for all leases with a term of greater than 12 months regardless of their classification as operating or finance leases. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases.

The new standard will be effective for the Company beginning on January 1, 2019, with early adoption permitted, though the Company currently anticipates adopting the new standard on the effective date. The new standard must be adopted using a modified retrospective method, which requires application of the new guidance at the beginning of the earliest comparative period presented and provides for certain practical expedients, which the Company currently anticipates electing. The Company anticipates that its residential and retail/commercial leases where it is the lessor will continue to be accounted for as operating leases under the new standard. Therefore, the Company does not currently anticipate significant changes in the accounting for its lease revenues. The Company is also the lessee under various corporate office and ground leases, which it will be required to recognize right of use assets and related lease liabilities on its consolidated balance sheets upon adoption. The Company currently anticipates that its corporate office leases where it is the lessee will continue to be accounted for as operating leases under the new standard. Based on its anticipated election of the practical expedients, the Company would not be required to reassess the classification of existing ground leases and therefore these leases would continue to be accounted for as operating leases. However, in the event we modify existing ground leases and/or enter into new ground leases after adoption of the new standard, such leases will likely be classified as finance leases. The Company will continue to evaluate the impact of adopting the new leases standard on its consolidated results of operations and financial position.

In June 2016, the FASB issued a new standard which requires companies to adopt a new approach for estimating credit losses on certain types of financial instruments, such as trade and other receivables and loans. The standard will require entities to estimate a lifetime expected credit loss for most financial instruments, including trade receivables. The new standard will be effective for the Company beginning on January 1, 2020, with early adoption permitted beginning January 1, 2019. The Company is currently evaluating the impact of adopting the new standard on its consolidated results of operations and financial position.

In August 2016 and October 2016, the FASB issued new standards to clarify how specific transactions are classified and presented on the statement of cash flows. Among other clarifications, the new standards specifically provide guidance for the following items within the statement of cash flows which have required significant judgment in the past:

- Cash payments related to debt prepayments or extinguishment costs are to be classified within financing activities;
- The portion of the cash payment made to settle a zero-coupon bond or a bond with an insignificant cash coupon attributable to accreted interest related to a debt discount is to be classified as a cash outflow within operating activities, and the portion attributable to the principal is to be classified within financing activities;
- Insurance settlement proceeds are to be classified based on the nature of the loss;
- Companies must elect to classify distributions received from equity method investees using either a cumulative earnings approach or a look-through approach and the election must be disclosed; and
- Restricted cash will be included with cash and cash equivalents on the statement of cash flows. Total cash and cash equivalents and restricted cash are to be reconciled to the related line items on the balance sheet.

The new standards must be applied retrospectively to all periods presented in the consolidated financial statements and they will be effective for the Company beginning on January 1, 2018, with early adoption permitted. The Company is currently evaluating the impact of adopting the new standards on its consolidated results of operations and financial position.

In February 2017, the FASB issued a new standard which clarifies the accounting treatment for partial sales of nonfinancial assets (i.e. real estate). The standard clarifies that partial sales transactions include contributions of nonfinancial assets to a joint venture or other noncontrolled investee. Companies must recognize a full gain or loss on transfers of nonfinancial assets to equity method investees. The standard requires companies to derecognize distinct nonfinancial assets or distinct in substance nonfinancial assets in partial sale transactions when it does not have a controlling financial interest in the legal entity that holds the asset and transfers control of the asset. Once the distinct nonfinancial asset is transferred, the company is required to measure any non-controlling interest it receives or retains at fair value and recognize a full gain or loss on the transaction. If a company transfers ownership interests in a consolidated subsidiary and continues to maintain a controlling financial interest, the company does not derecognize the assets or liabilities, and accounts for the transaction as an equity transaction and no gain or loss is recognized. The new standard will be effective for the Company beginning on January 1, 2018 and early

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adoption was permitted beginning on January 1, 2017. The Company anticipates adopting the new standard concurrently with the new revenue recognition standard. 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 is currently evaluating the impact of adopting the new standard on its consolidated results of operations and financial position.

Recently Adopted Accounting Pronouncements

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 eliminated 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 new standard as required effective January 1, 2016. While adoption of the new 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 will now qualify as variable interest entities ("VIEs") and therefore will require additional disclosures. See Note 6 for further discussion.

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 Company adopted this new standard as required effective January 1, 2017. The Company will continue to estimate the number of awards expected to be forfeited and adjust the estimate when it is no longer probable that the employee will fulfill the service condition, as was required under the old standard. The adoption of this standard did not have a material impact on our consolidated results of operations or financial position.

In January 2017, the FASB issued a new standard which clarifies the definition of a business. The standard's objective is to add additional guidance that assists companies in determining whether transactions should be accounted for as an asset acquisition or a business combination. The new standard first requires an entity to evaluate if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets. If this threshold is met, the set is not a business. If this threshold is not met, the entity next evaluates whether the set meets the requirement that a business include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs. Among other differences, transaction costs associated with asset acquisitions are capitalized while those associated with business combinations are expensed as incurred. In addition, purchase price in an asset acquisition is allocated on a relative fair value basis while in a business combination it is generally measured at fair value. The new standard will be applied prospectively to any transactions occurring within the period of adoption. The Company early adopted the new standard as allowed effective January 1, 2017. The Company anticipates that substantially all of its transactions will now be accounted for as asset acquisitions, which means transaction costs will largely be capitalized as noted above.

Other

The Company is the controlling partner in various consolidated partnerships owning 17 properties and 3,215 apartment units having a noncontrolling interest book value of $6.3 million at June 30, 2017. 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 four properties having a noncontrolling interest deficit balance of $7.4 million. These four 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, 2017, the Company estimates the value of Noncontrolling Interest distributions for these four properties would have been approximately $64.4 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 four 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, 2017 had those mortgages been prepaid. Due to, among other things, the inherent uncertainty in the sale of real estate assets, the amount of any potential distribution to the Noncontrolling Interests in the Company's Partially Owned Properties is subject to change. To the extent that the partnerships' underlying assets are worth less than the underlying liabilities, the Company has no obligation to remit any consideration to the Noncontrolling Interests in these Partially Owned Properties.

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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, 2017:

	2017
Common Shares	
Common Shares outstanding at January 1,	365,870,924
Common Shares Issued:	
Conversion of OP Units	1,101,589
Exercise of share options	195,400
Employee Share Purchase Plan (ESPP)	39,760
Restricted share grants, net	91,092
Common Shares Outstanding at June 30,	367,298,765
Units	
Units outstanding at January 1,	14,626,075
Restricted unit grants, net	291,647
Conversion of OP Units to Common Shares	(1,101,589)
Units outstanding at June 30,	13,816,133
Total Common Shares and Units outstanding at June 30,	381,114,898
Units Ownership Interest in Operating Partnership	3.6%

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, 2017 and December 31, 2016.

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, 2017, the Redeemable Noncontrolling Interests – Operating Partnership have a redemption value of approximately $380.5 million, which represents the value of Common Shares that would be issued in exchange for the Redeemable Noncontrolling Interests – Operating Partnership Units.

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The following table presents the changes in the redemption value of the Redeemable Noncontrolling Interests – Operating Partnership for the six months ended June 30, 2017 (amounts in thousands):

	2017
Balance at January 1,	$442,092
Change in market value	(30,351)
Change in carrying value	(31,222)
Balance at June 30,	$380,519

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, 2017 and December 31, 2016:

			Amounts in thousands	
	Redemption Date (1)	Annual Dividend per Share (2)	June 30, 2017	December 31, 2016
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, 2017 and December 31, 2016	12/10/26	$ 4.145	$37,280	$ 37,280
			$37,280	$ 37,280

(1)

On or after the redemption date, redeemable preferred shares 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) Dividends on Preferred Shares are payable quarterly.

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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, 2017:

	2017
General and Limited Partner Units	
General and Limited Partner Units outstanding at January 1,	380,496,999
Issued to General Partner:	
Exercise of EQR share options	195,400
EQR's Employee Share Purchase Plan (ESPP)	39,760
EQR's restricted share grants, net	91,092
Issued to Limited Partners:	
Restricted unit grants, net	291,647
General and Limited Partner Units outstanding at June 30,	381,114,898
Limited Partner Units	
Limited Partner Units outstanding at January 1,	14,626,075
Limited Partner restricted unit grants, net	291,647
Conversion of Limited Partner OP Units to EQR Common Shares	(1,101,589)
Limited Partner Units outstanding at June 30,	13,816,133
Limited Partner Units Ownership Interest in Operating Partnership	3.6%

The Limited Partners of the Operating Partnership as of June 30, 2017 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, 2017 and December 31, 2016.

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, 2017, the Redeemable Limited Partner Units have a redemption value of approximately $380.5 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, 2017 (amounts in thousands):

	2017
Balance at January 1,	$442,092
Change in market value	(30,351)
Change in carrying value	(31,222)
Balance at June 30,	$380,519

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, 2017 and December 31, 2016:

			Amounts in thousands	
	Redemption Date (1)	Annual Dividend Per Unit (2)	June 30, 2017	December 31, 2016
Preference Units:				
8.29% Series K Cumulative Redeemable Preference Units; liquidation value $50 per unit; 745,600 units issued and outstanding at June 30, 2017 and December 31, 2016	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). The program currently has a maturity of June 2019. EQR has the authority to issue 13.0 million shares but has not issued any shares under this program since September 2012.

The Company may repurchase up to 13.0 million Common Shares under its share repurchase program. No shares were repurchased during the six months ended June 30, 2017 and as a result, EQR has remaining authorization to repurchase up to 13.0 million of its shares under the repurchase program as of June 30, 2017.

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4. Real Estate and Lease Intangibles

The following table summarizes the carrying amounts for the Company’s investment in real estate (at cost) as of June 30, 2017 and December 31, 2016 (amounts in thousands):

	June 30, 2017	December 31, 2016
Land	$5,927,949	$5,899,862
Depreciable property:		
Buildings and improvements	17,214,313	16,913,430
Furniture, fixtures and equipment	1,441,413	1,346,300
In-Place lease intangibles	467,845	470,849
Projects under development:		
Land	61,400	115,876
Construction-in-progress	264,423	521,292
Land held for development:		
Land	73,841	84,440
Construction-in-progress	38,633	34,376
Investment in real estate	25,489,817	25,386,425
Accumulated depreciation	(5,671,510)	(5,360,389)
Investment in real estate, net	$19,818,307	$20,026,036

The following table summarizes the carrying amounts for the Company's above and below market ground and retail lease intangibles as of June 30, 2017 and December 31, 2016 (amounts in thousands):

Description	Balance Sheet Location	June 30, 2017	December 31, 2016
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		(20,193)	(17,972)
Lease intangible assets, net		$159,318	$ 161,539
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		(5,013)	(4,509)
Lease intangible liabilities, net		$2,657	$ 3,161

During the six months ended June 30, 2017 and 2016, the Company amortized approximately $2.2 million in both periods 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 amortized approximately $0.5 million in both periods 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, 2017 and 2016, the Company amortized approximately $1.1 million in both periods 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 amortized approximately $0.3 million in both periods 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.

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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 2017	2018	2019	2020	2021	2022
Ground lease intangibles	$ 2,161	$4,321	$4,321	$4,321	$4,321	$4,321
Retail lease intangibles	(97)	(71)	(71)	(71)	(71)	(27)
Total	$ 2,064	$4,250	$4,250	$4,250	$4,250	$4,294

During the six months ended June 30, 2017, the Company acquired the entire equity interest in the following from an unaffiliated party (purchase price in thousands):

	Properties	Apartment Units	Purchase Price
Rental Properties – Consolidated (1)	1	136	$ 57,028
Total	1	136	$ 57,028

(1) Purchase price includes an allocation of approximately $9.2 million to land and $47.9 million to depreciable property (inclusive of capitalized closing costs).

During the six months ended June 30, 2017, the Company disposed of the following to unaffiliated parties (sales price in thousands):

	Properties	Apartment Units	Sales Price
Rental Properties – Consolidated	3	904	$ 266,700
Land Parcels (one)	—	—	33,450
Total	3	904	$ 300,150

The Company recognized a net gain on sales of real estate properties of approximately $124.4 million and a net gain on sales of land parcels of approximately $19.2 million on the above sales.

5. Commitments to Acquire/Dispose of Real Estate

The Company has entered into a separate agreement to acquire the following (purchase price in thousands):

	Properties	Apartment Units	Purchase Price
Rental Properties	1	160	$ 115,999
Total	1	160	$ 115,999

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

	Properties	Apartment Units	Sales Price
Land Parcels (two)	—	—	$ 57,725
Total	—	—	$ 57,725

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.

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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, 2017 (amounts in thousands except for property and apartment unit amounts):

	Consolidated	Unconsolidated		
	(VIE)	(Non-VIE)	(VIE) (1)	Total
Total properties	17	2	—	2
Total apartment units	3,215	945	—	945
Balance sheet information at 6/30/2017 (at 100%):				
ASSETS				
Investment in real estate	$ 648,047	$ 236,332	$ 172,995	$ 409,327
Accumulated depreciation	(221,433)	(38,177)	(47,295)	(85,472)
Investment in real estate, net	426,614	198,155	125,700	323,855
Cash and cash equivalents	17,431	5,886	176	6,062
Investments in unconsolidated entities	45,688	—	—	—
Deposits – restricted	361	258	—	258
Other assets	25,300	576	176	752
Total assets	$ 515,394	$ 204,875	$ 126,052	$ 330,927
LIABILITIES AND EQUITY/CAPITAL				
Mortgage notes payable, net (2)	$ 301,728	$ 145,424	$ —	$ 145,424
Accounts payable & accrued expenses	1,550	1,382	107	1,489
Accrued interest payable	1,024	691	—	691
Other liabilities	922	333	55	388
Security deposits	2,010	480	—	480
Total liabilities	307,234	148,310	162	148,472
Noncontrolling Interests – Partially Owned Properties/Partners' equity	6,303	55,881	85,202	141,083
Company equity/General and Limited Partners' Capital	201,857	684	40,688	41,372
Total equity/capital	208,160	56,565	125,890	182,455
Total liabilities and equity/capital	$ 515,394	$ 204,875	$ 126,052	$ 330,927

	Consolidated	Unconsolidated		
	(VIE)	(Non-VIE)	(VIE) (1)	Total
Operating information for the six months ended 6/30/2017 (at 100%):				
Operating revenue	$ 46,278	$ 13,293	$ 2,595	$ 15,888
Operating expenses	11,365	4,425	1,076	5,501
Net operating income	34,913	8,868	1,519	10,387

Property management	1,630	387	38	425
General and administrative/other	29	1	89	90
Depreciation	10,395	5,298	2,750	8,048
Operating income (loss)	22,859	3,182	(1,358)	1,824
Interest and other income	24	—	—	—
Interest:				
Expense incurred, net	(6,638)	(4,145)	—	(4,145)
Amortization of deferred financing costs	(135)	—	—	—
Income (loss) before income and other taxes and (loss) from investments in unconsolidated entities	16,110	(963)	(1,358)	(2,321)
Income and other tax (expense) benefit	(34)	(13)	—	(13)
(Loss) from investments in unconsolidated entities	(761)	—	—	—
Net income (loss)	$ 15,315	$(976)	$(1,358)	$(2,334)

(1) Includes the Company’s unconsolidated interest in an entity that owns the land underlying our Wisconsin Place apartment property and owns and operates the parking facility. This entity is excluded from the property and apartment unit count.
(2) All debt is non-recourse to the Company.

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Note: The above tables exclude EQR's ownership interest in ERPOP, private equity fund investments, and the Company's interests in unconsolidated joint ventures established in connection with the acquisition of certain real estate related assets from Archstone Enterprise LP ("Archstone"). These ventures owned certain Archstone assets and succeeded to certain residual Archstone liabilities/litigation, as well as responsibility for tax protection arrangements and third-party preferred interests in former Archstone subsidiaries. The preferred interests had an aggregate liquidation value of $39.5 million at June 30, 2017. The ventures are owned 60% by the Company. See below for further discussion.

Operating Properties

The Company has various equity interests in certain limited partnerships owning 16 properties containing 2,783 apartment units. Each partnership owns a multifamily property. The Company is the general partner of these limited partnerships and is responsible for managing the operations and affairs of the partnerships as well as making all decisions regarding the businesses of the partnerships. The limited partners are not able to exercise substantive kick-out or participating rights. As a result, the partnerships qualify as VIEs. The Company has a controlling financial interest in the VIEs and, thus, is the VIEs' primary beneficiary. The Company has both the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance as well as the obligation to absorb losses or the right to receive benefits from the VIEs that could potentially be significant to the VIEs. As a result, the partnerships are required to be consolidated on the Company's balance sheet.

The Company has a 75% equity interest in the Wisconsin Place joint venture. The project contains a mixed-use site located in Chevy Chase, Maryland consisting of residential, retail, office and accessory uses, including underground parking facilities. The joint venture owns the 432 unit residential component, but has no ownership interest in the retail and office components. At June 30, 2017, the residential component had a net book value of $168.2 million. The Company is the managing member and is responsible for conducting all administrative day-to-day matters and affairs of the joint venture as well as implementing all decisions with respect to the joint venture. The limited partner is not able to exercise substantive kick-out or participating rights. As a result, the joint venture qualifies as a VIE. The Company has a controlling financial interest in the VIE and, thus, is the VIE's primary beneficiary. The Company has both the power to direct the activities of the VIE that most significantly impact the VIE's economic performance as well as the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. As a result, the entity that owns the residential component is required to be consolidated on the Company's balance sheet.

The Wisconsin Place joint venture also retains an unconsolidated interest in an entity that owns the land underlying the entire project and owns and operates the parking facility. At June 30, 2017, the basis of this investment was $45.7 million. The joint venture, as a limited partner, does not have substantive kick-out or participating rights in the entity. As a result, the entity qualifies as a VIE. The joint venture does not have a controlling financial interest in the VIE and is not the VIE's primary beneficiary. The joint venture does not have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance or the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. As a result, the entity that owns the land and owns and operates the parking facility is unconsolidated and recorded using the equity method of accounting.

The Company has a 20% equity interest in each of the Nexus Sawgrass and Domain joint ventures. The Nexus Sawgrass joint venture owns a 501 unit apartment property located in Sunrise, Florida and the Company's interest had a basis of $4.6 million at June 30, 2017. The Domain joint venture owns a 444 unit apartment property located in San Jose, California and the Company's interest had a basis of $8.7 million at June 30, 2017. Both properties were funded with long-term, non-recourse secured loans from the partner. The mortgage loan on Nexus Sawgrass has a current unconsolidated outstanding balance of $48.6 million, bears interest at 5.60% and matures January 1, 2021. The mortgage loan on Domain has a current unconsolidated outstanding balance of $96.8 million, bears interest at 5.75% and matures January 1, 2022. While the Company is the managing member of both of the joint ventures, the joint venture partner has significant participating rights and has active involvement in and oversight of the operations. As a result, the entities do not qualify as VIEs. The Company alone does not have the power to direct the activities of the entities that most significantly impact the entities' economic performance and as a result, the entities are unconsolidated and recorded using the equity method of accounting.

Other

As the sole general partner of ERPOP, EQR has exclusive control of ERPOP's day-to-day management. The limited partners are not able to exercise substantive kick-out or participating rights. As a result, ERPOP qualifies as a VIE. EQR has a controlling financial interest in ERPOP and, thus, is ERPOP's primary beneficiary. EQR has the power to direct the activities of ERPOP that most significantly impact ERPOP's economic performance as well as the obligation to absorb losses or the right to receive benefits from ERPOP that could potentially be significant to ERPOP. As a result, ERPOP is required to be consolidated on EQR's balance sheet.

In the first quarter of 2017, the Company agreed to a maximum investment of $5.0 million in a private equity fund which primarily focuses on real estate technology investments. The Company will account for the investment under the equity method of accounting. As of June 30, 2017, the Company’s interest had a basis of approximately $0.9 million.

On February 27, 2013, in connection with the acquisition of Archstone, subsidiaries of the Company entered into three limited liability company agreements (collectively, the “Residual JV”). The Residual JV owned certain Archstone assets and succeeded to certain residual Archstone liabilities/litigation. The Residual JV is owned 60% by the Company and 40% by its joint venture partner. The Company's basis at June 30, 2017 was a net obligation of $0.7 million. The Residual JV is managed by a Management Committee consisting of two members from each of the Company and its joint venture partner. Both partners have equal participation in the Management Committee and all significant participating rights are shared by both partners. As a result, the Residual JV does not qualify as a VIE. The Company alone does not have the power to direct the activities of the Residual JV that most significantly impact the Residual JV's economic performance and as a result, the Residual JV is unconsolidated and recorded using the equity method of accounting. The Residual JV has sold all of the real estate assets that were acquired as part of the acquisition of Archstone, including all of the German assets, and is in the process of winding down all remaining activities.

On February 27, 2013, in connection with the acquisition of Archstone, a subsidiary of the Company entered into a limited liability company agreement (the “Legacy JV”), through which they assumed obligations of Archstone in the form of preferred interests, some of which are governed by tax protection arrangements. At June 30, 2017, the remaining preferred interests had an aggregate liquidation value of $39.5 million, our share of which is included in other liabilities in the accompanying consolidated balance sheets. Obligations of the Legacy JV are borne 60% by the Company and 40% by its joint venture partner. The Legacy JV is managed by a Management Committee consisting of two members from each of the Company and its joint venture partner. Both partners have equal participation in the Management Committee and all significant participating rights are shared by both partners. As a result, the Legacy JV does not qualify as a VIE. The Company alone does not have the power to direct the activities of the Legacy JV that most significantly impact the Legacy JV's economic performance and as a result, the Legacy JV is unconsolidated and recorded using the equity method of accounting.

7. Deposits – Restricted and Escrow Deposits – Mortgage

The following table presents the Company’s restricted deposits as of June 30, 2017 and December 31, 2016 (amounts in thousands):

	June 30, 2017	December 31, 2016
Tax-deferred (1031) exchange proceeds	$217,235	$ 38,847
Restricted deposits on real estate investments	87	733
Resident security and utility deposits	36,146	37,007
Other	910	359
Totals	$254,378	$ 76,946

The following table presents the Company’s escrow deposits for mortgages as of June 30, 2017 and December 31, 2016 (amounts in thousands):

	June 30, 2017	December 31, 2016
Real estate taxes and insurance	$1,103	$ 2,003
Replacement reserves	7,536	3,428
Mortgage principal reserves/sinking funds	11,525	58,652
Other	852	852
Totals	$21,016	$ 64,935

During the six months ended June 30, 2017, the Company received approximately $48.9 million from the return of various mortgage principal reserves/sinking funds on certain tax-exempt mortgage bond deals.

8. Debt

EQR does not have any indebtedness as all debt is incurred by the Operating Partnership. EQR guarantees the Operating Partnership's revolving credit facility up to the maximum amount and for the full term of the facility.

Mortgage Notes Payable

As of June 30, 2017, the Company had outstanding mortgage debt of approximately $3.7 billion.

During the six months ended June 30, 2017, the Company:

- Repaid $300.0 million of 5.987% mortgage debt held in a Fannie Mae loan pool maturing in 2019 and incurred a prepayment penalty of approximately $10.8 million;
- Repaid $70.4 million of conventional fixed-rate mortgage loans maturing in 2017 through 2048 and incurred a prepayment penalty of approximately $1.5 million; and
- Repaid $7.0 million of scheduled principal repayments on various mortgage debt.

The Company recorded $0.2 million of write-offs of unamortized deferred financing costs during the six months ended June 30, 2017 as additional interest expense related to debt extinguishment of mortgages. The Company also recorded $0.1 million of write-offs of net unamortized premiums during the six months ended June 30, 2017 as a reduction of interest expense related to debt extinguishment of mortgages.

As of June 30, 2017, the Company had $598.7 million of secured debt subject to third party credit enhancement.

As of June 30, 2017, scheduled maturities for the Company's outstanding mortgage indebtedness were at various dates through May 28, 2061. At June 30, 2017, the interest rate range on the Company's mortgage debt was 0.10% to 7.20%. During the six months ended June 30, 2017, the weighted average interest rate on the Company's mortgage debt was 4.38%.

Notes

As of June 30, 2017, the Company had outstanding unsecured notes of approximately $4.5 billion.

During the six months ended June 30, 2017, the Company repaid $394.1 million of 5.75% unsecured notes at maturity.

As of June 30, 2017, scheduled maturities for the Company's outstanding notes were at various dates through June 1, 2045. At June 30, 2017, the interest rate range on the Company's notes was 2.375% to 7.57%. During the six months ended June 30, 2017, the weighted average interest rate on the Company's notes was 4.48%.

Line of Credit and Commercial Paper

On November 3, 2016, the Company replaced its existing $2.5 billion facility with a $2.0 billion unsecured revolving credit facility maturing January 10, 2022. The Company has the ability to increase available borrowings by an additional $750.0 million by adding additional banks to the facility or obtaining the agreement of existing banks to increase their commitments. The interest rate on advances under the facility will generally be LIBOR plus a spread (currently 0.825%), or based on bids received from the lending group, and the Company pays an annual facility fee (currently 12.5 basis points). Both the spread and the facility fee are dependent on the credit rating of the Company's long term debt.

On February 2, 2015, the Company entered into an unsecured commercial paper note program in the United States. The Company may borrow up to a maximum of $500.0 million under this program subject to market conditions. The notes will be sold under customary terms in the United States commercial paper note market and will rank pari passu with all of the Company's other unsecured senior indebtedness. As of June 30, 2017, there was a balance of $499.4 million outstanding on the commercial paper program ($500.0 million in principal outstanding net of an unamortized discount of $0.6 million). The notes bear interest at various floating rates with a weighted average of 1.31% for the six months ended June 30, 2017 and a weighted average maturity of 30 days as of June 30, 2017.

As of June 30, 2017, the amount available on the revolving credit facility was $1.22 billion (net of $12.1 million which was restricted/dedicated to support letters of credit, net of $265.0 million outstanding on the revolving credit facility and net of $500.0

million in principal outstanding on the commercial paper program).

Other

On April 24, 2017, the Company executed a new letter of credit facility with a third party financial institution which is not backed by or collateralized by borrowings on the Company's unsecured revolving credit facility. As of June 30, 2017, there was $8.3 million in letters of credit outstanding on this facility.

9. Derivative and Other Fair Value Instruments

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

In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company seeks to manage these risks by following established risk management policies and procedures including the use of derivatives to hedge interest rate risk on debt instruments. The Company may also use derivatives to manage commodity prices in the daily operations of the business.

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

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The Company's derivative positions are valued using models developed by the respective counterparty as well as models developed internally by the Company that use as their basis readily observable market parameters (such as forward yield curves and credit default swap data). Employee holdings other than Common Shares within the supplemental executive retirement plan (the "SERP") are valued using quoted market prices for identical assets and are included in other assets and other liabilities on the consolidated balance sheets. Redeemable Noncontrolling Interests – Operating Partnership/Redeemable Limited Partners are valued using the quoted market price of Common Shares. The fair values disclosed for mortgage notes payable and unsecured debt (including its commercial paper) were calculated using indicative rates provided by lenders of similar loans in the case of mortgage notes payable and the private unsecured debt (including its commercial paper) and quoted market prices for each underlying issuance in the case of the public unsecured notes.

The carrying values of the Company's mortgage notes payable and unsecured debt (including its commercial paper and line of credit) were approximately $3.7 billion and $5.2 billion, respectively, at June 30, 2017. The fair values of the Company's mortgage notes payable and unsecured debt (including its commercial paper and line of credit) were approximately \$3.8 billion (Level 2) and \$5.4 billion (Level 2), respectively, at June 30, 2017. The carrying values of the Company's mortgage notes payable and unsecured debt (including its commercial paper) were approximately \$4.1 billion and \$4.9 billion, respectively, at December 31, 2016. The fair values of the Company's mortgage notes payable and unsecured debt (including its commercial paper) were approximately \$4.2 billion (Level 2) and \$5.0 billion (Level 2), respectively, at December 31, 2016. The fair values of the Company's financial instruments (other than mortgage notes payable, unsecured notes, commercial paper, line of credit and derivative instruments), including cash and cash equivalents and other financial instruments, approximate their carrying or contract values.

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The following table summarizes the Company’s consolidated derivative instruments at June 30, 2017 (dollar amounts are in thousands):

	Fair Value Hedges (1)	Forward Starting Swaps (2)
Current Notional Balance	$450,000	$300,000
Lowest Interest Rate	2.375 %	2.1630 %
Highest Interest Rate	2.375 %	2.2895 %
Earliest Maturity Date	2019	2027
Latest Maturity Date	2019	2028

(1) Fair Value Hedges – Converts outstanding fixed rate unsecured notes ($450.0 million 2.375% notes due July 1, 2019) to a floating interest rate of 90-Day LIBOR plus 0.61%.
(2) Forward Starting Swaps – Designed to partially fix interest rates in advance of planned future debt issuances. Of the $300.0 million notional balance, $200.0 million of these swaps have mandatory counterparty terminations in 2018 and are targeted for 2017 debt issuances (see Note 14 for further discussion) while $100.0 million of these swaps have mandatory counterparty terminations in 2019 and are targeted for 2018 debt issuances.

The following tables provide a summary of the fair value measurements for each major category of assets and liabilities measured at fair value on a recurring basis and the location within the accompanying consolidated balance sheets at June 30, 2017 and December 31, 2016, respectively (amounts in thousands):

			Fair Value Measurements at Reporting Date Using		
Description	Balance Sheet Location	6/30/2017	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets					
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Fair Value Hedges	Other Assets	$1,227	$—	$ 1,227	$ —

Forward Starting Swaps	Other Assets	3,507	—	3,507	—
Supplemental Executive Retirement Plan	Other Assets	132,255	132,255	—	—
Total		$ 136,989	$ 132,255	$ 4,734	$ —
Liabilities					
Supplemental Executive Retirement Plan	Other Liabilities	$ 132,255	$ 132,255	$ —	$ —
Total		$ 132,255	$ 132,255	$ —	$ —
Redeemable Noncontrolling Interests – Operating Partnership/Redeemable Limited Partners	Mezzanine	$ 380,519	$ —	$ 380,519	$ —

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Description	Balance Sheet Location	12/31/2016	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets					
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Fair Value Hedges	Other Assets	$ 1,857	$—	$ 1,857	$ —
Supplemental Executive Retirement Plan	Other Assets	124,420	124,420	—	—
Total		$ 126,277	$ 124,420	$ 1,857	$ —
Liabilities					
Supplemental Executive Retirement Plan	Other Liabilities	$ 124,420	$ 124,420	$ —	$ —
Total		$ 124,420	$ 124,420	$ —	$ —
Redeemable Noncontrolling Interests – Operating Partnership/Redeemable Limited Partners	Mezzanine	$ 442,092	$—	$ 442,092	$ —

The following tables provide a summary of the effect of fair value hedges on the Company's accompanying consolidated statements of operations and comprehensive income for the six months ended June 30, 2017 and 2016 respectively (amounts in thousands):

June 30, 2017 Type of Fair Value Hedge	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative	Hedged Item	Income Statement Location of Hedged Item Gain/(Loss)	Amount of Gain/(Loss) Recognized in Income on Hedged Item

Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Interest Rate Swaps	Interest expense	$ (630)	Fixed rate debt	Interest expense	$ 630
Total		$ (630)			$ 630

June 30, 2016 Type of Fair Value Hedge	Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Recognized in Income on Derivative	Hedged Item	Income Statement Location of Hedged Item Gain/(Loss)	Amount of Gain/(Loss) Recognized in Income on Hedged Item
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Interest Rate Swaps	Interest expense	$ 8,390	Fixed rate debt	Interest expense	$ (8,390)
Total		$ 8,390			$ (8,390)

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The following tables provide a summary of the effect of cash flow hedges on the Company's accompanying consolidated statements of operations and comprehensive income for the six months ended June 30, 2017 and 2016, respectively (amounts in thousands):

June 30, 2017 Type of Cash Flow Hedge	Effective Portion Amount of Gain/(Loss) Recognized in OCI on Derivative	Location of Gain/(Loss) Reclassified from Accumulated OCI into Income	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income	Ineffective Portion Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Forward Starting Swaps	$3,507	Interest expense	$ (9,251)	N/A	$ —
Total	$3,507		$ (9,251)		$ —

June 30, 2016 Type of Cash Flow Hedge	Effective Portion Amount of Gain/(Loss) Recognized in OCI on Derivative	Location of Gain/(Loss) Reclassified from Accumulated OCI into Income	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income	Ineffective Portion Location of Gain/(Loss) Recognized in Income on Derivative	Amount of Gain/(Loss) Reclassified from Accumulated OCI into Income
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Forward Starting Swaps	$(4,467)	Interest expense	$ (32,922)	N/A	$ —
Total	$(4,467)		$ (32,922)		$ —

As of June 30, 2017 and December 31, 2016, there were approximately $101.2 million and $113.9 million in deferred losses, net, included in accumulated other comprehensive (loss), respectively, related to derivative instruments. Based on the estimated fair values of the net derivative instruments at June 30, 2017, the Company may recognize an estimated $21.8 million of accumulated other comprehensive (loss) as additional interest expense during the twelve months ending June 30, 2018.

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10. Earning Per Share and Earnings Per Unit
Equity Residential

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

	Six Months Ended June 30,		Quarter Ended June 30,	
	2017	2016	2017	2016
Numerator for net income per share – basic:				
Income from continuing operations	$354,101	$3,960,353	$204,160	$228,365
Allocation to Noncontrolling Interests – Operating Partnership, net	(12,765)	(152,093)	(7,354)	(8,779)
Net (income) attributable to Noncontrolling Interests – Partially Owned Properties	(1,553)	(1,545)	(765)	(781)
Preferred distributions	(1,546)	(1,545)	(773)	(772)
Income from continuing operations available to Common Shares, net of Noncontrolling Interests	338,237	3,805,170	195,268	218,033
Discontinued operations, net of Noncontrolling Interests	—	(118)	—	34
Numerator for net income per share – basic	$338,237	$3,805,052	$195,268	$218,067
Numerator for net income per share – diluted:				
Income from continuing operations	$354,101	$3,960,353	$204,160	$228,365
Net (income) attributable to Noncontrolling Interests – Partially Owned Properties	(1,553)	(1,545)	(765)	(781)
Preferred distributions	(1,546)	(1,545)	(773)	(772)
Income from continuing operations available to Common Shares	351,002	3,957,263	202,622	226,812
Discontinued operations, net	—	(122)	—	35
Numerator for net income per share – diluted	$351,002	$3,957,141	$202,622	$226,847
Denominator for net income per share – basic and diluted:				
Denominator for net income per share – basic	366,713	364,820	366,820	365,047
Effect of dilutive securities:				
OP Units	12,906	13,792	12,913	13,887
Long-term compensation shares/units	2,886	3,400	2,959	3,131
Denominator for net income per share – diluted	382,505	382,012	382,692	382,065
Net income per share – basic	$0.92	$10.43	$0.53	$0.60
Net income per share – diluted	$0.92	$10.36	$0.53	$0.59
Net income per share – basic:				
Income from continuing operations available to Common Shares, net of Noncontrolling Interests	$0.92	$10.43	$0.53	$0.60
Discontinued operations, net of Noncontrolling Interests	—	—	—	—

Net income per share – basic	$0.92	$10.43	$0.53	$0.60
Net income per share – diluted:				
Income from continuing operations available to Common Shares	$0.92	$10.36	$0.53	$0.59
Discontinued operations, net	—	—	—	—
Net income per share – diluted	$0.92	$10.36	$0.53	$0.59

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ERP Operating Limited Partnership

The following tables set forth the computation of net income per Unit – basic and net income per Unit – diluted for the Operating Partnership (amounts in thousands except per Unit amounts):

	Six Months Ended June 30,		Quarter Ended June 30,	
	2017	2016	2017	2016
Numerator for net income per Unit – basic and diluted:				
Income from continuing operations	$354,101	$3,960,353	$204,160	$228,365
Net (income) attributable to Noncontrolling Interests – Partially Owned Properties	(1,553)	(1,545)	(765)	(781)
Allocation to Preference Units	(1,546)	(1,545)	(773)	(772)
Income from continuing operations available to Units	351,002	3,957,263	202,622	226,812
Discontinued operations, net	—	(122)	—	35
Numerator for net income per Unit – basic and diluted	$351,002	$3,957,141	$202,622	$226,847
Denominator for net income per Unit – basic and diluted:				
Denominator for net income per Unit – basic	379,619	378,612	379,733	378,934
Effect of dilutive securities:				
Dilution for Units issuable upon assumed exercise/vesting of the Company’s long-term compensation shares/units	2,886	3,400	2,959	3,131
Denominator for net income per Unit – diluted	382,505	382,012	382,692	382,065
Net income per Unit – basic	$0.92	$10.43	$0.53	$0.60
Net income per Unit – diluted	$0.92	$10.36	$0.53	$0.59
Net income per Unit – basic:				
Income from continuing operations available to Units	$0.92	$10.43	$0.53	$0.60
Discontinued operations, net	—	—	—	—
Net income per Unit – basic	$0.92	$10.43	$0.53	$0.60
Net income per Unit – diluted:				
Income from continuing operations available to Units	$0.92	$10.36	$0.53	$0.59
Discontinued operations, net	—	—	—	—
Net income per Unit – diluted	$0.92	$10.36	$0.53	$0.59

11. Individually Significant Dispositions

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”). The Starwood Portfolio represented substantially all of the assets in the Company’s South Florida and Denver markets and certain suburban assets in the Washington D.C., Seattle and Los Angeles markets. On January 26 and 27, 2016, the Company closed on the sale of the entire portfolio described above.

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The Company concluded that the Starwood Transaction did not qualify for discontinued operations reporting as it did not represent a strategic shift that had a major effect on the Company's operations and financial results. The Company has been investing only in its six coastal markets (Boston, New York, Washington D.C., Southern California, San Francisco and Seattle) and has not been acquiring or developing any new assets in its other markets. Over the past several years, the Company has been repositioning its portfolio by selling its suburban assets located in markets outside its six core coastal markets. The sale of the Starwood Portfolio represented the continuation of the above strategy. However, the Company concluded that the Starwood Transaction did qualify as an individually significant component of the Company as the amount received upon disposal exceeded 10% of total assets, and NOI (see definition in Note 13) of the Starwood Portfolio represented approximately 2.3% of consolidated NOI (for the approximate one-month period owned in 2016) for the six months ended June 30, 2016 and approximately 15.7% of consolidated NOI for the year ended December 31, 2015. As a result, the following table summarizes the results of operations attributable to the Starwood Transaction for the six months and quarter ended June 30, 2016 (amounts in thousands):

	Six Months Ended June 30, 2016	Quarter Ended June 30, 2016
REVENUES		
Rental income	$30,421	$ 304
Total revenues	30,421	304
EXPENSES		
Property and maintenance	7,923	33
Real estate taxes and insurance	2,932	60
Property management	2	—
General and administrative	15	14
Total expenses	10,872	107
Operating income	19,549	197
Interest and other income	11	9
Interest:		
Expense incurred, net	(374)	(46)
Amortization of deferred financing costs	(707)	—
Income and other tax (expense) benefit	(1)	(1)
Net gain (loss) on sales of real estate properties	3,161,200	(21)
Income from operations attributable to controlling interests – Operating Partnership	3,179,678	138
Income from operations attributable to Noncontrolling Interests – Operating Partnership	(122,138)	(6)
Income from operations attributable to controlling interests – Company	$3,057,540	$ 132

12. 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. As of June 30, 2017, the Company does have an environmental reserve of approximately $3.9 million related to vacant land that it owns adjacent to one of its operating properties.

The Company has established a reserve related to various litigation matters associated with its Massachusetts properties and periodically assesses the adequacy of the reserve and makes adjustments as necessary. As of June 30, 2017, the reserve totaled approximately $0.9 million. While no assurances can be given, the Company does not believe that the ultimate resolution of any of these remaining litigation matters, if adversely determined, would have a material adverse effect on the Company.

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

As of June 30, 2017, the Company has five wholly owned projects totaling 1,720 apartment units in various stages of development with commitments to fund of approximately $123.2 million and estimated completion dates ranging through December 31, 2018, as well as other completed development projects that are in various stages of lease up or are stabilized.

As of June 30, 2017, the Company has two unconsolidated operating properties (Nexus Sawgrass and Domain) that are owned

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with the same third party joint venture partner. The joint venture agreements with this partner are primarily deal-specific regarding profit-sharing, equity contributions, returns on investment, buy-sell agreements and other customary provisions. The buy-sell arrangements contain provisions that provide the right, but not the obligation, for the Company to acquire the partner's interests or sell its interests at any time following the occurrence of certain pre-defined events described in the joint venture agreements. See Note 6 for further discussion.

13. Reportable Segments

Operating segments are defined as components of an enterprise that engage in business activities from which they may earn revenues and incur expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker. The chief operating decision maker decides how resources are allocated and assesses performance on a recurring basis at least quarterly.

The Company's primary business is the acquisition, development and management of multifamily residential properties, which includes the generation of rental and other related income through the leasing of apartment units to residents. The chief operating decision maker evaluates the Company's operating performance geographically by market and both on a same store and non-same store basis. The Company's same store operating segments located in its coastal markets represent its reportable segments. The Company's operating segments located in its other markets (Phoenix) that are not material have also been included in the tables presented below.

The Company's fee and asset management and development activities are other business activities that do not constitute an operating segment and as such, have been aggregated in the "Other" category in the tables presented below.

All revenues are from external customers and there is no customer who contributed 10% or more of the Company's total revenues during the six months and quarters ended June 30, 2017 and 2016, 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 and 2) real estate taxes and insurance expense (all as reflected in the accompanying consolidated statements of operations and comprehensive income). The Company believes that NOI is helpful to investors as a supplemental measure of its operating performance because it is a direct measure of the actual operating results of the Company's apartment properties. Revenues for all leases are reflected on a straight-line basis in accordance with GAAP for the current and comparable periods.

The following table presents a reconciliation of NOI from our rental real estate specific to continuing operations for the six months and quarters ended June 30, 2017 and 2016, respectively (amounts in thousands):

	Six Months Ended June 30,		Quarter Ended June 30,	
	2017	2016	2017	2016
Rental income	$1,216,219	$1,211,104	$612,299	$594,939
Property and maintenance expense	(201,924)	(205,472)	(99,316)	(96,307)
Real estate taxes and insurance expense	(169,231)	(157,611)	(87,503)	(77,415)
Total operating expenses	(371,155)	(363,083)	(186,819)	(173,722)
Net operating income	$845,064	$848,021	$425,480	$421,217

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The following tables present NOI for each segment from our rental real estate specific to continuing operations for the six months and quarters ended June 30, 2017 and 2016, respectively, as well as total assets and capital expenditures at June 30, 2017 (amounts in thousands):

	Six Months Ended June 30, 2017			Six Months Ended June 30, 2016		
	Rental Income	Operating Expenses	NOI	Rental Income	Operating Expenses	NOI
Same store (1)						
Los Angeles	$195,685	$56,725	$138,960	$188,764	$54,533	$134,231
San Diego	45,319	12,073	33,246	43,346	11,698	31,648
Orange County	43,654	10,856	32,798	41,551	10,167	31,384
Subtotal - Southern California	284,658	79,654	205,004	273,661	76,398	197,263
Washington DC	213,544	64,585	148,959	210,540	62,371	148,169
New York	229,462	84,309	145,153	229,454	79,746	149,708
San Francisco	188,483	45,532	142,951	183,915	44,929	138,986
Boston	113,474	31,186	82,288	111,749	30,908	80,841
Seattle	87,825	24,646	63,179	82,618	23,218	59,400
Other Markets	924	340	584	885	292	593
Total same store	1,118,370	330,252	788,118	1,092,822	317,862	774,960
Non-same store/other (2) (3)						
Non-same store	92,408	34,678	57,730	46,064	17,225	28,839
Other (3)	5,441	6,225	(784)	72,218	27,996	44,222
Total non-same store/other	97,849	40,903	56,946	118,282	45,221	73,061
Totals	$1,216,219	$371,155	$845,064	$1,211,104	$363,083	$848,021

(1) For the six months ended June 30, 2017 and 2016, same store primarily includes all properties acquired or completed that were stabilized prior to January 1, 2016, less properties subsequently sold, which represented 70,400 apartment units.
(2) For the six months ended June 30, 2017 and 2016, non-same store primarily includes properties acquired after January 1, 2016, plus any properties in lease-up and not stabilized as of January 1, 2016.
(3) Other includes development, other corporate operations and operations prior to sale for properties sold from 2014 through 2017 that do not meet the discontinued operations criteria.

	Quarter Ended June 30, 2017			Quarter Ended June 30, 2016		
	Rental Income	Operating Expenses	NOI	Rental Income	Operating Expenses	NOI
Same store (1)						
Los Angeles	$100,360	$28,731	$71,629	$96,930	$27,877	$69,053

San Diego	22,760	6,010	16,750	21,876	5,862	16,014
Orange County	21,999	5,385	16,614	21,028	5,025	16,003
Subtotal - Southern California	145,119	40,126	104,993	139,834	38,764	101,070
New York	120,775	43,320	77,455	120,846	40,723	80,123
Washington DC	107,102	32,252	74,850	106,246	30,909	75,337
San Francisco	94,475	22,780	71,695	92,553	22,502	70,051
Boston	57,097	15,432	41,665	56,089	15,273	40,816
Seattle	46,333	12,993	33,340	43,547	12,167	31,380
Other Markets	461	144	317	449	140	309
Total same store	571,362	167,047	404,315	559,564	160,478	399,086
Non-same store/other (2) (3)						
Non-same store	36,824	15,923	20,901	17,533	6,392	