EQUITY RESIDENTIAL
Form 10-Q
August 02, 2018
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018

OR

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

Commission File Number: 1-12252 (Equity Residential)

Commission File Number: 0-24920 (ERP Operating Limited Partnership)

EQUITY RESIDENTIAL

ERP OPERATING LIMITED PARTNERSHIP

(Exact name of registrant as specified in its charter)

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

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

Equity Residential Yes No ERP Operating Limited Partnership Yes No

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

Equity Residential Yes No ERP Operating Limited Partnership Yes No

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

Equity Residential:

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

ERP Operating Limited Partnership:

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

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

Equity Residential ERP Operating Limited Partnership

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

Equity Residential Yes No ERP Operating Limited Partnership Yes No

The number of EQR Common Shares of Beneficial Interest, $0.01 par value, outstanding on July 27, 2018 was 368,281,975.

Table of Contents

EXPLANATORY NOTE

This report combines the reports on Form 10-Q for the quarterly period ended June 30, 2018 of Equity Residential and ERP Operating Limited Partnership. Unless stated otherwise or the context otherwise requires, references to "EQR" mean Equity Residential, a Maryland real estate investment trust ("REIT"), and references to "ERPOP" mean ERP Operating Limited Partnership, an Illinois limited partnership. References to the "Company," "we," "us" or "our" mean collectively EQR, ERPOP and those entities/subsidiaries owned or controlled by EQR and/or ERPOP. References to the "Operating Partnership" mean collectively ERPOP and those entities/subsidiaries owned or controlled by ERPOP. The following chart illustrates the Company's and the Operating Partnership's corporate structure:

EQR is the general partner of, and as of June 30, 2018 owned an approximate 96.3% ownership interest in, ERPOP. The remaining 3.7% interest is owned by limited partners. As the sole general partner of ERPOP, EQR has exclusive control of ERPOP's day-to-day management. Management operates the Company and the Operating Partnership as one business. The management of EQR consists of the same members as the management of ERPOP.

The Company is structured as an umbrella partnership REIT ("UPREIT") and EQR contributes all net proceeds from its various equity offerings to ERPOP. In return for those contributions, EQR receives a number of OP Units (see definition below) in ERPOP equal to the number of Common Shares it has issued in the equity offering. The Company may acquire properties in transactions that include the issuance of OP Units as consideration for the acquired properties. Such transactions may, in certain circumstances, enable the sellers to defer in whole or in part, the recognition of taxable income or gain that might otherwise result from the sales. This is one of the reasons why the Company is structured in the manner shown above. Based on the terms of ERPOP's partnership agreement, OP Units can be exchanged with Common Shares on a one-for-one basis because the Company maintains a one-for-one relationship between the OP Units of ERPOP issued to EQR and the outstanding Common Shares.

The Company believes that combining the reports on Form 10-Q of EQR and ERPOP into this single report provides the following benefits:

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

The Company believes it is important to understand the few differences between EQR and ERPOP in the context of how EQR and ERPOP operate as a consolidated company. All of the Company's property ownership, development and related business operations are conducted through the Operating Partnership and EQR has no material assets or liabilities other than its investment in ERPOP. EQR's primary function is acting as the general partner of ERPOP. EQR also issues equity from time to time, the net proceeds of which it is obligated to contribute to ERPOP, and guarantees certain debt of ERPOP, as disclosed in this report. EQR does not have any indebtedness as all debt is incurred by the Operating Partnership. The Operating Partnership holds substantially all of the assets of the Company, including the Company's ownership interests in its joint ventures. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from equity offerings by EQR, which are contributed to the capital of ERPOP in exchange for additional partnership interests in ERPOP (“OP Units”) (on a one-for-one Common Share per OP Unit basis) or additional preference units in ERPOP (on a one-for-one preferred share per preference unit basis), the Operating Partnership generates all remaining capital required by the Company’s business. These sources include the Operating Partnership's working capital, net cash provided by operating activities, borrowings under its revolving credit facility and/or commercial paper program, the issuance of secured and unsecured debt and equity securities and proceeds received from disposition of certain properties and joint venture interests.

Shareholders' equity, partners' capital and noncontrolling interests are the main areas of difference between the consolidated financial statements of the Company and those of the Operating Partnership. The limited partners of the Operating Partnership are accounted for as partners' capital in the Operating Partnership's financial statements and as noncontrolling interests in the Company's financial statements. The noncontrolling interests in the Operating Partnership's financial statements include the interests of unaffiliated partners in various consolidated partnerships. The noncontrolling interests in the Company's financial statements include the same noncontrolling interests at the Operating Partnership level and limited partner OP Unit holders of the Operating Partnership. The differences between shareholders' equity and partners' capital result from differences in the equity issued at the Company and Operating Partnership levels.

To help investors understand the differences between the Company and the Operating Partnership, this report provides separate consolidated financial statements for the Company and the Operating Partnership; a single set of consolidated notes to such financial statements that includes separate discussions of each entity's debt, noncontrolling interests and shareholders' equity or partners' capital, as applicable; and a combined Management's Discussion and Analysis of Financial Condition and Results of Operations section that includes discrete information related to each entity.

This report also includes separate Part I, Item 4. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of the Company and the Operating Partnership in order to establish that the requisite certifications have been made and that the Company and the Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 and 18 U.S.C. §1350.

In order to highlight the differences between the Company and the Operating Partnership, the separate sections in this report for the Company and the Operating Partnership specifically refer to the Company and the Operating Partnership. In the sections that combine disclosure of the Company and the Operating Partnership, this report refers to actions or holdings as being actions or holdings of the Company. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and joint ventures and holds assets and debt, reference to the Company is appropriate because the Company is one business and the Company operates that business through the Operating Partnership.

As general partner with control of ERPOP, EQR consolidates ERPOP for financial reporting purposes, and EQR essentially has no assets or liabilities other than its investment in ERPOP. Therefore, the assets and liabilities of the Company and the Operating Partnership are the same on their respective financial statements. The separate discussions of the Company and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company on a consolidated basis and how management operates the Company.

Table of Contents

TABLE OF CONTENTS

	PAGE
PART I.	
Item 1. Financial Statements of Equity Residential:	
Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017	2
Consolidated Statements of Operations and Comprehensive Income for the six months and quarters ended June 30, 2018 and 2017	3 to 4
Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017	5 to 7
Consolidated Statement of Changes in Equity for the six months ended June 30, 2018	8 to 9
Financial Statements of ERP Operating Limited Partnership:	
Consolidated Balance Sheets as of June 30, 2018 and December 31, 2017	10
Consolidated Statements of Operations and Comprehensive Income for the six months and quarters ended June 30, 2018 and 2017	11 to 12
Consolidated Statements of Cash Flows for the six months ended June 30, 2018 and 2017	13 to 15
Consolidated Statement of Changes in Capital for the six months ended June 30, 2018	16 to 17
Notes to Consolidated Financial Statements of Equity Residential and ERP Operating Limited Partnership	18 to 39
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	40 to 54
Item 3. Quantitative and Qualitative Disclosures about Market Risk	54
Item 4. Controls and Procedures	54 to 55
PART II.	
Item 1. Legal Proceedings	56
Item 1A. Risk Factors	56
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	56
Item 3. Defaults Upon Senior Securities	56

Item 4. Mine Safety Disclosures	56
Item 5. Other Information	56
Item 6. Exhibits	56

Table of Contents

EQUITY RESIDENTIAL

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands except for share amounts)

(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Investment in real estate		
Land	$ 5,986,329	$ 5,996,024
Depreciable property	19,946,606	19,768,362
Projects under development	145,564	163,547
Land held for development	86,098	98,963
Investment in real estate	26,164,597	26,026,896
Accumulated depreciation	(6,338,043)	(6,040,378)
Investment in real estate, net	19,826,554	19,986,518
Cash and cash equivalents	34,507	50,647
Investments in unconsolidated entities	58,124	58,254
Restricted deposits	54,370	50,115
Other assets	433,027	425,065
Total assets	$ 20,406,582	$ 20,570,599
LIABILITIES AND EQUITY		
Liabilities:		
Mortgage notes payable, net	$ 2,894,325	$ 3,618,722
Notes, net	5,532,637	5,038,812
Line of credit and commercial paper	345,807	299,757
Accounts payable and accrued expenses	146,415	114,766
Accrued interest payable	63,341	58,035
Other liabilities	344,159	341,852
Security deposits	66,800	65,009
Distributions payable	206,829	192,828
Total liabilities	9,600,313	9,729,781
Commitments and contingencies		
Redeemable Noncontrolling Interests – Operating Partnership	366,483	366,955
Equity:		
Shareholders' equity:		
Preferred Shares of beneficial interest, $0.01 par value; 100,000,000 shares authorized; 745,600 shares issued and outstanding as of June 30, 2018 and	37,280	37,280

December 31, 2017		
Common Shares of beneficial interest, $0.01 par value; 1,000,000,000 shares authorized; 368,278,336 shares issued and outstanding as of June 30, 2018 and 368,018,082 shares issued and outstanding as of December 31, 2017	3,683	3,680
Paid in capital	8,905,184	8,886,586
Retained earnings	1,329,600	1,403,530
Accumulated other comprehensive income (loss)	(67,310)	(88,612)
Total shareholders' equity	10,208,437	10,242,464
Noncontrolling Interests:		
Operating Partnership	232,995	226,691
Partially Owned Properties	(1,646)	4,708
Total Noncontrolling Interests	231,349	231,399
Total equity	10,439,786	10,473,863
Total liabilities and equity	$20,406,582	$20,570,599

See accompanying notes

2

Table of Contents

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Amounts in thousands except per share data)

(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2018	2017	2018	2017
REVENUES				
Rental income	$1,272,451	$1,216,219	$639,620	$612,299
Fee and asset management	373	361	188	181
Total revenues	1,272,824	1,216,580	639,808	612,480
EXPENSES				
Property and maintenance	211,946	201,924	103,744	99,316
Real estate taxes and insurance	181,396	169,231	89,482	87,503
Property management	46,928	43,841	23,484	21,589
General and administrative	28,780	27,799	12,502	13,626
Depreciation	389,251	358,864	192,942	179,896
Total expenses	858,301	801,659	422,154	401,930
Operating income	414,523	414,921	217,654	210,550
Interest and other income	6,996	1,763	1,116	1,162
Other expenses	(7,210)	(2,132)	(3,769)	(1,042)
Interest:				
Expense incurred, net	(210,235)	(197,434)	(94,131)	(91,224)
Amortization of deferred financing costs	(5,778)	(4,383)	(2,099)	(2,087)
Income before income and other taxes, income (loss) from investments in unconsolidated entities and net gain (loss) on sales of real estate properties and land parcels	198,296	212,735	118,771	117,359
Income and other tax (expense) benefit	(487)	(482)	(274)	(220)
Income (loss) from investments in unconsolidated entities	(2,008)	(1,755)	(1,031)	(682)
Net gain (loss) on sales of real estate properties	142,162	124,433	(51)	87,726
Net gain (loss) on sales of land parcels	995	19,170	995	(23)
Net income	338,958	354,101	118,410	204,160
Net (income) loss attributable to Noncontrolling Interests:				
Operating Partnership	(12,358)	(12,765)	(4,299)	(7,354)
Partially Owned Properties	(1,189)	(1,553)	(509)	(765)

Net income attributable to controlling interests	325,411	339,783	113,602	196,041
Preferred distributions	(1,545)	(1,546)	(772)	(773)
Net income available to Common Shares	$323,866	$338,237	$112,830	$195,268
Earnings per share – basic:				
Net income available to Common Shares	$0.88	$0.92	$0.31	$0.53
Weighted average Common Shares outstanding	367,865	366,713	367,930	366,820
Earnings per share – diluted:				
Net income available to Common Shares	$0.88	$0.92	$0.31	$0.53
Weighted average Common Shares outstanding	383,224	382,505	383,423	382,692
Distributions declared per Common Share outstanding	$1.08	$1.0075	$0.54	$0.50375

See accompanying notes

Table of Contents

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Continued)

(Amounts in thousands except per share data)

(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2018	2017	2018	2017
Comprehensive income:				
Net income	$338,958	$354,101	$118,410	$204,160
Other comprehensive income (loss):				
Other comprehensive income (loss) – derivative instruments:				
Unrealized holding gains (losses) arising during the period	11,995	3,507	5,908	3,507
Losses reclassified into earnings from other comprehensive income	9,307	9,251	4,516	4,668
Other comprehensive income (loss)	21,302	12,758	10,424	8,175
Comprehensive income	360,260	366,859	128,834	212,335
Comprehensive (income) attributable to Noncontrolling Interests	(14,329)	(14,782)	(5,190)	(8,416)
Comprehensive income attributable to controlling interests	$345,931	$352,077	$123,644	$203,919

See accompanying notes

4

Table of Contents

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$338,958	$354,101
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	389,251	358,864
Amortization of deferred financing costs	5,778	4,383
Amortization of above/below market lease intangibles	2,196	1,717
Amortization of discounts and premiums on debt	3,263	1,391
Amortization of deferred settlements on derivative instruments	9,302	9,246
Write-off of pursuit costs	2,066	1,546
(Income) loss from investments in unconsolidated entities	2,008	1,755
Distributions from unconsolidated entities – return on capital	1,188	1,345
Net (gain) loss on sales of real estate properties	(142,162)	(124,433)
Net (gain) loss on sales of land parcels	(995)	(19,170)
Net (gain) loss on debt extinguishment	22,110	12,258
Compensation paid with Company Common Shares	17,032	15,027
Changes in assets and liabilities:		
(Increase) decrease in other assets	417	(39,845)
Increase (decrease) in accounts payable and accrued expenses	25,396	24,503
Increase (decrease) in accrued interest payable	5,306	(12,123)
Increase (decrease) in other liabilities	2,549	(32,476)
Increase (decrease) in security deposits	1,791	1,024
Net cash provided by operating activities	685,454	559,113
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in real estate – acquisitions	(200,546)	(57,066)
Investment in real estate – development/other	(76,635)	(175,887)
Capital expenditures to real estate	(85,987)	(89,297)
Non-real estate capital additions	(2,145)	(654)
Interest capitalized for real estate under development	(2,937)	(16,626)
Proceeds from disposition of real estate, net	287,173	297,298
Investments in unconsolidated entities	(3,099)	(2,488)
Distributions from unconsolidated entities – return of capital	—	113
Net cash provided by (used for) investing activities	(84,176)	(44,607)

See accompanying notes

5

Table of Contents

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt financing costs	$(4,354)	$(2)
Mortgage notes payable, net:		
Lump sum payoffs	(725,639)	(370,420)
Scheduled principal repayments	(3,273)	(6,971)
Net gain (loss) on debt extinguishment	(22,110)	(12,258)
Notes, net:		
Proceeds	497,010	—
Lump sum payoffs	—	(394,077)
Line of credit and commercial paper:		
Line of credit proceeds	415,000	890,000
Line of credit repayments	(415,000)	(625,000)
Commercial paper proceeds	4,766,050	2,610,863
Commercial paper repayments	(4,720,000)	(2,131,500)
Proceeds from (payments on) settlement of derivative instruments	1,638	—
Proceeds from Employee Share Purchase Plan (ESPP)	2,181	2,111
Proceeds from exercise of options	2,617	8,143
Payment of offering costs	(27)	(36)
Other financing activities, net	(48)	(40)
Contributions – Noncontrolling Interests – Partially Owned Properties	125	125
Contributions – Noncontrolling Interests – Operating Partnership	1	—
Distributions:		
Common Shares	(384,315)	(369,244)
Preferred Shares	(1,545)	(2,318)
Noncontrolling Interests – Operating Partnership	(13,854)	(13,913)
Noncontrolling Interests – Partially Owned Properties	(7,620)	(5,944)
Net cash provided by (used for) financing activities	(613,163)	(420,481)
Net increase (decrease) in cash and cash equivalents and restricted deposits	(11,885)	94,025
Cash and cash equivalents and restricted deposits, beginning of period	100,762	219,088
Cash and cash equivalents and restricted deposits, end of period	$88,877	$313,113
Cash and cash equivalents and restricted deposits, end of period		
Cash and cash equivalents	$34,507	$37,719
Restricted deposits	54,370	275,394

Total cash and cash equivalents and restricted deposits, end of period	$88,877	$313,113

See accompanying notes

6

Table of Contents

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2018	2017
SUPPLEMENTAL INFORMATION:		
Cash paid for interest, net of amounts capitalized	$188,913	$197,336
Net cash paid for income and other taxes	$644	$624
Amortization of deferred financing costs:		
Other assets	$1,206	$1,206
Mortgage notes payable, net	$2,552	$1,378
Notes, net	$2,020	$1,799
Amortization of discounts and premiums on debt:		
Mortgage notes payable, net	$1,963	$195
Notes, net	$1,300	$1,196
Amortization of deferred settlements on derivative instruments:		
Other liabilities	$(5)	$(5)
Accumulated other comprehensive income	$9,307	$9,251
Write-off of pursuit costs:		
Investment in real estate, net	$2,042	$1,505
Other assets	$10	$21
Accounts payable and accrued expenses	$14	$20
(Income) loss from investments in unconsolidated entities:		
Investments in unconsolidated entities	$1,321	$1,025
Other liabilities	$687	$730
Realized/unrealized (gain) loss on derivative instruments:		
Other assets	$(13,226)	$(2,877)
Notes, net	$(2,151)	$(630)
Other liabilities	$3,382	$—
Accumulated other comprehensive income	$11,995	$3,507
Investments in unconsolidated entities:		
Investments in unconsolidated entities	$(2,379)	$(1,588)
Other liabilities	$(720)	$(900)
Debt financing costs:		
Notes, net	$(4,354)	$(2)
Proceeds from (payments on) settlement of derivative instruments:		
Other assets	$1,638	$—

See accompanying notes

Table of Contents

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2018
SHAREHOLDERS’ EQUITY	
PREFERRED SHARES	
Balance, beginning of year	$37,280
Balance, end of period	$37,280
COMMON SHARES, $0.01 PAR VALUE	
Balance, beginning of year	$3,680
Exercise of share options	1
Employee Share Purchase Plan (ESPP)	1
Share-based employee compensation expense:	
Restricted shares	1
Balance, end of period	$3,683
PAID IN CAPITAL	
Balance, beginning of year	$8,886,586
Common Share Issuance:	
Conversion of OP Units into Common Shares	331
Exercise of share options	2,616
Employee Share Purchase Plan (ESPP)	2,180
Share-based employee compensation expense:	
Restricted shares	5,162
Share options	8,536
ESPP discount	400
Offering costs	(27)
Supplemental Executive Retirement Plan (SERP)	(538)
Change in market value of Redeemable Noncontrolling Interests – Operating Partnership	(172)
Adjustment for Noncontrolling Interests ownership in Operating Partnership	110
Balance, end of period	$8,905,184
RETAINED EARNINGS	
Balance, beginning of year	$1,403,530
Net income attributable to controlling interests	325,411
Common Share distributions	(397,796)
Preferred Share distributions	(1,545)
Balance, end of period	$1,329,600
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	

Balance, beginning of year	$(88,612)
Accumulated other comprehensive income (loss) – derivative instruments:	
Unrealized holding gains (losses) arising during the period	11,995
Losses reclassified into earnings from other comprehensive income	9,307
Balance, end of period	$(67,310)

See accompanying notes

8

Table of Contents

EQUITY RESIDENTIAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Continued)

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2018
NONCONTROLLING INTERESTS	
OPERATING PARTNERSHIP	
Balance, beginning of year	$226,691
Issuance of restricted units to Noncontrolling Interests	1
Conversion of OP Units held by Noncontrolling Interests into OP Units held by General Partner	(331)
Equity compensation associated with Noncontrolling Interests	8,116
Net income attributable to Noncontrolling Interests	12,358
Distributions to Noncontrolling Interests	(14,374)
Change in carrying value of Redeemable Noncontrolling Interests – Operating Partnership	644
Adjustment for Noncontrolling Interests ownership in Operating Partnership	(110)
Balance, end of period	$232,995
PARTIALLY OWNED PROPERTIES	
Balance, beginning of year	$4,708
Net income attributable to Noncontrolling Interests	1,189
Contributions by Noncontrolling Interests	125
Distributions to Noncontrolling Interests	(7,668)
Balance, end of period	$(1,646)

See accompanying notes

9

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

(Unaudited)

	June 30, 2018	December 31, 2017
ASSETS		
Investment in real estate		
Land	$5,986,329	$5,996,024
Depreciable property	19,946,606	19,768,362
Projects under development	145,564	163,547
Land held for development	86,098	98,963
Investment in real estate	26,164,597	26,026,896
Accumulated depreciation	(6,338,043)	(6,040,378)
Investment in real estate, net	19,826,554	19,986,518
Cash and cash equivalents	34,507	50,647
Investments in unconsolidated entities	58,124	58,254
Restricted deposits	54,370	50,115
Other assets	433,027	425,065
Total assets	$20,406,582	$20,570,599
LIABILITIES AND CAPITAL		
Liabilities:		
Mortgage notes payable, net	$2,894,325	$3,618,722
Notes, net	5,532,637	5,038,812
Line of credit and commercial paper	345,807	299,757
Accounts payable and accrued expenses	146,415	114,766
Accrued interest payable	63,341	58,035
Other liabilities	344,159	341,852
Security deposits	66,800	65,009
Distributions payable	206,829	192,828
Total liabilities	9,600,313	9,729,781
Commitments and contingencies		
Redeemable Limited Partners	366,483	366,955
Capital:		
Partners' Capital:		
Preference Units	37,280	37,280
General Partner	10,238,467	10,293,796
Limited Partners	232,995	226,691

Accumulated other comprehensive income (loss)	(67,310)	(88,612)
Total partners’ capital	10,441,432	10,469,155
Noncontrolling Interests – Partially Owned Properties	(1,646)	4,708
Total capital	10,439,786	10,473,863
Total liabilities and capital	$ 20,406,582	$ 20,570,599

See accompanying notes

10

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Amounts in thousands except per Unit data)

(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2018	2017	2018	2017
REVENUES				
Rental income	$1,272,451	$1,216,219	$639,620	$612,299
Fee and asset management	373	361	188	181
Total revenues	1,272,824	1,216,580	639,808	612,480
EXPENSES				
Property and maintenance	211,946	201,924	103,744	99,316
Real estate taxes and insurance	181,396	169,231	89,482	87,503
Property management	46,928	43,841	23,484	21,589
General and administrative	28,780	27,799	12,502	13,626
Depreciation	389,251	358,864	192,942	179,896
Total expenses	858,301	801,659	422,154	401,930
Operating income	414,523	414,921	217,654	210,550
Interest and other income	6,996	1,763	1,116	1,162
Other expenses	(7,210)	(2,132)	(3,769)	(1,042)
Interest:				
Expense incurred, net	(210,235)	(197,434)	(94,131)	(91,224)
Amortization of deferred financing costs	(5,778)	(4,383)	(2,099)	(2,087)
Income before income and other taxes, income (loss) from investments in unconsolidated entities and net gain (loss) on sales of real estate properties and land parcels	198,296	212,735	118,771	117,359
Income and other tax (expense) benefit	(487)	(482)	(274)	(220)
Income (loss) from investments in unconsolidated entities	(2,008)	(1,755)	(1,031)	(682)
Net gain (loss) on sales of real estate properties	142,162	124,433	(51)	87,726
Net gain (loss) on sales of land parcels	995	19,170	995	(23)
Net income	338,958	354,101	118,410	204,160
Net (income) loss attributable to Noncontrolling Interests – Partially Owned	(1,189)	(1,553)	(509)	(765)

Properties				
Net income attributable to controlling interests	$337,769	$352,548	$117,901	$203,395
ALLOCATION OF NET INCOME:				
Preference Units	$1,545	$1,546	$772	$773
General Partner	$323,866	$338,237	$112,830	$195,268
Limited Partners	12,358	12,765	4,299	7,354
Net income available to Units	$336,224	$351,002	$117,129	$202,622
Earnings per Unit – basic:				
Net income available to Units	$0.88	$0.92	$0.31	$0.53
Weighted average Units outstanding	380,729	379,619	380,795	379,733
Earnings per Unit – diluted:				
Net income available to Units	$0.88	$0.92	$0.31	$0.53
Weighted average Units outstanding	383,224	382,505	383,423	382,692
Distributions declared per Unit outstanding	$1.08	$1.0075	$0.54	$0.50375

See accompanying notes

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Continued)

(Amounts in thousands except per Unit data)

(Unaudited)

	Six Months Ended June 30,		Quarter Ended June 30,	
	2018	2017	2018	2017
Comprehensive income:				
Net income	$338,958	$354,101	$118,410	$204,160
Other comprehensive income (loss):				
Other comprehensive income (loss) – derivative instruments:				
Unrealized holding gains (losses) arising during the period	11,995	3,507	5,908	3,507
Losses reclassified into earnings from other comprehensive income	9,307	9,251	4,516	4,668
Other comprehensive income (loss)	21,302	12,758	10,424	8,175
Comprehensive income	360,260	366,859	128,834	212,335
Comprehensive (income) attributable to Noncontrolling Interests – Partially Owned Properties	(1,189)	(1,553)	(509)	(765)
Comprehensive income attributable to controlling interests	$359,071	$365,306	$128,325	$211,570

See accompanying notes

12

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$338,958	$354,101
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	389,251	358,864
Amortization of deferred financing costs	5,778	4,383
Amortization of above/below market lease intangibles	2,196	1,717
Amortization of discounts and premiums on debt	3,263	1,391
Amortization of deferred settlements on derivative instruments	9,302	9,246
Write-off of pursuit costs	2,066	1,546
(Income) loss from investments in unconsolidated entities	2,008	1,755
Distributions from unconsolidated entities – return on capital	1,188	1,345
Net (gain) loss on sales of real estate properties	(142,162)	(124,433)
Net (gain) loss on sales of land parcels	(995)	(19,170)
Net (gain) loss on debt extinguishment	22,110	12,258
Compensation paid with Company Common Shares	17,032	15,027
Changes in assets and liabilities:		
(Increase) decrease in other assets	417	(39,845)
Increase (decrease) in accounts payable and accrued expenses	25,396	24,503
Increase (decrease) in accrued interest payable	5,306	(12,123)
Increase (decrease) in other liabilities	2,549	(32,476)
Increase (decrease) in security deposits	1,791	1,024
Net cash provided by operating activities	685,454	559,113
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment in real estate – acquisitions	(200,546)	(57,066)
Investment in real estate – development/other	(76,635)	(175,887)
Capital expenditures to real estate	(85,987)	(89,297)
Non-real estate capital additions	(2,145)	(654)
Interest capitalized for real estate under development	(2,937)	(16,626)
Proceeds from disposition of real estate, net	287,173	297,298
Investments in unconsolidated entities	(3,099)	(2,488)
Distributions from unconsolidated entities – return of capital	—	113
Net cash provided by (used for) investing activities	(84,176)	(44,607)

See accompanying notes

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES:		
Debt financing costs	$(4,354)	$(2)
Mortgage notes payable, net:		
Lump sum payoffs	(725,639)	(370,420)
Scheduled principal repayments	(3,273)	(6,971)
Net gain (loss) on debt extinguishment	(22,110)	(12,258)
Notes, net:		
Proceeds	497,010	—
Lump sum payoffs	—	(394,077)
Line of credit and commercial paper:		
Line of credit proceeds	415,000	890,000
Line of credit repayments	(415,000)	(625,000)
Commercial paper proceeds	4,766,050	2,610,863
Commercial paper repayments	(4,720,000)	(2,131,500)
Proceeds from (payments on) settlement of derivative instruments	1,638	—
Proceeds from EQR's Employee Share Purchase Plan (ESPP)	2,181	2,111
Proceeds from exercise of EQR options	2,617	8,143
Payment of offering costs	(27)	(36)
Other financing activities, net	(48)	(40)
Contributions – Noncontrolling Interests – Partially Owned Properties	125	125
Contributions – Limited Partners	1	—
Distributions:		
OP Units – General Partner	(384,315)	(369,244)
Preference Units	(1,545)	(2,318)
OP Units – Limited Partners	(13,854)	(13,913)
Noncontrolling Interests – Partially Owned Properties	(7,620)	(5,944)
Net cash provided by (used for) financing activities	(613,163)	(420,481)
Net increase (decrease) in cash and cash equivalents and restricted deposits	(11,885)	94,025
Cash and cash equivalents and restricted deposits, beginning of period	100,762	219,088
Cash and cash equivalents and restricted deposits, end of period	$88,877	$313,113
Cash and cash equivalents and restricted deposits, end of period		
Cash and cash equivalents	$34,507	$37,719
Restricted deposits	54,370	275,394

Total cash and cash equivalents and restricted deposits, end of period	$88,877	$313,113

See accompanying notes

14

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2018	2017
SUPPLEMENTAL INFORMATION:		
Cash paid for interest, net of amounts capitalized	$188,913	$197,336
Net cash paid for income and other taxes	$644	$624
Amortization of deferred financing costs:		
Other assets	$1,206	$1,206
Mortgage notes payable, net	$2,552	$1,378
Notes, net	$2,020	$1,799
Amortization of discounts and premiums on debt:		
Mortgage notes payable, net	$1,963	$195
Notes, net	$1,300	$1,196
Amortization of deferred settlements on derivative instruments:		
Other liabilities	$(5)	$(5)
Accumulated other comprehensive income	$9,307	$9,251
Write-off of pursuit costs:		
Investment in real estate, net	$2,042	$1,505
Other assets	$10	$21
Accounts payable and accrued expenses	$14	$20
(Income) loss from investments in unconsolidated entities:		
Investments in unconsolidated entities	$1,321	$1,025
Other liabilities	$687	$730
Realized/unrealized (gain) loss on derivative instruments:		
Other assets	$(13,226)	$(2,877)
Notes, net	$(2,151)	$(630)
Other liabilities	$3,382	$—
Accumulated other comprehensive income	$11,995	$3,507
Investments in unconsolidated entities:		
Investments in unconsolidated entities	$(2,379)	$(1,588)
Other liabilities	$(720)	$(900)
Debt financing costs:		
Notes, net	$(4,354)	$(2)
Proceeds from (payments on) settlement of derivative instruments:		
Other assets	$1,638	$—

See accompanying notes

15

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP

CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2018
PARTNERS' CAPITAL	
PREFERENCE UNITS	
Balance, beginning of year	$37,280
Balance, end of period	$37,280
GENERAL PARTNER	
Balance, beginning of year	$10,293,796
OP Unit Issuance:	
Conversion of OP Units held by Limited Partners into OP Units held by General Partner	331
Exercise of EQR share options	2,617
EQR's Employee Share Purchase Plan (ESPP)	2,181
Share-based employee compensation expense:	
EQR restricted shares	5,163
EQR share options	8,536
EQR ESPP discount	400
Net income available to Units – General Partner	323,866
OP Units – General Partner distributions	(397,796)
Offering costs	(27)
Supplemental Executive Retirement Plan (SERP)	(538)
Change in market value of Redeemable Limited Partners	(172)
Adjustment for Limited Partners ownership in Operating Partnership	110
Balance, end of period	$10,238,467
LIMITED PARTNERS	
Balance, beginning of year	$226,691
Issuance of restricted units to Limited Partners	1
Conversion of OP Units held by Limited Partners into OP Units held by General Partner	(331)
Equity compensation associated with Units – Limited Partners	8,116
Net income available to Units – Limited Partners	12,358
Units – Limited Partners distributions	(14,374)
Change in carrying value of Redeemable Limited Partners	644
Adjustment for Limited Partners ownership in Operating Partnership	(110)
Balance, end of period	$232,995
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	
Balance, beginning of year	$(88,612)

Accumulated other comprehensive income (loss) – derivative instruments:	
Unrealized holding gains (losses) arising during the period	11,995
Losses reclassified into earnings from other comprehensive income	9,307
Balance, end of period	$(67,310)

See accompanying notes

Table of Contents

ERP OPERATING LIMITED PARTNERSHIP

CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL (Continued)

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2018
NONCONTROLLING INTERESTS	
NONCONTROLLING INTERESTS – PARTIALLY OWNED PROPERTIES	
Balance, beginning of year	$ 4,708
Net income attributable to Noncontrolling Interests	1,189
Contributions by Noncontrolling Interests	125
Distributions to Noncontrolling Interests	(7,668)
Balance, end of period	$ (1,646)

See accompanying notes

17

EQUITY RESIDENTIAL

ERP OPERATING LIMITED PARTNERSHIP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Business

Equity Residential ("EQR") is an S&P 500 company focused on the acquisition, development and management of rental apartment properties primarily in urban and high-density suburban coastal gateway markets. ERP Operating Limited Partnership ("ERPOP") is focused on conducting the multifamily residential property business of Equity Residential. EQR is a Maryland real estate investment trust ("REIT") formed in March 1993 and ERPOP is an Illinois limited partnership formed in May 1993. References to the "Company," "we," "us" or "our" mean collectively EQR, ERPOP and those entities/subsidiaries owned or controlled by EQR and/or ERPOP. References to the "Operating Partnership" mean collectively ERPOP and those entities/subsidiaries owned or controlled by ERPOP. Unless otherwise indicated, the notes to consolidated financial statements apply to both the Company and the Operating Partnership.

EQR is the general partner of, and as of June 30, 2018 owned an approximate 96.3% ownership interest in, ERPOP. All of the Company's property ownership, development and related business operations are conducted through the Operating Partnership and EQR has no material assets or liabilities other than its investment in ERPOP. EQR issues public equity from time to time, the net proceeds of which it is obligated to contribute to ERPOP, but does not have any indebtedness as all debt is incurred by the Operating Partnership. The Operating Partnership holds substantially all of the assets of the Company, including the Company's ownership interests in its joint ventures. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity.

As of June 30, 2018, the Company, directly or indirectly through investments in title holding entities, owned all or a portion of 304 properties located in 10 states and the District of Columbia consisting of 78,645 apartment units. The ownership breakdown includes (table does not include various uncompleted development properties):

	Properties	Apartment Units
Wholly Owned Properties	284	74,003
Master-Leased Properties – Consolidated	1	162
Partially Owned Properties – Consolidated	17	3,535
Partially Owned Properties – Unconsolidated	2	945
	304	78,645

Note: Effective February 1, 2018 and April 2, 2018, the Company took over management of two of its Master-Leased properties containing 94 apartment units and 597 apartment units located in Boston and Los Angeles, respectively.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) and certain reclassifications considered necessary for a fair presentation have been included. Certain reclassifications have been made to the prior period financial statements in order to conform to the current year presentation. These reclassifications did not have an impact on net income previously reported. Operating results for the six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

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

The balance sheets at December 31, 2017 have been derived from the audited financial statements at that date but do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

For further information, including definitions of capitalized terms not defined herein, refer to the consolidated financial statements and footnotes thereto included in the Company's and the Operating Partnership's Annual Report on Form 10-K for the year ended December 31, 2017.

Income and Other Taxes

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

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates for which the temporary differences are expected to be recovered or settled. The effects of changes in tax rates on deferred tax assets and liabilities are recognized in earnings in the period enacted. The Company's deferred tax assets were generally the result of tax affected suspended interest deductions, net operating losses, differing depreciable lives on capitalized assets and the timing of expense recognition for certain accrued liabilities.

In December 2017, the President signed into law H.R. 1, informally titled the Tax Cuts and Jobs Act (the "Tax Act"). The Tax Act is not expected to have a material impact on our REIT or subsidiary entities, our ability to continue to qualify as a REIT or on our results of operations. However, the complete impact of the Tax Act is not yet fully known and there can be no assurances that it will have a neutral or favorable impact.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued a new leases standard which sets out principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract (i.e. lessors and lessees). The new standard requires the following:

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

- Lessees – Leases will be accounted for using a dual approach, classifying leases as either operating or finance based on the principle of whether or not the lease is effectively a financed purchase of the leased asset by the lessee. This classification will determine whether the lease expense is recognized on a straight-line basis over the term of the lease (for operating leases) or based on an effective interest method (for finance leases). A lessee is also required to record a right-of-use asset and a lease liability on its balance sheet for all leases with a term of greater than 12 months regardless of their classification as operating or finance leases. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases.

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

In July 2018, the FASB issued an amendment to the new leases standard, which includes a practical expedient that provides lessors an option not to separate lease and non-lease components when certain criteria are met and instead account for those components as a single component under the new leases standard. The amendment also provides a transition option that permits the application of the new guidance as of the adoption date rather than to all periods presented. The Company anticipates electing the practical expedient to account for both its lease and non-lease components as a single component under the leases standard and electing the new transition option.

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

In August 2017, the FASB issued a final standard which makes changes to the hedge accounting model to enable entities to better portray their risk management activities in the financial statements. The new standard expands an entity's ability to hedge nonfinancial and financial risk components, reduces complexity in fair value hedges of interest rate risk and eases certain documentation and assessment requirements. The new standard also eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of any hedging instrument to be presented in the same income statement line as the hedged instrument. The new standard will be effective for the Company beginning on January 1, 2019 and early adoption is permitted. The Company is currently evaluating the impact of adopting the new standard on its consolidated results of operations and financial position.

Recently Adopted Accounting Pronouncements

In May 2014, the FASB issued a comprehensive new revenue recognition standard entitled Revenue from Contracts with Customers that superseded nearly all existing revenue recognition guidance. The new standard specifically excludes lease revenue. The new standard's core principle is that a company recognizes revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. Companies will likely need to use more judgment and make more estimates than under previous revenue recognition guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration, if any, to include in the transaction price and allocating the transaction price to each separate performance obligation. The new standard may be applied retrospectively to each prior period presented or prospectively with the cumulative effect, if any, recognized as of the date of adoption. The Company selected the modified retrospective transition method as of the date of adoption as required effective January 1, 2018. Approximately 94% of rental income consists of revenue from leasing arrangements, which is specifically excluded from the standard (included as leasing revenue in the table below). The Company analyzed its remaining revenue streams, inclusive of fee and asset management and gains and losses on sales, and concluded these revenue streams have the same timing and pattern of revenue recognition under the new guidance, and therefore the Company had no changes in revenue recognition with the adoption of the new standard. As such, adoption of the standard did not result in a cumulative adjustment recognized as of January 1, 2018, and the standard did not have a material impact on the Company's consolidated financial position, results of operations, equity/capital or cash flows.

For the remaining approximately 6% of rental income that is subject to the new revenue recognition standard, the Company's disaggregated revenue streams are disclosed in the table below for the six months and quarter ended

June 30, 2018. These revenue streams have the same timing and pattern of revenue recognition across our reportable segments, with consistent allocations between the leasing and revenue recognition standards. The revenue streams and percentages are comparable with the percentage of rental income for the six months and quarter ended June 30, 2017.

The following table presents the disaggregation of revenue streams of our rental income for the six months and quarter ended June 30, 2018 (amounts in thousands):

		Six Months Ended June 30, 2018		Quarter Ended June 30, 2018	
Revenue Stream	Applicable Standard	Amount of Rental Income	Percentage of Rental Income	Amount of Rental Income	Percentage of Rental Income
Leasing revenue	Leases	$1,192,789	93.8 %	$599,976	93.8 %
Utility recoveries ("RUBS")	Revenue Recognition	30,935	2.4 %	15,560	2.4 %
Parking revenue	Revenue Recognition	14,064	1.1 %	6,267	1.0 %
Other revenue	Revenue Recognition	34,663	2.7 %	17,817	2.8 %
Rental income		$1,272,451	100.0 %	$639,620	100.0 %

Table of Contents

Additionally, as part of the new revenue recognition standard, the FASB issued amendments related to partial sales of real estate (see further discussion below). Adoption of the new partial sales standard did not result in a change of accounting for the Company related to its disposition process. We concluded that the Company’s typical dispositions will continue to meet the criteria for sale and associated profit recognition under both new standards.

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

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

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

The new standards must be applied retrospectively to all periods presented in the consolidated financial statements. The Company adopted the new standard in the fourth quarter of 2017 and will continue to apply the look-through approach for distributions received from equity method investees. While overall cash flows did not change, there are changes between cash flow classifications due primarily to the debt prepayment penalties that the Company has incurred in the comparative period. As of June 30, 2017, the following cash flows were reclassified (amounts in thousands):

Table of Contents

	Six Months Ended June 30, 2017		
	As Originally Presented	Reclassification Adjustments	As Presented Herein
Cash Flows from Operating Activities:			
Amortization of discounts and premiums on debt	$3,359	$ (1,968)	$1,391
Net (gain) loss on debt extinguishment	$—	$ 12,258	$12,258
(Increase) decrease in deposits - restricted	$310	$ (310)	$—
(Increase) decrease in mortgage deposits	$900	$ (900)	$—
Net cash provided by operating activities	$550,033	$ 9,080	$559,113
Cash Flows from Investing Activities:			
(Increase) decrease in deposits on real estate acquisitions and investments, net	$(177,742)	$ 177,742	$—
(Increase) decrease in mortgage deposits	$(4,108)	$ 4,108	$—
Net cash provided by (used for) investing activities	$(226,457)	$ 181,850	$(44,607)
Cash Flows from Financing Activities:			
Mortgage deposits	$47,127	$ (47,127)	$—
Mortgage notes payable, net: Net gain (loss) on debt extinguishment	$—	$ (12,258)	$(12,258)
Line of credit and commercial paper: Commercial paper proceeds	$2,608,895	$ 1,968	$2,610,863
Net cash (used for) financing activities	$(363,064)	$ (57,417)	$(420,481)
Cash and cash equivalents, beginning of period	$77,207		
(adjustments for restricted deposits, beginning of period)		$ 141,881	
Cash and cash equivalents and restricted deposits, beginning of period			$219,088
Cash and cash equivalents, end of period	$37,719		
(adjustments for restricted deposits, end of period)		$ 275,394	
Cash and cash equivalents and restricted deposits, end of period			$313,113

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

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

Other

The Company is the controlling partner in various consolidated partnerships owning 17 properties consisting of 3,535 apartment units having a noncontrolling interest deficit balance of $1.6 million at June 30, 2018. The Company is required to make certain disclosures regarding noncontrolling interests in consolidated limited-life subsidiaries. Of the consolidated entities described above, the Company is the controlling partner in limited-life partnerships owning four properties having a noncontrolling interest deficit balance of $8.7 million. These four partnership agreements contain provisions that require the partnerships to be liquidated through the sale of their assets upon reaching a date specified in each respective partnership agreement. The Company, as controlling partner, has an obligation to cause the property owning partnerships to distribute the proceeds of liquidation to the Noncontrolling Interests in these Partially Owned Properties only to the extent that the net proceeds received by the partnerships from the sale of their assets warrant a distribution based on the partnership agreements. As of June 30, 2018, the Company estimates the value of Noncontrolling Interest distributions for these four properties would have been approximately $66.8 million (“Settlement Value”) had the partnerships been liquidated. This Settlement Value is based on estimated third party consideration realized by the partnerships upon disposition of the four Partially Owned Properties and is net of all other assets and liabilities, including yield maintenance on the mortgages encumbering the properties, that would have been due on June 30, 2018 had those mortgages been prepaid. Due to, among other things, the inherent uncertainty in the sale of real estate assets, the amount of any potential distribution to the Noncontrolling Interests in the Company’s Partially Owned Properties is subject to change. To the extent that the partnerships’ underlying assets are worth less than the underlying liabilities, the Company has no obligation to remit any consideration to the Noncontrolling Interests in these Partially Owned Properties.

3. Equity, Capital and Other Interests

Equity and Redeemable Noncontrolling Interests of Equity Residential

The following tables present the changes in the Company’s issued and outstanding Common Shares and “Units” (which includes OP Units and restricted units) for the six months ended June 30, 2018:

	2018
Common Shares	
Common Shares outstanding at January 1,	368,018,082
Common Shares Issued:	
Conversion of OP Units	11,494
Exercise of share options	80,875
Employee Share Purchase Plan (ESPP)	44,858
Restricted share grants, net	123,027
Common Shares outstanding at June 30,	368,278,336
Units	
Units outstanding at January 1,	13,768,438
Restricted unit grants, net	267,074
Conversion of OP Units to Common Shares	(11,494)
Units outstanding at June 30,	14,024,018
Total Common Shares and Units outstanding at June 30,	382,302,354
Units Ownership Interest in Operating Partnership	3.7 %

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

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

The Noncontrolling Interests – Operating Partnership Units are classified as either mezzanine equity or permanent equity. If EQR is required, either by contract or securities law, to deliver registered Common Shares, such Noncontrolling Interests – Operating Partnership are differentiated and referred to as “Redeemable Noncontrolling Interests – Operating Partnership”. Instruments that

Table of Contents

require settlement in registered shares cannot be classified in permanent equity as it is not always completely within an issuer's control to deliver registered shares. Therefore, settlement in cash is assumed and that responsibility for settlement in cash is deemed to fall to the Operating Partnership as the primary source of cash for EQR, resulting in presentation in the mezzanine section of the balance sheet. The Redeemable Noncontrolling Interests – Operating Partnership are adjusted to the greater of carrying value or fair market value based on the Common Share price of EQR at the end of each respective reporting period. EQR has the ability to deliver unregistered Common Shares for the remaining portion of the Noncontrolling Interests – Operating Partnership Units that are classified in permanent equity at June 30, 2018 and December 31, 2017.

The carrying value of the Redeemable Noncontrolling Interests – Operating Partnership is allocated based on the number of Redeemable Noncontrolling Interests – Operating Partnership Units in proportion to the number of Noncontrolling Interests – Operating Partnership Units in total. Such percentage of the total carrying value of Units which is ascribed to the Redeemable Noncontrolling Interests – Operating Partnership is then adjusted to the greater of carrying value or fair market value as described above. As of June 30, 2018, the Redeemable Noncontrolling Interests – Operating Partnership have a redemption value of approximately $366.5 million, which represents the value of Common Shares that would be issued in exchange for the Redeemable Noncontrolling Interests – Operating Partnership Units.

The following table presents the changes in the redemption value of the Redeemable Noncontrolling Interests – Operating Partnership for the six months ended June 30, 2018 (amounts in thousands):

	2018
Balance at January 1,	$366,955
Change in market value	172
Change in carrying value	(644)
Balance at June 30,	$366,483

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

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

The following table presents the Company's issued and outstanding Preferred Shares as of June 30, 2018 and December 31, 2017:

			Amounts in thousands	
	Call Date (1)	Annual Dividend Per Share (2)	June 30, 2018	December 31, 2017
Preferred Shares of beneficial interest, $0.01 par value; 100,000,000 shares authorized:				
8.29% Series K Cumulative Redeemable Preferred; liquidation value $50 per share; 745,600 shares issued and outstanding as of June 30, 2018 and December 31, 2017	12/10/26	$ 4.145	$37,280	$ 37,280
			$37,280	$ 37,280

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

Table of Contents

Capital and Redeemable Limited Partners of ERP Operating Limited Partnership

The following tables present the changes in the Operating Partnership's issued and outstanding Units and in the limited partners' Units for the six months ended June 30, 2018:

	2018
General and Limited Partner Units	
General and Limited Partner Units outstanding at January 1,	381,786,520
Issued to General Partner:	
Exercise of EQR share options	80,875
EQR's Employee Share Purchase Plan (ESPP)	44,858
EQR's restricted share grants, net	123,027
Issued to Limited Partners:	
Restricted unit grants, net	267,074
General and Limited Partner Units outstanding at June 30,	382,302,354
Limited Partner Units	
Limited Partner Units outstanding at January 1,	13,768,438
Limited Partner restricted unit grants, net	267,074
Conversion of Limited Partner OP Units to EQR Common Shares	(11,494)
Limited Partner Units outstanding at June 30,	14,024,018
Limited Partner Units Ownership Interest in Operating Partnership	3.7 %

The Limited Partners of the Operating Partnership as of June 30, 2018 include various individuals and entities that contributed their properties to the Operating Partnership in exchange for OP Units, as well as the equity positions of the holders of restricted units. Subject to certain exceptions (including the "book-up" requirements of restricted units), Limited Partners may exchange their Units with EQR for Common Shares on a one-for-one basis. The carrying value of the Limited Partner Units (including redeemable interests) is allocated based on the number of Limited Partner Units in total in proportion to the number of Limited Partner Units in total plus the number of General Partner Units. Net income is allocated to the Limited Partner Units based on the weighted average ownership percentage during the period.

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

The Limited Partner Units are classified as either mezzanine equity or permanent equity. If EQR is required, either by contract or securities law, to deliver registered Common Shares, such Limited Partner Units are differentiated and referred to as "Redeemable Limited Partner Units". Instruments that require settlement in registered shares cannot be classified in permanent equity as it is not always completely within an issuer's control to deliver registered shares. Therefore, settlement in cash is assumed and that responsibility for settlement in cash is deemed to fall to the Operating Partnership as the primary source of cash for EQR, resulting in presentation in the mezzanine section of the balance sheet. The Redeemable Limited Partner Units are adjusted to the greater of carrying value or fair market value based on the Common Share price of EQR at the end of each respective reporting period. EQR has the ability to deliver unregistered Common Shares for the remaining portion of the Limited Partner Units that are classified in permanent equity at June 30, 2018 and December 31, 2017.

The carrying value of the Redeemable Limited Partner Units is allocated based on the number of Redeemable Limited Partner Units in proportion to the number of Limited Partner Units in total. Such percentage of the total carrying value of Limited Partner Units which is ascribed to the Redeemable Limited Partner Units is then adjusted to the greater of carrying value or fair market value as described above. As of June 30, 2018, the Redeemable Limited Partner Units have a redemption value of approximately $366.5 million, which represents the value of Common Shares that would be issued in exchange for the Redeemable Limited Partner Units.

Table of Contents

The following table presents the changes in the redemption value of the Redeemable Limited Partners for the six months ended June 30, 2018 (amounts in thousands):

	2018
Balance at January 1,	$366,955
Change in market value	172
Change in carrying value	(644)
Balance at June 30,	$366,483

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

The following table presents the Operating Partnership's issued and outstanding "Preference Units" as of June 30, 2018 and December 31, 2017:

			Amounts in thousands	
	Call Date (1)	Annual Dividend Per Unit (2)	June 30, 2018	December 31, 2017
Preference Units:				
8.29% Series K Cumulative Redeemable Preference Units; liquidation value $50 per unit; 745,600 units issued and outstanding as of June 30, 2018 and December 31, 2017	12/10/26	$ 4.145	$37,280	$ 37,280
			$37,280	$ 37,280

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

(2) Dividends on Preference Units are payable quarterly.

Other

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

The Company may repurchase up to 13.0 million Common Shares under its share repurchase program. No shares were repurchased during the six months ended June 30, 2018. As of June 30, 2018, EQR has remaining authorization to repurchase up to 13.0 million of its shares under the repurchase program.

Table of Contents

4. Real Estate and Lease Intangibles

The following table summarizes the carrying amounts for the Company's investment in real estate (at cost) as of June 30, 2018 and December 31, 2017 (amounts in thousands):

	June 30, 2018	December 31, 2017
Land	$5,986,329	$5,996,024
Depreciable property:		
Buildings and improvements	17,852,269	17,743,042
Furniture, fixtures and equipment	1,615,089	1,548,961
In-Place lease intangibles	479,248	476,359
Projects under development:		
Land	39,437	43,226
Construction-in-progress	106,127	120,321
Land held for development:		
Land	61,038	62,538
Construction-in-progress	25,060	36,425
Investment in real estate	26,164,597	26,026,896
Accumulated depreciation	(6,338,043)	(6,040,378)
Investment in real estate, net	$19,826,554	$19,986,518

The following table summarizes the carrying amounts for the Company's above and below market ground and retail lease intangibles as of June 30, 2018 and December 31, 2017 (amounts in thousands):

Description	Balance Sheet Location	June 30, 2018	December 31, 2017
Assets			
Ground lease intangibles – below market	Other Assets	$191,918	$ 191,918
Retail lease intangibles – above market	Other Assets	1,260	1,260
Lease intangible assets		193,178	193,178
Accumulated amortization		(24,691)	(22,434)
Lease intangible assets, net		$168,487	$ 170,744
Liabilities			
Ground lease intangibles – above market	Other Liabilities	$2,400	$ 2,400
Retail lease intangibles – below market	Other Liabilities	5,270	5,270
Lease intangible liabilities		7,670	7,670
Accumulated amortization		(5,204)	(5,143)
Lease intangible liabilities, net		$2,466	$ 2,527

The following table provides a summary of the effect of the amortization for above and below market ground and retail lease intangibles on the Company's accompanying consolidated statements of operations and comprehensive income for the six months and quarters ended June 30, 2018 and 2017, respectively (amounts in thousands):

		Six Months Ended June 30,		Quarter Ended June 30,	
Description	Income Statement Location	2018	2017	2018	2017
Ground lease intangible amortization	Property and Maintenance	$(2,232)	$(2,161)	$(1,116)	$(1,081)
Retail lease intangible amortization	Rental Income	36	444	18	220
Total amortization of above/below market lease intangibles		$(2,196)	$(1,717)	$(1,098)	$(861)

27

Table of Contents

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

	Remaining 2018	2019	2020	2021	2022	2023
Ground lease intangibles	$ (2,231)	$(4,463)	$(4,463)	$(4,463)	$(4,463)	$(4,463)
Retail lease intangibles	35	71	71	71	27	19
Total	$ (2,196)	$(4,392)	$(4,392)	$(4,392)	$(4,436)	$(4,444)

During the six months ended June 30, 2018, the Company acquired the entire equity interest in the following from unaffiliated parties (purchase price in thousands):

	Properties	Apartment Units	Purchase Price
Rental Properties – Consolidated (1)	2	357	$ 199,700
Total	2	357	$ 199,700

(1) Purchase price includes an allocation of approximately $49.1 million to land and $151.4 million to depreciable property (inclusive of capitalized closing costs).

During the six months ended June 30, 2018, the Company disposed of the following to unaffiliated parties (sales price in thousands):

	Properties	Apartment Units	Sales Price
Rental Properties – Consolidated	4	786	$ 290,020
Land Parcels (one)	—	—	2,700
Total	4	786	$ 292,720

The Company recognized a net gain on sales of real estate properties of approximately $142.2 million and a net gain on sales of land parcels of approximately $1.0 million on the above sales.

5. Commitments to Acquire/Dispose of Real Estate

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

	Properties	Apartment Units	Purchase Price
Rental Properties – Consolidated	1	372	$ 135,500
Total	1	372	$ 135,500

The Company has entered into a separate agreement to dispose of the following (sales price in thousands):

	Properties	Apartment Units	Sales Price
Rental Properties – Consolidated	1	506	$ 416,100
Total	1	506	$ 416,100

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

6. Investments in Partially Owned Entities

The Company has co-invested in various properties with unrelated third parties which are either consolidated or accounted for under the equity method of accounting (unconsolidated).

Consolidated Variable Interest Entities ("VIEs")

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

The Company has various equity interests in certain joint ventures owning 17 properties containing 3,535 apartment units. The Company is the general partner or managing member of these joint ventures and is responsible for managing the operations and affairs of the joint ventures as well as making all decisions regarding the businesses of the joint ventures. The limited partners or non-managing members are not able to exercise substantive kick-out or participating rights. As a result, the joint ventures qualify as VIEs. The Company has a controlling financial interest in the VIEs and, thus, is the VIEs' primary beneficiary. The Company has both the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance as well as the obligation to absorb losses or the right to receive benefits from the VIEs that could potentially be significant to the VIEs. As a result, the joint ventures are required to be consolidated on the Company's financial statements. The consolidated assets and liabilities related to the joint ventures were approximately $717.5 million and $313.4 million, respectively, at June 30, 2018 and approximately $518.9 million and $307.0 million, respectively, at December 31, 2017.

Investments in Unconsolidated Entities

The following table and information summarizes the Company's investments in unconsolidated entities, which are accounted for under the equity method of accounting as the requirements for consolidation are not met, as of June 30, 2018 and December 31, 2017 (amounts in thousands except for ownership percentage):

	June 30, 2018	December 31, 2017	Ownership Percentage
Investments in Unconsolidated Entities:			
Wisconsin Place Developer (VIE) (1)	$ 43,456	$ 44,451	33.3%
Operating Properties (Non-VIE) (2)	11,378	12,367	20.0%
Other	3,290	1,436	Varies
Investments in Unconsolidated Entities	$ 58,124	$ 58,254	

(1) Represents an unconsolidated interest in an entity that owns the land underlying one of the consolidated joint venture properties noted above and owns and operates a related parking facility. The joint venture, as a limited partner, does not have substantive kick-out or participating rights in the entity. As a result, the entity qualifies as a VIE. The joint venture does not have a controlling financial interest in the VIE and is not the VIE's primary beneficiary. The joint venture does not have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance or the obligation to absorb losses or the right to receive benefits from the VIE that could potentially be significant to the VIE. As a result, the entity that owns the land and owns and operates the parking facility is unconsolidated and recorded using the equity method of accounting.

(2) Includes two joint ventures under separate agreements with the same partner totaling 945 apartment units.

7. Restricted Deposits

The following table presents the Company's restricted deposits as of June 30, 2018 and December 31, 2017 (amounts in thousands):

	June 30, 2018	December 31, 2017
Mortgage escrow deposits:		
Real estate taxes and insurance	$1,171	$ 845
Replacement reserves	7,698	8,347
Mortgage principal reserves/sinking funds	6,544	3,167
Other	852	852
Mortgage escrow deposits	16,265	13,211
Restricted cash:		
Earnest money on pending acquisitions	750	750
Restricted deposits on real estate investments	712	58
Resident security and utility deposits	35,097	35,183
Other	1,546	913
Restricted cash	38,105	36,904
Restricted deposits	$54,370	$ 50,115

Table of Contents

8. Debt

EQR does not have any indebtedness as all debt is incurred by the Operating Partnership. EQR guarantees the Operating Partnership's revolving credit facility up to the maximum amount and for the full term of the facility. Weighted average interest rates noted below for the six months ended June 30, 2018 are net of the effect of any derivative instruments.

Mortgage Notes Payable

As of June 30, 2018, the Company had outstanding mortgage debt of approximately $2.9 billion.

During the six months ended June 30, 2018, the Company:

- Repaid $550.0 million of 6.08% mortgage debt held in a Fannie Mae loan pool maturing in 2020 and incurred a prepayment penalty of approximately $22.1 million;
- Repaid $43.7 million of conventional fixed-rate mortgage loans maturing in 2018;
- Repaid $131.9 million of various tax-exempt mortgage bonds maturing in 2028 through 2042; and
- Repaid $3.3 million of scheduled principal repayments on various mortgage debt.

The Company recorded $1.6 million of write-offs of unamortized deferred financing costs during the six months ended June 30, 2018 as additional interest expense related to debt extinguishment of mortgages. The Company also recorded $0.2 million of write-offs of net unamortized premiums during the six months ended June 30, 2018 as a reduction of interest expense related to debt extinguishment of mortgages.

As of June 30, 2018, the Company had $563.4 million of secured debt subject to third party credit enhancement.

As of June 30, 2018, scheduled maturities for the Company's outstanding mortgage indebtedness were at various dates through May 28, 2061. At June 30, 2018, the interest rate range on the Company's mortgage debt was 0.10% to 6.90%. During the six months ended June 30, 2018, the weighted average interest rate on the Company's mortgage debt was 4.22%.

Notes

As of June 30, 2018, the Company had outstanding unsecured notes of approximately $5.5 billion.

During the six months ended June 30, 2018, the Company issued $500.0 million of ten-year 3.50% unsecured notes, receiving net proceeds of approximately $497.0 million before underwriting fees, hedge termination costs and other expenses, at an all-in effective interest rate of 3.61%.

As of June 30, 2018, scheduled maturities for the Company's outstanding notes were at various dates through August 1, 2047. At June 30, 2018, the interest rate range on the Company's notes before the effect of certain fair value hedges was 2.375% to 7.57%. During the six months ended June 30, 2018, the weighted average interest rate on the Company's notes was 4.27%.

The Company's unsecured public debt contains certain financial and operating covenants including, among other things, maintenance of certain financial ratios. The Company was in compliance with its unsecured public debt covenants for the six months ended June 30, 2018.

Line of Credit and Commercial Paper

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

Table of Contents

On February 2, 2015, the Company entered into an unsecured commercial paper note program in the United States. The Company may borrow up to a maximum of $500.0 million under this program subject to market conditions. The notes will be sold under customary terms in the United States commercial paper note market and will rank pari passu with all of the Company's other unsecured senior indebtedness. As of June 30, 2018, there was a balance of $345.8 million outstanding on the commercial paper program ($347.0 million in principal outstanding net of an unamortized discount of $1.2 million). The notes bear interest at various floating rates with a weighted average of 2.16% for the six months ended June 30, 2018 and a weighted average maturity of 48 days as of June 30, 2018.

As of June 30, 2018, the amount available on the revolving credit facility was $1.65 billion (net of $6.7 million which was restricted/dedicated to support letters of credit and net of $347.0 million in principal outstanding on the commercial paper program). During the six months ended June 30, 2018, the weighted average interest rate on the revolving credit facility was 2.29%.

Other

On April 24, 2017, the Company executed a new letter of credit facility with a third party financial institution which is not backed by or collateralized by borrowings on the Company's unsecured revolving credit facility. As of June 30, 2018, there was $9.0 million in letters of credit outstanding on this facility.

9. Derivative and Other Fair Value Instruments

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

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

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

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

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

Table of Contents

The fair values of the Company’s financial instruments (other than mortgage notes payable, unsecured notes, commercial paper, line of credit and derivative instruments), including cash and cash equivalents and other financial instruments, approximate their carrying or contract value. The following table provides a summary of the carrying and fair values for the Company’s mortgage notes payable and unsecured debt (including its commercial paper and line of credit, if applicable) at June 30, 2018 and December 31, 2017, respectively (amounts in thousands):

	June 30, 2018		December 31, 2017	
	Carrying Value	Estimated Fair Value (Level 2)	Carrying Value	Estimated Fair Value (Level 2)
Mortgage notes payable, net	$2,894,325	$2,823,402	$3,618,722	$3,615,384
Unsecured debt, net	5,878,444	5,911,615	5,338,569	5,619,744
Total debt, net	$8,772,769	$8,735,017	$8,957,291	$9,235,128

The following table summarizes the Company’s consolidated derivative instruments at June 30, 2018 (dollar amounts are in thousands):

	Fair Value Hedges (1)	Forward Starting Swaps (2)
Current Notional Balance	$450,000	$800,000
Lowest Interest Rate	2.375 %	2.1478 %
Highest Interest Rate	2.375 %	3.1163 %
Earliest Maturity Date	2019	2028
Latest Maturity Date	2019	2029

(1) Fair Value Hedges – Converts outstanding fixed rate unsecured notes ($450.0 million 2.375% notes due July 1, 2019) to a floating interest rate of 90-Day LIBOR plus 0.61%.

(2) Forward Starting Swaps – Designed to partially fix interest rates in advance of planned future debt issuances. Of the $800.0 million notional balance, $300.0 million of these swaps have mandatory counterparty terminations in 2019 and are targeted for certain 2018 debt issuances while $500.0 million of these swaps have mandatory counterparty terminations in 2020 and are targeted for certain 2019 debt issuances.

Table of Contents

The following tables provide a summary of the fair value measurements for each major category of assets and liabilities measured at fair value on a recurring basis and the location within the accompanying consolidated balance sheets at June 30, 2018 and December 31, 2017, respectively (amounts in thousands):

			Fair Value Measurements at Reporting Date Using		
Description	Balance Sheet Location	6/30/2018	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets					
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Forward Starting Swaps	Other Assets	$ 16,731	$ —	$ 16,731	$ —
Supplemental Executive Retirement Plan	Other Assets	140,432	140,432	—	—
Total		$ 157,163	$ 140,432	$ 16,731	$ —
Liabilities					
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Fair Value Hedges	Other Liabilities	$ 3,748	$ —	$ 3,748	$ —
Forward Starting Swaps	Other Liabilities	1,231	—	1,231	—
Supplemental Executive Retirement Plan	Other Liabilities	140,432	140,432	—	—
Total		$ 145,411	$ 140,432	$ 4,979	$ —
Redeemable Noncontrolling Interests – Operating Partnership/Redeemable Limited Partners	Mezzanine	$ 366,483	$ —	$ 366,483	$ —

			Fair Value Measurements at Reporting Date Using		
Description	Balance Sheet Location	12/31/2017	Quoted Prices in Active Markets for Identical Assets/Liabilities	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs

			(Level 1)		(Level 3)
Assets					
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Forward Staring Swaps	Other Assets	$ 5,143	$ —	$ 5,143	$ —
Supplemental Executive Retirement Plan	Other Assets	140,159	140,159	—	—
Total		$ 145,302	$ 140,159	$ 5,143	$ —
Liabilities					
Derivatives designated as hedging instruments:					
Interest Rate Contracts:					
Fair Value Hedges	Other Liabilities	$ 1,597	$ —	$ 1,597	$