EQUITY RESIDENTIAL
Form 10-K
February 27, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15 (d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended DECEMBER 31, 2007

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF

THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number: 1-12252

EQUITY RESIDENTIAL

(Exact Name of Registrant as Specified in Its Charter)

Maryland	**13-3675988**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

Two North Riverside Plaza, Chicago, Illinois (Address of Principal Executive Offices)

60606 (Zip Code)

(312) 474-1300

(Registrant s Telephone Number, Including Area Code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Shares of Beneficial Interest, $0.01 Par Value	**New York Stock Exchange**
Preferred Shares of Beneficial Interest, $0.01 Par Value	**New York Stock Exchange**

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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

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

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

Large accelerated filer x

Accelerated filer o

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

Smaller reporting company o

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

The aggregate market value of Common Shares held by non-affiliates of the Registrant was approximately $12.2 billion based upon the closing price on June 29, 2007 of $45.63 using beneficial ownership of shares rules adopted pursuant to Section 13 of the Securities Exchange Act of 1934 to exclude voting shares owned by Trustees and Executive Officers, some of who may not be held to be affiliates upon judicial determination.

The number of Common Shares of Beneficial Interest, $0.01 par value, outstanding on January 31, 2008 was 269,644,705.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain information to be contained in the Company s definitive proxy statement, which the Company anticipates will be filed no later than April 17, 2008, and thus these items have been omitted in accordance with General Instruction G (3) to Form 10-K.

EQUITY RESIDENTIAL

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Item 1. Business

General

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

The Company is one of the largest publicly traded real estate companies and is the largest publicly traded owner of multifamily properties (based on the aggregate market value of its outstanding Common Shares, the number of apartment units wholly owned and total revenues earned). The Company s corporate headquarters are located in Chicago, Illinois and the Company also operates approximately thirty-five property management offices throughout the United States.

EQR is the general partner of, and as of December 31, 2007 owned an approximate 93.6% ownership interest in, ERP Operating Limited Partnership, an Illinois limited partnership (the Operating Partnership). The Company is structured as an umbrella partnership REIT (UPREIT), under which all property ownership and business operations are conducted through the Operating Partnership and its subsidiaries. References to the Company include EQR, the Operating Partnership and those entities owned or controlled by the Operating Partnership and/or EQR.

As of December 31, 2007, the Company, directly or indirectly through investments in title holding entities, owned all or a portion of 579 properties in 24 states and the District of Columbia consisting of 152,821 units. The ownership breakdown includes (table does not include various uncompleted development properties):

	Properties	Units
Wholly Owned Properties	507	133,189
Partially Owned Properties:		
Consolidated	27	5,455
Unconsolidated	44	10,446
Military Housing (Fee Managed)	1	3,731
	579	152,821

As of February 6, 2008, the Company has approximately 4,800 employees who provide real estate operations, leasing, legal, financial, accounting, acquisition, disposition, development and other support functions.

Certain capitalized terms used herein are defined in the Notes to Consolidated Financial Statements.

Available Information

You may access our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to any of those reports we file with the SEC free of charge at our website, www.equityresidential.com. These reports are made available at our website as soon as reasonably practicable after we file them with the SEC.

Business Objectives and Operating Strategies

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

- Leveraging our size and scale in four critical ways:

- Investing in apartment communities located in strategically targeted markets, to maximize our total return on an enterprise level;
- Meeting the needs of our residents by offering a wide array of product choices and a commitment to service;
- Engaging, retaining, and attracting the best employees by providing them with the education, resources and opportunities to succeed; and
- Sharing resources, customers and best practices in property management and across the enterprise.

- Owning a highly diversified portfolio by investing in target markets defined by a combination of the following criteria:

- High barrier-to-entry (low supply);
- Strong economic predictors (high demand); and
- Attractive quality of life (high demand and retention).

- Giving residents reasons to stay with the Company by providing a range of product options available in our diversified portfolio and by enhancing their experience through our employees and our services.

- Being open and responsive to market realities to take advantage of investment opportunities that align with our long-term vision.

Acquisition, Development and Disposition Strategies

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

When evaluating potential acquisitions, developments and dispositions, the Company generally considers the following factors:

- strategically targeted markets;

- income levels and employment growth trends in the relevant market;
- employment and household growth and net migration of the relevant market s population;
- barriers to entry that would limit competition (zoning laws, building permit availability, supply of undeveloped or developable real estate, local building costs and construction costs, among other factors);
- the location, construction quality, condition and design of the property;
- the current and projected cash flow of the property and the ability to increase cash flow;
- the potential for capital appreciation of the property;
- the terms of resident leases, including the potential for rent increases;
- the potential for economic growth and the tax and regulatory environment of the community in which the property is located;
- the occupancy and demand by residents for properties of a similar type in the vicinity (the overall market and submarket);

- the prospects for liquidity through sale, financing or refinancing of the property;
- the benefits of integration into existing operations;
- purchase prices and yields of available existing stabilized properties, if any;
- competition from existing multifamily properties, residential properties under development and the potential for the construction of new multifamily properties in the area; and
- opportunistic selling based on demand and price of high quality assets, including condominium conversions.

The Company generally reinvests the proceeds received from property dispositions primarily to achieve its acquisition and development strategies and at times to fund its share repurchase activities. In addition, when feasible, the Company may structure these transactions as tax-deferred exchanges.

Debt and Equity Activity

Please refer to Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, for the Company s Capital Structure chart as of December 31, 2007.

Debt and Equity Offerings for the Years Ended December 31, 2007, 2006 and 2005

During 2007:

- The Operating Partnership issued $350.0 million of five-year 5.50% fixed rate notes (the October 2012 Notes) in a public debt offering in May/June 2007. The October 2012 Notes were issued at a discount, which is being amortized over the life of the notes on a straight-line basis. The October 2012 Notes are due October 1, 2012 with interest payable semiannually in arrears on January 15 and July 15, commencing January 15, 2008. The Operating Partnership received net proceeds of approximately $346.1 million in connection with this issuance.
- The Operating Partnership issued $650.0 million of ten-year 5.75% fixed rate notes (the June 2017 Notes) in a public debt offering in May/June 2007. The June 2017 Notes were issued at a discount, which is being amortized over the life of the notes on a straight-line basis. The June 2017 Notes are due June 15, 2017 with interest payable semiannually in arrears on January 15 and July 15, commencing January 15, 2008. The Operating Partnership received net proceeds of approximately $640.6 million in connection with this issuance.
- The Operating Partnership obtained a three-year (subject to two one-year extension options) $500.0 million senior unsecured credit facility (term loan) which generally pays a variable interest rate of LIBOR plus a spread dependent upon the current credit rating on the Operating Partnership s long-term unsecured debt. The Operating Partnership paid $1.1 million in upfront costs, which will be deferred and amortized over the three-year term. EQR has guaranteed the Operating Partnership s term loan facility up to the maximum amount and for the full term of the facility.

- The Company issued 1,040,765 Common Shares pursuant to its Share Incentive Plans and received net proceeds of approximately $28.8 million.

- The Company issued 189,071 Common Shares pursuant to its Employee Share Purchase Plan and received net proceeds of approximately $7.2 million.

- The Company repurchased and retired 27,484,346 of its Common Shares at an average price of $44.62 per share for total consideration of $1.2 billion. See Note 3 in the Notes to Consolidated Financial Statements for further discussion.

During 2006:

- The Operating Partnership issued $400.0 million of ten and one-half year 5.375% unsecured fixed rate notes (the August 2016 Notes) in a public debt offering in January 2006. The August 2016 Notes were issued at a discount, which is being amortized over the life of the notes on a straight-line basis. The August 2016 Notes are due August 1, 2016 with interest payable semiannually in arrears on February 1 and August 1, commencing August 1, 2006. The Operating Partnership received net proceeds of approximately $395.5 million in connection with this issuance.

- The Operating Partnership issued $650.0 million of twenty-year 3.85% exchangeable senior notes (the August 2026 Notes) in a public debt offering in August 2006. The August 2026 Notes were issued at a discount, which is being amortized over the life of the notes on a straight-line basis. The August 2026 Notes are due August 15, 2026 with interest payable semiannually in arrears on February 15 and August 15, commencing February 15, 2007. The Operating Partnership received net proceeds of approximately $637.0 million in connection with this issuance. See Note 9 in the Notes to Consolidated Financial Statements for further discussion.

- The Company issued 2,647,776 Common Shares pursuant to its Share Incentive Plans and received net proceeds of approximately $69.7 million.

- The Company issued 213,427 Common Shares pursuant to its Employee Share Purchase Plan and received net proceeds of approximately $8.0 million.

- The Company repurchased 1,897,912 of its Common Shares on the open market at an average price of $43.85 per share. The Company paid approximately $83.2 million for these shares, which were retired subsequent to the repurchase.

During 2005:

- The Operating Partnership issued $500.0 million of ten and one-half year 5.125% unsecured fixed rate notes (the March 2016 Notes) in a public debt offering in September 2005. The March 2016 Notes were issued at a discount, which is being amortized over the life of the notes on a straight-line basis. The March 2016 Notes are due March 15, 2016 with interest payable semiannually in arrears on March 15 and September 15, commencing March 15, 2006. The Operating Partnership received net proceeds of approximately $469.2 million in connection with this issuance.

- The Company issued 2,248,744 Common Shares pursuant to its Share Incentive Plans and received net proceeds of approximately $54.9 million.

- The Company issued 286,751 Common Shares pursuant to its Employee Share Purchase Plan and received net proceeds of approximately $8.3 million.

As of February 27, 2008, an unlimited amount of debt securities remains available for issuance by the Operating Partnership under a registration statement that became automatically effective upon filing with the SEC in June 2006 (under SEC regulations enacted in 2005, the registration statement automatically expires on June 29, 2009 and does not contain a maximum issuance amount). As of February 27, 2008, $956.5 million in equity securities remains available for issuance by the Company under a registration statement the SEC declared effective in February 1998.

In May 2002, the Company s shareholders approved the Company s 2002 Share Incentive Plan. In January 2003, the Company filed a Form S-8 registration statement to register 23,125,828 Common Shares under this plan. As of January 1, 2008, 21,631,555 shares are the maximum shares issuable under this plan. See Note 14 in the Notes to Consolidated Financial Statements for further discussion.

Credit Facilities

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

On April 1, 2005, the Operating Partnership obtained a three-year $1.0 billion unsecured revolving credit facility maturing on May 29, 2008. Advances under the credit facility bore interest at variable rates based upon LIBOR at various interest periods plus a spread dependent upon the Operating Partnership s credit rating or based on bids received from the lending group. EQR guaranteed the Operating Partnership s credit facility up to the maximum amount and for the full term of the facility. This credit facility was repaid in full and terminated on February 28, 2007. The Company recorded $0.4 million of write-offs of unamortized deferred financing costs as additional interest in connection with this termination.

On May 7, 2007, the Operating Partnership obtained a one-year $500.0 million unsecured revolving credit facility maturing on May 5, 2008. Advances under this facility bore interest at variable rates based on LIBOR at various interest periods plus a spread dependent upon the Operating Partnership s credit rating. EQR guaranteed this credit facility up to the maximum amount and for its full term. This credit facility was repaid in full and terminated on June 4, 2007.

On July 6, 2006, the Operating Partnership obtained a one-year $500.0 million unsecured revolving credit facility maturing on July 6, 2007. Advances under this facility bore interest at variable rates based on LIBOR at various interest periods plus a spread dependent upon the Operating Partnership s credit rating. EQR guaranteed this credit facility up to the maximum amount and for its full term. This credit facility was repaid in full and terminated on October 13, 2006.

As of December 31, 2007 and December 31, 2006, $139.0 million and $460.0 million, respectively, was outstanding and $80.8 million and $69.3 million, respectively, was restricted (dedicated to support letters of credit and not available for borrowing) on the credit facilities. During the years ended December 31, 2007 and 2006, the weighted average interest rates under the credit facilities were 5.68% and 5.40%, respectively.

Competition

All of the Company s properties are located in developed areas that include other multifamily properties. The number of competitive multifamily properties in a particular area could have a material effect on the Company s ability to lease units at the properties or at any newly acquired properties and on the rents charged. The Company may be competing with other entities that have greater resources than the Company and whose managers have more experience than the Company s managers. In addition, other forms of rental properties and single-family housing provide housing alternatives to potential residents of multifamily properties. See Item 1A Risk Factors for additional information with respect to competition.

Environmental Considerations

See Item 1A Risk Factors for information concerning the potential effects of environmental regulations on our operations.

Item 1A. Risk Factors

General

The following Risk Factors may contain defined terms that are different from those used in the other sections of this report. Unless otherwise indicated, when used in this section, the terms we and us refer to Equity Residential and its subsidiaries, including ERP Operating Limited Partnership.

The occurrence of the events discussed in the following risk factors could adversely affect, possibly in a material manner, our business, financial condition or results of operations, which could adversely affect the value of our common shares of beneficial interest or preferred shares of beneficial interest (which we refer to collectively as Shares); preference interests (Interests) of a subsidiary of ERP Operating Limited Partnership, our operating partnership; and limited partnership interests in the Operating Partnership (OP Units). In this section, we refer to the Shares, Interests, Units and the OP Units together as our securities , and the investors who own Shares, Interests, Units and/or OP Units as our security holders .

Our Performance and Securities Value are Subject to Risks Associated with the Real Estate Industry

General

Real property investments are subject to varying degrees of risk and are relatively illiquid. Several factors may adversely affect the economic performance and value of our properties. These factors include changes in the national, regional and local economic climates, local conditions such as an oversupply of multifamily properties or a reduction in demand for our multifamily properties, the attractiveness of our properties to residents, competition from other available multifamily property owners and changes in market rental rates. Our performance also depends on our ability to collect rent from residents and to pay for adequate maintenance, insurance and other operating costs, including real estate taxes, which could increase over time. Also, the expenses of owning and operating a property are not necessarily reduced when circumstances such as market factors and competition cause a reduction in income from the property.

We May Be Unable to Renew Leases or Relet Units as Leases Expire

When our residents decide not to renew their leases upon expiration, we may not be able to relet their units. Even if the residents do renew or we can relet the units, the terms of renewal or reletting may be less favorable than current lease terms. Because virtually all of our leases are for apartments, they are generally for terms of no more than one year. If we are unable to promptly renew the leases or relet the units, or if the rental rates upon renewal or reletting are significantly lower than expected rates, then our results of operations and financial condition will be adversely affected. Consequently, our cash flow and ability to service debt and make distributions to security holders would be reduced.

New Acquisitions, Developments and/or Condominium Conversion Projects May Fail to Perform as Expected and Competition for Acquisitions May Result in Increased Prices for Properties

We intend to actively acquire and develop multifamily properties for rental operations and/or conversion into condominiums, as well as upgrade and sell existing properties as individual condominiums. We may underestimate the costs necessary to bring an acquired or development property up to standards established for its intended market position. Additionally, we expect that other major real estate investors with significant capital will compete with us for attractive investment opportunities or may also develop properties in markets where we focus our development efforts. This competition may increase prices for multifamily properties or decrease the price at which we expect to sell individual properties. We may not be in a position or have the opportunity in the future to make suitable property acquisitions on favorable terms. We also plan to develop more properties ourselves in addition to co-investing with our development partners for either the rental or condominium market, depending on opportunities in each sub-market. This may increase the overall level of risk associated with our developments. The total number of development units, cost of development and estimated completion dates are subject to uncertainties arising from changing economic conditions (such as the cost of labor and construction materials), competition and local government regulation.

Because Real Estate Investments Are Illiquid, We May Not Be Able to Sell Properties When Appropriate

Real estate investments generally cannot be sold quickly. We may not be able to reconfigure our portfolio promptly in response to economic or other conditions. This inability to respond promptly to changes in the performance of our investments could adversely affect our financial condition and ability to make distributions to our security holders.

Changes in Laws and Litigation Risk Could Affect Our Business

We are generally not able to pass through to our residents under existing leases real estate or other federal, state or local taxes. Consequently, any such tax increases may adversely affect our financial condition and limit our ability to make distributions to our security holders. Similarly, changes that increase our potential liability under environmental laws or our expenditures on environmental compliance would adversely affect our cash flow and ability to make distributions on our securities.

We may become involved in legal proceedings, including but not limited to, proceedings related to consumer, employment, development, condominium conversion, tort and commercial legal issues that if decided adversely to or settled by us, could result in liability material to our financial condition or results of operations.

Environmental Problems Are Possible and Can Be Costly

Federal, state and local laws and regulations relating to the protection of the environment may require a current or previous owner or operator of real estate to investigate and clean up hazardous or toxic substances or petroleum product releases at such property. The owner or operator may have to pay a governmental entity or third parties for property damage and for investigation and clean-up costs incurred by such parties in connection with the contamination. These laws typically impose clean-up responsibility and liability without regard to whether the owner or operator knew of or caused the presence of the contaminants. Even if more than one person may have been responsible for the contamination, each person covered by the environmental laws may be held responsible for all of the clean-up costs incurred. In addition, third parties may sue the owner or operator of a site for damages and costs resulting from environmental contamination emanating from that site.

Substantially all of our properties have been the subject of environmental assessments completed by qualified independent environmental consultant companies. These environmental assessments have not revealed, nor are we aware of, any environmental liability that our management believes would have a material adverse effect on our business, results of operations, financial condition or liquidity.

Over the past several years, there have been an increasing number of lawsuits against owners and managers of multifamily properties alleging personal injury and property damage caused by the presence of mold in residential real estate. Some of these lawsuits have resulted in substantial monetary judgments or settlements. Insurance carriers have reacted to these liability awards by excluding mold related claims from standard policies and pricing mold endorsements at prohibitively high rates. We have adopted programs designed to minimize the existence of mold in any of our properties as well as guidelines for promptly addressing and resolving reports of mold to minimize any impact mold might have on residents or the property.

We cannot be assured that existing environmental assessments of our properties reveal all environmental liabilities, that any prior owner of any of our properties did not create a material environmental condition not known to us, or that a material environmental condition does not otherwise exist as to any of our properties.

Insurance Policy Deductibles and Exclusions

In order to partially mitigate the substantial increase in insurance costs in recent years, management has gradually increased deductible and self-insured retention amounts. As of December 31, 2007, the Company s property insurance policy provides for a per occurrence deductible of $250,000 and self-insured retention of $5.0 million per occurrence, subject to a maximum annual aggregate self-insured retention of $7.5 million, with approximately 85% of any excess losses being covered by insurance. Any earthquake and named windstorm losses are subject to a deductible of 5% of the values of the buildings involved in the losses and are not subject to the aggregate self-insured retention. The Company s general liability and worker s compensation policies at December 31, 2007 provide for a $2.0 million and $1.0 million per occurrence deductible, respectively. These higher deductible and self-insured retention amounts do expose the Company to greater potential uninsured losses, but management believes the savings in insurance premium expense justifies this potential increased exposure over the long-term.

As a result of the terrorist attacks of September 11, 2001, property insurance carriers have created exclusions for losses from terrorism from our all risk property insurance policies. As of December 31, 2007, the Company was insured for $500.0 million in terrorism insurance coverage, with a $100,000 deductible. This coverage excludes losses from nuclear, biological and chemical attacks. In the event of a terrorist attack impacting one or more of our properties, we could lose the revenues from the property, our capital investment in the property and possibly face liability claims from residents or others suffering injuries or losses. The Company believes, however, that the number and geographic diversity of its portfolio and its terrorism insurance coverage help to mitigate its exposure to the risks associated with potential terrorist attacks.

Debt Financing, Preferred Shares and Preference Interests and Units Could Adversely Affect Our Performance

General

Please refer to Item 7*, Management s Discussion and Analysis of Financial Condition and Results of Operations,* for the Company s total debt and unsecured debt summaries as of December 31, 2007.

In addition to debt, we have $209.8 million of combined liquidation value of outstanding preferred shares of beneficial interest and preference interests and units, with a weighted average dividend preference of 6.94% per annum, as of December 31, 2007. Our use of debt and preferred equity financing creates certain risks, including the following:

Disruptions in the Financial Markets Could Adversely Affect Our Ability to Obtain Debt Financing and Impact our Acquisitions and Dispositions

The United States credit markets could experience significant dislocations and liquidity disruptions which could cause the spreads on prospective debt financings to widen considerably and make it harder for borrowers to borrow money. These circumstances could materially impact liquidity in the debt markets, make financing terms for us less attractive, and result in the unavailability of certain types of debt financing. For example, the Company has debt obligations where the interest rates reset weekly (floating rate tax exempt bond debt). We could be negatively impacted by disruptions in this market or in the credit market s perception of Fannie Mae and Freddie Mac, who guaranty and provide liquidity for these bonds. Uncertainty in the credit markets could negatively impact our ability to make acquisitions and make it more difficult for us to sell properties or may adversely affect the price we receive for properties that we do sell, as prospective buyers may experience increased costs of debt financing or difficulties in obtaining debt financing. Potential disruptions in the financial markets could also have other unknown adverse effects on us or the economy generally.

Scheduled Debt Payments Could Adversely Affect Our Financial Condition

In the future, our cash flow could be insufficient to meet required payments of principal and interest or to pay distributions on our securities at expected levels.

We may not be able to refinance existing debt (which in virtually all cases requires substantial principal payments at maturity) and, if we can, the terms of such refinancing might not be as favorable as the terms of existing indebtedness. If principal payments due at maturity cannot be refinanced, extended or paid with proceeds of other capital transactions, such as new equity capital, our cash flow will not be sufficient in all years to repay all maturing debt. As a result, we may be forced to postpone capital expenditures necessary for the maintenance of our properties and may have to dispose of one or more properties on terms that would otherwise be unacceptable to us.

Please refer to Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, for the Company s debt maturity schedule as of December 31, 2007.

Financial Covenants Could Adversely Affect the Company s Financial Condition

If a property we own is mortgaged to secure debt and we are unable to meet the mortgage payments, the holder of the mortgage could foreclose on the property, resulting in loss of income and asset value. Foreclosure on mortgaged properties or an inability to refinance existing indebtedness would likely have a negative impact on our financial condition and results of operations.

The mortgages on our properties may contain negative covenants that, among other things, limit our ability, without the prior consent of the lender, to further mortgage the property and to reduce or change insurance coverage. In addition, our unsecured credit facilities contain certain restrictions, requirements and other limitations on our ability to incur debt. The indentures under which a substantial portion of our debt was issued also contain certain financial and operating covenants including, among other things, maintenance of certain financial ratios, as well as limitations on our ability to incur secured and unsecured debt (including acquisition financing), and to sell all or substantially all of our assets. Our credit facilities and indentures are cross-defaulted and also contain cross default provisions with other material debt. Our most restrictive unsecured public debt covenants as of December 31, 2007 and 2006, respectively, are (terms are defined in the indentures):

Selected Unsecured Public Debt Covenants

	December 31, 2007	**December 31, 2006**
Total Debt to Adjusted Total Assets (not to exceed 60%)	50.5%	44.6%
Secured Debt to Adjusted Total Assets (not to exceed 40%)	19.2%	17.6%
Consolidated Income Available for Debt Service to Maximum Annual Service Charges (must be at least 1.5 to 1)	2.09	2.59
Total Unsecured Assets to Unsecured Debt (must be at least 150%)	207.4%	250.6%

Some of the properties were financed with tax-exempt bonds that contain certain restrictive covenants or deed restrictions. We have retained an independent outside consultant to monitor compliance with the restrictive covenants and deed restrictions that affect these properties. If these bond compliance requirements restrict our ability to increase our rental rates to attract low or moderate-income residents, or eligible/qualified residents, then our income from these properties may be limited.

Our Degree of Leverage Could Limit Our Ability to Obtain Additional Financing

Our consolidated debt-to-total market capitalization ratio was 47.0% as of December 31, 2007. Our degree of leverage could have important consequences to security holders. For example, the degree of leverage could affect our ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions, development or other general corporate purposes, making us more vulnerable to a downturn in business or the economy in general.

Rising Interest Rates Could Adversely Affect Cash Flow

Advances under our credit facilities bear interest at variable rates based upon LIBOR at various interest periods, plus a spread dependent upon the Operating Partnership s credit rating, or based upon bids received from the lending group. Certain public issuances of our senior unsecured debt instruments may also, from time to time, bear interest at floating rates. We may also borrow additional money with variable interest rates in the future. Increases in interest rates would increase our interest expense under these debt instruments and would increase the costs of refinancing existing debt and of issuing new debt. Accordingly, higher interest rates could adversely affect cash flow and our ability to service our debt and to make distributions to security holders. We use interest rate hedging arrangements to manage our exposure to interest rate volatility, but these arrangements may expose us to additional risks, and no strategy can completely insulate us from risks associated with interest rate fluctuations. There can be no assurance that our hedging arrangements will have the desired beneficial impact and may involve costs, such as transaction fees or breakage costs, if we terminate them.

We Depend on Our Key Personnel

We depend on the efforts of the Chairman of our Board of Trustees, Samuel Zell, and our executive officers, particularly David J. Neithercut, our President and Chief Executive Officer. If they resign or otherwise cease to be employed by us, our operations could be temporarily adversely affected. Mr. Zell has entered into retirement benefit and noncompetition agreements with the Company.

In the event the Chairman of the Board and/or the CEO are unable to serve, (i) the Lead Trustee will automatically be appointed to serve as the interim successor to the Chairman, (ii) the Chairman will automatically be appointed to serve as the interim successor to the CEO and (iii) the Chair of the Compensation Committee of the Board will immediately call a meeting of the Committee to recommend to the full Board the selection of a permanent replacement for either or both positions, as necessary.

Control and Influence by Significant Shareholders Could Be Exercised in a Manner Adverse to Other Shareholders

The consent of certain affiliates of Mr. Zell is required for certain amendments to the Fifth Amended and Restated Agreement of Limited Partnership of the Operating Partnership (the Partnership Agreement). As a result of their security ownership and rights concerning amendments to the Partnership Agreement, the security holders referred to herein may have influence over the Company. Although these security holders have not agreed to act together on any matter, they would be in a position to exercise even more influence over the Company s affairs if they were to act together in the future. This influence could conceivably be exercised in a manner that is inconsistent with the interests of other security holders. For additional information regarding the security ownership of our trustees, including Mr. Zell, and our executive officers, see the Company s definitive proxy statement.

Shareholders Ability to Effect Changes in Control of the Company is Limited

Provisions of Our Declaration of Trust and Bylaws Could Inhibit Changes in Control

Certain provisions of our Declaration of Trust and Bylaws may delay or prevent a change in control of the Company or other transactions that could provide the security holders with a premium over the then-prevailing market price of their securities or which might otherwise be in the best interest of our security holders. This includes the 5% Ownership Limit described below. Also, any future series of preferred shares of beneficial interest may have certain voting provisions that could delay or prevent a change of control or other transactions that might otherwise be in the interest of our security holders.

We Have a Share Ownership Limit for REIT Tax Purposes

To remain qualified as a REIT for federal income tax purposes, not more than 50% in value of our outstanding Shares may be owned, directly or indirectly, by five or fewer individuals at any time during the last half of any year. To facilitate maintenance of our REIT qualification, our Declaration of Trust, subject to certain exceptions, prohibits ownership by any single shareholder of more than 5% of the lesser of the number or value of the outstanding class of common or preferred shares. We refer to this restriction as the Ownership Limit. Absent any exemption or waiver granted by our Board of Trustees, securities acquired or held in violation of the Ownership Limit will be transferred to a trust for the exclusive benefit of a designated charitable beneficiary, and the security holder s rights to distributions and to vote would terminate. A transfer of Shares may be void if it causes a person to violate the Ownership Limit. The Ownership Limit could delay or prevent a change in control and, therefore, could adversely affect our security holders ability to realize a premium over the then-prevailing market price for their Shares. To reduce the ability of the Board to use the Ownership Limit as an anti-takeover device, in 2004 the Company amended the Ownership Limit to require, rather than permit, the Board to grant a waiver of the Ownership Limit if the individual seeking a waiver demonstrates that such ownership would not jeopardize the Company s status as a REIT.

Our Preferred Shares May Affect Changes in Control

Our Declaration of Trust authorizes the Board of Trustees to issue up to 100 million preferred shares, and to establish the preferences and rights (including the right to vote and the right to convert into common shares) of any preferred shares issued. The Board of Trustees may use its powers to issue preferred shares and to set the terms of such securities to delay or prevent a change in control of the Company, even if a change in control were in the interest of security holders.

Inapplicability of Maryland Law Limiting Certain Changes in Control

Certain provisions of Maryland law applicable to real estate investment trusts prohibit business combinations (including certain issuances of equity securities) with any person who beneficially owns ten percent or more of the voting power of outstanding securities, or with an affiliate who, at any time within the two-year period prior to the date in question, was the beneficial owner of ten percent or more of the voting power of the Company s outstanding voting securities (an Interested Shareholder), or with an affiliate of an Interested Shareholder. These prohibitions last for five years after the most recent date on which the Interested Shareholder became an Interested Shareholder. After the five-year period, a business combination with an Interested Shareholder must be approved by two super-majority shareholder votes unless, among other conditions, holders of common shares receive a minimum price for their shares and the consideration is received in cash or in the same form as previously paid by the Interested Shareholder for its common shares. As permitted by Maryland law, however, the Board of Trustees of the Company has opted out of these restrictions with respect to any business combination involving Mr. Zell and certain of his affiliates and persons acting in concert with them. Consequently, the five-year prohibition and the super-majority vote requirements will not apply to a business combination involving us and/or any of them. Such business combinations may not be in the best interest of our security holders.

Our Success as a REIT Is Dependent on Compliance with Federal Income Tax Requirements

Our Failure to Qualify as a REIT Would Have Serious Adverse Consequences to Our Security Holders

We believe that we have qualified for taxation as a REIT for federal income tax purposes since our taxable year ended December 31, 1992 based, in part, upon opinions of tax counsel received whenever we have issued equity securities or engaged in significant merger transactions. We plan to continue to meet the requirements for taxation as a REIT. Many of these requirements, however, are highly technical and complex. We cannot, therefore, guarantee that we have qualified or will qualify in the future as a REIT. The determination that we are a REIT requires an analysis of various factual matters that may not be totally within our control. For example, to qualify as a REIT, our gross income must generally come from rental and other real estate or passive related sources that are itemized in the REIT tax laws. We are also required to distribute to security holders at least 90% of our REIT taxable income excluding capital gains. The fact that we hold our assets through ERP Operating Limited Partnership and its subsidiaries further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize our REIT status. Furthermore, Congress and the IRS might make changes to the tax laws and regulations, and the courts might issue new rulings that make it more difficult, or impossible, for us to remain qualified as a REIT. We do not believe, however, that any pending or proposed tax law changes would jeopardize our REIT status.

If we fail to qualify as a REIT, we would be subject to federal income tax at regular corporate rates. Also, unless the IRS granted us relief under certain statutory provisions, we would remain disqualified as a REIT for four years following the year we first failed to qualify. If we fail to qualify as a

REIT, we would have to pay significant income taxes. We, therefore, would have less money available for investments or for distributions to security holders. This would likely have a significant adverse affect on the value of our securities. In addition, we would no longer be required to make any distributions to security holders. Even if we qualify as a REIT, we are and will continue to be subject to certain federal, state and local taxes on our income and property. In addition, our corporate housing business and condominium conversion business, which are conducted through taxable REIT subsidiaries, generally will be subject to federal income tax at regular corporate rates to the extent they have taxable income.

We Could Be Disqualified as a REIT or Have to Pay Taxes if Our Merger Partners Did Not Qualify as REITs

If any of our prior merger partners had failed to qualify as a REIT throughout the duration of their existence, then they might have had undistributed C corporation earnings and profits at the time of their merger with us. If that was the case and we did not distribute those earnings and profits prior to the end of the year in which the merger took place, we might not qualify as a REIT. We believe based, in part, upon opinions of legal counsel received pursuant to the terms of our merger agreements as well as our own investigations, among other things, that each of our prior merger partners qualified as a REIT and that, in any event, none of them had any undistributed C corporation earnings and profits at the time of their merger with us. If any of our prior merger partners failed to qualify as a REIT, an additional concern would be that they would have recognized taxable gain at the time they merged with us. We would be liable for the tax on such gain. In this event, we would have to pay corporate income tax on any gain existing at the time of the applicable merger on assets acquired in the merger if the assets are sold within ten years of the merger. Finally, we could be precluded from electing REIT status for up to four years after the year in which the predecessor entity failed to qualify for REIT status.

Compliance with REIT Distribution Requirements May Affect Our Financial Condition

Distribution Requirements May Increase the Indebtedness of the Company

We may be required from time to time, under certain circumstances, to accrue as income for tax purposes interest and rent earned but not yet received. In such event, or upon our repayment of principal on debt, we could have taxable income without sufficient cash to enable us to meet the distribution requirements of a REIT. Accordingly, we could be required to borrow funds or liquidate investments on adverse terms in order to meet these distribution requirements.

Tax Elections Regarding Distributions May Impact Future Liquidity of the Company

Under certain circumstances, we may make a tax election to treat future distributions to shareholders as distributions in the current year. This election, which is provided for in the REIT tax code, may allow us to avoid increasing our dividends or paying additional income taxes in the current year. However, this could result in a constraint on our ability to decrease our dividends in future years without creating risk of either violating the REIT distribution requirements or generating additional income tax liability.

Federal Income Tax Considerations

General

The following discussion summarizes the federal income tax considerations material to a holder of common shares. It is not exhaustive of all possible tax considerations. For example, it does not give a detailed discussion of any state, local or foreign tax considerations. The following discussion also does not address all tax matters that may be relevant to prospective shareholders in light of their particular circumstances. Moreover, it does not address all tax matters that may be relevant to shareholders who are subject to special treatment under the tax laws, such as insurance companies, tax-exempt entities, financial institutions or broker-dealers, foreign corporations and persons who are not citizens or residents of the United States.

The specific tax attributes of a particular shareholder could have a material impact on the tax considerations associated with the purchase, ownership and disposition of common shares. Therefore, it is essential that each prospective shareholder consult with his or her own tax advisors with regard to the application of the federal income tax laws to the shareholder s personal tax situation, as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdiction.

The information in this section is based on the current Internal Revenue Code, current, temporary and proposed Treasury regulations, the legislative history of the Internal Revenue Code, current administrative interpretations and practices of the Internal Revenue Service, including its practices and policies as set forth in private letter rulings, which are not binding on the Internal Revenue Service, and existing court decisions. Future legislation, regulations, administrative interpretations and court decisions could change current law or adversely affect existing interpretations of current law. Any change could apply retroactively. Thus, it is possible that the Internal Revenue Service could challenge the statements in this discussion, which do not bind the Internal Revenue Service or the courts, and that a court could agree with the Internal Revenue Service.

Our Taxation

We elected REIT status beginning with the year that ended December 31, 1992. In any year in which we qualify as a REIT, we generally will not be subject to federal income tax on the portion of our REIT taxable income or capital gain that we distribute to our shareholders. This treatment substantially eliminates the double taxation that applies to most corporations, which pay a tax on their income and then distribute dividends to shareholders who are in turn taxed on the amount they receive. We elected taxable REIT subsidiary status for certain of our corporate subsidiaries, primarily those engaged in condominium conversion and sale activities. As a result, we will be subject to federal income taxes for activities performed by our taxable REIT subsidiaries.

We will be subject to federal income tax at regular corporate rates upon our REIT taxable income or capital gain that we do not distribute to our shareholders. In addition, we will be subject to a 4% excise tax if we do not satisfy specific REIT distribution requirements. We could also be subject to the alternative minimum tax on our items of tax preference. In addition, any net income from prohibited transactions (i.e., dispositions of property, other than property held by a taxable REIT subsidiary, held primarily for sale to customers in the ordinary course of business) will be subject to a 100% tax. We could also be subject to a 100% penalty tax on certain payments received from or on certain expenses deducted by a taxable REIT subsidiary if any such transaction is not respected by the Internal Revenue Service. If we fail to satisfy the 75% gross income test or the 95% gross income test (described below) but have maintained our qualification as a REIT because we satisfied certain other requirements, we will still generally be subject to a 100% penalty tax on the amount by which we fail such gross income test. If we fail to satisfy any of the REIT asset tests (described below) by more than a *de minimis* amount, due to reasonable cause, and we nonetheless maintain our REIT qualification because of specified cure provisions, we will be required to pay a tax equal to the greater of $50,000 or the highest corporate tax rate multiplied by the net income generated by the non-qualifying assets. If we fail to satisfy any provision of the Internal Revenue Code that would result in our failure to qualify as a REIT (other than a violation of the REIT gross income or asset tests described below) and the violation is due to reasonable cause, we may retain our REIT qualification but we will be required to pay a penalty of $50,000 for each such failure. Moreover, we may be subject to taxes in certain situations and on certain transactions that we do not presently contemplate.

We believe that we have qualified as a REIT for all of our taxable years beginning with 1992. We also believe that our current structure and method of operation is such that we will continue to qualify as a REIT. However, given the complexity of the REIT qualification requirements, we cannot provide any assurance that the actual results of our operations have satisfied or will satisfy the requirements under the Internal Revenue Code for a particular year.

If we fail to qualify for taxation as a REIT in any taxable year and the relief provisions described herein do not apply, we will be subject to tax on our taxable income at regular corporate rates. We also may be subject to the corporate alternative minimum tax. As a result, our failure to qualify as a REIT would significantly reduce the cash we have available to distribute to our shareholders. Unless entitled to statutory relief, we would be disqualified as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether we would be entitled to statutory relief.

Our qualification and taxation as a REIT depend on our ability to satisfy various requirements

under the Internal Revenue Code. We are required to satisfy these requirements on a continuing basis through actual annual operating and other results. Accordingly, there can be no assurance that we will be able to continue to operate in a manner so as to remain qualified as a REIT.

Ownership of Taxable REIT Subsidiaries by Us. The Internal Revenue Code provides that REITs may own greater than ten percent of the voting power and value of the securities of taxable REIT subsidiaries or TRSs , which are corporations subject to tax as a regular C corporation that have elected, jointly with a REIT, to be a TRS. Generally, a taxable REIT subsidiary may own assets that cannot otherwise be owned by a REIT and can perform impermissible tenant services (discussed above), which would otherwise taint our rental income under the REIT income tests. However, the REIT will be obligated to pay a 100% penalty tax on some payments that we receive or on certain expenses deducted by our TRSs if the economic arrangements between us, our tenants and the TRS are not comparable to similar arrangements among unrelated parties. A TRS may also receive income from prohibited transactions without incurring the 100% federal income tax liability imposed to REITs. Income from prohibited transactions may include the purchase and sale of land, the purchase and sale of completed development properties and the sale of condominium units.

TRSs pay federal and state income tax at the full applicable corporate rates. The amount of taxes paid on impermissible tenant services income and the sale of real estate held primarily for sale to customers in the ordinary course of business may be material in amount. The TRSs will attempt to minimize the amount of these taxes, but we cannot guarantee whether, or the extent to which, measures taken to minimize these taxes will be successful. To the extent that these companies are required to pay taxes, less cash may be available for distributions to shareholders.

Share Ownership Test and Organizational Requirement. In order to qualify as a REIT, our shares of beneficial interest must be held by a minimum of 100 persons for at least 335 days of a taxable year that is 12 months, or during a proportionate part of a taxable year of less than 12 months. Also, not more than 50% in value of our shares of beneficial interest may be owned directly or indirectly by applying certain constructive ownership rules, by five or fewer individuals during the last half of each taxable year. In addition, we must meet certain other organizational requirements, including, but not limited to, that (i) the beneficial ownership in us is evidenced by transferable shares and (ii) we are managed by one or more trustees. We believe that we have satisfied all of these tests and all other organizational requirements and that we will continue to do so in the future. In order to ensure compliance with the 100 person test and the 50% share ownership test discussed above, we have placed certain restrictions on the transfer of our shares that are intended to prevent further concentration of share ownership. However, such restrictions may not prevent us from failing these requirements, and thereby failing to qualify as a REIT.

Gross Income Tests. To qualify as a REIT, we must satisfy two gross income tests:

(1) At least 75% of our gross income for each taxable year must be derived directly or indirectly from rents from real property, investments in real estate and/or real estate mortgages, dividends paid by another REIT and from some types of temporary investments.

(2) At least 95% of our gross income for each taxable year must be derived from any combination of income qualifying under the 75% test and dividends, non-real estate mortgage interest, some payments under hedging instruments and gain from the sale or disposition of stock or securities.

To qualify as rents from real property for the purpose of satisfying the gross income tests, rental payments must generally be received from unrelated persons and not be based on the net income of the resident. Also, the rent attributable to personal property must not exceed 15% of the total rent. We may generally provide services to residents without tainting our rental income only if such services are usually or customarily rendered in connection with the rental of real property and not otherwise considered impermissible services . If such services are impermissible, then we may generally provide them only if they are considered de minimis in amount, or are provided through an independent contractor from whom we derive no revenue and that meets other requirements, or through a taxable REIT subsidiary.

We believe that services provided to residents by us either are usually or customarily rendered in connection with the rental of real property and not otherwise considered impermissible, or, if considered impermissible services, will meet the *de minimis* test or will be provided by an independent contractor or taxable REIT subsidiary. However, we cannot provide any assurance that the Internal Revenue Service will agree with these positions.

If we fail to satisfy one or both of the gross income tests for any taxable year, we may nevertheless qualify as a REIT for the year if we are entitled to relief under certain provisions of the Internal Revenue Code. In this case, a penalty tax would still be applicable as discussed above. Generally, it is not possible to state whether in all circumstances we would be entitled to the benefit of these relief provisions and in the event these relief provisions do not apply, we will not qualify as a REIT.

<u>Asset Tests</u>. In general, at the close of each quarter of our taxable year, we must satisfy four tests relating to the nature of our assets:

(1) At least 75% of the value of our total assets must be represented by real estate assets (which include for this purpose shares in other real estate investment trusts) and certain cash related items;

(2) Not more than 25% of our total assets may be represented by securities other than those in the

75% asset class;

(3) Except for equity investments in other REITs, qualified REIT subsidiaries (i.e., corporations owned 100% by a REIT that are not TRSs or REITs), or taxable REIT subsidiaries: (a) the value of any one issuer s securities owned by us may not exceed 5% of the value of our total assets and (b) we may not own more than 10% of the value of or the voting securities of any one issuer; and

(4) Not more than 20% of our total assets may be represented by securities of one or more taxable REIT subsidiaries.

The 10% value test described in clause (b) of (3) above does not apply to certain securities that fall within a safe harbor under the Code. Under the safe harbor, the following are not considered securities held by us for purposes of this 10% value test: (i) straight debt securities, (ii) any loan of an individual or an estate, (iii) certain rental agreements for the use of tangible property, (iv) any obligation to pay rents from real property, (v) any security issued by a state or any political subdivision thereof, foreign government or Puerto Rico only if the determination of any payment under such security is not based on the profits of another entity or payments on any obligation issued by such other entity, or (vi) any security issued by a REIT. The timing and payment of interest or principal on a security qualifying as straight debt may be subject to a contingency provided that (A) such contingency does not change the effective yield to maturity, not considering a *de minimis* change which does not exceed the greater of ¼ of 1% or 5% of the annual yield to maturity or we own $1,000,000 or less of the aggregate issue price or value of the particular issuer s debt and not more than 12 months of unaccrued interest can be required to be prepaid or (B) the contingency is consistent with commercial practice and the contingency is effective upon a default or the exercise of a prepayment right by the issuer of the debt. If we hold indebtedness from any issuer, including a REIT, the indebtedness will be subject to, and may cause a violation of, the asset tests, unless it is a qualifying real estate asset or otherwise satisfies the above safe harbor. We currently own equity interests in certain entities that have elected to be taxed as REITs for federal income tax purposes and are not publicly traded. If any such entity were to fail to qualify as a REIT, we would not meet the 10% voting stock limitation and the 10% value limitation and we would fail to qualify as a REIT. We believe that we and each of the REITs we own an interest in have and will comply with the foregoing asset tests for REIT qualification. However, we cannot provide any assurance that the Internal Revenue Service will agree with our determinations.

If we fail to satisfy the 5% or 10% asset tests described above after a 30-day cure period provided in the Internal Revenue Code, we will be deemed to have met such tests if the value of our non-qualifying assets is *de minimis* (i.e., does not exceed the lesser of 1% of the total value of our assets at the end of the applicable quarter or $10,000,000) and we dispose of the non-qualifying assets within six months after the

last day of the quarter in which the failure to satisfy the asset tests is discovered. For violations due to reasonable cause and not willful neglect that are in excess of the *de minimis* exception described above, we may avoid disqualification as a REIT under any of the asset tests, after the 30-day cure period, by disposing of sufficient assets to meet the asset test within such six month period, paying a tax equal to the greater of $50,000 or the highest corporate tax rate multiplied by the net income generated by the non-qualifying assets and disclosing certain information to the Internal Revenue Service. If we cannot avail ourselves of these relief provisions, or if we fail to timely cure any noncompliance with the asset tests, we would cease to qualify as a REIT.

Annual Distribution Requirements. To qualify as a REIT, we are generally required to distribute dividends, other than capital gain dividends, to our shareholders each year in an amount at least equal to 90% of our REIT taxable income. These distributions must be paid either in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for the prior year and if paid with or before the first regular dividend payment date after the declaration is made. We intend to make timely distributions sufficient to satisfy our annual distribution requirements. To the extent that we do not distribute all of our net capital gain or distribute at least 90%, but less than 100% of our REIT taxable income, as adjusted, we are subject to tax on these amounts at regular corporate rates. We will be subject to a 4% excise tax on the excess of the required distribution over the sum of amounts actually distributed and amounts retained for which federal income tax was paid, if we fail to distribute during each calendar year at least the sum of: (1) 85% of our REIT ordinary income for the year; (2) 95% of our REIT capital gain net income for the year; and (3) any undistributed taxable income from prior taxable years. A REIT may elect to retain rather than distribute all or a portion of its net capital gains and pay the tax on the gains. In that case, a REIT may elect to have its shareholders include their proportionate share of the undistributed net capital gains in income as long-term capital gains and receive a credit for their share of the tax paid by the REIT. For purposes of the 4% excise tax described above, any retained amounts would be treated as having been distributed.

Ownership of Partnership Interests By Us. As a result of our ownership of the Operating Partnership, we will be considered to own and derive our proportionate share of the assets and items of income of the Operating Partnership, respectively, for purposes of the REIT asset and income tests, including its share of assets and items of income of any subsidiaries that are partnerships or limited liability companies.

State and Local Taxes. We may be subject to state or local taxation in various jurisdictions, including those in which we transact business or reside. Our state and local tax treatment may not conform to the federal income tax treatment discussed above. Consequently, prospective shareholders should consult their own tax advisors regarding the effect of state and local tax laws on an investment in common shares.

Taxation of Domestic Shareholders Subject to U.S. Tax

General. If we qualify as a REIT, distributions made to our taxable domestic shareholders with respect to their common shares, other than capital gain distributions and distributions attributable to taxable REIT subsidiaries, will be treated as ordinary income to the extent that the distributions come out of earnings and profits. These distributions will not be eligible for the dividends received deduction for shareholders that are corporations nor will they constitute qualified dividend income under the Internal Revenue Code, meaning that such dividends will be taxed at marginal rates applicable to ordinary income rather than the special capital gain rates applicable to qualified dividend income distributed to shareholders who satisfy applicable holding period requirements. In determining whether distributions are out of earnings and profits, we will allocate our earnings and profits first to preferred shares and second to the common shares. The portion of ordinary dividends which represent ordinary dividends we receive from a TRS, will be designated as qualified dividend income to REIT shareholders and are eligible for preferential tax rates if paid to our non-corporate shareholders.

To the extent we make distributions to our taxable domestic shareholders in excess of our earnings

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and profits, such distributions will be considered a return of capital. Such distributions will be treated as a tax-free distribution and will reduce the tax basis of a shareholder s common shares by the amount of the distribution so treated. To the extent such distributions cumulatively exceed a taxable domestic shareholder s tax basis; such distributions are taxable as a gain from the sale of shares. Shareholders may not include in their individual income tax returns any of our net operating losses or capital losses.

Dividends declared by a REIT in October, November, or December are deemed to have been paid by the REIT and received by its shareholders on December 31 of that year, so long as the dividends are actually paid during January of the following year. However, this treatment only applies to the extent of the REIT s earnings and profits existing on December 31. To the extent the shareholder distribution paid in January exceeds available earnings and profits as of December 31, the excess is treated as a distribution taxable to shareholders in the year paid. As such, for tax reporting purposes, January distributions paid to our shareholders may be split between two tax years.

Distributions made by us that we properly designate as capital gain dividends will be taxable to taxable domestic shareholders as gain from the sale or exchange of a capital asset held for more than one year. This treatment applies only to the extent that the designated distributions do not exceed our actual net capital gain for the taxable year. It applies regardless of the period for which a domestic shareholder has held his or her common shares. Despite this general rule, corporate shareholders may be required to treat up to 20% of certain capital gain dividends as ordinary income.

Generally, we will classify a portion of our designated capital gain dividends as a 15% rate gain distribution and the remaining portion as an unrecaptured Section 1250 gain distribution. A 15% rate gain distribution would be taxable to taxable domestic shareholders that are individuals, estates or trusts at a maximum rate of 15%. An unrecaptured Section 1250 gain distribution would be taxable to taxable domestic shareholders that are individuals, estates or trusts at a maximum rate of 25%.

If, for any taxable year, we elect to designate as capital gain dividends any portion of the dividends paid or made available for the year to holders of all classes of shares of beneficial interest, then the portion of the capital gains dividends that will be allocable to the holders of common shares will be the total capital gain dividends multiplied by a fraction. The numerator of the fraction will be the total dividends paid or made available to the holders of the common shares for the year. The denominator of the fraction will be the total dividends paid or made available to holders of all classes of shares of beneficial interest.

We may elect to retain (rather than distribute as is generally required) net capital gain for a taxable year and pay the income tax on that gain. If we make this election, shareholders must include in income, as long-term capital gain, their proportionate share of the undistributed net capital gain. Shareholders will be treated as having paid their proportionate share of the tax paid by us on these gains. Accordingly, they will receive a tax credit or refund for the amount. Shareholders will increase the basis in their common shares by the difference between the amount of capital gain included in their income and the amount of the tax they are treated as having paid. Our earnings and profits will be adjusted appropriately.

In general, a shareholder will recognize gain or loss for federal income tax purposes on the sale or other disposition of common shares in an amount equal to the difference between:

(a) the amount of cash and the fair market value of any property received in the sale or other disposition; and

(b) the shareholder s adjusted tax basis in the common shares.

The gain or loss will be capital gain or loss if the common shares were held as a capital asset. Generally, the capital gain or loss will be long-term capital gain or loss if the common shares were held for more than one year.

In general, a loss recognized by a shareholder upon the sale of common shares that were held for six months or less, determined after applying certain holding period rules, will be treated as long-term capital loss to the extent that the shareholder received distributions that were treated as long-term capital gains. For shareholders who are individuals, trusts and estates, the long-term capital loss will be apportioned among the applicable long-term capital gain rates to the extent that distributions received by the shareholder were previously so treated.

Taxation of Domestic Tax-Exempt Shareholders

Most tax-exempt organizations are not subject to federal income tax except to the extent of their unrelated business taxable income, which is often referred to as UBTI. Unless a tax-exempt shareholder holds its common shares as debt financed property or uses the common shares in an unrelated trade or business, distributions to the shareholder should not constitute UBTI. Similarly, if a tax-exempt shareholder sells common shares, the income from the sale should not constitute UBTI unless the shareholder held the shares as debt financed property or used the shares in a trade or business.

However, for tax-exempt shareholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans, income from owning or selling common shares will constitute UBTI unless the organization is able to properly deduct amounts set aside or placed in reserve so as to offset the income generated by its investment in common shares. These shareholders should consult their own tax advisors concerning these set aside and reserve requirements which are set forth in the Internal Revenue Code.

In addition, certain pension trusts that own more than 10% of a   pension-held REIT   must report a portion of the distributions that they receive from the REIT as UBTI. We have not been and do not expect to be treated as a pension-held REIT for purposes of this rule.

Taxation of Foreign Shareholders

The following is a discussion of certain anticipated United States federal income tax consequences of the ownership and disposition of common shares applicable to a foreign shareholder. For purposes of this discussion, a   foreign shareholder   is any person other than:

(a) a citizen or resident of the United States;

(b) a corporation or partnership created or organized in the United States or under the laws of the United States or of any state thereof; or

(c) an estate or trust whose income is includable in gross income for United States federal income tax purposes regardless of its source.

Distributions by Us. Distributions by us to a foreign shareholder that are neither attributable to gain from sales or exchanges by us of United States real property interests nor designated by us as capital gains dividends will be treated as dividends of ordinary income to the extent that they are made out of our earnings and profits. These distributions ordinarily will be subject to withholding of United States federal income tax on a gross basis at a 30% rate, or a lower treaty rate, unless the dividends are treated as effectively connected with the conduct by the foreign shareholder of a United States trade or business. Please note that under certain treaties lower withholding rates generally applicable to dividends do not apply to dividends from REITs. Dividends that are effectively connected with a United States trade or business will be subject to tax on a net basis at graduated rates, and are generally not subject to withholding. Certification and disclosure requirements must be satisfied before a dividend is exempt from withholding under this exemption. A foreign shareholder that is a corporation also may be subject to an additional branch profits tax at a 30% rate or a lower treaty rate.

We expect to withhold United States income tax at the rate of 30% on any distributions made to a foreign shareholder unless:

(a) a lower treaty rate applies and any required form or certification evidencing eligibility for that reduced rate is filed with us; or

(b) the foreign shareholder files an IRS Form W-8ECI with us claiming that the distribution is effectively connected income.

A distribution in excess of our current or accumulated earnings and profits will not be taxable to a foreign shareholder to the extent that the distribution does not exceed the adjusted basis of the shareholder s common shares. Instead, the distribution will reduce the adjusted basis of the common shares. To the extent that the distribution exceeds the adjusted basis of the common shares, it will give rise to gain from the sale or exchange of the shareholder s common shares. The tax treatment of this gain is described below.

We intend to withhold at a rate of 30%, or a lower applicable treaty rate, on the entire amount of any distribution not designated as a capital gain distribution. In such event, a foreign shareholder may seek a refund of the withheld amount from the IRS if it subsequently determined that the distribution was, in fact, in excess of our earnings and profits, and the amount withheld exceeded the foreign shareholder s United States tax liability with respect to the distribution.

Any capital gain dividend with respect to any class of our stock which is regularly traded on an established securities market, will be treated as an ordinary dividend described above, if the foreign shareholder did not own more than 5% of such class of stock at any time during the taxable year. Foreign shareholders generally will not be required to report distributions received from us on U.S. federal income tax returns and all distributions treated as dividends for U.S. federal income tax purposes, including any capital gain dividends, will be subject to a 30% U.S. withholding tax (unless reduced or eliminated under an applicable income tax treaty), as described above. In addition, the branch profits tax will no longer apply to such distributions.

Distributions to a foreign shareholder that we designate at the time of the distributions as capital gain dividends, other than those arising from the disposition of a United States real property interest, generally will not be subject to United States federal income taxation unless:

(a) the investment in the common shares is effectively connected with the foreign shareholder s United States trade or business, in which case the foreign shareholder will be subject to the same treatment as domestic shareholders, except that a shareholder that is a foreign corporation may also be subject to the branch profits tax, as discussed above; or

(b) the foreign shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a tax home in the United States, in which case the nonresident alien individual will be subject to a 30% tax on the individual s capital gains.

Except as described above, under the Foreign Investment in Real Property Tax Act, which is known as FIRPTA, distributions to a foreign shareholder that are attributable to gain from sales or exchanges of United States real property interests will cause the foreign shareholder to be treated as recognizing the gain as income effectively connected with a United States trade or business. This rule applies whether or not a distribution is designated as a capital gain dividend. Accordingly, foreign shareholders generally would be taxed on these distributions at the same rates applicable to U.S. shareholders, subject to a special alternative minimum tax in the case of nonresident alien individuals. In addition, a foreign corporate shareholder might be subject to the branch profits tax discussed above. We are required to withhold 35% of these distributions. The withheld amount can be credited against the foreign shareholder s United States federal income tax liability.

Although the law is not entirely clear on the matter, it appears that amounts we designate as undistributed capital gains in respect of the common shares held by U.S. shareholders would be treated with respect to foreign shareholders in the same manner as actual distributions of capital gain dividends. Under that approach, foreign shareholders would be able to offset as a credit against the United States federal income tax liability their proportionate share of the tax paid by us on these undistributed capital gains. In addition, foreign shareholders would be able to receive from the IRS a refund to the extent their proportionate share of the tax paid by us were to exceed their actual United States federal income tax liability.

Foreign Shareholders Sales of Common Shares. Gain recognized by a foreign shareholder upon the sale or exchange of common shares generally will not be subject to United States taxation unless the shares constitute a United States real property interest within the meaning of FIRPTA. The common shares will not constitute a United States real property interest so long as we are a domestically controlled REIT. A domestically controlled REIT is a REIT in which at all times during a specified testing period less than 50% in value of its stock is held directly or indirectly by foreign shareholders. We believe that we are a domestically controlled REIT. Therefore, we believe that the sale of common shares will not be subject to taxation under FIRPTA. However, because common shares and preferred shares are publicly traded, we cannot guarantee that we will continue to be a domestically controlled REIT. In any event, gain from the sale or exchange of common shares not otherwise subject to FIRPTA will be subject to U.S. tax, if either:

(a) the investment in the common shares is effectively connected with the foreign shareholder s United States trade or business, in which case the foreign shareholder will be subject to the same treatment as domestic shareholders with respect to the gain; or

(b) the foreign shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a tax home in the United States, in which case the nonresident alien individual will be subject to a 30% tax on the individual s capital gains.

Even if we do not qualify as or cease to be a domestically controlled REIT, gain arising from the sale or exchange by a foreign shareholder of common shares still would not be subject to United States taxation under FIRPTA as a sale of a United States real property interest if:

(a) the class or series of shares being sold is regularly traded, as defined by applicable IRS regulations, on an established securities market such as the New York Stock Exchange; and

(b) the selling foreign shareholder owned 5% or less of the value of the outstanding class or series of shares being sold throughout the five-year period ending on the date of the sale or exchange.

If gain on the sale or exchange of common shares were subject to taxation under FIRPTA, the foreign shareholder would be subject to regular United States income tax with respect to the gain in the same manner as a taxable U.S. shareholder, subject to any applicable alternative minimum tax, a special alternative minimum tax in the case of nonresident alien individuals and the possible application of the branch profits tax in the case of foreign corporations. The purchaser of the common shares would be required to withhold and remit to the IRS 10% of the purchase price.

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Information Reporting Requirement and Backup Withholding

We will report to our domestic shareholders and the Internal Revenue Service the amount of distributions paid during each calendar year and the amount of tax withheld, if any. Under certain circumstances, domestic shareholders may be subject to backup withholding. Backup withholding will apply only if such domestic shareholder fails to furnish certain information to us or the Internal Revenue Service. Backup withholding will not apply with respect to payments made to certain exempt recipients, such as corporations and tax-exempt organizations. Domestic shareholders should consult their own tax advisors regarding their qualification for exemption from backup withholding and the procedure for obtaining such an exemption. Backup withholding is not an additional tax. Rather, the amount of any backup withholding with respect to a payment to a domestic shareholder will be allowed as a credit against such person s United States federal income tax liability and may entitle such person to a refund, provided that the required information is furnished to the Internal Revenue Service.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of December 31, 2007, the Company, directly or indirectly through investments in title holding entities, owned all or a portion of 579 properties in 24 states and the District of Columbia consisting of 152,821 units. The Company s properties are more fully described as follows:

Type	Properties	Units	Average Units	December 31, 2007 Occupancy
Garden	505	131,865	261	94.6%
Mid/High-Rise	73	17,225	236	93.5%
Military Housing	1	3,731	3,731	95.8%
Total	579	152,821		

Resident leases are generally for twelve months in length and often require security deposits. The garden-style properties are generally defined as properties with two and/or three story buildings while the mid-rise/high-rise are defined as properties with greater than three story buildings. These two property types typically provide residents with amenities, which may include a clubhouse, swimming pool, laundry facilities and cable television access. Certain of these properties offer additional amenities such as saunas, whirlpools, spas, sports courts and exercise rooms or other amenities. The military housing properties are defined as those properties located on military bases.

The distribution of the properties throughout the United States reflects the Company s belief that geographic diversification helps insulate the portfolio from regional and economic influences. At the same time, the Company has sought to create clusters of properties within each of its primary markets in order to achieve economies of scale in management and operation. The Company may nevertheless acquire additional multifamily properties located anywhere in the continental United States.

The following tables set forth certain information by type and state relating to the Company s properties (occupancy information excludes condominium conversion, development and unstabilized acquired properties) at December 31, 2007:

GARDEN-STYLE PROPERTIES

State	Properties	Units	Percentage of Total Units	December 31, 2007 Occupancy
Arizona	43	12,216	7.99%	94.7%
California	106	26,487	17.33	93.4
Colorado	27	9,003	5.89	94.5
Connecticut	19	2,426	1.59	94.2
Florida	84	26,976	17.65	93.0
Georgia	29	8,684	5.68	93.2
Illinois	2	72	0.05	(1)
Maine	5	672	0.44	91.0
Maryland	20	5,081	3.32	93.6
Massachusetts	36	4,947	3.24	95.2
Minnesota	1	156	0.10	96.2
Missouri	1	192	0.13	96.9
New Hampshire	1	390	0.26	94.6
New Jersey	4	1,402	0.92	93.9
New Mexico	2	369	0.24	95.1
New York	1	300	0.20	95.3
North Carolina	19	4,852	3.17	95.1
Oklahoma	3	580	0.38	95.1
Oregon	9	3,164	2.07	95.6
Rhode Island	3	654	0.43	94.9
Tennessee	2	396	0.26	97.5
Texas	30	8,304	5.43	95.4
Virginia	15	4,699	3.08	93.2
Washington	43	9,843	6.44	94.4
Total Garden-Style	**505**	**131,865**	**86.29%**	
Average Garden-Style		**261**		**94.6%**

(1) Illinois only contains unsold condominium units, so no occupancy information has been provided.

MID-RISE/HIGH RISE PROPERTIES

State	Properties	Units	Percentage of Total Units	December 31, 2007 Occupancy
California	16	2,238	1.46%	95.9%
Colorado	1	339	0.22	88.7
Connecticut	1	263	0.17	94.3
Florida	3	653	0.43	92.2
Georgia	4	1,178	0.77	94.9
Massachusetts	10	2,415	1.58	96.4
Minnesota	1	163	0.11	93.2
New Jersey	5	1,366	0.89	93.6
New York	11	2,915	1.91	91.8
Texas	1	150	0.10	94.7
Virginia	7	2,855	1.87	94.0
Washington	11	2,187	1.43	92.3
Washington, D.C.	2	503	0.33	93.3
Total Mid-Rise/High-Rise	**73**	**17,225**	**11.27%**	
Average Mid-Rise/High-Rise		**236**		**93.5%**

MILITARY HOUSING PROPERTIES

Washington (Ft. Lewis)	1	3,731	2.44%	95.8%
Total Military Housing	**1**	**3,731**	**2.44%**	
Average Military Housing		**3,731**		**95.8%**
Total Residential Portfolio	**579**	**152,821**	**100%**	

The properties currently in various stages of development at December 31, 2007 are included in the following table.

Consolidated Development Projects as of December 31, 2007

(Amounts in thousands except for project and unit amounts)

Projects	Location	No. of Units	Total Capital Cost (1)	Total Book Value to Date	Total Book Value Not Placed in Service	Total Debt	Percentage Completed	Percentage Leased	Percentage Occupied	Estimated Completion Date	Estimated Stabilization Date
Projects Under Development Wholly Owned:											
West End Apartments (a.k.a.Emerson/CRP II)	Boston, MA	310	$ 167,953	$ 138,440	$ 138,440	$	92%	29%	25%	Q2 2008	Q1 2009
Redmond Ridge	Redmond, WA	321	55,457	42,991	42,991		83%	8%		Q2 2008	Q3 2010
Crowntree Lakes	Orlando, FL	352	58,628	38,379	38,379		66%			Q4 2008	Q4 2009
Key Isle at Windemere II	Orlando, FL	165	29,058	17,372	17,372		58%			Q4 2008	Q1 2009
70 Greene (a.k.a. 77 Hudson)	Jersey City, NJ	480	269,958	109,147	109,147		42%			Q4 2009	Q1 2011
Reserve at Town Center II	Mill Creek, WA	100	23,485	5,464	5,464		6%			Q2 2010	Q4 2010
Projects Under Development Wholly Owned		1,728	604,539	351,793	351,793						
Projects Under Development Partially Owned:											
Alta Pacific (2)	Irvine, CA	132	46,416	41,143	41,143	28,260	88%			Q1 2008	Q4 2008
City Lofts	Chicago, IL	278	71,109	52,614	52,614	27,569	84%			Q3 2008	Q2 2009
Silver Spring	Silver Spring, MD	457	147,454	89,853	89,853	53,202	59%			Q4 2008	Q3 2010
303 Third Street	Cambridge, MA	531	248,307	140,832	140,832	50,981	52%			Q4 2008	Q1 2010
Montclair Metro	Montclair, NJ	163	48,730	11,398	11,398	1	16%			Q2 2009	Q1 2010
Red Road Commons	South Miami, FL	404	128,816	35,000	35,000	17,387	3%			Q1 2010	Q3 2011
111 Lawrence Street	Brooklyn, NY	492	283,968	49,769	49,769		1%			Q2 2010	Q3 2011
Projects Under Development Partially Owned		2,457	974,800	420,609	420,609	177,400					
Projects Under Development		**4,185**	**1,579,339**	**772,402**	**772,402**	**177,400**					
Land Held for Development		**N/A**		**396,962**	**396,962**	**218,263**					
Land/Projects Held for and/or Under Development		**4,185**	**1,579,339**	**1,169,364**	**1,169,364**	**395,663**					
Completed Not Stabilized Wholly Owned (3):											

Bella Vista III	Woodland Hills, CA	264	73,336	73,190				62%	59%	Completed	Q3 2008
Highland Glen II	Westwood, MA	102	21,620	19,797				39%	33%	Completed	Q3 2008
Projects Completed Not Stabilized		**366**	**94,956**	**92,987**							
<u>Completed And Stabilized During the Quarter:</u>											
Mozaic (a.k.a. Union Station)	Los Angeles, CA	272	69,661	67,849		47,206		91%	90%	Completed	Stabilized
Vintage	Ontario, CA	300	54,722	54,722		33,000		94%	96%	Completed	Stabilized
Projects Completed And Stabilized During the Quarter		**572**	**124,383**	**122,571**		**80,206**					
Total Projects		**5,123**	**$ 1,798,678**	**$ 1,384,922**	**$ 1,169,364**	**$ 475,869**					

(1) Total capital cost represents estimated development cost for projects under development and all capitalized costs incurred to date plus any estimates of costs remaining to be funded for all projects, all in accordance with GAAP.

(2) Debt is primarily tax-exempt bonds that are entirely outstanding, with $6.7 million held in escrow by the lender and released as draw requests are made. This amount is classified as deposits restricted in the consolidated balance sheets at December 31, 2007.

(3) Properties included here are substantially complete. However, they may still require additional exterior and interior work for all units to be available for leasing.

Item 3. Legal Proceedings

The Company is party to a housing discrimination lawsuit brought by a non-profit civil rights organization in April 2006 in the U.S. District Court for the District of Maryland. The suit alleges that the Company designed and built approximately 300 of its properties in violation of the accessibility requirements of the Fair Housing Act and Americans With Disabilities Act. The suit seeks actual and punitive damages, injunctive relief (including modification of non-compliant properties), costs and attorneys fees. The Company believes it has a number of viable defenses, including that a majority of the named properties were completed before the operative dates of the statutes in question and/or were not designed or built by the Company. Accordingly, the Company is defending the suit vigorously. Due to the pendency of the Company s defenses and the uncertainty of many other critical factual and legal issues, it is not possible to determine or predict the outcome of the suit and as a result, no amounts have been accrued at December, 31, 2007. While no assurances can be given, the Company does not believe that the suit, if adversely determined, would have a material adverse effect on the Company.

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

Item 4. Submission of Matters to a Vote of Security Holders

None.

PART II

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

Common Share Market Prices and Dividends

The following table sets forth, for the years indicated, the high, low and closing sales prices for and the distributions paid on the Company s Common Shares, which trade on the New York Stock Exchange under the trading symbol EQR.

	Sales Price High	Sales Price Low	Closing	Distributions
2007				
Fourth Quarter Ended December 31, 2007	$ 45.01	$ 33.79	$ 36.47	$ 0.4825
Third Quarter Ended September 30, 2007	$ 47.48	$ 35.00	$ 42.36	$ 0.4625
Second Quarter Ended June 30, 2007	$ 52.25	$ 44.36	$ 45.63	$ 0.4625
First Quarter Ended March 31, 2007	$ 56.46	$ 46.66	$ 48.23	$ 0.4625

	Sales Price High	Sales Price Low	Closing	Distributions
2006				
Fourth Quarter Ended December 31, 2006	$ 61.50	$ 49.42	$ 50.75	$ 0.4625
Third Quarter Ended September 30, 2006	$ 51.35	$ 44.04	$ 50.58	$ 0.4425
Second Quarter Ended June 30, 2006	$ 47.47	$ 41.45	$ 44.73	$ 0.4425
First Quarter Ended March 31, 2006	$ 47.74	$ 38.84	$ 46.79	$ 0.4425

The number of record holders of Common Shares at January 31, 2008 was approximately 4,000. The number of outstanding Common Shares as of January 31, 2008 was 269,644,705.

Common Shares Repurchased in the Quarter Ended December 31, 2007

The Company repurchased the following Common Shares during the quarter ended December 31, 2007:

Period	Total Number of Common Shares Purchased (1)	Average Price Paid Per Share (1)	Total Number of Common Shares Purchased as Part of Publicly Announced Plans or Programs (1)	Dollar Value of Common Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 2007		$		$ 65,045,391
November 2007	1,600,000	$ 38.30	1,600,000	$ 3,762,666

December 2007	790,000	$	35.69	790,000	$ 475,568,955
Fourth Quarter 2007	2,390,000	$	37.44	2,390,000	

(1) The Common Shares repurchased during the quarter ended December 31, 2007 represent Common Shares repurchased under the Company s publicly announced share repurchase program approved by its Board of Trustees. All shares were repurchased in the open market. As of December 31, 2007, transactions to repurchase 125,000 of the 2,390,000 Common Shares had not yet settled. On April 27, May 24, and December 3, 2007, the Board of Trustees approved an increase of $200.1 million, an additional $500.0 million and an additional $500.0 million, respectively, to the Company s authorized share repurchase program. Considering the above additional authorizations and the repurchase activity for the quarter, the Company has authorization to repurchase an additional $475.6 million of its shares as of December 31, 2007.

Equity Compensation Plan Information

The following table provides information as of December 31, 2007 with respect to the Company s Common Shares that may be issued under its existing equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities in column (a))
	(a) (1) (2)	(b) (2)	(c) (3)
Equity compensation plans approved by shareholders	9,185,141	$32.37	14,473,789
Equity compensation plans not approved by shareholders	N/A	N/A	N/A

(1) Amount shown includes 5,400 shares reserved for issuance upon exercise of outstanding options assumed by the Company as a result of mergers.

(2) The amounts shown in columns (a) and (b) of the above table do not include 1,178,188 outstanding Common Shares (all of which are restricted and subject to vesting requirements) that were granted under the Company s Fifth Amended and Restated 1993 Share Option and Share Award Plan, as amended (the 1993 Plan) and the Company s 2002 Share Incentive Plan, as amended (the 2002 Plan) and outstanding Common Shares that have been purchased by employees and trustees under the Company s ESPP.

(3) Includes 10,392,101 Common Shares that may be issued under the 2002 Plan, of which only 25% may be in the form of restricted shares, and 4,081,688 Common Shares that may be sold to employees and trustees under the ESPP.

The aggregate number of securities available for issuance (inclusive of restricted shares previously granted and outstanding and shares underlying outstanding options) under the 2002 Plan equals 7.5% of the Company s outstanding Common Shares, calculated on a fully diluted basis, determined annually on the first day of each calendar year. On January 1, 2008, this amount equaled 21,631,555, of which 10,392,101 shares were available for future issuance.

Item 6. Selected Financial Data

The following table sets forth selected financial and operating information on a historical basis for the Company. The following information should be read in conjunction with all of the financial statements and notes thereto included elsewhere in this Form 10-K. The historical operating and balance sheet data have been derived from the historical financial statements of the Company. All amounts have also been restated in accordance with the discontinued operations provisions of SFAS No. 144. Certain capitalized terms as used herein are defined in the Notes to Consolidated Financial Statements.

CONSOLIDATED HISTORICAL FINANCIAL INFORMATION

(Financial information in thousands except for per share and property data)

	Year Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
OPERATING DATA:					
Total revenues from continuing operations	$ 2,038,084	$ 1,789,932	$ 1,495,510	$ 1,308,643	$ 1,142,985
Interest and other income	$ 20,176	$ 30,976	$ 68,372	$ 8,702	$ 15,553
Income from continuing operations, net of minority interests	$ 93,006	$ 51,929	$ 106,509	$ 45,035	$ 54,968
Discontinued operations, net of minority interests	$ 896,616	$ 1,020,915	$ 755,284	$ 427,294	$ 468,343
Net income	$ 989,622	$ 1,072,844	$ 861,793	$ 472,329	$ 523,311
Net income available to Common Shares	$ 960,676	$ 1,031,766	$ 807,792	$ 418,583	$ 426,639
Earnings per share basic:					
Income from continuing operations available to Common Shares	$ 0.23	$ 0.04	$ 0.18	$ (0.03)	$ (0.15)
Net income available to Common Shares	$ 3.44	$ 3.56	$ 2.83	$ 1.50	$ 1.57
Weighted average Common Shares outstanding	279,406	290,019	285,760	279,744	272,337
Earnings per share diluted:					
Income from continuing operations available to Common Shares	$ 0.23	$ 0.04	$ 0.18	$ (0.03)	$ (0.15)
Net income available to Common Shares	$ 3.39	$ 3.50	$ 2.79	$ 1.50	$ 1.57
Weighted average Common Shares outstanding	302,235	315,579	310,785	279,744	272,337
Distributions declared per Common Share outstanding	$ 1.87	$ 1.79	$ 1.74	$ 1.73	$ 1.73
BALANCE SHEET DATA (at end of period):					
Real estate, before accumulated depreciation	$ 18,333,350	$ 17,235,175	$ 16,590,370	$ 14,852,621	$ 12,874,379
Real estate, after accumulated depreciation	$ 15,163,225	$ 14,212,695	$ 13,702,230	$ 12,252,794	$ 10,578,366
Total assets	$ 15,689,777	$ 15,062,219	$ 14,108,751	$ 12,656,306	$ 11,477,917
Total debt	$ 9,508,733	$ 8,057,656	$ 7,591,073	$ 6,459,806	$ 5,360,489
Minority Interests	$ 358,046	$ 411,459	$ 422,183	$ 535,582	$ 600,929
Shareholders equity	$ 5,062,518	$ 5,884,222	$ 5,395,340	$ 5,072,528	$ 5,015,441

OTHER DATA:					
Total properties (at end of period)	579	617	926	939	968
Total apartment units (at end of period)	152,821	165,716	197,404	200,149	207,506
Funds from operations available to Common Shares and OP Units - basic (1)(2)	$ 723,484	$ 716,143	$ 784,625	$ 651,741	$ 640,390
Cash flow provided by (used for):					
Operating activities	$ 793,128	$ 755,466	$ 698,531	$ 707,061	$ 744,319
Investing activities	$ (200,645)	$ (259,472)	$ (592,201)	$ (555,279)	$ 334,028
Financing activities	$ (801,929)	$ (324,545)	$ (101,007)	$ (117,856)	$ (1,058,643)

(1) The National Association of Real Estate Investment Trusts (NAREIT) defines funds from operations (FFO) (April 2002 White Paper) as net income (computed in accordance with accounting principles generally accepted in the United States (GAAP)), excluding gains (or losses) from sales of depreciable property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventureswill be calculated to reflect funds from operations on the same basis. The April 2002 White Paper states that gain or loss on sales of property is excluded from FFO for previously depreciated operating properties only. Once the Company commences the conversion of units to condominiums, it simultaneously discontinues depreciation of such property. FFO available to Common Shares and OP Units is calculated on a basis consistent with net income available to Common Shares and reflects adjustments to net income for preferred distributions and premiums on redemption of preferred shares in accordance with accounting principles generally accepted in the United States. The equity positions of various individuals and entities that contributed their properties to

the Operating Partnership in exchange for OP Units are collectively referred to as the Minority Interests - Operating Partnership . Subject to certain restrictions, the Minority Interests - Operating Partnership may exchange their OP Units for EQR Common Shares on a one-for-one basis. See Item 7 for a reconciliation of net income to FFO and FFO available to Common Shares and OP Units.

(2) The Company believes that FFO and FFO available to Common Shares and OP Units are helpful to investors as supplemental measures of the operating performance of a real estate company, because they are recognized measures of performance by the real estate industry and by excluding gains or losses related to dispositions of depreciable property and excluding real estate depreciation (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO and FFO available to Common Shares and OP Units can help compare the operating performance of a company s real estate between periods or as compared to different companies. FFO and FFO available to Common Shares and OP Units do not represent net income, net income available to Common Shares or net cash flows from operating activities in accordance with GAAP. Therefore, FFO and FFO available to Common Shares and OP Units should not be exclusively considered as alternatives to net income, net income available to Common Shares or net cash flows from operating activities as determined by GAAP or as measures of liquidity. The Company s calculation of FFO and FFO available to Common Shares and OP Units may differ from other real estate companies due to, among other items, variations in cost capitalization policies for capital expenditures and, accordingly, may not be comparable to such other real estate companies.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

The following discussion and analysis of the results of operations and financial condition of the Company should be read in connection with the Consolidated Financial Statements and Notes thereto. Due to the Company s ability to control the Operating Partnership and its subsidiaries other than entities owning interests in the Partially Owned Properties - Unconsolidated and certain other entities in which the Company has investments, the Operating Partnership and each such subsidiary entity has been consolidated with the Company for financial reporting purposes. Capitalized terms used herein and not defined are as defined elsewhere in this Annual Report on Form 10-K for the year ended December 31, 2007.

Forward-looking statements in this Item 7 as well as elsewhere in this Annual Report on Form 10-K are intended to be made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations, estimates, projections and assumptions made by management. While the Company s management believes the assumptions underlying its forward-looking statements are reasonable, such information is inherently subject to uncertainties and may involve certain risks, which could cause actual results, performance, or achievements of the Company to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Many of these uncertainties and risks are difficult to predict and beyond management s control. Forward-looking statements are not guarantees of future performance, results or events. The Company assumes no obligation to update or supplement forward-looking statements because of subsequent events. Factors that might cause such differences include, but are not limited to, the following:

- We intend to actively acquire and develop multifamily properties for rental operations and/or conversion into condominiums, as well as upgrade and sell existing properties as individual condominiums. We may underestimate the costs necessary to bring an acquired or development property up to standards established for its intended market position. Additionally, we expect that other major real estate investors with significant capital will compete with us for attractive investment opportunities or may also develop properties in markets where we focus our development efforts. This competition may increase prices for multifamily properties or decrease the price at which we expect to sell individual properties. We may not be in a position or have the opportunity in the future to make suitable property acquisitions on favorable terms. We also plan to develop more properties ourselves in addition to co-investing with our development partners for either the rental or condominium market, depending on opportunities in each sub-market. This may increase the overall level of risk associated with our developments. The total number of development units, cost of development and estimated completion dates are subject to uncertainties arising from changing economic conditions (such as the cost of labor and construction materials), competition and local government regulation;

- Sources of capital to the Company or labor and materials required for maintenance, repair, capital expenditure or development are more expensive than anticipated;

- Occupancy levels and market rents may be adversely affected by national and local economic and market conditions including, without limitation, new construction of multifamily housing, slow employment growth, availability of low interest mortgages for single-family home buyers and the potential for geopolitical instability, all of which are beyond the Company s control; and

- Additional factors as discussed in Part I of this Annual Report on Form 10-K, particularly those under Risk Factors .

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The Company undertakes no obligation to publicly release any revisions to these forward-looking statements, which may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. Forward-looking statements and related uncertainties are also included in Notes 5 and 11 in the Notes to Consolidated Financial Statements in this report.

Results of Operations

In conjunction with our business objectives and operating strategy, the Company has continued to invest or recycle its capital investment in apartment properties located in strategically targeted markets during the years ended December 31, 2007 and December 31, 2006. In summary, we:

Year Ended December 31, 2007:

- Acquired $1.7 billion of apartment properties consisting of 36 properties and 8,167 units, and $212.8 million of land parcels, all of which we deem to be in our strategic targeted markets; and

- Sold $1.9 billion of apartment properties consisting of 73 properties and 21,563 units, as well as 617 condominium units for $164.2 million and $50.0 million of land parcels.

Year Ended December 31, 2006:

- Acquired $1.8 billion of apartment properties consisting of 35 properties and 8,768 units, and $134.4 million of land parcels, all of which we deem to be in our strategic targeted markets; and

- Sold $2.3 billion of apartment properties consisting of 335 properties and 39,608 units, as well as 1,069 condominium units for $216.0 million and $1.6 million of land parcels.

On June 28, 2006, the Company announced that it agreed to sell its Lexford Housing Division for a cash purchase price of $1.086 billion. The sale closed on October 5, 2006. The Lexford Housing Division results are classified as discontinued operations, net of minority interests, in the consolidated statements of operations for all periods presented. The Company recorded a gain on sale of approximately $418.7 million on the sale of the Lexford Housing Division in the fourth quarter of 2006. In conjunction with the Lexford disposition, the Company paid off/extinguished $196.3 million of mortgage notes payable secured by the properties and incurred approximately $9.2 million in prepayment penalties upon extinguishment.

The Company s primary financial measure for evaluating each of its apartment communities is net operating income (NOI). NOI represents rental income less property and maintenance expense, real estate tax and insurance expense and property management expense. The Company believes that NOI is helpful to investors as a supplemental measure of the operating performance of a real estate company because it is a direct measure of the actual operating results of the Company s apartment communities.

Properties that the Company owned for all of both 2007 and 2006 (the 2007 Same Store Properties), which represented 115,857 units, impacted the Company s results of operations. Properties that the Company owned for all of both 2006 and 2005 (the 2006 Same Store Properties), which represented 128,133 units, also impacted the Company s results of operations. Both the 2007 Same Store Properties and 2006 Same Store Properties are discussed in the following paragraphs.

The Company s acquisition, disposition, completed development and consolidation of previously unconsolidated property activities also impacted overall results of operations for the years ended December 31, 2007 and 2006. The impacts of these activities are also discussed in greater detail in the following paragraphs.

Comparison of the year ended December 31, 2007 to the year ended December 31, 2006

For the year ended December 31, 2007, income from continuing operations, net of minority interests, increased by approximately $41.1 million when compared to the year ended December 31, 2006. The increase in continuing operations is discussed below.

Revenues from the 2007 Same Store Properties increased $67.2 million primarily as a result of higher rental rates charged to residents. Expenses from the 2007 Same Store Properties increased $12.6 million primarily due to higher payroll, building, utility costs, insurance and real estate taxes. The following tables provide comparative same store results and statistics for the 2007 Same Store Properties:

2007 vs. 2006
Year over Year Same Store Results/Statistics
$ in Thousands (except for Average Rental Rate) 115,857 Same Store Units

	Results			Statistics		
Description	**Revenues**	**Expenses**	**NOI**	**Average Rental Rate (1)**	**Occupancy**	**Turnover**
2007	$ 1,643,513	$ 607,691	$ 1,035,822	$ 1,250	94.7%	63.3%
2006	$ 1,576,322	$ 595,074	$ 981,248	$ 1,199	94.7%	64.9%
Change	$ 67,191	$ 12,617	$ 54,574	$ 51	0.0%	(1.6%)
Change	4.3%	2.1%	5.6%	4.3%		

(1) Average rental rate is defined as total rental revenues divided by the weighted average occupied units for the period.

The following table presents a reconciliation of operating income per the consolidated statements of operations to NOI for the 2007 Same Store Properties.

	Year Ended December 31,	
	2007	**2006**
	(Amounts in thousands)	

Operating income	$	565,817	$	452,956
Adjustments:				
Non-same store operating results		(167,579)		(61,520)
Fee and asset management revenue		(9,183)		(9,101)
Fee and asset management expense		8,412		8,934
Depreciation		587,647		507,508
General and administrative		49,290		48,469
Impairment		1,418		34,002
Same store NOI	$	1,035,822	$	981,248

For properties that the Company acquired prior to January 1, 2007 and expects to continue to own through December 31, 2008, the Company anticipates the following same store results for the full year ending December 31, 2008:

2008 Same Store Assumptions	
Physical Occupancy	94.5%
Revenue Change	3.00% to 4.00%
Expense Change	2.50% to 3.25%
NOI Change	3.00% to 4.75%

These 2008 assumptions are based on current expectations and are forward-looking.

Non-same store operating results increased $106.1 million and consist primarily of properties acquired in calendar years 2007 and 2006 as well as operations from completed development properties and our corporate housing business.

See also Note 20 in the Notes to Consolidated Financial Statements for additional discussion regarding the Company s segment disclosures.

Fee and asset management revenues, net of fee and asset management expenses, increased $0.6 million primarily as a result of an increase in property management fees from unconsolidated entities along with a decrease in asset management expenses from managing fewer properties for third parties and unconsolidated entities. As of December 31, 2007 and 2006, the Company managed 14,472 units and 15,020 units, respectively, primarily for unconsolidated entities and our military housing venture at Fort Lewis.

Property management expenses from continuing operations include off-site expenses associated with the self-management of the Company s properties as well as management fees paid to any third party management companies. These expenses decreased by approximately $8.8 million or 9.1%. This decrease is primarily attributable to lower overall payroll costs, various reserve adjustments for workers compensation and medical costs and lower training costs associated with the completion of a majority of the rollout of a new property management system, partially offset by higher legal and professional fees.

Depreciation expense from continuing operations, which includes depreciation on non-real estate assets, increased $80.1 million primarily as a result of additional depreciation expense on newly acquired properties and capital expenditures for all properties owned.

General and administrative expenses from continuing operations, which include corporate operating expenses, increased approximately $0.8 million between the periods under comparison. This increase was primarily due to an increase in restricted share expense and severance costs associated with the resignation of two of the Company s executives as well as less expense recovery related to a certain lawsuit in Florida (see Note 21), partially offset by a decrease in profit sharing and state and franchise taxes. The Company anticipates that general and administrative expenses will approximate $48.0 million to $50.0 million for the year ending December 31, 2008. The above assumption is based on current expectations and is forward-looking.

Impairment from continuing operations decreased $32.6 million primarily due to an impairment charge on goodwill of $30.0 million taken in 2006 related to the corporate housing business. In addition, in 2006 the Company wrote-off $2.0 million of various deferred sales costs following the decision to halt the condominium conversion and sale process at five assets.

Interest and other income from continuing operations decreased approximately $10.8 million primarily as a result of $14.7 million of forfeited deposits for various terminated transactions along with $3.7 million in proceeds from eBay s acquisition of Rent.com received during the year ended December 31, 2006. This was partially offset by $4.1 million received in 2007 for insurance litigation settlement proceeds, a $2.7 million increase in interest earned on 1031 exchange and earnest money deposits and a $0.7 million increase in interest earned on short-term investments. The Company anticipates that interest and other income will approximate $5.0 million to $10.0 million for the year ending December 31, 2008. The above assumption is based on current expectations and is forward-looking.

Interest expense from continuing operations, including amortization of deferred financing costs, increased approximately $67.4 million primarily as a result of higher overall debt levels outstanding due to the Company s share repurchase activity as well as the timing of acquisitions and dispositions, partially offset by lower overall effective interest rates. During the year ended December 31, 2007, the Company capitalized interest costs of approximately $45.1 million as compared to $20.7 million for the year ended December 31, 2006. This capitalization of interest primarily relates to consolidated projects under development. The effective interest cost on all indebtedness for the year ended December 31, 2007 was 5.96% as compared to 6.21% for the year ended December 31, 2006. The Company anticipates that interest expense (including discontinued operations) will approximate $470.0 million to $490.0 million for the year ending December 31, 2008. The above assumption is based on current expectations and is forward-looking.

Income from investments in unconsolidated entities increased approximately $1.0 million between the periods under comparison. This increase is primarily due to the sale of the Company s 7.075% ownership interest in Wellsford Park Highlands Corporation, an entity which owns a condominium development in Denver, Colorado and profit participation received from the sale of condominium units at a development project that was sold in 2003.

Net gain on sales of unconsolidated entities increased $2.3 million primarily as a result of a $2.6 million gain on the sale of an unconsolidated institutional joint venture property during the year ended December 31, 2007.

Net gain on sales of land parcels increased $3.6 million primarily as a result of higher net gains realized in 2007 on the sales of land parcels compared to the net gains realized in 2006.

Discontinued operations, net of minority interests, decreased approximately $124.3 million between the periods under comparison. This decrease is primarily due to a significant decrease in the number of properties sold during the year ended December 31, 2007 compared to the same period in 2006, as well as the mix of properties sold in each year. See Note 13 in the Notes to Consolidated Financial Statements for further discussion.

Comparison of the year ended December 31, 2006 to the year ended December 31, 2005

For the year ended December 31, 2006, income from continuing operations, net of minority interests, decreased by approximately $54.6 million when compared to the year ended December 31, 2005. The decrease in continuing operations is discussed below.

Revenues from the 2006 Same Store Properties increased $88.7 million primarily as a result of higher rental rates charged to residents. Expenses from the 2006 Same Store Properties increased $23.9 million primarily due to higher maintenance, payroll, utility costs and real estate taxes. The following tables provide comparative same store results and statistics for the 2006 Same Store Properties:

2006 vs. 2005
Year over Year Same Store Results/Statistics
$ in Thousands (except for Average Rental Rate) 128,133 Same Store Units

	Results			Statistics		
Description	Revenues	Expenses	NOI	Average Rental Rate (1)	Occupancy	Turnover
2006	$ 1,612,529	$ 628,210	$ 984,319	$ 1,110	94.6%	(64.6%)
2005	$ 1,523,858	$ 604,318	$ 919,540	$ 1,050	94.6%	(65.5%)
Change	$ 88,671	$ 23,892	$ 64,779	$ 60	0.0%	0.9%
Change	5.8%	4.0%	7.0%	5.7%		

(1) Average rental rate is defined as total rental revenues divided by the weighted average occupied units for the period.

Non-same store operating results increased $151.0 million and consist primarily of properties acquired in calendar years 2006 and 2005 as well as our corporate housing business.

See also Note 20 in the Notes to Consolidated Financial Statements for additional discussion regarding the Company s segment disclosures.

Fee and asset management revenues, net of fee and asset management expenses decreased $1.5 million primarily as a result of lower income earned from managing fewer properties for third parties and unconsolidated entities. As of December 31, 2006 and 2005, the Company managed 15,020 units and 16,269 units, respectively, primarily for unconsolidated entities and our military housing venture at Fort Lewis.

Property management expenses from continuing operations include off-site expenses associated with the self-management of the Company s properties as well as management fees paid to any third party management companies. These expenses increased by approximately $9.3 million or 10.7%. This increase is primarily attributable to higher overall payroll costs and higher overall computer and training costs specific to the Company s rollout of a new property management system.

Depreciation expense from continuing operations, which includes depreciation on non-real estate assets, increased $119.4 million primarily as a result of additional depreciation expense on newly acquired properties and capital expenditures for all properties owned.

General and administrative expenses from continuing operations, which include corporate operating expenses, decreased approximately $21.9 million between the periods under comparison. This decrease was primarily due to lower executive compensation expense due to severance costs for several executive officers incurred during the year ended December 31, 2005 and a $2.8 million reimbursement of legal expenses during the year ended December 31, 2006.

Impairment from continuing operations increased $33.4 million primarily due to an impairment charge on goodwill of $30.0 million related to the corporate housing business and $2.0 million related to the write-off of various deferred sales costs following the decision to halt the condominium conversion and sale process at five assets.

Interest and other income from continuing operations decreased by approximately $37.4 million, primarily as a result of the $57.1 million in cash received during the year ended December 31, 2005 for the Company s ownership interest in Rent.com, which was acquired by eBay, Inc. This was partially offset by the $3.7 million in additional proceeds for Rent.com, an increase in interest earned on tax deferred 1031 exchange proceeds from the Lexford disposition and $14.7 million of forfeited deposits for various terminated transactions received during the year ended December 31, 2006.

Interest expense from continuing operations, including amortization of deferred financing costs, increased approximately $67.9 million primarily as a result of higher variable interest rates and overall debt levels outstanding. During the year ended December 31, 2006, the Company capitalized interest costs of approximately $20.7 million as compared to $13.7 million for the year ended December 31, 2005. This capitalization of interest primarily relates to consolidated projects under development. The effective interest cost on all indebtedness for the year ended December 31, 2006 was 6.21% as compared to 6.16% for the year ended December 31, 2005.

Loss from investments in unconsolidated entities increased approximately $1.1 million between the periods under comparison. This increase is primarily the result of consolidating previously unconsolidated properties as of January 1, 2006 as the result of EITF Issue No. 04-5.

Net gain on sales of unconsolidated entities decreased $1.0 million due to increased unconsolidated sales during the year ended December 31, 2005.

Net gain on sales of land parcels decreased $27.5 million due to a large gain recorded on the sale of one land parcel during the year ended December 31, 2005.

Discontinued operations, net of minority interests, increased approximately $265.6 million between the periods under comparison. This increase is primarily the result of lower real estate net book values for properties sold during the year ended December 31, 2006 as compared to the same period in 2005. See Note 13 in the Notes to Consolidated Financial Statements for further discussion.

Liquidity and Capital Resources

For the Year Ended December 31, 2007

As of January 1, 2007, the Company had approximately $260.3 million of cash and cash equivalents and $470.7 million available under its revolving credit facilities (net of $69.3 million which was restricted/dedicated to support letters of credit and not available for borrowing). After taking into effect the various transactions discussed in the following paragraphs and the net cash provided by operating activities, the Company s cash and cash equivalents balance at December 31, 2007 was approximately $50.8 million and the amount available on the Company s revolving credit facilities was $1.3 billion (net of $80.8 million which was restricted/dedicated to support letters of credit and not available for borrowing).

During the year ended December 31, 2007, the Company generated proceeds from various transactions, which included the following:

- Disposed of 78 properties, various individual condominium units and two land parcels, receiving net proceeds of approximately $2.0 billion;
- Obtained $346.1 million in net proceeds from the issuance of $350.0 million of five-year 5.50% fixed rate public notes;
- Obtained $640.6 million in net proceeds from the issuance of $650.0 million of ten-year 5.75% fixed rate public notes and terminated five forward starting swaps designated to hedge the note issuance, receiving net proceeds of $2.4 million;
- Obtained a three-year (subject to two one-year extension options) $500.0 million floating rate term loan at LIBOR plus a spread (currently 42.5 basis points) dependent upon the current credit rating on the Operating Partnership s long-term unsecured debt;
- Obtained $827.8 million in new mortgage financing; and
- Issued approximately 1.2 million Common Shares and received net proceeds of $35.9 million.

During the year ended December 31, 2007, the above proceeds were primarily utilized to:

- Invest $480.2 million primarily in development projects;

- Acquire 36 properties and eight land parcels, utilizing cash of $1.7 billion;
- Repurchase 27.5 million Common Shares utilizing cash of $1.2 billion;
- Repay $548.0 million of mortgage loans;
- Repay $150.0 million of fixed rate public notes; and
- Redeem the Series D Preferred Shares at a liquidation value of $175.0 million.

Depending on its analysis of market prices, economic conditions, and other opportunities for the investment of available capital, the Company may repurchase its Common Shares pursuant to its existing share buyback program authorized by the Board of Trustees. On April 27, May 24 and December 3, 2007, the Board of Trustees approved an increase of $200.1 million, an additional $500.0 million and an additional $500.0 million, respectively, to the Company s authorized share repurchase program. As of December 31, 2007 and after giving effect to the above increases, the Company had authorization to repurchase an additional $475.6 million of its shares. The Company repurchased $1.2 billion (27,484,346 shares at an average price per share of $44.62) of its Common Shares during the year ended December 31, 2007. See Note 3 in the Notes to Consolidated Financial Statements for further discussion.

The Company s total debt summary and debt maturity schedules as of December 31, 2007, are as follows:

Debt Summary as of December 31, 2007

(Amounts in thousands)

		Amounts (1)	% of Total	Weighted Average Rates (1)	Weighted Average Maturities (years)
Secured	$	3,605,971	37.9%	5.74%	7.6
Unsecured		5,902,762	62.1%	5.67%	6.2
Total	$	9,508,733	100.0%	5.69%	6.7
Fixed Rate Debt:					
Secured Conventional	$	2,475,279	26.0%	6.15%	4.8
Unsecured Public/Private		5,002,664	52.6%	5.65%	6.5
Unsecured Tax Exempt		111,390	1.2%	5.05%	21.3
Fixed Rate Debt		7,589,333	79.8%	5.80%	6.1
Floating Rate Debt:					
Secured Conventional		492,138	5.2%	6.26%	5.5
Secured Tax Exempt		638,554	6.7%	3.81%	20.6
Unsecured Public/Private		649,708	6.8%	6.15%	2.5
Unsecured Revolving Credit Facility		139,000	1.5%	5.68%	4.1
Floating Rate Debt		1,919,400	20.2%	5.31%	9.1
Total	$	9,508,733	100.0%	5.69%	6.7

(1) Net of the effect of any derivative instruments. Weighted average rates are for the year ended December 31, 2007.

Debt Maturity Schedule as of December 31, 2007

(Amounts in thousands)

Year	Fixed Rate (1)	Floating Rate (1)	Total	% of Total	Weighted Average Rates on Fixed Rate Debt (1)	Weighted Average Rates on Total Debt (1)
2008	$ 457,610	$ 83,391	$ 541,001	5.7%	6.65%	6.54%
2009	458,326	457,432	915,758	9.6%	6.35%	5.47%
2010 (2)	280,414	550,982	831,396	8.7%	7.04%	6.07%
2011 (3)	1,503,562	41,537	1,545,099	16.3%	5.56%	5.54%
2012 (4)	907,986	139,000	1,046,986	11.0%	6.08%	5.92%
2013	566,267		566,267	6.0%	5.93%	5.93%
2014	517,445		517,445	5.4%	5.28%	5.28%
2015	355,587		355,587	3.7%	6.41%	6.41%
2016	1,089,320		1,089,320	11.5%	5.32%	5.32%
2017	803,649	456	804,105	8.5%	6.01%	6.01%
2018+	649,167	646,602	1,295,769	13.6%	6.20%	5.38%
Total	$ 7,589,333	$ 1,919,400	$ 9,508,733	100.0%	5.91%	5.71%

(1) Net of the effect of any derivative instruments. Weighted average rates are as of December 31, 2007.

(2) Includes the Company s $500.0 million floating rate term loan facility, which matures on October 5, 2010, subject to two one-year extension options exercisable by the Company.

(3) Includes $650.0 million of 3.85% convertible unsecured debt with a final maturity of 2026. The notes are callable by the Company on or after August 18, 2011. The notes are putable by the holders on August 18, 2011, August 15, 2016 and August 15, 2021.

(4) Includes $139.0 million outstanding on the Company s $1.5 billion unsecured revolving credit facility, which matures on February 28, 2012.

The following table provides a summary of the Company s unsecured debt as of December 31, 2007:

Unsecured Debt Summary as of December 31, 2007

(Amounts in thousands)

	Coupon Rate	Due Date	Face Amount	Unamortized Premium/ (Discount)	Net Balance
Fixed Rate Notes:					
	7.500%	08/15/08(1)	$ 130,000	$	$ 130,000
	4.750%	06/15/09(2)	300,000	(400)	299,600
	6.950%	03/02/11	300,000	2,864	302,864
	6.625%	03/15/12	400,000	(1,236)	398,764
	5.500%	10/01/12	350,000	(1,640)	348,360
	5.200%	04/01/13	400,000	(622)	399,378
	5.250%	09/15/14	500,000	(412)	499,588
	6.584%	04/13/15	300,000	(809)	299,191
	5.125%	03/15/16	500,000	(439)	499,561
	5.375%	08/01/16	400,000	(1,592)	398,408
	5.750%	06/15/17	650,000	(4,832)	645,168
	7.125%	10/15/17	150,000	(635)	149,365
	7.570%	08/15/26	140,000		140,000
	3.850%	08/15/26(3)	650,000	(7,583)	642,417
Floating Rate Adjustments		(2)	(150,000)		(150,000)
			5,020,000	(17,336)	5,002,664
Fixed Rate Tax Exempt Notes:					
	4.750%	12/15/28(1)	35,600		35,600
	5.200%	06/15/29(1)	75,790		75,790
			111,390		111,390
Floating Rate Notes:					
		06/15/09(2)	150,000		150,000
FAS 133 Adjustments net		(2)	(292)		(292)
Term Loan Facility		10/05/10(4)	500,000		500,000
			649,708		649,708
Revolving Credit Facility:		02/28/12(5)	139,000		139,000
Total Unsecured Debt			$ 5,920,098	$ (17,336)	$ 5,902,762

(1) Notes are private. All other unsecured debt is public.

(2) $150.0 million in fair value interest rate swaps converts 50% of the 4.750% Notes due June 15, 2009 to a floating interest rate.

(3) Convertible notes mature on August 15, 2026. The notes are callable by the Company on or after August 18, 2011. The notes are putable by the holders on August 18, 2011, August 15, 2016 and August 15, 2021.

(4) Represents the Company s $500.0 million term loan facility, which matures on October 5, 2010, subject to two one-year extension options exercisable by the Company.

(5) Represents amount outstanding on the Company s $15 billion unsecured revolving credit facility which matures on February 28, 2012.

As of February 27, 2008, an unlimited amount of debt securities remains available for issuance by the Operating Partnership under a registration statement that became automatically effective upon filing with the SEC in June 2006 (under SEC regulations enacted in 2005, the registration statement automatically expires on

June 29, 2009 and does not contain a maximum issuance amount). As of February 27, 2008, $956.5 million in equity securities remains available for issuance by the Company under a registration statement the SEC declared effective in February 1998.

The Company s Consolidated Debt-to-Total Market Capitalization Ratio as of December 31, 2007 is presented in the following table. The Company calculates the equity component of its market capitalization as the sum of (i) the total outstanding Common Shares and assumed conversion of all OP Units at the equivalent market value of the closing price of the Company s Common Shares on the New York Stock Exchange; (ii) the Common Share Equivalent of all convertible preferred shares and preference interests/units; and (iii) the liquidation value of all perpetual preferred shares outstanding.

Capital Structure as of December 31, 2007

(Amounts in thousands except for share and per share amounts)

Secured Debt				$ 3,605,971	37.9%	
Unsecured Debt				5,763,762	60.6%	
Revolving Credit Facility				139,000	1.5%	
Total Debt				**9,508,733**	**100.0%**	**47.0%**
Common Shares		269,554,661	93.6 %			
OP Units		18,420,320	6.4 %			
Total Shares and OP Units		287,974,981	100.0 %			
Common Share Equivalents (see below)		445,752				
Total outstanding at quarter-end		288,420,733				
Common Share Price at December 31, 2007	$	36.47				
				10,518,704	98.1%	
Perpetual Preferred Equity (see below)				200,000	1.9%	
Total Equity				**10,718,704**	**100.0%**	**53.0%**
Total Market Capitalization				**$ 20,227,437**		**100.0%**

Convertible Preferred Equity as of December 31, 2007

(Amounts in thousands except for share and per share amounts)

Series	**Redemption Date**	**Outstanding Shares/Units**	**Liquidation Value**	**Annual Dividend Per Share/Unit**	**Annual Dividend Amount**	**Weighted Average Rate**	**Conversion Ratio**	**Common Share Equivalents**
Preferred Shares:								
7.00% Series E	11/1/98	362,116	$ 9,053	$ 1.75	$ 634		1.1128	402,963
7.00% Series H	6/30/98	24,359	609	1.75	43		1.4480	35,272
Junior Preference Units:								
8.00% Series B	7/29/09	7,367	184	2.00	15		1.020408	7,517
Total Convertible Preferred Equity		393,842	$ 9,846		$ 692	7.03%		445,752

Perpetual Preferred Equity as of December 31, 2007

(Amounts in thousands except for share and per share amounts)

Series	Redemption Date	Outstanding Shares		Liquidation Value		Annual Dividend Per Share		Annual Dividend Amount	Weighted Average Rate
Preferred Shares:									
8.29% Series K	12/10/26	1,000,000	$	50,000	$	4.145	$	4,145	
6.48% Series N	6/19/08	600,000		150,000		16.20		9,720	
Total Perpetual Preferred Equity		1,600,000	$	200,000			$	13,865	6.93%

The Company expects to meet its short-term liquidity requirements, including capital expenditures related to maintaining its existing properties and certain scheduled unsecured note and mortgage note repayments, generally through its working capital, net cash provided by operating activities and borrowings under its revolving credit facilities. The Company considers its cash provided by operating activities to be adequate to meet operating requirements and payments of distributions. The Company also expects to meet its long-term liquidity requirements, such as scheduled unsecured note and mortgage debt maturities, property acquisitions, financing of construction and development activities and capital improvements through the issuance of unsecured notes and equity securities, including additional OP Units, and proceeds received from the disposition of certain properties as well as joint ventures. In addition, the Company has significant unencumbered properties available to secure additional mortgage borrowings in the event that the public capital markets are unavailable or the cost of alternative sources of capital is too high. The fair value of and cash flow from these unencumbered properties are in excess of the requirements the Company must maintain in order to comply with covenants under its unsecured notes and line of credit. Of the $18.3 billion in investment in real estate on the Company s balance sheet at December 31, 2007, $12.0 billion or 65.5%, was unencumbered.

The Operating Partnership s senior debt credit ratings from Standard & Poors (S&P), Moody s and Fitch are A-, Baal and A-, respectively. The Company s preferred equity ratings from S&P, Moody s and Fitch are BBB+, Baa2 and BBB+, respectively.

The Operating Partnership has a long-term revolving credit facility with potential borrowings of up to $1.5 billion which matures in February 2012. This facility may, among other potential uses, be used to fund property acquisitions, costs for certain properties under development and short term liquidity requirements. As of February 25, 2008, $40.0 million was outstanding under this facility.

See Note 21 in the Notes to Consolidated Financial Statements for discussion of the events which occurred subsequent to December 31, 2007.

Capitalization of Fixed Assets and Improvements to Real Estate

Our policy with respect to capital expenditures is generally to capitalize expenditures that improve the value of the property or extend the useful life of the component asset of the property. We track improvements to real estate in two major categories and several subcategories:

- Replacements *(inside the unit)*. These include:
- flooring such as carpets, hardwood, vinyl, linoleum or tile;
- appliances;
- mechanical equipment such as individual furnace/air units, hot water heaters, etc;
- furniture and fixtures such as kitchen/bath cabinets, light fixtures, ceiling fans, sinks, tubs, toilets, mirrors, countertops, etc; and
- blinds/shades.

All replacements are depreciated over a five-year estimated useful life. We expense as incurred all make-ready maintenance and turnover costs such as cleaning, interior painting of individual units and the repair of any replacement item noted above.

- Building improvements (*outside the unit*). These include:
- roof replacement and major repairs;
- paving or major resurfacing of parking lots, curbs and sidewalks;
- amenities and common areas such as pools, exterior sports and playground equipment, lobbies, clubhouses, laundry rooms, alarm and security systems and offices;
- major building mechanical equipment systems;
- interior and exterior structural repair and exterior painting and siding;
- major landscaping and grounds improvement; and
- vehicles and office and maintenance equipment.

All building improvements are depreciated over a five to ten-year estimated useful life. We capitalize building improvements and upgrades only if the item: (i) exceeds $2,500 (selected projects must exceed $10,000); (ii) extends the useful life of the asset; and (iii) improves the value of the asset.

For the year ended December 31, 2007, our actual improvements to real estate totaled approximately $252.7 million. This includes the following (amounts in thousands except for unit and per unit amounts):

Capitalized Improvements to Real Estate

For the Year Ended December 31, 2007

	Total Units (1)	Replacements	Avg. Per Unit	Building Improvements	Avg. Per Unit	Total	Avg. Per Unit
Established Properties (2)	103,560	$ 37,695	$ 364	$ 77,109	$ 745	$ 114,804	$ 1,109
New Acquisition Properties (3)	27,696	9,433	371	66,182	2,605	75,615	2,976
Other (4)	7,388	16,398		45,858		62,256	
Total	138,644	$ 63,526		$ 189,149		$ 252,675	

(1) Total units exclude 10,446 unconsolidated units and 3,731 military housing (fee managed) units.

(2) Wholly Owned Properties acquired prior to January 1, 2005.

(3) Wholly Owned Properties acquired during 2005, 2006 and 2007. Per unit amounts are based on a weighted average of 25,406 units.

(4) Includes properties either partially owned or sold during the period, commercial space, corporate housing, condominium conversions and $22.2 million included in building improvements spent on twenty-six specific assets related to major renovations and repositioning of these assets.

For the year ended December 31, 2006, our actual improvements to real estate totaled approximately $255.2 million. This includes the following (amounts in thousands except for unit and per unit amounts):

Capitalized Improvements to Real Estate

For the Year Ended December 31, 2006

	Total Units (1)	Replacements	Avg. Per Unit	Building Improvements	Avg. Per Unit	Total	Avg. Per Unit
Established Properties (2)	115,152	**$ 46,094**	$ 400	$ 81,127	$ 705	$ 127,221	$ 1,105
New Acquisition Properties (3)	29,512	9,194	336	35,854	1,311	45,048	1,647
Other (4)	6,651	30,384		52,527		82,911	
Total	151,315	$ 85,672		$ 169,508		$ 255,180	

(1) Total units exclude 10,846 unconsolidated units and 3,555 military housing (fee managed) units.

(2) Wholly Owned Properties acquired prior to January 1, 2004.

(3) Wholly Owned Properties acquired during 2004, 2005 and 2006. Per unit amounts are based on a weighted average of 27,346 units.

(4) Includes properties either Partially Owned or sold during the period, commercial space, condominium conversions and $21.4 million included in building improvements spent on seventeen specific assets related to major renovations and repositioning of these assets.

The Company expects to fund approximately $104.0 million for capital expenditures for replacements and building improvements for all established properties, exclusive of condominium conversion properties, in 2008. This includes an average of approximately $1,000 per unit for capital improvements for established properties.

During the year ended December 31, 2007, the Company s total non-real estate capital additions, such as computer software, computer equipment, and furniture and fixtures and leasehold improvements to the Company s property management offices and its corporate offices, were approximately $7.7 million. The Company expects to fund approximately $3.7 million in total additions to non-real estate property in 2008.

Improvements to real estate and additions to non-real estate property are generally funded from net cash provided by operating activities.

Derivative Instruments

In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company limits 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 has a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, the Company has not sustained a material loss from those instruments nor does it anticipate any material adverse effect on its net income or financial position in the future from the use of derivatives.

See Note 11 in the Notes to Consolidated Financial Statements for additional discussion of derivative instruments at December 31, 2007.

Other

Minority Interests as of December 31, 2007 decreased by $53.4 million when compared to December 31, 2006, primarily as a result of the following:

- Distributions declared to Minority Interests, which amounted to $35.2 million (excluding Junior Preference Unit and Preference Interest distributions);
- The allocation of income from operations to holders of OP Units in the amount of $65.2 million;
- The conversion of 230,000 Series J Preference Interests with a liquidation value of $11.5 million into Common Shares; and
- The conversion of 1.5 million OP Units into Common Shares valued at $32.4 million.

Total distributions paid in January 2008 amounted to $141.6 million (excluding distributions on Partially Owned Properties), which included certain distributions declared during the fourth quarter ended December 31, 2007.

Off-Balance Sheet Arrangements and Contractual Obligations

The Company has co-invested in various properties that are unconsolidated and accounted for under the equity method of accounting. Management does not believe these investments have a materially different impact upon the Company s liquidity, cash flows, capital resources, credit or market risk than its property management and ownership activities. During 2000 and 2001, the Company entered into institutional ventures with an unaffiliated partner. At the respective closing dates, the Company sold and/or contributed 45 properties containing 10,846 units to these ventures and retained a 25% ownership interest in the ventures. The Company s joint venture partner contributed cash equal to 75% of the agreed-upon equity value of the properties comprising the ventures, which was then distributed to the Company. The Company s strategy with respect to these ventures was to reduce its concentration of properties in a variety of markets. See also Note 4 in the Notes to Consolidated Financial Statements for additional discussion regarding the sale of one of these properties containing 400 units.

As of December 31, 2007, the Company has 13 projects totaling 4,185 units in various stages of development with estimated completion dates ranging through June 30, 2010. The development agreements currently in place are discussed in detail in Note 18 of the Company s Consolidated Financial Statements.

See also Notes 2 and 6 in the Notes to Consolidated Financial Statements for additional discussion regarding the Company s investments in partially owned entities.

The following table summarizes the Company s contractual obligations for the next five years and thereafter as of December 31, 2007:

	Payments Due by Year (in thousands)						
Contractual Obligations	**2008**	**2009**	**2010**	**2011**	**2012**	**Thereafter**	**Total**
Debt (a)	$ 541,001	$ 915,758	$ 831,396	$ 1,545,099	$ 1,046,986	$ 4,628,493	$ 9,508,733
Operating Leases:							
Minimum Rent Payments (b)	6,491	5,733	5,154	3,356	987	59,259	80,980
Other Long-Term Liabilities:							
Deferred Compensation (c)	813	1,454	1,454	2,058	2,058	12,810	20,647
Total	$ 548,305	$ 922,945	$ 838,004	$ 1,550,513	$ 1,050,031	$ 4,700,562	$ 9,610,360

(a) Amounts include aggregate principal payments only. The Company paid $502,807, $465,388 and $397,886 for interest on debt, inclusive of derivative instruments, for the years ended December 31, 2007, 2006 and 2005, respectively.

(b) Minimum basic rent due for various office space the Company leases and fixed base rent due on ground leases for two properties.

(c) Estimated payments to the Company s Chairman, two former CEO s and its former chief operating officer based on planned retirement dates.

Critical Accounting Policies and Estimates

The Company s significant accounting policies are described in Note 2 in the Notes to Consolidated Financial Statements. These policies were followed in preparing the consolidated financial statements at and for the year ended December 31, 2007 and are consistent with the year ended December 31, 2006.

The Company has identified six significant accounting policies as critical accounting policies. These critical accounting policies are those that have the most impact on the reporting of our financial condition and those requiring significant judgments and estimates. With respect to these critical accounting policies, management believes that the application of judgments and estimates is consistently applied and produces financial information that fairly presents the results of operations for all periods presented. The six critical accounting policies are:

Impairment of Long-Lived Assets, Including Goodwill

The Company periodically evaluates its long-lived assets, including its investments in real estate and goodwill, for indicators of permanent impairment. The judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions, expected holding period of each asset and legal and environmental concerns. Future events could occur which would cause the Company to conclude that impairment indicators exist and an impairment loss is warranted.

Depreciation of Investment in Real Estate

The Company depreciates the building component of its investment in real estate over a 30-year estimated useful life, building improvements over a 5-year to 10-year estimated useful life and both the furniture, fixtures and equipment and replacements components over a 5-year estimated useful life, all of which are judgmental determinations.

Cost Capitalization

See the *Capitalization of Fixed Assets and Improvements to Real Estate* section for discussion of the policy with respect to capitalization vs. expensing of fixed asset/repair and maintenance costs. In addition, the Company capitalizes the payroll and associated costs of employees directly responsible for and who spend all of their time on the supervision of major capital and/or renovation projects. These costs are reflected on the balance sheet as an increase to depreciable property.

The Company follows the guidance in SFAS No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, for all development projects and uses its professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. The Company capitalizes interest, real estate taxes and insurance and payroll and associated costs for those individuals directly responsible for and who spend all of their time on development activities, with capitalization ceasing no later than 90 days following issuance of the certificate of occupancy. These costs are reflected on the balance sheet as construction in progress for each specific property. The Company expenses as incurred all payroll costs of on-site employees working directly at our properties, except as noted above on our development properties prior to certificate of occupancy issuance and on specific major renovation at selected properties when additional incremental employees are hired.

Fair Value of Financial Instruments, Including Derivative Instruments

The valuation of financial instruments under SFAS No. 107 and SFAS No. 133 and its amendments (SFAS Nos. 137/138/149) 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.

Revenue Recognition

Rental income attributable to leases is recorded when due from residents and is recognized monthly as it is earned, which is not materially different than on a straight-line basis. Leases entered into between a resident and a property for the rental of an apartment unit are generally year-to-year, renewable upon consent of both parties on an annual or monthly basis. Fee and asset management revenue and interest income are recorded on an accrual basis.

Share-Based Compensation

The Company accounts for its share-based compensation in accordance with SFAS No. 123 (R), *Share-Based Payment*, effective January 1, 2006, which results in compensation expense being recorded based on the fair value of the share compensation granted.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. This model is only one method of valuing options and the Company s use of this model should not be interpreted as an endorsement of its accuracy. Because the Company s share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its share options and the actual value of the options may be significantly different.

Funds From Operations

For the year ended December 31, 2007, Funds From Operations (FFO) available to Common Shares and OP Units increased $7.3 million, or 1.0%, as compared to the year ended December 31, 2006. For the year ended December 31, 2006, FFO available to Common Shares and OP Units decreased $68.5 million, or 8.7%, as compared to the year ended December 31, 2005.

The following is a reconciliation of net income to FFO available to Common Shares and OP Units for each of the five years ended December 31, 2007:

Funds From Operations

(Amounts in thousands)

	Year Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
Net income	$ 989,622	$ 1,072,844	$ 861,793	$ 472,329	$ 523,311
Allocation to Minority Interests Operating Partnership, net	4,369	784	3,842	(638)	(3,371)
Adjustments:					
Depreciation	587,647	507,508	388,061	331,312	275,734
Depreciation Non-real estate additions	(8,279)	(7,840)	(5,541)	(5,303)	(6,774)
Depreciation Partially Owned and Unconsolidated Properties	4,378	4,338	2,487	1,903	19,911
Net gain on sales of unconsolidated entities	(2,629)	(370)	(1,330)	(4,593)	(4,942)
Discontinued operations:					
Depreciation	28,767	85,010	140,686	165,000	195,590
Gain on sales of discontinued operations, net of minority interests	(880,541)	(955,863)	(650,563)	(296,343)	(287,372)
Net incremental gain on sales of condominium units	20,771	48,961	100,361	32,682	10,356
Provision for income taxes Condo sales	7,319	(3,161)	(8,750)	(628)	(76)
Provision for income taxes Non-condo sales	(84)				-
Minority Interests Operating Partnership	1,090	5,010	7,580	9,766	14,695

FFO (1)(2)	752,430	757,221	838,626	705,487	737,062
Preferred distributions	(22,792)	(37,113)	(49,642)	(53,746)	(76,435)
Premium on redemption of Preferred Shares	(6,154)	(3,965)	(4,359)		(20,237)
FFO available to Common Shares and OP Units (1) (2)	$ 723,484	$ 716,143	$ 784,625	$ 651,741	$ 640,390

(1) The National Association of Real Estate Investment Trusts (NAREIT) defines funds from operations (FFO) (April 2002 White Paper) as net income (computed in accordance with accounting principles generally accepted in the United States (GAAP)), excluding gains (or losses) from sales of depreciable property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Adjustments for unconsolidated partnerships and joint ventures will be calculated to reflect funds from operations on the same basis. The April 2002 White Paper states that gain or loss on sales of property is excluded from FFO for previously depreciated operating properties only. Once the Company commences the conversion of units to condominiums, it simultaneously discontinues depreciation of such property. FFO available to Common Shares and OP Units is

calculated on a basis consistent with net income available to Common Shares and reflects adjustments to net income for preferred distributions and premiums on redemption of preferred shares in accordance with accounting principles generally accepted in the United States. The equity positions of various individuals and entities that contributed their properties to the Operating Partnership in exchange for OP Units are collectively referred to as the Minority Interests - Operating Partnership . Subject to certain restrictions, the Minority Interests - Operating Partnership may exchange their OP Units for EQR Common Shares on a one-for-one basis.

(2) The Company believes that FFO and FFO available to Common Shares and OP Units are helpful to investors as supplemental measures of the operating performance of a real estate company, because they are recognized measures of performance by the real estate industry and by excluding gains or losses related to dispositions of depreciable property and excluding real estate depreciation (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO and FFO available to Common Shares and OP Units can help compare the operating performance of a company s real estate between periods or as compared to different companies. FFO and FFO available to Common Shares and OP Units do not represent net income, net income available to Common Shares or net cash flows from operating activities in accordance with GAAP. Therefore, FFO and FFO available to Common Shares and OP Units should not be exclusively considered as alternatives to net income, net income available to Common Shares or net cash flows from operating activities as determined by GAAP or as measures of liquidity. The Company s calculation of FFO and FFO available to Common Shares and OP Units may differ from other real estate companies due to, among other items, variations in cost capitalization policies for capital expenditures and, accordingly, may not be comparable to such other real estate companies.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Market risks relating to the Company s financial instruments result primarily from changes in short-term LIBOR interest rates and changes in the SIFMA index for tax exempt debt. The Company does not have any direct foreign exchange or other significant market risk.

The Company s exposure to market risk for changes in interest rates relates primarily to the unsecured revolving and term credit facilities as well as floating rate tax exempt debt. The Company typically incurs fixed rate debt obligations to finance acquisitions and capital expenditures, while it typically incurs floating rate debt obligations to finance working capital needs and as a temporary measure in advance of securing long-term fixed rate financing. The Company continuously evaluates its level of floating rate debt with respect to total debt and other factors, including its assessment of the current and future economic environment.

The Company also utilizes certain derivative financial instruments to limit market risk. Interest rate protection agreements are used to convert floating rate debt to a fixed rate basis or vice versa. Derivatives are used for hedging purposes rather than speculation. The Company does not enter into financial instruments for trading purposes. See also Note 11 to the Notes to Consolidated Financial Statements for additional discussion of derivative instruments.

The fair values of the Company s financial instruments (including such items in the financial statement captions as cash and cash equivalents, other assets, lines of credit, accounts payable and accrued expenses and other liabilities) approximate their carrying or contract values based on their nature, terms and interest rates that approximate current market rates. The fair value of the Company s mortgage notes payable and unsecured notes were approximately $3.7 billion and $5.6 billion, respectively, at December 31, 2007.

At December 31, 2007, the Company had total outstanding floating rate debt of approximately $1.9 billion, or 20.2% of total debt, net of the effects of any derivative instruments. If market rates of interest on all of the floating rate debt permanently increased by 53 basis points (a 10%

increase from the Company s existing weighted average interest rates), the increase in interest expense on the floating rate debt would decrease future earnings and cash flows by approximately $10.2 million. If market rates of interest on all of the floating rate debt permanently decreased by 53 basis points (a 10% decrease from the Company s existing weighted average interest rates), the decrease in interest expense on the floating rate debt would increase future earnings and cash flows by approximately $10.2 million.

At December 31, 2007, the Company had total outstanding fixed rate debt of approximately $7.6 billion, or 79.8% of total debt, net of the effects of any derivative instruments. If market rates of interest permanently increased by 58 basis points (a 10% increase from the Company s existing weighted average interest rates), the estimated fair value of the Company s fixed rate debt would be approximately $6.9 billion. If market rates of interest permanently decreased by 58 basis points (a 10% decrease from the Company s existing weighted average interest rates), the estimated fair value of the Company s fixed rate debt would be approximately $8.4 billion.

At December 31, 2007, the Company s derivative instruments had a net liability fair value of approximately $10.6 million. If market rates of interest permanently increased by 47 basis points (a 10% increase from the Company s existing weighted average interest rates), the net liability fair value of the Company s derivative instruments would be approximately $6.5 million. If market rates of interest permanently decreased by 47 basis points (a 10% decrease from the Company s existing weighted average interest rates), the net liability fair value of the Company s derivative instruments would be approximately $15.0 million.

At December 31, 2006, the Company had total outstanding floating rate debt of approximately $1.5 billion, or 18.4% of total debt, net of the effects of any derivative instruments. If market rates of interest on all of the floating rate debt permanently increased by 49 basis points (a 10% increase from the Company s existing weighted average interest rates), the increase in interest expense on the floating rate debt would decrease future earnings and cash flows by approximately $7.3 million. If market rates of interest on all of the floating rate debt permanently decreased by 49 basis points (a 10% decrease from the Company s existing weighted average interest rates), the decrease in interest expense on the floating rate debt would increase future earnings and cash flows by approximately $7.3 million.

At December 31, 2006, the Company had total outstanding fixed rate debt of approximately $6.6 billion, or 81.6% of total debt, net of the effects of any derivative instruments. If market rates of interest permanently increased by 60 basis points (a 10% increase from the Company s existing weighted average interest rates), the estimated fair value of the Company s fixed rate debt would be approximately $6.0 billion. If market rates of interest permanently decreased by 60 basis points (a 10% decrease from the Company s existing weighted average interest rates), the estimated fair value of the Company s fixed rate debt would be approximately $7.3 billion.

At December 31, 2006, the Company s derivative instruments had a net liability fair value of approximately $16.2 million. If market rates of interest permanently increased by 54 basis points (a 10% increase from the Company s existing weighted average interest rates), the net liability fair value of the Company s derivative instruments would be approximately $16.4 million. If market rates of interest permanently decreased by 54 basis points (a 10% decrease from the Company s existing weighted average interest rates), the net liability fair value of the Company s derivative instruments would be approximately $16.2 million.

These amounts were determined by considering the impact of hypothetical interest rates on the Company s financial instruments. The foregoing assumptions apply to the entire amount of the Company s debt and derivative instruments and do not differentiate among maturities. These analyses do not consider the effects of the changes in overall economic activity that could exist in such an environment. Further, in the event of changes of such magnitude, management would likely take actions to further mitigate its exposure to the changes. However, due to the uncertainty of the specific actions that would be taken and their possible effects, this analysis assumes no changes in the Company s financial structure or results.

The Company cannot predict the effect of adverse changes in interest rates on its debt and derivative instruments and, therefore, its exposure to market risk, nor can there be any assurance that long term debt will be available at advantageous pricing. Consequently, future results may differ materially from the estimated adverse changes discussed above.

Item 8. Financial Statements and Supplementary Data

See Index to Consolidated Financial Statements on page F-1 of this Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures:

Effective as of December 31, 2007, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company s disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its Exchange Act filings is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms.

(b) Management s Report on Internal Control over Financial Reporting:

Equity Residential s management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Under the supervision and with the participation of management, including the Company s Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can only provide reasonable assurance with respect to financial statement preparation and presentation.

Based on the Company s evaluation under the framework in Internal Control Integrated Framework, management concluded that its internal control over financial reporting was effective as of December 31, 2007. Our internal control over financial reporting has been audited as of December 31, 2007 by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included herein.

(c) Changes in Internal Control over Financial Reporting:

There were no changes to the internal control over financial reporting of the Company identified in connection with the Company s evaluation referred to above that occurred during the fourth quarter of 2007 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Item 9B. Other Information

None.

PART III

Items 10, 11, 12, 13 and 14.

Trustees, Executive Officers and Corporate Governance; Executive Compensation; Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters; Certain Relationships and Related Transactions, and Trustee Independence; and Principal Accounting Fees and Services.

The information required by Item 10, Item 11, Item 12, Item 13 and Item 14 is incorporated by reference to, and will be contained in, the Company s definitive proxy statement, which the Company anticipates will be filed no later than April 17, 2008, and thus these items have been omitted in accordance with General Instruction G(3) to Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) The following documents are filed as part of the Report:

(1) Financial Statements: See Index to Financial Statements and Schedule on page F-1 of this Form 10-K.

(2) Exhibits: See the Exhibit Index.

(3) Financial Statement Schedules: See Index to Financial Statements attached hereto on page F-1 of this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EQUITY RESIDENTIAL

By: /s/ David J. Neithercut
David J. Neithercut, President and
Chief Executive Officer

Date: February 27, 2008

EQUITY RESIDENTIAL

ERP OPERATING LIMITED PARTNERSHIP

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below, hereby constitutes and appoints David J. Neithercut, Mark J. Parrell and Ian S. Kaufman, or any of them, his attorneys-in-fact and agents, with full power of substitution and resubstitution for him in any and all capacities, to do all acts and things which said attorneys and agents, or any of them, deem advisable to enable the company to comply with the Securities Exchange Act of 1934, as amended, and any requirements or regulations of the Securities and Exchange Commission in respect thereof, in connection with the company s filing of an annual report on Form 10-K for the company s fiscal year 2007, including specifically, but without limitation of the general authority hereby granted, the power and authority to sign his name as a trustee or officer, or both, of the company, as indicated below opposite his signature, to the Form 10-K, and any amendment thereto; and each of the undersigned does hereby fully ratify and confirm all that said attorneys and agents, or any of them, or the substitute of any of them, shall do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities set forth below and on the dates indicated:

Name	Title	Date
/s/ David J. Neithercut David J. Neithercut	President, Chief Executive Officer and Trustee	February 18, 2008
/s/ Mark J. Parrell Mark J. Parrell	Executive Vice President and Chief Financial Officer	February 22, 2008
/s/ Ian S. Kaufman Ian S. Kaufman	First Vice President and Chief Accounting Officer	February 27, 2008
/s/ John W. Alexander John W. Alexander	Trustee	February 18, 2008
/s/ Charles L. Atwood Charles L. Atwood	Trustee	February 20, 2008
/s/ Stephen O. Evans Stephen O. Evans	Trustee	February 17, 2008
/s/ Boone A. Knox Boone A. Knox	Trustee	February 18, 2008
/s/ John E. Neal	Trustee	February 19, 2008

John E. Neal		
/s/ Desiree G. Rogers Desiree G. Rogers	Trustee	February 22, 2008
/s/ Sheli Z. Rosenberg Sheli Z. Rosenberg	Trustee	February 25, 2008
/s/ B. Joseph White B. Joseph White	Trustee	February 19, 2008
/s/ Gerald A. Spector Gerald A. Spector	Vice Chairman of the Board of Trustees	February 22, 2008
/s/ Samuel Zell Samuel Zell	Chairman of the Board of Trustees	February 19, 2008

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

EQUITY RESIDENTIAL

All other schedules have been omitted because they are inapplicable, not required or the information is included elsewhere in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders

Equity Residential

We have audited the accompanying consolidated balance sheets of Equity Residential (the Company) as of December 31, 2007 and 2006 and the related consolidated statements of operations, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2007. Our audits also included the financial statement schedule listed in the accompanying index to the financial statements and schedule. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Equity Residential at December 31, 2007 and 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Equity Residential s internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 22, 2008 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP
ERNST & YOUNG LLP

Chicago, Illinois
February 22, 2008

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Trustees and Shareholders

Equity Residential

We have audited Equity Residential s (the Company) internal control over financial reporting as of December 31, 2007, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO Criteria). Equity Residential s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Equity Residential maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the COSO Criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Equity Residential as of December 31, 2007 and 2006 and the related consolidated statements of operations, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2007 of Equity Residential and our report dated

February 22, 2008, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Ernst & Young LLP

Chicago, Illinois
February 22, 2008

EQUITY RESIDENTIAL

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands except for share amounts)

		December 31, 2007		December 31, 2006
ASSETS				
Investment in real estate				
Land	$	3,607,305	$	3,217,672
Depreciable property		13,556,681		13,376,359
Projects under development		772,402		431,031
Land held for development		396,962		210,113
Investment in real estate		18,333,350		17,235,175
Accumulated depreciation		(3,170,125)		(3,022,480)
Investment in real estate, net		15,163,225		14,212,695
Cash and cash equivalents		50,831		260,277
Investments in unconsolidated entities		3,547		4,448
Deposits restricted		253,276		391,825
Escrow deposits mortgage		20,174		25,528
Deferred financing costs, net		56,271		43,384
Other assets		142,453		124,062
Total assets	**$**	**15,689,777**	**$**	**15,062,219**
LIABILITIES AND SHAREHOLDERS EQUITY				
Liabilities:				
Mortgage notes payable	$	3,605,971	$	3,178,223
Notes, net		5,763,762		4,419,433
Lines of credit		139,000		460,000
Accounts payable and accrued expenses		109,385		96,699
Accrued interest payable		124,717		91,172
Other liabilities		322,975		311,557
Security deposits		62,159		58,072
Distributions payable		141,244		151,382
Total liabilities		**10,269,213**		**8,766,538**
Commitments and contingencies				
Minority Interests:				
Operating Partnership		331,626		372,961
Preference Interests and Units		184		11,684
Partially Owned Properties		26,236		26,814
Total Minority Interests		**358,046**		**411,459**
Shareholders equity:				
Preferred Shares of beneficial interest, $0.01 par value; 100,000,000 shares authorized; 1,986,475 shares issued and outstanding as of December 31, 2007 and 2,762,950 shares issued and outstanding as of December 31, 2006		209,662		386,574
Common Shares of beneficial interest, $0.01 par value; 1,000,000,000 shares authorized; 269,554,661 shares issued and outstanding as of December 31, 2007 and 293,551,633 shares issued and outstanding as of December 31, 2006		2,696		2,936
Paid in capital		4,266,538		5,349,194
Retained earnings		599,504		159,528

Accumulated other comprehensive loss		(15,882)		(14,010)
Total shareholders equity		**5,062,518**		**5,884,222**
Total liabilities and shareholders equity	**$**	**15,689,777**	**$**	**15,062,219**

See accompanying notes

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF OPERATIONS

(Amounts in thousands except per share data)

	Year Ended December 31, 2007	2006	2005
REVENUES			
Rental income	$ 2,028,901	$ 1,780,831	$ 1,485,270
Fee and asset management	9,183	9,101	10,240
Total revenues	2,038,084	1,789,932	1,495,510
EXPENSES			
Property and maintenance	530,793	469,267	394,850
Real estate taxes and insurance	207,286	172,618	165,248
Property management	87,421	96,178	86,873
Fee and asset management	8,412	8,934	8,555
Depreciation	587,647	507,508	388,061
General and administrative	49,290	48,469	70,382
Impairment	1,418	34,002	613
Total expenses	1,472,267	1,336,976	1,114,582
Operating income	565,817	452,956	380,928
Interest and other income	20,176	30,976	68,372
Interest:			
Expense incurred, net	(484,776)	(419,812)	(353,674)
Amortization of deferred financing costs	(10,522)	(8,120)	(6,381)
Income before allocation to Minority Interests, income (loss) from investments in unconsolidated entities, net gain on sales of unconsolidated entities and land parcels and discontinued operations	90,695	56,000	89,245
Allocation to Minority Interests:			
Operating Partnership, net	(4,369)	(784)	(3,842)
Preference Interests and Units	(441)	(2,002)	(7,606)
Partially Owned Properties	(2,200)	(3,132)	801
Premium on redemption of Preference Interests		(684)	(4,134)
Income (loss) from investments in unconsolidated entities	332	(631)	470
Net gain on sales of unconsolidated entities	2,629	370	1,330
Net gain on sales of land parcels	6,360	2,792	30,245
Income from continuing operations, net of minority interests	93,006	51,929	106,509
Discontinued operations, net of minority interests	896,616	1,020,915	755,284
Net income	989,622	1,072,844	861,793
Preferred distributions	(22,792)	(37,113)	(49,642)
Premium on redemption of Preferred Shares	(6,154)	(3,965)	(4,359)
Net income available to Common Shares	$ 960,676	$ 1,031,766	$ 807,792
Earnings per share basic:			
Income from continuing operations available to Common Shares	$ 0.23	$ 0.04	$ 0.18
Net income available to Common Shares	$ 3.44	$ 3.56	$ 2.83
Weighted average Common Shares outstanding	279,406	290,019	285,760
Earnings per share diluted:			
Income from continuing operations available to Common Shares	$ 0.23	$ 0.04	$ 0.18

Net income available to Common Shares	$ 3.39	$ 3.50	$ 2.79
Weighted average Common Shares outstanding	302,235	315,579	310,785
Distributions declared per Common Share outstanding	$ 1.87	$ 1.79	$ 1.74

See accompanying notes

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)

(Amounts in thousands except per share data)

	Year Ended December 31, 2007	2006	2005
Comprehensive income:			
Net income	$ 989,622	$ 1,072,844	$ 861,793
Other comprehensive (loss) income derivative and other instruments:			
Unrealized holding (losses) gains arising during the year	(3,826)	(1,785)	4,357
Losses reclassified into earnings from other comprehensive income	1,954	2,247	2,541
Comprehensive income	$ 987,750	$ 1,073,306	$ 868,691

See accompanying notes

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

	Year Ended December 31, 2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 989,622	$ 1,072,844	$ 861,793
Adjustments to reconcile net income to net cash provided by operating activities:			
Allocation to Minority Interests:			
Operating Partnership	65,165	72,574	58,514
Preference Interests and Units	441	2,002	7,606
Partially Owned Properties	2,200	3,132	(801)
Premium on redemption of Preference Interests		684	4,134
Depreciation	616,414	592,637	528,958
Amortization of deferred financing costs	11,849	9,134	7,166
Amortization of discounts and premiums on debt	(4,990)	(6,506)	(3,502)
Amortization of deferred settlements on derivative instruments	575	841	1,160
Impairment	1,726	34,353	613
(Income) from technology investments		(4,021)	(57,054)
(Income) loss from investments in unconsolidated entities	(332)	631	(470)
Distributions from unconsolidated entities return on capital	102	171	
Net (gain) on sales of unconsolidated entities	(2,629)	(370)	(1,330)
Net (gain) on sales of land parcels	(6,360)	(2,792)	(30,245)
Net (gain) on sales of discontinued operations	(940,247)	(1,016,443)	(697,655)
Loss on debt extinguishments	3,339	12,171	10,977
Unrealized (gain) loss on derivative instruments	(1)	7	10
Compensation paid with Company Common Shares	21,631	22,080	35,905
Other operating activities, net	(19)	555	(279)
Changes in assets and liabilities:			
Decrease in deposits restricted	3,406	2,225	5,829
(Increase) decrease in other assets	(5,352)	975	(20,635)
(Decrease) in accounts payable and accrued expenses	(2,526)	(10,797)	(10,400)
Increase in accrued interest payable	33,545	17,192	8,171
Increase (decrease) in other liabilities	1,482	(50,727)	(15,203)
Increase in security deposits	4,087	2,914	5,269
Net cash provided by operating activities	793,128	755,466	698,531
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment in real estate acquisitions	(1,680,074)	(1,718,105)	(2,229,881)
Investment in real estate development/other	(480,184)	(291,338)	(164,202)
Improvements to real estate	(252,675)	(255,180)	(232,500)
Additions to non-real estate property	(7,696)	(10,652)	(17,610)
Interest capitalized for real estate under development	(45,107)	(20,734)	(13,701)
Proceeds from disposition of real estate, net	2,012,939	2,318,247	1,978,087
Proceeds from disposition of unconsolidated entities		373	3,533
Proceeds from technology investments		4,021	82,054
Investments in unconsolidated entities	(191)	(1,072)	(1,480)
Distributions from unconsolidated entities return of capital	122	92	3,194
Decrease (increase) in deposits on real estate acquisitions, net	245,667	(296,589)	(706)

Decrease in mortgage deposits	5,354	10,098	683

See accompanying notes

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

	Year Ended December 31, 2007	2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES (continued):			
Consolidation of previously Unconsolidated Properties:			
Via acquisition (net of cash acquired)	$	$	$ (62)
Via EITF 04-5 (cash consolidated)		1,436	
Acquisition of Minority Interests Partially Owned Properties		(71)	(1,989)
Other investing activities, net	1,200	2	2,379
Net cash (used for) investing activities	(200,645)	(259,472)	(592,201)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Loan and bond acquisition costs	(26,257)	(11,662)	(12,816)
Mortgage notes payable:			
Proceeds	827,831	267,045	280,125
Restricted cash	(113,318)	(20,193)	
Lump sum payoffs	(523,299)	(466,035)	(442,786)
Scheduled principal repayments	(24,732)	(26,967)	(27,607)
Prepayment premiums/fees	(3,339)	(12,171)	(10,977)
Notes, net:			
Proceeds	1,493,030	1,039,927	499,435
Lump sum payoffs	(150,000)	(60,000)	(190,000)
Scheduled principal repayments	(4,286)	(4,286)	(4,286)
Lines of credit:			
Proceeds	17,536,000	6,417,500	6,291,300
Repayments	(17,857,000)	(6,726,500)	(5,672,300)
Proceeds from (payments on) settlement of derivative instruments	2,370	10,722	(7,823)
Proceeds from sale of Common Shares	7,165	7,972	8,285
Proceeds from exercise of options	28,760	69,726	54,858
Common Shares repurchased and retired	(1,221,680)	(83,230)	
Redemption of Preferred Shares	(175,000)	(115,000)	(125,000)
Redemption of Preference Interests		(25,500)	(146,000)
Premium on redemption of Preferred Shares	(24)	(27)	(43)
Premium on redemption of Preference Interests		(10)	(322)
Payment of offering costs	(175)	(125)	(26)
Other financing activities, net	(14)		
Contributions Minority Interests Partially Owned Properties	10,267	9,582	7,439
Distributions:			
Common Shares	(526,281)	(514,055)	(496,004)
Preferred Shares	(27,008)	(39,344)	(51,092)
Preference Interests and Units	(453)	(2,054)	(7,778)
Minority Interests Operating Partnership	(35,543)	(36,202)	(35,833)
Minority Interests Partially Owned Properties	(18,943)	(3,658)	(11,756)
Net cash (used for) financing activities	(801,929)	(324,545)	(101,007)
Net (decrease) increase in cash and cash equivalents	(209,446)	171,449	5,323
Cash and cash equivalents, beginning of year	260,277	88,828	83,505
Cash and cash equivalents, end of year	$ 50,831	$ 260,277	$ 88,828

See accompanying notes

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

	Year Ended December 31, 2007		2006		2005	
SUPPLEMENTAL INFORMATION:						
Cash paid during the year for interest	$	502,807	$	465,388	$	397,886
Net cash (received) paid during the year for income, franchise and excise taxes	$	(1,587)	$	11,750	$	11,605
Real estate acquisitions/dispositions/other:						
Mortgage loans assumed	$	226,196	$	126,988	$	443,478
Valuation of OP Units issued	$		$	49,591	$	33,662
Mortgage loans (assumed) by purchaser	$	(76,744)	$	(117,949)	$	(35,031)
Consolidation of previously Unconsolidated Properties Via acquisition:						
Investment in real estate	$		$		$	(5,608)
Mortgage loans assumed	$		$		$	2,839
Minority Interests Partially Owned Properties	$		$		$	59
Investments in unconsolidated entities	$		$		$	1,176
Net other liabilities recorded	$		$		$	1,472
Consolidation of previously Unconsolidated Properties Via EITF 04-5:						
Investment in real estate, net	$		$	(24,637)	$	
Mortgage loans consolidated	$		$	22,545	$	
Investments in unconsolidated entities	$		$	2,602	$	
Net other liabilities recorded	$		$	926	$	

See accompanying notes

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(Amounts in thousands)

	Year Ended December 31, 2007	2006	2005
PREFERRED SHARES			
Balance, beginning of year	$ 386,574	$ 504,096	$ 636,216
Redemption of 9 1/8% Series B Cumulative Redeemable			(125,000)
Redemption of 9 1/8% Series C Cumulative Redeemable		(115,000)	
Redemption of 8.60% Series D Cumulative Redeemable	(175,000)		
Conversion of 7.00% Series E Cumulative Convertible	(1,818)	(2,357)	(7,065)
Conversion of 7.00% Series H Cumulative Convertible	(94)	(165)	(55)
Balance, end of year	$ 209,662	$ 386,574	$ 504,096
COMMON SHARES, $0.01 PAR VALUE			
Balance, beginning of year	$ 2,936	$ 2,895	$ 2,851
Conversion of Preferred Shares into Common Shares	1	1	3
Conversion of Preference Interests into Common Shares	3	7	
Conversion of OP Units into Common Shares	15	17	11
Exercise of share options	10	27	22
Employee Share Purchase Plan (ESPP)	2	2	3
Share-based employee compensation expense:			
Restricted/performance shares	4	6	5
Common Shares repurchased and retired	(275)	(19)	
Balance, end of year	$ 2,696	$ 2,936	$ 2,895
PAID IN CAPITAL			
Balance, beginning of year	$ 5,349,194	$ 5,253,188	$ 5,112,311
Common Share Issuance:			
Conversion of Preferred Shares into Common Shares	1,911	2,521	7,117
Conversion of Preference Interests into Common Shares	11,497	22,993	
Conversion of OP Units into Common Shares	32,430	27,865	24,185
Exercise of share options	28,750	69,699	54,836
Employee Share Purchase Plan (ESPP)	7,163	7,970	8,282
Share-based employee compensation expense:			
Performance shares	1,278	1,795	7,697
Restricted shares	15,226	14,938	20,032
Share options	5,345	5,198	6,562
ESPP discount	1,701	1,578	1,591
Common Shares repurchased and retired	(1,226,045)	(83,211)	
Offering costs	(175)	(125)	(26)
Premium on redemption of Preferred Shares original issuance costs	6,130	3,938	4,316
Premium on redemption of Preference Interests original issuance costs		674	3,812
Supplemental Executive Retirement Plan (SERP)	(6,709)	(9,947)	(4,177)
Adjustment for Minority Interests ownership in Operating Partnership	38,842	30,120	6,650
Balance, end of year	$ 4,266,538	$ 5,349,194	$ 5,253,188

See accompanying notes

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY (Continued)

(Amounts in thousands)

	Year Ended December 31, 2007	2006	2005
DEFERRED COMPENSATION			
Balance, beginning of year	$	$	$ (18)
Amortization to compensation expense:			
Restricted shares			18
Balance, end of year	$	$	$
RETAINED EARNINGS (DEFICIT)			
Balance, beginning of year	$ 159,528	$ (350,367)	$ (657,462)
Net income	989,622	1,072,844	861,793
Common Share distributions	(520,700)	(521,871)	(500,697)
Preferred Share distributions	(22,792)	(37,113)	(49,642)
Premium on redemption of Preferred Shares cash charge	(24)	(27)	(43)
Premium on redemption of Preferred Shares original issuance costs	(6,130)	(3,938)	(4,316)
Balance, end of year	$ 599,504	$ 159,528	$ (350,367)
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance, beginning of year	$ (14,010)	$ (14,472)	$ (21,370)
Accumulated other comprehensive (loss) income derivative and other instruments:			
Unrealized holding (losses) gains arising during the year	(3,826)	(1,785)	4,357
Losses reclassified into earnings from other comprehensive income	1,954	2,247	2,541
Balance, end of year	$ (15,882)	$ (14,010)	$ (14,472)

See accompanying notes

EQUITY RESIDENTIAL

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Business

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

EQR is the general partner of, and as of December 31, 2007 owned an approximate 93.6% ownership interest in, ERP Operating Limited Partnership, an Illinois limited partnership (the Operating Partnership). The Company is structured as an umbrella partnership REIT (UPREIT), under which all property ownership and business operations are conducted through the Operating Partnership and its subsidiaries. References to the Company include EQR, the Operating Partnership and those entities owned or controlled by the Operating Partnership and/or EQR.

As of December 31, 2007, the Company, directly or indirectly through investments in title holding entities, owned all or a portion of 579 properties in 24 states and the District of Columbia consisting of 152,821 units. The ownership breakdown includes (table does not include various uncompleted development properties):

	Properties	Units
Wholly Owned Properties	**507**	**133,189**
Partially Owned Properties:		
Consolidated	**27**	**5,455**
Unconsolidated	**44**	**10,446**
Military Housing (Fee Managed)	**1**	**3,731**
	579	**152,821**

The Wholly Owned Properties are accounted for under the consolidation method of accounting. The Company beneficially owns 100% fee simple title to 505 of the 507 Wholly Owned Properties. The Company owns the building and improvements and leases the land underlying the improvements under long-term ground leases that expire in 2026 for one property and 2077 for another property. These properties are consolidated and reflected as real estate assets while the ground leases are accounted for as operating leases in accordance with Statement of Financial Accounting Standards (SFAS) No. 13, *Accounting for Leases*.

The Partially Owned Properties - Consolidated are controlled by the Company but have partners with minority interests and are accounted for under the consolidation method of accounting. The Partially Owned Properties - Unconsolidated are partially owned but not controlled by the Company and consist of investments in partnership interests and/or subordinated mortgages that are accounted for under the equity method of accounting. The Military Housing (Fee Managed) property consists of an investment in a limited liability company that, as a result of the terms of the operating agreement, is accounted for as a management contract right with all fees recognized as fee and asset management revenue.

2. Summary of Significant Accounting Policies

Basis of Presentation

Due to the Company s ability as general partner to control either through ownership or by contract the Operating Partnership and its subsidiaries, other than entities that own controlling interests in the

Partially Owned Properties - Unconsolidated and certain other entities in which the Company has investments, the Operating Partnership and each such subsidiary has been consolidated with the Company for financial reporting purposes. Effective March 31, 2004, the consolidated financial statements also include all variable interest entities for which the Company is the primary beneficiary.

The Company s mergers and acquisitions were accounted for as purchases in accordance with either Accounting Principles Board (APB) Opinion No. 16, *Business Combinations*, or SFAS No. 141, *Business Combinations*. SFAS No. 141 requires all business combinations initiated after June 30, 2001 be accounted for under the purchase method of accounting. The fair value of the consideration given by the Company in the mergers were used as the valuation basis for each of the combinations. The accompanying consolidated statements of operations and cash flows include the results of the properties purchased through the mergers and through acquisitions from their respective closing dates.

Real Estate Assets and Depreciation of Investment in Real Estate

The Company allocates the purchase price of properties to net tangible and identified intangible assets acquired based on their fair values in accordance with the provisions of SFAS No. 141. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes a number of sources, including independent appraisals that may be obtained in connection with the acquisition or financing of the respective property, our own analysis of recently acquired and existing comparable properties in our portfolio, and other market data. The Company also considers information obtained about each property as a result of its pre-acquisition due diligence, marketing and leasing activities in estimating the fair value of the tangible and intangible assets acquired. The Company allocates the purchase price of acquired real estate to various components as follows:

- Land Based on actual purchase price if acquired separately or market research/comparables if acquired with an operating property.

- Furniture, Fixtures and Equipment Ranges between $8,000 and $13,000 per apartment unit acquired as an estimate of the fair value of the appliances & fixtures inside a unit. The per-unit amount applied depends on the type of apartment building acquired. Depreciation is calculated on the straight-line method over an estimated useful life of five years.

- In-Place Leases The Company considers the value of acquired in-place leases that meet the definition outlined in SFAS No. 141, paragraph 37. The amortization period is the average remaining term of each respective in-place acquired lease.

- Other Intangible Assets The Company considers whether it has acquired other intangible assets that meet the definition outlined in SFAS No. 141, paragraph 39, including any customer relationship intangibles. The amortization period is the estimated useful life of the acquired intangible asset.

- Building Based on the fair value determined on an as-if vacant basis. Depreciation is calculated on the straight-line method over an estimated useful life of thirty years.

Replacements inside a unit such as appliances and carpeting are depreciated over a five-year estimated useful life. Expenditures for ordinary maintenance and repairs are expensed to operations as incurred and significant renovations and improvements that improve and/or extend the useful life of the asset are capitalized over their estimated useful life, generally five to ten years. Initial direct leasing costs are expensed as incurred as such expense approximates the deferral and amortization of initial direct leasing costs over the lease terms. Property sales or dispositions are recorded when title transfers to unrelated third parties, contingencies have been removed and sufficient cash consideration has been received by the Company. Upon disposition, the related costs and accumulated depreciation are removed from the respective accounts. Any gain or loss on sale is recognized in accordance with accounting principles generally accepted in the United States.

The Company classifies real estate assets as real estate held for disposition when it is certain a property will be disposed of in accordance with SFAS No. 144 (see further discussion below).

The Company classifies properties under development and/or expansion and properties in the lease up phase (including land) as construction in progress until construction has been completed and all certificates of occupancy permits have been obtained.

Impairment of Long-Lived Assets, Including Goodwill

In June 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 142 prohibits the amortization of goodwill and requires that goodwill be reviewed for impairment at least annually. In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. SFAS Nos. 142 and 144 were effective for fiscal years beginning after December 15, 2001. The Company adopted these standards effective January 1, 2002. See Notes 13 and 19 for further discussion.

The Company periodically evaluates its long-lived assets, including its investments in real estate and goodwill, for indicators of permanent impairment. The judgments regarding the existence of impairment indicators are based on factors such as operational performance, market conditions, expected holding period of each asset and legal and environmental concerns. Future events could occur which would cause the Company to conclude that impairment indicators exist and an impairment loss is warranted.

For long-lived assets to be held and used, the Company compares the expected future undiscounted cash flows for the long-lived asset against the carrying amount of that asset. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the asset, the Company further analyzes each individual asset for other temporary or permanent indicators of impairment. An impairment loss would be recorded for the difference between the estimated fair value and the carrying amount of the asset if the Company deems this difference to be permanent.

For long-lived assets to be disposed of, an impairment loss is recognized when the estimated fair value of the asset, less the estimated cost to sell, is less than the carrying amount of the asset measured at the time that the Company has determined it will sell the asset. Long-lived assets held for disposition and the related liabilities are separately reported at the lower of their carrying amounts or their estimated fair values, less their costs to sell, and are not depreciated after reclassification to real estate held for disposition.

Cost Capitalization

See the *Real Estate Assets and Depreciation of Investment in Real Estate* section for discussion of the policy with respect to capitalization vs. expensing of fixed asset/repair and maintenance costs. In addition, the Company capitalizes the payroll and associated costs of employees directly responsible for and who spend all of their time on the supervision of major capital and/or renovation projects. These costs are reflected on the balance sheet as an increase to depreciable property.

The Company follows the guidance in SFAS No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, for all development projects and uses its professional judgment in determining whether such costs meet the criteria for capitalization or must be expensed as incurred. The Company capitalizes interest, real estate taxes and insurance and payroll and associated costs for those individuals directly responsible for and who spend all of their time on development activities, with capitalization ceasing no later than 90 days following issuance of the certificate of occupancy. These costs are reflected on the balance sheet as construction in progress for each specific property.

The Company expenses as incurred all payroll costs of on-site employees working directly at our properties, except as noted above on our development properties prior to certificate of occupancy issuance and on specific major renovation at selected properties when additional incremental employees are hired.

Cash and Cash Equivalents

The Company considers all demand deposits, money market accounts and investments in certificates of deposit and repurchase agreements purchased with a maturity of three months or less, at the date of purchase, to be cash equivalents. The Company maintains its cash and cash equivalents at financial institutions. The combined account balances at one or more institutions typically exceed the Federal Depository Insurance Corporation (FDIC) insurance coverage, and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage. The Company believes that the risk is not significant, as the Company does not anticipate the financial institutions non-performance.

Deferred Financing Costs

Deferred financing costs include fees and costs incurred to obtain the Company s lines of credit and long-term financings. These costs are amortized over the terms of the related debt. Unamortized financing costs are written-off when debt is retired before the maturity date. The accumulated amortization of such deferred financing costs was $28.0 million and $24.5 million at December 31, 2007 and 2006, respectively.

Fair Value of Financial Instruments, Including Derivative Instruments

The valuation of financial instruments under SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, and SFAS No. 133 and its amendments (SFAS Nos. 137/138/149), *Accounting for Derivative Instruments and Hedging Activities*, 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 limits 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 has a policy of only entering into contracts with major financial institutions based upon their credit ratings and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, the Company has not sustained a material loss from those instruments nor does it anticipate any material adverse effect on its net income or financial position in the future from the use of derivatives.

On January 1, 2001, the Company adopted SFAS No. 133 and its amendments (SFAS Nos. 137/138/149), which requires an entity to recognize all derivatives as either assets or liabilities in the statement of financial position and to measure those instruments at fair value. Additionally, the fair value adjustments will affect either shareholders equity or net income depending on whether the derivative instruments qualify as a hedge for accounting purposes and, if so, the nature of the hedging activity. When the terms of an underlying transaction are modified, or when the underlying transaction is terminated or completed, all changes in the fair value of the instrument are marked-to-market with changes in value included in net income each period until the instrument matures. Any derivative instrument used for risk management that does not meet the hedging criteria of SFAS No. 133 is marked-to-market each period. The Company does not use derivatives for trading or speculative purposes.

The fair value of the Company s mortgage notes payable and unsecured notes were approximately $3.7 billion and $5.6 billion, respectively, at December 31, 2007. The fair values of the Company s financial instruments, other than mortgage notes payable, unsecured notes and derivative instruments, including cash and cash equivalents, lines of credit and other financial instruments, approximate their carrying or contract values. See Note 11 for further discussion of derivative instruments.

Revenue Recognition

Rental income attributable to leases is recorded when due from residents and is recognized monthly as it is earned, which is not materially different than on a straight-line basis. Leases entered into between a resident and a property, for the rental of an apartment unit, are generally year-to-year, renewable upon consent of both parties on an annual or monthly basis. Fee and asset management revenue and interest income are recorded on an accrual basis.

Share-Based Compensation

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

The cost related to share-based employee compensation included in the determination of net income for the years ended December 31, 2007, 2006 and 2005 is equal to that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS No. 123.

The fair value of the option grants as computed under SFAS No. 123 would be recognized over the vesting period of the options. The fair value for the Company s share options was estimated at the time the share options were granted using the Black-Scholes option pricing model with the following weighted-average assumptions:

	2007	2006	2005
Expected volatility (1)	18.9%	19.1%	18.2%
Expected life (2)	5 years	6 years	6 years
Expected dividend yield (3)	5.41%	6.04%	6.37%
Risk-free interest rate (4)	4.74%	4.52%	3.81%
Option valuation per share	$ 6.26	$ 4.22	$ 2.64

(1) Expected volatility Estimated based on the historical volatility of EQR s share price, on a monthly basis, for a period matching the expected life of each grant.

(2) Expected life Approximates the actual weighted average life of all share options granted since the Company went public in 1993.

(3) Expected dividend yield Calculated by averaging the historical annual yield on EQR shares for a period matching the expected life of each grant, with the annual yield calculated by dividing actual dividends by the average price of EQR s shares in a given year.

(4) Risk-free interest rate The most current U.S. Treasury rate available prior to the grant date for a period matching the expected life of each grant.

The valuation method and assumptions are the same as those the Company used in accounting for option expense in its consolidated financial statements. The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. This model is only one method of valuing options and the Company s use of this model should not be interpreted as an endorsement of its accuracy. Because the Company s share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management s opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its share options and the actual value of the options may be significantly different.

Income Taxes

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

Deferred tax assets and liabilities are recognized for future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates for which the temporary differences are expected to be recovered or settled. The effect of deferred tax assets and liabilities are recognized in earnings in the period enacted. The Company s deferred tax assets are generally the result of tax affected amortization of goodwill, differing depreciable lives on capitalized assets and the timing of expense recognition for certain accrued liabilities. As of December 31, 2007, the Company has recorded a deferred tax asset of approximately $12.5 million, which was fully offset by a valuation allowance due to the uncertainty in forecasting future TRS taxable income.

The Company provided for income, franchise and excise taxes allocated as follows in the consolidated statements of operations for the years ended December 31, 2007, 2006 and 2005 (amounts in thousands):

	Year Ended December 31, 2007	2006	2005
General and administrative (1)	$ 2,522	$ 4,269	$ 3,927
Discontinued operations, net of minority interests (2)	(7,311)	3,624	9,626
Provision for income, franchise and excise taxes (3)	$ (4,789)	$ 7,893	$ 13,553

(1) Primarily includes state and local income, excise and franchise taxes. In 2006, also includes $2.9 million of federal income taxes related to a forfeited deposit on a terminated sale transaction and included in income from continuing operations. In 2005, also includes $2.0 million of federal income taxes related to the sale of land parcels owned by a TRS and included in income from continuing operations.

(2) Primarily represents federal income taxes (recovered) incurred on the gains on sales of condominium units owned by a TRS and included in discontinued operations. Also represents state and local income, excise and franchise taxes on operating properties sold and included in discontinued operations.

(3) All provision for income tax amounts are current and none are deferred.

The Company utilized approximately $13.9 million and $43.9 million of net operating losses (NOL) during the years ended December 31, 2007 and 2005, respectively, and none were utilized in 2006. The Company had no NOL carryforwards available as of January 1, 2008 or 2006.

During the years ended December 31, 2007, 2006 and 2005, the Company s tax treatment of dividends and distributions were as follows:

	Year Ended December 31, 2007	2006	2005
Tax treatment of dividends and distributions:			
Ordinary dividends	$	$ 1.276	$ 0.902
Qualified dividends		0.090	0.070
Long-term capital gain	1.426	0.330	0.669

Unrecaptured section 1250 gain		0.444		0.094		0.099
Dividends and distributions declared per Common Share outstanding	$	1.870	$	1.790	$	1.740

The aggregate cost of land and depreciable property for federal income tax purposes as of December 31, 2007 and 2006 was approximately $9.7 billion and $10.2 billion, respectively.

Minority Interests

Operating Partnership: Net income is allocated to minority interests based on their respective ownership percentage of the Operating Partnership. The ownership percentage is calculated by dividing the number of units of limited partnership interest (OP Units) held by the minority interests by the total OP Units held by the minority interests and EQR. Issuance of additional common shares of beneficial interest,

$0.01 par value per share (the Common Shares), and OP Units changes the ownership interests of both the minority interests and EQR. Such transactions and the related proceeds are treated as capital transactions.

Partially Owned Properties: The Company reflects minority interests in partially owned properties on the balance sheet for the portion of properties consolidated by the Company that are not wholly owned by the Company. The earnings or losses from those properties attributable to the minority interests are reflected as minority interests in partially owned properties in the consolidated statements of operations.

Use of Estimates

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.

Reclassifications

Certain reclassifications considered necessary for a fair presentation have been made to the prior period financial statements in order to conform to the current year presentation. These reclassifications have not changed the results of operations or shareholders equity.

Other

The Company adopted FASB Interpretation (FIN) No. 46, *Consolidation of Variable Interest Entities,* as required, effective March 31, 2004. The adoption required the consolidation of all previously unconsolidated development projects. FIN No. 46 requires the Company to consolidate the assets, liabilities and results of operations of the activities of a variable interest entity, which for the Company includes only its development partnerships, if the Company is entitled to receive a majority of the entity s residual returns and/or is subject to a majority of the risk of loss from such entity s activities. The adoption of FIN No. 46 did not have any effect on net income as the aggregate results of operations of these development properties were previously included in income (loss) from investments in unconsolidated entities.

The Company adopted the disclosure provisions of SFAS No. 150 and FSP No. FAS 150-3, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity,* effective December 31, 2003. SFAS No. 150 and FSP No. FAS 150-3 require the Company to make certain disclosures regarding noncontrolling interests that are classified as equity in the financial statements of a subsidiary but would be classified as a liability in the parent s financial statements under SFAS No. 150 (e.g., minority interests in consolidated limited-life subsidiaries). The Company is presently the controlling partner in various consolidated partnerships consisting of 27 properties and 5,455 units and various uncompleted development properties having a minority interest book value of $26.2 million at December 31, 2007. Some of these partnerships contain provisions that require the partnerships to be liquidated through the sale of its assets upon reaching a date specified in each respective partnership agreement. The Company, as controlling partner, has an obligation to cause the property owning partnerships to distribute proceeds of liquidation to the Minority Interests in these Partially Owned Properties only to the extent that the net proceeds received by the partnerships from the sale of its assets warrant a distribution based on the partnership agreements. As of December 31, 2007, the Company estimates the value of Minority Interest distributions would have been approximately $106.9 million (Settlement Value) had the partnerships been liquidated.

This Settlement Value is based on estimated third party consideration realized by the partnerships upon disposition of the Partially Owned Properties and is net of all other assets and liabilities, including yield maintenance on the mortgages encumbering the properties, that would have been due on December 31, 2007 had those mortgages been prepaid. Due to, among other things, the inherent uncertainty in the sale of real estate assets, the amount of any potential distribution to the Minority Interests in the Company s Partially

Owned Properties is subject to change. To the extent that the partnerships underlying assets are worth less than the underlying liabilities, the Company has no obligation to remit any consideration to the Minority Interests in Partially Owned Properties.

The Company adopted EITF Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (Issue 04-5), effective January 1, 2006. Issue 04-5 provides guidance in determining whether a general partner controls a limited partnership. The Company consolidated its Lexford syndicated portfolio consisting of 20 separate partnerships (10 properties) containing 1,272 units, all of which were sold October 5, 2006. The adoption did not have a material effect on the results of operations or financial position. See Note 4 for further discussion of the adoption of EITF Issue No. 04-5.

In March 2005, the FASB issued FIN No. 47, *Accounting for Conditional Asset Retirement Obligations,* an interpretation of SFAS No. 143, *Asset Retirement Obligations*. A conditional asset retirement obligation refers to a legal obligation to retire assets where the timing and/or method of settlement are conditioned on future events. FIN No. 47 requires an entity to recognize a liability for the fair value of a conditional asset retirement obligation when incurred if the liability s fair value can be reasonably estimated. The Company adopted the provisions of FIN No. 47 for the year ended December 31, 2005. The adoption did not have a material impact on the Company s consolidated financial position, results of operations or cash flows.

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

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosure about fair value measurements. The Company will adopt SFAS No. 157 as required effective January 1, 2008. While still under review, adoption is not expected to have a material effect on the consolidated results of operations or financial position.

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

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

are still currently assessing the impact it will have on the consolidated results of operations and financial position.

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

3. **Shareholders Equity and Minority Interests**

The following tables present the changes in the Company s issued and outstanding Common Shares and OP Units for the years ended December 31, 2007, 2006 and 2005:

	2007	2006	2005
Common Shares outstanding at January 1,	293,551,633	289,536,344	285,076,915
Common Shares Issued:			
Conversion of Series E Preferred Shares	80,895	104,904	314,485
Conversion of Series H Preferred Shares	5,463	9,554	3,182
Conversion of Preference Interests	324,484	679,686	
Conversion of OP Units	1,494,263	1,653,988	1,085,446
Exercise of options	1,040,765	2,647,776	2,248,744
Employee Share Purchase Plan	189,071	213,427	286,751
Dividend Reinvestment DRIP Plan		169	
Restricted share grants, net	352,433	603,697	520,821
Common Shares Other:			
Repurchased and retired	(27,484,346)	(1,897,912)	
Common Shares outstanding at December 31,	**269,554,661**	**293,551,633**	**289,536,344**

	2007	2006	2005
OP Units outstanding at January 1,	19,914,583	20,424,245	20,552,940
OP Units Issued:			
Acquisitions/consolidations		1,144,326	956,751
Conversion of OP Units to Common Shares	(1,494,263)	(1,653,988)	(1,085,446)
OP Units Outstanding at December 31,	**18,420,320**	**19,914,583**	**20,424,245**
Total Common Shares and OP Units Outstanding at December 31,	**287,974,981**	**313,466,216**	**309,960,589**
OP Units Ownership Interest in Operating Partnership	6.4%	6.4%	6.6%
OP Units Issued:			
Acquisitions/consolidations per unit		$ 43.34	$ 35.18
Acquisitions/consolidations valuation		$ 49.6 million	$ 33.7 million

In February 1998, the Company filed and the SEC declared effective a Form S-3 Registration Statement to register $1.0 billion of equity securities. In addition, the Company carried over $272.4 million related to a prior registration statement. As of February 6, 2008, $956.5 million in equity securities remained available for issuance under this registration statement.

The following tables present the changes in the Company s issued and outstanding Common Shares and OP Units

On April 27, May 24 and December 3, 2007, the Board of Trustees approved an increase of $200.1 million, an additional $500.0 million and an additional $500.0 million, respectively, to the Company s authorized share repurchase program. Considering the above additional authorizations and the repurchase activity for the year ended December 31, 2007, EQR has authorization to repurchase an additional $475.6 million of its shares as of December 31, 2007.

During the year ended December 31, 2007, the Company repurchased 27,484,346 of its Common Shares at an average price of $44.62 per share for total consideration of $1.2 billion. These shares were retired subsequent to the repurchases. Of the total shares repurchased, 84,046 shares were repurchased from employees at an average price of $53.85 per share (the average of the then current market prices) to cover the minimum statutory tax withholding obligations related to the vesting of employees restricted shares. The remaining 27,400,300 shares were repurchased in the open market at an average price of $44.59 per share. As of December 31, 2007, transactions to repurchase 125,000 of the 27,484,346 Common Shares had not yet settled. As of December 31, 2007, the Company has reduced the number of Common Shares issued and outstanding by this amount and recorded a liability of $4.6 million included in other liabilities on the consolidated balance sheets.

During the year ended December 31, 2006, the Company repurchased 1,897,912 of its Common Shares in the open market at an average price of $43.85 per share. The Company paid approximately $83.2 million for these shares, which were retired subsequent to the repurchases.

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

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

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

The following table presents the Company s issued and outstanding Preferred Shares as of December 31, 2007 and 2006:

The following tables present the changes in the Company s issued and outstanding Common Shares and OP Units

	Redemption Date (1) (2)	Conversion Rate (2)	Annual Dividend per Share (3)	Amounts in thousands December 31, 2007	December 31, 2006
Preferred Shares of beneficial interest, $0.01 par value; 100,000,000 shares authorized:					
8.60% Series D Cumulative Redeemable Preferred; liquidation value $250 per share; 0 and 700,000 shares issued and outstanding at December 31, 2007 and December 31, 2006, respectively	7/15/07	N/A	(5)	$	$ 175,000
7.00% Series E Cumulative Convertible Preferred; liquidation value $25 per share; 362,116 and 434,816 shares issued and outstanding at December 31, 2007 and December 31, 2006, respectively	11/1/98	1.1128	$ 1.75	9,053	10,871
7.00% Series H Cumulative Convertible Preferred; liquidation value $25 per share; 24,359 and 28,134 shares issued and outstanding at December 31, 2007 and December 31, 2006, respectively	6/30/98	1.4480	$ 1.75	609	703
8.29% Series K Cumulative Redeemable Preferred; liquidation value $50 per share; 1,000,000 shares issued and outstanding at December 31, 2007 and December 31, 2006	12/10/26	N/A	$ 4.145	50,000	50,000
6.48% Series N Cumulative Redeemable Preferred; liquidation value $250 per share; 600,000 shares issued and outstanding at December 31, 2007 and December 31, 2006 (4)	6/19/08	N/A	$ 16.20	150,000	150,000
				$ 209,662	$ 386,574

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

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

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

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

(5) On May 25, 2007, the Company issued an irrevocable notice to redeem for cash on July 16, 2007 all 700,000 shares of its 8.60% Series D Preferred Shares. The Company recorded the write-off of approximately $6.1 million in original issuance costs as a premium on

redemption of Preferred Shares in the accompanying consolidated statements of operations.

During the year ended December 31, 2006, the Company redeemed for cash all 460,000 shares of its 9.125% Series C Preferred Shares with a liquidation value of $115.0 million. The Company recorded the write-off of approximately $4.0 million in original issuance costs as a premium on redemption of Preferred Shares in the accompanying consolidated statements of operations.

During the year ended December 31, 2005, the Company redeemed for cash all 500,000 shares of its 9.125% Series B Preferred Shares with a liquidation value of $125.0 million. The Company recorded the write-off of approximately $4.3 million in original issuance costs as a premium on redemption of Preferred Shares in the accompanying consolidated statements of operations.

The following table presents the issued and outstanding Preference Interests as of December 31, 2007 and 2006:

	Redemption Date (1) (2)	Conversion Rate (2)	Annual Dividend per Unit (3)	Amounts in thousands December 31, 2007	December 31, 2006
Preference Interests:					
7.625% Series J Cumulative Convertible Redeemable Preference Units; liquidation value $50 per unit; 0 and 230,000 units issued and outstanding at December 31, 2007 and December 31, 2006, respectively	12/14/06	1.4108	(4)	$	$ 11,500
				$	$ 11,500

(1) On or after the fifth anniversary of the issuance (the Redemption Date), the Series J Preference Interests were redeemable for cash at the option of the Company, in whole or in part, at any time or from time to time, at a redemption price equal to the liquidation preference of $50.00 per unit plus the cumulative amount of accrued and unpaid distributions, if any.

(2) On or after the tenth anniversary of the issuance (the Conversion Date), the Series J Preference Interests were exchangeable at the option of the holder (in whole but not in part) on a one-for-one basis for a respective reserved series of EQR Preferred Share. In addition, on or after the Conversion Date, the Series J Preference Interests were convertible under certain circumstances at the option of the holder (in whole but not in part) to Common Shares based upon the contractual conversion rate, plus accrued and unpaid distributions, if any. Prior to the Conversion Date, the Series J Preference Interests were convertible under certain circumstances at the option of the holder (in whole but not in part) to Common Shares based upon the contractual conversion rate, plus accrued and unpaid distributions, if any, if the issuer called the series for redemption (the Accelerated Conversion Right).

(3) Dividends on the Series J Preference Interests were payable quarterly on March 25th, June 25th, September 25th, and December 25th of each year.

(4) On May 24, 2007, the Company issued an irrevocable notice to redeem for cash on June 25, 2007 all 230,000 units of its 7.625% Series J Preference Interests with a liquidation value of $11.5 million. This notice triggered the holder s Accelerated Conversion Right, which they exercised. As a result, effective June 25, 2007, the 230,000 units were converted into 324,484 Common Shares.

During the year ended December 31, 2006, the Company redeemed for cash all of its 7.875% Series G Preference Interests with a liquidation value of $25.5 million. The Company recorded approximately $0.7 million as a premium on redemption of Preference Interests (Minority Interests) in the accompanying consolidated statements of operations.

During the year ended December 31, 2006, the Company issued irrevocable notices to redeem for cash all 460,000 units of its 7.625% Series H and I Preference Interests with a liquidation value of $23.0 million. This notice triggered the respective holders Accelerated Conversion Rights, which they exercised. As a result, the 460,000 units were converted into 679,686 Common Shares.

During the year ended December 31, 2005, the Company redeemed or repurchased for cash all of its Series B through F Preference Interests with a liquidation value of $146.0 million. The Company recorded approximately $4.1 million as premiums on redemption of Preference Interests (Minority Interests) in the accompanying consolidated statements of operations, which included $3.8 million in original issuance costs and $0.3 million in cash redemption charges.

The following tables present the changes in the Company s issued and outstanding Common Shares and OP Units

The following table presents the Operating Partnership s issued and outstanding Junior Convertible Preference Units (the Junior Preference Units) as of December 31, 2007 and 2006:

The following tables present the changes in the Company s issued and outstanding Common Shares and OP Units

	Redemption Date (2)	Conversion Rate (2)	Annual Dividend per Unit(1)	Amounts in thousands December 31, 2007	December 31, 2006
Junior Preference Units:					
Series B Junior Convertible Preference Units; liquidation value $25 per unit; 7,367 units issued and outstanding at December 31, 2007 and December 31, 2006	07/29/09	1.020408	$ 2.00	$ 184	$ 184
				$ 184	$ 184

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

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

4. Real Estate

The following table summarizes the carrying amounts for investment in real estate (at cost) as of December 31, 2007 and 2006 (amounts in thousands):

	2007	2006
Land	$ 3,607,305	$ 3,217,672
Depreciable property:		
Buildings and improvements	12,665,706	12,563,807
Furniture, fixtures and equipment	890,975	812,552
Projects under development:		
Land	187,515	167,318
Construction-in-progress	584,887	263,713
Land held for development:		
Land	334,574	172,882
Construction-in-progress	62,388	37,231
Investment in real estate	18,333,350	17,235,175
Accumulated depreciation	(3,170,125)	(3,022,480)
Investment in real estate, net	$ 15,163,225	$ 14,212,695

During the year ended December 31, 2007, the Company acquired the entire equity interest in the following from unaffiliated parties (purchase price in thousands):

	Properties	Units	Purchase Price
Rental Properties	36	8,167	$ 1,686,435
Land Parcels (eight)			212,841

36	8,167	$	1,899,276

During the year ended December 31, 2006, the Company acquired the entire equity interest in 35 properties containing 8,768 units and nine land parcels from unaffiliated parties for a total purchase price of $1.9 billion. The Company also acquired the majority of its partners   interest in eighteen partially owned properties containing 1,643 units for $56.6 million, partially funded through the issuance of 417,039 OP Units valued at $18.6 million.

The Company adopted EITF Issue No. 04-5, as required for existing limited partnership

The following tables present the changes in the Company s issued and outstanding Common Shares and OP Units

arrangements, effective January 1, 2006. The adoption required the consolidation of the Lexford syndicated portfolio consisting of 20 separate partnerships (10 properties) containing 1,272 units, all of which were sold October 5, 2006. The Company recorded $24.6 million in investment in real estate and also:

- Consolidated $22.5 million in mortgage debt;
- Reduced investments in unconsolidated entities by $2.6 million;
- Consolidated $0.9 million of other liabilities net of other assets acquired; and
- Consolidated $1.4 million of cash.

During the year ended December 31, 2007, the Company disposed of the following to unaffiliated parties (sales price in thousands):

	Properties	Units	Sales Price
Rental Properties	73	21,563	$ 1,921,302
Condominium Units			

The following tables present the changes in the Company s issued and outstanding Common Shares and OP Units