

EQUITY RESIDENTIAL  
Form 10-Q  
May 08, 2008

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended MARCH 31, 2008**

**OR**

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

**For the transition period from** \_\_\_\_\_ **to** \_\_\_\_\_

**Commission File Number: 1-12252**

**EQUITY RESIDENTIAL**

(Exact Name of Registrant as Specified in its Charter)

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**Maryland**

(State or Other Jurisdiction of Incorporation or Organization)

**13-3675988**

(I.R.S. Employer Identification No.)

**Two North Riverside Plaza, Chicago, Illinois**

(Address of Principal Executive Offices)

**60606**

(Zip Code)

**(312) 474-1300**

(Registrant's Telephone Number, Including Area Code)

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

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

Large accelerated filer ☒

Accelerated filer ☐

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

Smaller reporting company ☐

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

The number of Common Shares of Beneficial Interest, \$0.01 par value, outstanding on March 31, 2008 was 270,502,249.

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**EQUITY RESIDENTIAL**

**CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands except for share amounts)

(Unaudited)

|                                                                                                                                                                                                                               | March 31,<br>2008    | December 31,<br>2007 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------|----------------------|
| <b>ASSETS</b>                                                                                                                                                                                                                 |                      |                      |
| Investment in real estate                                                                                                                                                                                                     |                      |                      |
| Land                                                                                                                                                                                                                          | \$ 3,613,965         | \$ 3,607,305         |
| Depreciable property                                                                                                                                                                                                          | 13,541,364           | 13,556,681           |
| Projects under development                                                                                                                                                                                                    | 811,616              | 812,339              |
| Land held for development                                                                                                                                                                                                     | 368,525              | 357,025              |
| Investment in real estate                                                                                                                                                                                                     | 18,335,470           | 18,333,350           |
| Accumulated depreciation                                                                                                                                                                                                      | (3,245,919)          | (3,170,125)          |
| Investment in real estate, net                                                                                                                                                                                                | 15,089,551           | 15,163,225           |
| Cash and cash equivalents                                                                                                                                                                                                     | 502,649              | 50,831               |
| Investments in unconsolidated entities                                                                                                                                                                                        | 3,429                | 3,547                |
| Deposits restricted                                                                                                                                                                                                           | 216,213              | 253,276              |
| Escrow deposits mortgage                                                                                                                                                                                                      | 19,912               | 20,174               |
| Deferred financing costs, net                                                                                                                                                                                                 | 57,325               | 56,271               |
| Other assets                                                                                                                                                                                                                  | 121,866              | 142,453              |
| <b>Total assets</b>                                                                                                                                                                                                           | <b>\$ 16,010,945</b> | <b>\$ 15,689,777</b> |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>                                                                                                                                                                                   |                      |                      |
| Liabilities:                                                                                                                                                                                                                  |                      |                      |
| Mortgage notes payable                                                                                                                                                                                                        | \$ 4,096,357         | \$ 3,605,971         |
| Notes, net                                                                                                                                                                                                                    | 5,767,075            | 5,763,762            |
| Lines of credit                                                                                                                                                                                                               |                      | 139,000              |
| Accounts payable and accrued expenses                                                                                                                                                                                         | 154,323              | 109,385              |
| Accrued interest payable                                                                                                                                                                                                      | 78,697               | 124,717              |
| Other liabilities                                                                                                                                                                                                             | 288,234              | 322,975              |
| Security deposits                                                                                                                                                                                                             | 63,186               | 62,159               |
| Distributions payable                                                                                                                                                                                                         | 141,379              | 141,244              |
| <b>Total liabilities</b>                                                                                                                                                                                                      | <b>10,589,251</b>    | <b>10,269,213</b>    |
| <i>Commitments and contingencies</i>                                                                                                                                                                                          |                      |                      |
| Minority Interests:                                                                                                                                                                                                           |                      |                      |
| Operating Partnership                                                                                                                                                                                                         | 323,645              | 331,626              |
| Preference Interests and Units                                                                                                                                                                                                | 184                  | 184                  |
| Partially Owned Properties                                                                                                                                                                                                    | 24,917               | 26,236               |
| <b>Total Minority Interests</b>                                                                                                                                                                                               | <b>348,746</b>       | <b>358,046</b>       |
| Shareholders' equity:                                                                                                                                                                                                         |                      |                      |
| Preferred Shares of beneficial interest, \$0.01 par value; 100,000,000 shares authorized; 1,980,975 shares issued and outstanding as of March 31, 2008 and 1,986,475 shares issued and outstanding as of December 31, 2007    | 209,524              | 209,662              |
| Common Shares of beneficial interest, \$0.01 par value; 1,000,000,000 shares authorized; 270,502,249 shares issued and outstanding as of March 31, 2008 and 269,554,661 shares issued and outstanding as of December 31, 2007 | 2,705                | 2,696                |
| Paid in capital                                                                                                                                                                                                               | 4,279,587            | 4,266,538            |
| Retained earnings                                                                                                                                                                                                             | 606,045              | 599,504              |

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|                                                   |                      |                      |
|---------------------------------------------------|----------------------|----------------------|
| Accumulated other comprehensive loss              | (24,913)             | (15,882)             |
| <b>Total shareholders' equity</b>                 | <b>5,072,948</b>     | <b>5,062,518</b>     |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 16,010,945</b> | <b>\$ 15,689,777</b> |

See accompanying notes

**EQUITY RESIDENTIAL**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Amounts in thousands except per share data)

(Unaudited)

|                                                                                                                                                      | Quarter Ended March 31, |            |
|------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------|------------|
|                                                                                                                                                      | 2008                    | 2007       |
| <b>REVENUES</b>                                                                                                                                      |                         |            |
| Rental income                                                                                                                                        | \$ 520,518              | \$ 473,582 |
| Fee and asset management                                                                                                                             | 2,294                   | 2,267      |
| Total revenues                                                                                                                                       | 522,812                 | 475,849    |
| <b>EXPENSES</b>                                                                                                                                      |                         |            |
| Property and maintenance                                                                                                                             | 137,491                 | 126,781    |
| Real estate taxes and insurance                                                                                                                      | 55,925                  | 52,420     |
| Property management                                                                                                                                  | 21,168                  | 24,842     |
| Fee and asset management                                                                                                                             | 2,183                   | 2,341      |
| Depreciation                                                                                                                                         | 146,598                 | 138,932    |
| General and administrative                                                                                                                           | 12,481                  | 9,369      |
| Impairment                                                                                                                                           | 119                     | 236        |
| Total expenses                                                                                                                                       | 375,965                 | 354,921    |
| Operating income                                                                                                                                     | 146,847                 | 120,928    |
| Interest and other income                                                                                                                            | 3,368                   | 2,438      |
| Interest:                                                                                                                                            |                         |            |
| Expense incurred, net                                                                                                                                | (117,247)               | (110,656)  |
| Amortization of deferred financing costs                                                                                                             | (2,161)                 | (2,221)    |
| Income before income and other taxes, allocation to Minority Interests, loss from investments in unconsolidated entities and discontinued operations | 30,807                  | 10,489     |
| Income and other tax (expense) benefit                                                                                                               | (2,898)                 | (597)      |
| Allocation to Minority Interests:                                                                                                                    |                         |            |
| Operating Partnership, net                                                                                                                           | (1,518)                 | (94)       |
| Preference Interests and Units                                                                                                                       | (4)                     | (223)      |
| Partially Owned Properties                                                                                                                           | (268)                   | (592)      |
| Loss from investments in unconsolidated entities                                                                                                     | (95)                    | (229)      |
| Income from continuing operations, net of minority interests                                                                                         | 26,024                  | 8,754      |
| Discontinued operations, net of minority interests                                                                                                   | 114,458                 | 117,483    |
| Net income                                                                                                                                           | 140,482                 | 126,237    |
| Preferred distributions                                                                                                                              | (3,633)                 | (7,424)    |
| Net income available to Common Shares                                                                                                                | \$ 136,849              | \$ 118,813 |
| <b>Earnings per share basic:</b>                                                                                                                     |                         |            |
| Income from continuing operations available to Common Shares                                                                                         | \$ 0.08                 | \$ 0.01    |
| Net income available to Common Shares                                                                                                                | \$ 0.51                 | \$ 0.41    |
| Weighted average Common Shares outstanding                                                                                                           | 268,784                 | 292,251    |
| <b>Earnings per share diluted:</b>                                                                                                                   |                         |            |
| Income from continuing operations available to Common Shares                                                                                         | \$ 0.08                 | \$ 0.01    |
| Net income available to Common Shares                                                                                                                | \$ 0.51                 | \$ 0.40    |
| Weighted average Common Shares outstanding                                                                                                           | 289,317                 | 316,265    |

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|                                                     |    |        |    |        |
|-----------------------------------------------------|----|--------|----|--------|
| Distributions declared per Common Share outstanding | \$ | 0.4825 | \$ | 0.4625 |
|-----------------------------------------------------|----|--------|----|--------|

See accompanying notes

**EQUITY RESIDENTIAL**

**CONSOLIDATED STATEMENTS OF OPERATIONS (Continued)**

(Amounts in thousands except per share data)

(Unaudited)

|                                                                     | Quarter Ended March 31, |            |
|---------------------------------------------------------------------|-------------------------|------------|
|                                                                     | 2008                    | 2007       |
| Comprehensive income:                                               |                         |            |
| Net income                                                          | \$ 140,482              | \$ 126,237 |
| Other comprehensive income (loss) derivative and other instruments: |                         |            |
| Unrealized holding losses arising during the year                   | (9,544)                 | (121)      |
| Losses reclassified into earnings from other comprehensive income   | 513                     | 563        |
| Comprehensive income                                                | \$ 131,451              | \$ 126,679 |

See accompanying notes

**EQUITY RESIDENTIAL**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Amounts in thousands)

(Unaudited)

|                                                                                          | Quarter Ended March 31, |            |
|------------------------------------------------------------------------------------------|-------------------------|------------|
|                                                                                          | 2008                    | 2007       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                             |                         |            |
| Net income                                                                               | \$ 140,482              | \$ 126,237 |
| <i>Adjustments to reconcile net income to net cash provided by operating activities:</i> |                         |            |
| <i>Allocation to Minority Interests:</i>                                                 |                         |            |
| Operating Partnership                                                                    | 9,292                   | 7,886      |
| Preference Interests and Units                                                           | 4                       | 223        |
| Partially Owned Properties                                                               | 268                     | 592        |
| Depreciation                                                                             | 147,580                 | 154,674    |
| Amortization of deferred financing costs                                                 | 2,161                   | 2,564      |
| Amortization of discounts and premiums on debt                                           | (1,168)                 | (1,396)    |
| Amortization of deferred settlements on derivative instruments                           | 168                     | 218        |
| Impairment                                                                               | 175                     | 236        |
| Loss from investments in unconsolidated entities                                         | 95                      | 229        |
| Distributions from unconsolidated entities return on capital                             | 23                      | 23         |
| Net (gain) on sales of discontinued operations                                           | (122,517)               | (111,946)  |
| Loss on debt extinguishments                                                             |                         | 141        |
| Compensation paid with Company Common Shares                                             | 5,995                   | 4,902      |
| <i>Changes in assets and liabilities:</i>                                                |                         |            |
| (Increase) in deposits restricted                                                        | (656)                   | (746)      |
| Decrease in other assets                                                                 | 12,268                  | 5,381      |
| Increase in accounts payable and accrued expenses                                        | 40,778                  | 16,496     |
| (Decrease) in accrued interest payable                                                   | (46,020)                | (20,869)   |
| (Decrease) in other liabilities                                                          | (23,480)                | (20,147)   |
| Increase in security deposits                                                            | 1,027                   | 2,402      |
| Net cash provided by operating activities                                                | 166,475                 | 167,100    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                             |                         |            |
| Investment in real estate acquisitions                                                   | (41,907)                | (677,058)  |
| Investment in real estate development/other                                              | (125,875)               | (79,926)   |
| Improvements to real estate                                                              | (40,744)                | (57,354)   |
| Additions to non-real estate property                                                    | (1,026)                 | (1,738)    |
| Interest capitalized for real estate under development                                   | (14,714)                | (7,866)    |
| Proceeds from disposition of real estate, net                                            | 284,289                 | 280,592    |
| Proceeds from disposition of unconsolidated entities                                     | 2,629                   |            |
| Decrease in deposits on real estate acquisitions, net                                    | 32,145                  | 218,224    |
| Decrease in mortgage deposits                                                            | 262                     | 2,102      |
| Acquisition of Minority Interests Partially Owned Properties                             | (20)                    |            |
| Net cash provided by (used for) investing activities                                     | 95,039                  | (323,024)  |

See accompanying notes



## EQUITY RESIDENTIAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

(Unaudited)

|                                                                   | Quarter Ended March 31, |             |
|-------------------------------------------------------------------|-------------------------|-------------|
|                                                                   | 2008                    | 2007        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                      |                         |             |
| Loan and bond acquisition costs                                   | \$ (3,686)              | \$ (5,691)  |
| <i>Mortgage notes payable:</i>                                    |                         |             |
| Proceeds                                                          | 563,101                 | 33,559      |
| Restricted cash                                                   | 5,574                   | (14,611)    |
| Lump sum payoffs                                                  | (68,318)                | (135,611)   |
| Scheduled principal repayments                                    | (6,213)                 | (6,046)     |
| Prepayment premiums/fees                                          |                         | (141)       |
| <i>Lines of credit:</i>                                           |                         |             |
| Proceeds                                                          | 841,000                 | 4,052,000   |
| Repayments                                                        | (980,000)               | (3,564,500) |
| (Payments on) settlement of derivative instruments                | (13,256)                | (29)        |
| Proceeds from sale of Common Shares                               | 2,718                   | 3,347       |
| Proceeds from exercise of options                                 | 3,034                   | 7,041       |
| Common Shares repurchased and retired                             | (10,935)                | (142,754)   |
| Payment of offering costs                                         | (8)                     | (64)        |
| Contributions    Minority Interests    Partially Owned Properties | 323                     | 1,337       |
| <i>Distributions:</i>                                             |                         |             |
| Common Shares                                                     | (130,113)               | (135,829)   |
| Preferred Shares                                                  | (3,635)                 | (7,431)     |
| Preference Interests and Units                                    | (4)                     | (223)       |
| Minority Interests    Operating Partnership                       | (8,888)                 | (9,217)     |
| Minority Interests    Partially Owned Properties                  | (390)                   | (7,748)     |
| Net cash provided by financing activities                         | 190,304                 | 67,389      |
| Net increase (decrease) in cash and cash equivalents              | 451,818                 | (88,535)    |
| Cash and cash equivalents, beginning of period                    | 50,831                  | 260,277     |
| Cash and cash equivalents, end of period                          | \$ 502,649              | \$ 171,742  |

See accompanying notes

## EQUITY RESIDENTIAL

## CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Amounts in thousands)

(Unaudited)

|                                                                        | Quarter Ended March 31, |            |
|------------------------------------------------------------------------|-------------------------|------------|
|                                                                        | 2008                    | 2007       |
| <b>SUPPLEMENTAL INFORMATION:</b>                                       |                         |            |
| Cash paid for interest, net of amounts capitalized                     | \$ 164,289              | \$ 134,013 |
| Net cash (received) paid for income and other taxes                    | \$ (526)                | \$ 77      |
| <i>Real estate acquisitions/dispositions/other:</i>                    |                         |            |
| Mortgage loans assumed                                                 | \$                      | \$ 40,672  |
| Mortgage loans (assumed) by purchaser                                  | \$                      | \$ (4,845) |
| <i>Amortization of deferred financing costs:</i>                       |                         |            |
| Investment in real estate, net                                         | \$ (471)                | \$ (77)    |
| Deferred financing costs, net                                          | \$ 2,632                | \$ 2,641   |
| <i>Amortization of discounts and premiums on debt:</i>                 |                         |            |
| Mortgage notes payable                                                 | \$ (1,574)              | \$ (1,563) |
| Notes, net                                                             | \$ 406                  | \$ 167     |
| <i>Amortization of deferred settlements on derivative instruments:</i> |                         |            |
| Other liabilities                                                      | \$ (345)                | \$ (345)   |
| Accumulated other comprehensive loss                                   | \$ 513                  | \$ 563     |
| <i>Unrealized (gain) loss on derivative instruments:</i>               |                         |            |
| Other assets                                                           | \$ (4,935)              | \$ 67      |
| Mortgage notes payable                                                 | \$ 3,390                | \$ 1,550   |
| Notes, net                                                             | \$ 2,907                | \$ 867     |
| Other liabilities                                                      | \$ 7,786                | \$ (2,310) |
| Accumulated other comprehensive loss                                   | \$ (9,148)              | \$ (174)   |
| <i>(Payments on) settlement of derivative instruments:</i>             |                         |            |
| Other assets                                                           | \$ (39)                 | \$ (29)    |
| Other liabilities                                                      | \$ (13,217)             | \$         |

See accompanying notes



**EQUITY RESIDENTIAL**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Business**

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

EQR is the general partner of, and as of March 31, 2008 owned an approximate 93.8% ownership interest in, ERP Operating Limited Partnership, an Illinois limited partnership (the Operating Partnership ). The Company is structured as an umbrella partnership REIT ( UPREIT ), under which all property ownership and business operations are conducted through the Operating Partnership and its subsidiaries. References to the Company include EQR, the Operating Partnership and those entities owned or controlled by the Operating Partnership and/or EQR.

As of March 31, 2008, the Company, directly or indirectly through investments in title holding entities, owned all or a portion of 565 properties in 24 states and the District of Columbia consisting of 149,769 units. The ownership breakdown includes (table does not include various uncompleted development properties):

|                                | <b>Properties</b> | <b>Units</b> |
|--------------------------------|-------------------|--------------|
| Wholly Owned Properties        | 493               | 130,161      |
| Partially Owned Properties:    |                   |              |
| Consolidated                   | 27                | 5,431        |
| Unconsolidated                 | 44                | 10,446       |
| Military Housing (Fee Managed) | 1                 | 3,731        |
|                                | 565               | 149,769      |

**2. Summary of Significant Accounting Policies**

*Basis of Presentation*

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) and certain reclassifications considered necessary for a fair presentation have been included. Certain reclassifications have been made to the prior period financial statements in order to conform to the current year presentation. Operating results for the quarter ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

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

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

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

### *Income and Other Taxes*

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

Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. These assets and liabilities are measured using enacted tax rates for which the temporary differences are expected to be recovered or settled. The effect of deferred tax assets and liabilities are recognized in earnings in the period enacted. The Company's deferred tax assets are generally the result of tax affected amortization of goodwill, differing depreciable lives on capitalized assets and the timing of expense recognition for certain accrued liabilities. As of March 31, 2008, the Company has recorded a deferred tax asset of approximately \$12.5 million, which was fully offset by a valuation allowance due to the uncertainty in forecasting future TRS taxable income.

### *Other*

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

The Company adopted the disclosure provisions of SFAS No. 150 and FSP No. FAS 150-3, *Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity*, effective December 31, 2003. SFAS No. 150 and FSP No. FAS 150-3 require the Company to make certain disclosures regarding noncontrolling interests that are classified as equity in the financial statements of a subsidiary but would be classified as a liability in the parent's financial statements under SFAS No. 150 (e.g., minority interests in consolidated limited-life subsidiaries). The Company is presently the controlling partner in various consolidated partnerships consisting of 27 properties and 5,431 units and various uncompleted development properties having a minority interest book value of \$24.9 million at March 31, 2008. Some of these partnerships contain provisions that require the partnerships to be liquidated through the sale of its assets upon reaching a date specified in each respective partnership agreement. The Company, as controlling partner, has an obligation to cause the property owning partnerships to distribute proceeds of liquidation to the Minority Interests in these Partially Owned Properties only to the extent that the net proceeds received by the partnerships from the sale of its assets warrant a distribution based on the partnership agreements. As of March 31, 2008, the Company estimates the value of Minority Interest distributions would have been approximately \$114.4 million ( Settlement Value ) had the partnerships been liquidated. This Settlement Value is based on estimated third party consideration realized by the partnerships upon disposition of the 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 March 31, 2008 had those mortgages been prepaid. Due to, among other things, the inherent uncertainty in the sale of real estate assets, the amount of any potential distribution to the Minority Interests in the Company's Partially Owned Properties is subject to change. To the extent that the partnerships' underlying assets are worth less than the underlying



liabilities, the Company has no obligation to remit any consideration to the Minority Interests in Partially Owned Properties.

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

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

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

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

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

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* an amendment of FASB Statement No. 133. SFAS No. 161 is intended to improve financial standards for derivative instruments and hedging activities by requiring enhanced disclosures to



enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. Among other requirements, entities are required to provide enhanced disclosures about: (1) how and why an entity uses derivative instruments; (2) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations; and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS No. 161 is effective for the Company on January 1, 2009. The Company is currently evaluating the impact SFAS No. 161 will have on its consolidated financial statements.

### 3. **Shareholders' Equity and Minority Interests**



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*The following tables present the changes in the Company's issued and outstanding Common Shares and OP Units for the quarter ended March 31, 2008:*

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

|                                                                  | 2008               |
|------------------------------------------------------------------|--------------------|
| <b><u>Common Shares</u></b>                                      |                    |
| Common Shares outstanding at January 1,                          | 269,554,661        |
| <b><u>Common Shares Issued:</u></b>                              |                    |
| Conversion of Series E Preferred Shares                          | 5,007              |
| Conversion of Series H Preferred Shares                          | 1,448              |
| Conversion of OP Units                                           | 419,297            |
| Exercise of options                                              | 113,758            |
| Employee Share Purchase Plan                                     | 83,911             |
| Restricted share grants, net                                     | 495,328            |
| <b><u>Common Shares Other:</u></b>                               |                    |
| Repurchased and retired                                          | (171,161)          |
| <b>Common Shares outstanding at March 31,</b>                    | <b>270,502,249</b> |
| <b><u>OP Units</u></b>                                           |                    |
| OP Units outstanding at January 1,                               | 18,420,320         |
| Conversion of OP Units to Common Shares                          | (419,297)          |
| <b>OP Units outstanding at March 31,</b>                         | <b>18,001,023</b>  |
| <b>Total Common Shares and OP Units outstanding at March 31,</b> | <b>288,503,272</b> |
| OP Units Ownership Interest in Operating Partnership             | 6.2%               |

During the quarter ended March 31, 2008, the Company repurchased 171,161 of its Common Shares at an average price of \$36.78 per share for total consideration of \$6.3 million. These shares were retired subsequent to the repurchases. Of the total shares repurchased, 71,161 shares were repurchased from employees at an average price of \$38.25 per share (the average of the then current market prices) to cover the minimum statutory tax withholding obligations related to the vesting of employees' restricted shares. The remaining 100,000 shares were repurchased in the open market at an average price of \$35.74 per share. The Company also funded \$4.6 million in January 2008 for the settlement of 125,000 Common Shares that were repurchased in December 2007 and recorded as other liabilities at December 31, 2007. EQR has authorization to repurchase an additional \$469.3 million of its shares as of March 31, 2008.

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

Net proceeds from the Company's Common Share and Preferred Share (see definition below) offerings are contributed by the Company to the Operating Partnership. In return for those contributions, EQR receives a number of OP Units in the Operating Partnership equal to the number of Common Shares it has issued in the equity offering (or in the case of a preferred equity offering, a number of preference units in the Operating Partnership).

Partnership equal in number and having the same terms as the Preferred Shares issued in the equity offering). As a result, the net offering proceeds from Common Shares and Preferred Shares are allocated between shareholders' equity and Minority Interests Operating Partnership to account for the change in their respective percentage ownership of the underlying equity of the Operating Partnership.

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

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

|                                                                                                                                                                                            | Redemption<br>Date (1) (2) | Conversion<br>Rate (2) | Annual<br>Dividend per<br>Share (3) | Amounts in thousands |                      |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|------------------------|-------------------------------------|----------------------|----------------------|
|                                                                                                                                                                                            |                            |                        |                                     | March 31,<br>2008    | December 31,<br>2007 |
| Preferred Shares of beneficial interest, \$0.01 par value; 100,000,000 shares authorized:                                                                                                  |                            |                        |                                     |                      |                      |
| 7.00% Series E Cumulative Convertible Preferred; liquidation value \$25 per share; 357,616 and 362,116 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively | 11/1/98                    | 1.1128                 | \$ 1.75                             | \$ 8,940             | \$ 9,053             |
| 7.00% Series H Cumulative Convertible Preferred; liquidation value \$25 per share; 23,359 and 24,359 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively   | 6/30/98                    | 1.4480                 | \$ 1.75                             | 584                  | 609                  |
| 8.29% Series K Cumulative Redeemable Preferred; liquidation value \$50 per share; 1,000,000 shares issued and outstanding at March 31, 2008 and December 31, 2007                          | 12/10/26                   | N/A                    | \$ 4.145                            | 50,000               | 50,000               |
| 6.48% Series N Cumulative Redeemable Preferred; liquidation value \$250 per share; 600,000 shares issued and outstanding at March 31, 2008 and December 31, 2007 (4)                       | 6/19/08                    | N/A                    | \$ 16.20                            | 150,000              | 150,000              |
|                                                                                                                                                                                            |                            |                        |                                     | \$ 209,524           | \$ 209,662           |

- (1) On or after the redemption date, redeemable preferred shares (Series K and N) may be redeemed for cash at the option of the Company, in whole or in part, at a redemption price equal to the liquidation price per share, plus accrued and unpaid distributions, if any.
- (2) On or after the redemption date, convertible preferred shares (Series E & H) may be redeemed under certain circumstances at the option of the Company for cash (in the case of Series E) or Common Shares (in the case of Series H), in whole or in part, at various redemption prices per share based upon the contractual conversion rate, plus accrued and unpaid distributions, if any.
- (3) Dividends on all series of Preferred Shares are payable quarterly at various pay dates. The dividend listed for Series N is a Preferred Share rate and the equivalent Depositary Share annual dividend is \$1.62 per share.

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

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

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

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

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

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

#### 4. Real Estate

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

|                                   | March 31,<br>2008 | December 31,<br>2007 |
|-----------------------------------|-------------------|----------------------|
| Land                              | \$ 3,613,965      | \$ 3,607,305         |
| Depreciable property:             |                   |                      |
| Buildings and improvements        | 12,645,555        | 12,665,706           |
| Furniture, fixtures and equipment | 895,809           | 890,975              |
| Projects under development:       |                   |                      |
| Land                              | 196,554           | 210,414              |
| Construction-in-progress          | 615,062           | 601,925              |
| Land held for development:        |                   |                      |
| Land                              | 313,275           | 311,675              |
| Construction-in-progress          | 55,250            | 45,350               |
| Investment in real estate         | 18,335,470        | 18,333,350           |
| Accumulated depreciation          | (3,245,919)       | (3,170,125)          |
| Investment in real estate, net    | \$ 15,089,551     | \$ 15,163,225        |

During the quarter ended March 31, 2008, the Company acquired the entire equity interest in the following from unaffiliated parties (purchase price in thousands):

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

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|                   | Properties | Units | Purchase Price |
|-------------------|------------|-------|----------------|
| Rental Properties | 2          | 171   | \$ 41,863      |

The Company also acquired all of its partners' interests in one partially owned property containing 144 units for \$5.9 million and two partially owned land parcels for \$1.6 million.

During the quarter ended March 31, 2008, the Company disposed of the following to unaffiliated parties (sales price in thousands):

|                                   | Properties | Units | Sales Price |
|-----------------------------------|------------|-------|-------------|
| Rental Properties                 | 15         | 3,317 | \$ 271,643  |
| Condominium Conversion Properties | 2          | 41    | 9,445       |
|                                   | 17         | 3,358 | \$ 281,088  |

The Company recognized a net gain on sales of discontinued operations of approximately \$122.5 million on the above sales.

## 5. Commitments to Acquire/Dispose of Real Estate

As of May 1, 2008, the Company had entered into separate agreements to acquire the following (purchase price in thousands):

|                      | Properties/<br>Parcels | Units | Purchase<br>Price |
|----------------------|------------------------|-------|-------------------|
| Operating Properties | 1                      | 304   | \$ 43,779         |
| Land Parcels         | 5                      |       | 153,122           |
| Total                | 6                      | 304   | \$ 196,901        |

As of May 1, 2008, in addition to the property that was subsequently disposed of as discussed in Note 16, the Company had entered into separate agreements to dispose of the following (sales price in thousands):

|                      | Properties/<br>Parcels | Units | Sales Price |
|----------------------|------------------------|-------|-------------|
| Operating Properties | 16                     | 4,999 | \$ 486,086  |
| Land Parcels         | 1                      |       | 3,300       |
| Total                | 17                     | 4,999 | \$ 489,386  |

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

## 6. Investments in Partially Owned Entities

The Company has co-invested in various properties with unrelated third parties which are either consolidated or accounted for under the equity method of accounting (unconsolidated). The following table summarizes the Company's investments in partially owned entities as of March 31, 2008 (amounts in thousands except for project and unit amounts):

|          | Development Projects | Consolidated | Unconsolidated |
|----------|----------------------|--------------|----------------|
| Held for | Completed,           | Completed    | Institutional  |

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

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|                    | and/or Under<br>Development | Not<br>Stabilized (4) | and<br>Stabilized | Other      | Total      | Joint<br>Ventures |
|--------------------|-----------------------------|-----------------------|-------------------|------------|------------|-------------------|
| Total projects (1) |                             | 1                     | 5                 | 21         | 27         | 44                |
| Total units (1)    |                             | 132                   | 1,405             | 3,894      | 5,431      | 10,446            |
| Debt Secured (2):  |                             |                       |                   |            |            |                   |
| EQR Ownership (3)  | \$ 421,755                  | \$ 28,260             | \$ 141,206        | \$ 289,135 | \$ 880,356 | \$ 121,200        |
| Minority Ownership |                             |                       |                   | 13,321     | 13,321     | 363,600           |
| Total (at 100%)    | \$ 421,755                  | \$ 28,260             | \$ 141,206        | \$ 302,456 | \$ 893,677 | \$ 484,800        |

- 
- (1) Project and unit counts exclude all uncompleted development projects until those projects are substantially completed.
- (2) All debt is non-recourse to the Company with the exception of \$68.7 million in mortgage bonds on various development projects.
- (3) Represents the Company's current economic ownership interest.
- (4) Projects included here are substantially complete. However, they may still require additional exterior and interior work for all units to be available for leasing.

## 7. Deposits Restricted

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

|                                        | March 31,<br>2008 | December 31,<br>2007 |
|----------------------------------------|-------------------|----------------------|
| Tax deferred (1031) exchange proceeds  | \$ 30,200         | \$ 63,795            |
| Earnest money on pending acquisitions  | 4,500             | 3,050                |
| Restricted deposits on debt (1)        | 127,917           | 133,491              |
| Resident security and utility deposits | 39,595            | 39,889               |
| Other                                  | 14,001            | 13,051               |
| <b>Totals</b>                          | <b>\$ 216,213</b> | <b>\$ 253,276</b>    |

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

## 8. Mortgage Notes Payable

As of March 31, 2008, the Company had outstanding mortgage debt of approximately \$4.1 billion.

During the quarter ended March 31, 2008, the Company:

- Repaid \$74.5 million of mortgage loans;

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

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- Obtained \$500.0 million of mortgage loan proceeds through the issuance of an 11.5 year cross-collateralized loan with a fixed stated interest rate for 10.5 years at 5.19% secured by 13 properties; and
- Obtained an additional \$63.1 million of new mortgage loans on certain other properties.

As of March 31, 2008, scheduled maturities for the Company's outstanding mortgage indebtedness were at various dates through September 1, 2045. At March 31, 2008, the interest rate range on the Company's mortgage debt was 1.40% to 12.465%. During the quarter ended March 31, 2008, the weighted average interest rate on the Company's mortgage debt was 5.23%.

### 9. Notes

As of March 31, 2008, the Company had outstanding unsecured notes of approximately \$5.8 billion. There were no significant transactions during the quarter ended March 31, 2008.

As of March 31, 2008, scheduled maturities for the Company's outstanding notes were at various dates through 2029. At March 31, 2008, the interest rate range on the Company's notes was 3.85% to 7.57%. During the quarter ended March 31, 2008, the weighted average interest rate on the Company's notes was 5.60%.

**10. Lines of Credit**

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

As of March 31, 2008, no amounts were outstanding and \$77.5 million was restricted (dedicated to support letters of credit and not available for borrowing) on the credit facility. During the quarter ended March 31, 2008, the weighted average interest rate under the credit facility was 4.29%.

**11. Derivative and Other Fair Value Instruments**

The following table summarizes the consolidated derivative instruments at March 31, 2008 (dollar amounts are in thousands):

|                                        | Fair Value<br>Hedges (1) | Forward<br>Starting<br>Swaps (2) | Development<br>Cash Flow<br>Hedges (3) |
|----------------------------------------|--------------------------|----------------------------------|----------------------------------------|
| Current Notional Balance               | \$ 370,000               | \$ 100,000                       | \$ 143,707                             |
| Lowest Possible Notional               | \$ 370,000               | \$ 100,000                       | \$ 45,106                              |
| Highest Possible Notional              | \$ 370,000               | \$ 100,000                       | \$ 283,664                             |
| Lowest Interest Rate                   | 3.245%                   | 4.573%                           | 4.928%                                 |
| Highest Interest Rate                  | 3.787%                   | 4.716%                           | 6.000%                                 |
| Earliest Maturity Date                 | 2009                     | 2019                             | 2009                                   |
| Latest Maturity Date                   | 2009                     | 2019                             | 2010                                   |
| Estimated Asset (Liability) Fair Value | \$ 4,982                 | \$ (1,696)                       | \$ (3,484)                             |

(1) Fair Value Hedges Converts outstanding fixed rate debt to a floating interest rate.

(2) Forward Starting Swaps Designed to partially fix the interest rate in advance of a planned future debt issuance.

(3) Development Cash Flow Hedges Converts outstanding floating rate debt to a fixed interest rate.

On March 31, 2008, the net derivative instruments were reported at their fair value as other liabilities of approximately \$5.2 million and other assets of \$5.0 million. As of March 31, 2008, there were approximately \$25.1 million in deferred losses, net, included in accumulated other comprehensive loss. Based on the estimated fair values of the net derivative instruments at March 31, 2008, the Company may recognize an estimated \$5.7 million of accumulated other comprehensive loss as additional interest expense during the twelve months ending March 31, 2009.

In February 2008, the Company paid approximately \$13.2 million to terminate three forward starting swaps in conjunction with the issuance of a \$500.0 million 11.5 year mortgage loan. The entire amount has been deferred as a component of accumulated other

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

comprehensive loss and will be recognized as an increase to interest expense over the first ten years of the mortgage loan.

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

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

The Company's derivative positions are valued using models developed by the respective counterparty as well as models developed internally by the Company that use as their basis readily observable market parameters (such as forward yield curves and credit default swap data) and are classified within Level 2 of the valuation hierarchy. In addition, employee holdings other than EQR Common Shares within the supplemental executive retirement plan (the SERP) have a fair value of \$54.7 million as of March 31, 2008 and are included in other assets and other liabilities on the consolidated balance sheet. These SERP investments are valued using quoted market prices for identical assets and are classified within Level 1 of the valuation hierarchy.

## 12. Earnings Per Share

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

|                                                                                         | Quarter Ended March 31, |            |
|-----------------------------------------------------------------------------------------|-------------------------|------------|
|                                                                                         | 2008                    | 2007       |
| <b>Numerator for net income per share – basic:</b>                                      |                         |            |
| Income from continuing operations, net of minority interests                            | \$ 26,024               | \$ 8,754   |
| Preferred distributions                                                                 | (3,633)                 | (7,424)    |
| Income from continuing operations available to Common Shares, net of minority interests | 22,391                  | 1,330      |
| Discontinued operations, net of minority interests                                      | 114,458                 | 117,483    |
| Numerator for net income per share – basic                                              | \$ 136,849              | \$ 118,813 |
| <b>Numerator for net income per share – diluted:</b>                                    |                         |            |
| Income from continuing operations, net of minority interests                            | \$ 26,024               | \$ 8,754   |
| Preferred distributions                                                                 | (3,633)                 | (7,424)    |
| Effect of dilutive securities:                                                          |                         |            |
| Allocation to Minority Interests – Operating Partnership, net                           | 1,518                   | 94         |
| Income from continuing operations available to Common Shares                            | 23,909                  | 1,424      |
| Discontinued operations                                                                 | 122,232                 | 125,275    |
| Numerator for net income per share – diluted                                            | \$ 146,141              | \$ 126,699 |

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

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| Denominator for net income per share basic and diluted: |         |         |      |         |
|---------------------------------------------------------|---------|---------|------|---------|
| Denominator for net income per share                    | basic   | 268,784 |      | 292,251 |
| Effect of dilutive securities:                          |         |         |      |         |
| OP Units                                                |         | 18,295  |      | 19,446  |
| Share options/restricted shares                         |         | 2,238   |      | 4,568   |
| Denominator for net income per share                    | diluted | 289,317 |      | 316,265 |
| Net income per share                                    | basic   | \$      | 0.51 | \$ 0.41 |
| Net income per share                                    | diluted | \$      | 0.51 | \$ 0.40 |

|                                                                                         |    | Quarter Ended March 31, |          |
|-----------------------------------------------------------------------------------------|----|-------------------------|----------|
|                                                                                         |    | 2008                    | 2007     |
| <b>Net income per share basic:</b>                                                      |    |                         |          |
| Income from continuing operations available to Common Shares, net of minority interests | \$ | 0.083                   | \$ 0.005 |
| Discontinued operations, net of minority interests                                      |    | 0.426                   | 0.402    |
| Net income per share basic                                                              | \$ | 0.509                   | \$ 0.407 |
| <b>Net income per share diluted:</b>                                                    |    |                         |          |
| Income from continuing operations available to Common Shares                            | \$ | 0.083                   | \$ 0.005 |
| Discontinued operations                                                                 |    | 0.422                   | 0.396    |
| Net income per share diluted                                                            | \$ | 0.505                   | \$ 0.401 |

Convertible preferred shares/units that could be converted into 444,474 and 853,151 weighted average Common Shares for the quarters ended March 31, 2008 and 2007, respectively, were outstanding but were not included in the computation of diluted earnings per share because the effects would be anti-dilutive. In addition, the effect of the Common Shares that could ultimately be issued upon the conversion/exchange of the Operating Partnership's \$650.0 million exchangeable senior notes was not included in the computation of diluted earnings per share because the effects would be anti-dilutive.

### 13. Discontinued Operations

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

The components of discontinued operations are outlined below and include the results of operations for the respective periods that the Company owned such assets during the quarters ended March 31, 2008 and 2007 (amounts in thousands).

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|                                                                     | Quarter Ended March 31, |            |
|---------------------------------------------------------------------|-------------------------|------------|
|                                                                     | 2008                    | 2007       |
| <b>REVENUES</b>                                                     |                         |            |
| Rental income                                                       | \$ 5,330                | \$ 58,065  |
| Total revenues                                                      | 5,330                   | 58,065     |
| <b>EXPENSES (1)</b>                                                 |                         |            |
| Property and maintenance                                            | 4,124                   | 19,284     |
| Real estate taxes and insurance                                     | 637                     | 7,766      |
| Property management                                                 | (26)                    | 203        |
| Depreciation                                                        | 982                     | 15,742     |
| General and administrative                                          | 3                       | 2          |
| Impairment                                                          | 56                      |            |
| Total expenses                                                      | 5,776                   | 42,997     |
| Discontinued operating (loss) income                                | (446)                   | 15,068     |
| Interest and other income                                           | (17)                    | 93         |
| Interest (2):                                                       |                         |            |
| Expense incurred, net                                               | (22)                    | (1,310)    |
| Amortization of deferred financing costs                            |                         | (343)      |
| Income and other tax benefit (expense)                              | 200                     | (179)      |
| Discontinued operations                                             | (285)                   | 13,329     |
| Minority Interests Operating Partnership                            | 18                      | (829)      |
| Discontinued operations, net of minority interests                  | (267)                   | 12,500     |
| Net gain on sales of discontinued operations                        | 122,517                 | 111,946    |
| Minority Interests Operating Partnership                            | (7,792)                 | (6,963)    |
| Gain on sales of discontinued operations, net of minority interests | 114,725                 | 104,983    |
| Discontinued operations, net of minority interests                  | \$ 114,458              | \$ 117,483 |

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

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

For the properties sold during the quarter ended March 31, 2008 (excluding condominium conversion properties), the investment in real estate, net of accumulated depreciation balance at December 31, 2007 was \$147.9 million.

The net real estate basis of the Company's condominium conversion properties owned by the TRS and included in discontinued operations (excludes one of the Company's halted conversions as it is now held for use), which were included in investment in real estate, net in the consolidated balance sheets, was \$108.0 million and \$87.2 million at March 31, 2008 and December 31, 2007, respectively.

#### 14. Commitments and Contingencies

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

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

The Company is party to a housing discrimination lawsuit brought by a non-profit civil rights organization in April 2006 in the U.S. District Court for the District of Maryland. The suit alleges that the Company designed and built approximately 300 of its properties in violation of the accessibility requirements of

the Fair Housing Act and Americans with Disabilities Act. The suit seeks actual and punitive damages, injunctive relief (including modification of non-compliant properties), costs and attorneys' fees. The Company believes it has a number of viable defenses, including that a majority of the named properties were completed before the operative dates of the statutes in question and/or were not designed or built by the Company. Accordingly, the Company is defending the suit vigorously. Due to the pendency of the Company's defenses and the uncertainty of many other critical factual and legal issues, it is not possible to determine or predict the outcome of the suit and as a result, no amounts have been accrued at March 31, 2008. While no assurances can be given, the Company does not believe that the suit, if adversely determined, would have a material adverse effect on the Company.

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

During the years ended December 31, 2005 and 2004, the Company established a reserve and recorded a corresponding expense, net of insurance receivables, for estimated uninsured property damage at certain of its properties caused by various hurricanes in each respective year. During the quarter ended March 31, 2008, the Company received the remaining accrued receivable of \$1.8 million. As of March 31, 2008, the remaining reserve balance is \$0.7 million and is included in other liabilities on the consolidated balance sheets.

As of March 31, 2008, the Company has 13 projects totaling 4,484 units in various stages of development with estimated completion dates ranging through June 30, 2011. Some of the projects are developed solely by the Company, while others are co-developed with various third party development partners. The development venture agreements with partners are primarily deal-specific, with differing terms regarding profit-sharing, equity contributions, returns on investment, buy-sell agreements and other customary provisions. The partner is most often the general or managing partner of the development venture. The typical buy-sell arrangements contain appraisal rights and provisions that provide the right, but not the obligation, for the Company to acquire the partner's interest in the project at fair market value upon the expiration of a negotiated time period (typically two to five years after substantial completion of the project). However, the buy-sell provisions with one partner covering three projects does require the Company to purchase the partner's interest in the projects at fair market value five years following the receipt of the final certificate of occupancy on the last developed property (in Q1 2009).

## 15. Reportable Segments

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

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

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

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

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

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All revenues are from external customers and there is no customer who contributed 10% or more of the Company's total revenues during the quarters ended March 31, 2008 and 2007, respectively.

The primary financial measure for the Company's rental real estate segment is net operating income (NOI), which represents rental income less: 1) property and maintenance expense; 2) real estate taxes and insurance expense; and 3) property management expense (all as reflected in the accompanying consolidated statements of operations). The Company believes that NOI is helpful to investors as a supplemental measure of the operating performance of a real estate company because it is a direct measure of the actual operating results of the Company's apartment communities. Current year NOI is compared to prior year NOI and current year budgeted NOI as a measure of financial performance. The following table presents NOI for each segment from our rental real estate specific to continuing operations for the quarters ended March 31, 2008 and 2007, respectively, as well as total assets for the quarter ended March 31, 2008 (amounts in thousands):

|                          | Quarter Ended March 31, 2008 |              |              |              |              |       |            |  |
|--------------------------|------------------------------|--------------|--------------|--------------|--------------|-------|------------|--|
|                          | Northeast                    | Northwest    | Southeast    | Southwest    | Other (3)    | Total |            |  |
| Rental income:           |                              |              |              |              |              |       |            |  |
| Same store (1)           | \$ 128,955                   | \$ 95,320    | \$ 97,753    | \$ 126,484   | \$           | \$    | 448,512    |  |
| Non-same store/other     |                              |              |              |              |              |       |            |  |
| (2) (3)                  | 16,764                       | 7,684        | 14,238       | 7,659        | 25,661       |       | 72,006     |  |
| Total rental income      | 145,719                      | 103,004      | 111,991      | 134,143      | 25,661       |       | 520,518    |  |
|                          |                              |              |              |              |              |       |            |  |
| Operating expenses:      |                              |              |              |              |              |       |            |  |
| Same store (1)           | 50,017                       | 33,616       | 40,118       | 44,140       |              |       | 167,891    |  |
| Non-same store/other     |                              |              |              |              |              |       |            |  |
| (2) (3)                  | 7,369                        | 3,571        | 6,140        | 3,589        | 26,024       |       | 46,693     |  |
| Total operating expenses | 57,386                       | 37,187       | 46,258       | 47,729       | 26,024       |       | 214,584    |  |
|                          |                              |              |              |              |              |       |            |  |
| NOI:                     |                              |              |              |              |              |       |            |  |
| Same store (1)           | 78,938                       | 61,704       | 57,635       | 82,344       |              |       | 280,621    |  |
| Non-same store/other     |                              |              |              |              |              |       |            |  |
| (2) (3)                  | 9,395                        | 4,113        | 8,098        | 4,070        | (363)        |       | 25,313     |  |
| Total NOI                | \$ 88,333                    | \$ 65,817    | \$ 65,733    | \$ 86,414    | \$ (363)     | \$    | 305,934    |  |
|                          |                              |              |              |              |              |       |            |  |
| Total assets             | \$ 4,581,924                 | \$ 2,748,192 | \$ 3,015,852 | \$ 3,185,010 | \$ 2,479,967 | \$    | 16,010,945 |  |

- (1) Same store includes properties owned for all of both periods ending March 31, 2008 and March 31, 2007 which represented 121,826 units.
- (2) Non-same store includes properties acquired after January 1, 2007.
- (3) Other includes ECH, development, condominium conversion overhead of \$0.7 million and other corporate operations. Also reflects a \$3.2 million elimination of rental income recorded in Northeast, Northwest, Southeast and Southwest operating segments related to ECH.

|                              | Quarter Ended March 31, 2007 |           |           |            |           |            |  |
|------------------------------|------------------------------|-----------|-----------|------------|-----------|------------|--|
|                              | Northeast                    | Northwest | Southeast | Southwest  | Other (3) | Total      |  |
| Rental income:               |                              |           |           |            |           |            |  |
| Same store (1)               | \$ 124,047                   | \$ 89,030 | \$ 97,699 | \$ 122,575 | \$ 19,810 | \$ 433,351 |  |
| Non-same store/other (2) (3) | 6,702                        | 874       | 9,565     | 3,280      |           | 40,231     |  |
| Total rental income          | 130,749                      | 89,904    | 107,264   | 125,855    | 19,810    | 473,582    |  |

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

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## Operating expenses:

|                              |        |        |        |        |        |         |
|------------------------------|--------|--------|--------|--------|--------|---------|
| Same store (1)               | 47,741 | 33,580 | 39,714 | 44,184 |        | 165,219 |
| Non-same store/other (2) (3) | 4,279  | 405    | 3,307  | 1,920  | 28,913 | 38,824  |
| Total operating expenses     | 52,020 | 33,985 | 43,021 | 46,104 | 28,913 | 204,043 |

## NOI:

|                              |           |           |           |           |            |            |
|------------------------------|-----------|-----------|-----------|-----------|------------|------------|
| Same store (1)               | 76,306    | 55,450    | 57,985    | 78,391    |            | 268,132    |
| Non-same store/other (2) (3) | 2,423     | 469       | 6,258     | 1,360     | (9,103)    | 1,407      |
| Total NOI                    | \$ 78,729 | \$ 55,919 | \$ 64,243 | \$ 79,751 | \$ (9,103) | \$ 269,539 |

- (1) Same store includes properties owned for all of both periods ending March 31, 2008 and March 31, 2007 which represented 121,826 units.
- (2) Non-same store includes properties acquired after January 1, 2007.
- (3) Other includes ECH, development, condominium conversion overhead of \$1.2 million and other corporate operations. Also reflects a \$4.2 million elimination of rental income recorded in Northeast, Northwest, Southeast and Southwest operating segments related to ECH.

Note: Markets included in the above geographic segments are as follows:

- (a) Northeast New England (excluding Boston), Boston, New York Metro, DC Northern Virginia and Suburban Maryland.
- (b) Northwest Central Valley, Denver, Portland, San Francisco Bay Area and Seattle/Tacoma.
- (c) Southeast Atlanta, Jacksonville, Orlando, Raleigh/Durham, South Florida and Tampa/Ft. Myers.
- (d) Southwest Albuquerque, Austin, Dallas/Ft. Worth, Inland Empire, Los Angeles, Minneapolis/St. Paul, Orange County, Phoenix, San Diego and Tulsa.

The following table presents a reconciliation of NOI from our rental real estate specific to continuing operations for the quarters ended March 31, 2008 and 2007, respectively (amounts in thousands):

|                                         | Quarter Ended March 31, |            |
|-----------------------------------------|-------------------------|------------|
|                                         | 2008                    | 2007       |
| Rental income                           | \$ 520,518              | \$ 473,582 |
| Property and maintenance expense        | (137,491)               | (126,781)  |
| Real estate taxes and insurance expense | (55,925)                | (52,420)   |
| Property management expense             | (21,168)                | (24,842)   |
| Total operating expenses                | (214,584)               | (204,043)  |
| Net operating income                    | \$ 305,934              | \$ 269,539 |

## 16. Subsequent Events/Other

### *Subsequent Events*

Subsequent to March 31, 2008 and through May 1, 2008, the Company sold one apartment property consisting of 115 units for \$12.3 million (excluding condominium units).

The following tables present the changes in the Company's issued and outstanding Common Shares and DP Units.

*Other*

The Company incurred impairment losses of approximately \$0.2 million (including discontinued operations) for both the quarters ended March 31, 2008 and 2007 related to the write-off of various pursuit and out-of-pocket costs for terminated acquisition, disposition (including halted condominium conversions) and development transactions.

During the quarter ended March 31, 2008, the Company received \$0.4 million for the settlement of insurance litigation claims from 2000 through 2002 and \$0.2 million for a breach of contract claim against the former owner of a property, both of which were recorded as interest and other income. In addition, the Company recognized \$0.3 million of forfeited deposits for various terminated transactions, which are included in interest and other income.

During the quarter ended March 31, 2008, the Company recorded approximately \$0.2 million and \$1.7 million of additional property management expense and general and administrative expense, respectively, related to cash severance for various employees.

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

### Forward-looking Statements

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

- We intend to actively acquire and develop multifamily properties for rental operations and/or conversion into condominiums, as well as upgrade and sell existing properties as individual condominiums. We may underestimate the costs necessary to bring an acquired or development property up to standards established for its intended market position. Additionally, we expect that other major real estate investors with significant capital will compete with us for attractive investment opportunities or may also develop properties in markets where we focus our development efforts. This competition may increase prices for multifamily properties or decrease the price at which we expect to sell individual properties. We may not be in a position or have the opportunity in the future to make suitable property acquisitions on favorable terms. We also plan to develop more properties ourselves in addition to co-investing with our development partners for either the rental or condominium market, depending on opportunities in each submarket. This may increase the overall level of risk associated with our developments. The total number of development units, cost of development and estimated completion dates are subject to uncertainties arising from changing economic conditions (such as the cost of labor and construction materials), competition and local government regulation;
- Sources of capital to the Company or labor and materials required for maintenance, repair, capital expenditure or development are more expensive than anticipated;
- Occupancy levels and market rents may be adversely affected by national and local economic and market conditions including, without limitation, new construction of multifamily housing, slow employment growth, availability of low interest mortgages for single-family home buyers and the potential for geopolitical instability, all of which are beyond the Company's control; and
- Additional factors as discussed in Part I of the Annual Report on Form 10-K, particularly those under "Risk Factors."

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

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

### Overview

Equity Residential ( EQR ), a Maryland real estate investment trust ( REIT ) formed in March

1993, is an S&P 500 company focused on the acquisition, development and management of high quality apartment properties in top United States growth markets. EQR has elected to be taxed as a REIT.

The Company is one of the largest publicly traded real estate companies and is the largest publicly traded owner of multifamily properties (based on the aggregate market value of its outstanding Common Shares, the number of apartment units wholly owned and total revenues earned). The Company's corporate headquarters are located in Chicago, Illinois and the Company also operates approximately 35 property management offices throughout the United States. The Company has approximately 4,700 employees who provide real estate operations, leasing, legal, financial, accounting, acquisition, disposition, development and other support functions.

### ***Business Objectives and Operating Strategies***

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

- Leveraging our size and scale in four critical ways:
  - Investing in apartment communities located in strategically targeted markets, to maximize our total return on an enterprise level;
  - Meeting the needs of our residents by offering a wide array of product choices and a commitment to service;
  - Engaging, retaining, and attracting the best employees by providing them with the education, resources and opportunities to succeed; and
  - Sharing resources, customers and best practices in property management and across the enterprise.
- Owning a highly diversified portfolio by investing in target markets defined by a combination of the following criteria:
  - High barrier-to-entry (low supply);
  - Strong economic predictors (high demand); and
  - Attractive quality of life (high demand and retention).

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

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- Giving residents reasons to stay with the Company by providing a range of product options available in our diversified portfolio and by enhancing their experience through our employees and our services.
- Being open and responsive to market realities to take advantage of investment opportunities that align with our long-term vision.

### *Acquisition, Development and Disposition Strategies*

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

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

- strategically targeted markets;
- income levels and employment growth trends in the relevant market;
- employment and household growth and net migration of the relevant market's population;
- barriers to entry that would limit competition (zoning laws, building permit availability, supply of undeveloped or developable real estate, local building costs and construction costs, among other factors);
- the location, construction quality, condition and design of the property;
- the current and projected cash flow of the property and the ability to increase cash flow;
- the potential for capital appreciation of the property;
- the terms of resident leases, including the potential for rent increases;
- the potential for economic growth and the tax and regulatory environment of the community in which the property is located;
- the occupancy and demand by residents for properties of a similar type in the vicinity (the overall market and submarket);
- the prospects for liquidity through sale, financing or refinancing of the property;
- the benefits of integration into existing operations;
- purchase prices and yields of available existing stabilized properties, if any;
- competition from existing multifamily properties, residential properties under development and the potential for the construction of new multifamily properties in the area; and
- opportunistic selling based on demand and price of high quality assets, including condominium conversions.

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

### Results of Operations

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

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In conjunction with our business objectives and operating strategy, the Company has continued to invest or recycle its capital investment in apartment communities located in strategically targeted markets during the quarter ended March 31, 2008. In summary, we:

- Acquired \$41.9 million of properties consisting of 2 properties and 171 units, both of which we deem to be in our strategic targeted markets; and
- Sold \$271.6 million of properties consisting of 15 properties and 3,317 units, as well as 41 condominium units for \$9.4 million.

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

Properties that the Company owned for all of both of the quarters ended March 31, 2008 and 2007 (the First Quarter 2008 Same Store Properties ), which represented 121,826 units, impacted the Company's results of operations. The First Quarter 2008 Same Store Properties are discussed in the following paragraphs.

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The Company's acquisition, disposition and completed development activities also impacted overall results of operations for the quarters ended March 31, 2008 and 2007. The impacts of these activities are discussed in greater detail in the following paragraphs.

### *Comparison of the quarter ended March 31, 2008 to the quarter ended March 31, 2007*

For the quarter ended March 31, 2008, income from continuing operations, net of minority interests, increased by approximately \$17.3 million when compared to the quarter ended March 31, 2007. The increase in continuing operations is discussed below.

Revenues from the First Quarter 2008 Same Store Properties increased \$15.2 million primarily as a result of higher rental rates charged to residents. Expenses from the First Quarter 2008 Same Store Properties increased \$2.7 million primarily due to higher utilities, payroll and real estate taxes. The following tables provide comparative same store results and statistics for the First Quarter 2008 Same Store Properties:

### First Quarter 2008 vs. First Quarter 2007

#### Quarter over Quarter Same Store Results/Statistics

\$ in Thousands (except for Average Rental Rate) 121,826 Same Store Units

| Description | Results    |            |            |                         | Statistics |          |  |
|-------------|------------|------------|------------|-------------------------|------------|----------|--|
|             | Revenues   | Expenses   | NOI        | Average Rental Rate (1) | Occupancy  | Turnover |  |
| Q1 2008     | \$ 448,512 | \$ 167,891 | \$ 280,621 | \$ 1,302                | 94.4%      | 13.7%    |  |
| Q1 2007     | \$ 433,351 | \$ 165,219 | \$ 268,132 | \$ 1,253                | 94.8%      | 13.5%    |  |
| Change      | \$ 15,161  | \$ 2,672   | \$ 12,489  | \$ 49                   | (0.4)%     | 0.2%     |  |
| Change      | 3.5%       | 1.6%       | 4.7%       | 3.9%                    |            |          |  |

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

The following table presents a reconciliation of operating income per the consolidated statements of operations to NOI for the First Quarter 2008 Same Store Properties:

Quarter Ended March 31,  
2008 2007  
(Amounts in thousands)

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

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|                                  |    |          |    |         |
|----------------------------------|----|----------|----|---------|
| Operating income                 | \$ | 146,847  | \$ | 120,928 |
| Adjustments:                     |    |          |    |         |
| Non-same store operating results |    | (25,313) |    | (1,407) |
| Fee and asset management revenue |    | (2,294)  |    | (2,267) |
| Fee and asset management expense |    | 2,183    |    | 2,341   |
| Depreciation                     |    | 146,598  |    | 138,932 |
| General and administrative       |    | 12,481   |    | 9,369   |
| Impairment                       |    | 119      |    | 236     |
| Same store NOI                   | \$ | 280,621  | \$ | 268,132 |

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

| 2008 Same Store Assumptions |                |
|-----------------------------|----------------|
| Physical occupancy          | 94.5%          |
| Revenue change              | 3.00% to 4.00% |
| Expense change              | 2.50% to 3.25% |
| NOI change                  | 3.00% to 4.75% |

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

**Non-same store operating results increased \$23.9 million and consist primarily of properties acquired in calendar years 2008 and 2007 as well as operations from completed development properties and our corporate housing business.**

**See also Note 15 in the Notes to Consolidated Financial Statements for additional discussion regarding the Company's segment disclosures.**

Fee and asset management revenues, net of fee and asset management expenses, increased \$0.2 million primarily due to an increase in revenue earned on the management of our military housing venture at Fort Lewis as well as a decrease in asset management expenses from managing fewer properties for third parties and unconsolidated entities. As of March 31, 2008 and 2007, the Company managed 14,472 and 15,025 units, respectively, primarily for unconsolidated entities and our military housing venture at Fort Lewis.

**Property management expenses from continuing operations include off-site expenses associated with the self-management of the Company's properties as well as management fees paid to any third party management companies. These expenses decreased by approximately \$3.7 million or 14.8%. This decrease is primarily attributable to lower overall payroll-related costs as a result of a decrease in the number of properties in the Company's portfolio, as well as a decrease in third party management fees.**

Depreciation expense from continuing operations, which includes depreciation on non-real estate assets, increased \$7.7 million primarily as a result of additional depreciation expense on properties acquired in 2007 and capital expenditures for all properties owned.

General and administrative expenses from continuing operations, which include corporate operating expenses, increased \$3.1 million primarily as a result of a \$1.7 million increase in severance related costs in 2008 (see Note 16) as well as a \$1.6 million expense recovery recorded for the quarter ended March 31, 2007 related to a certain lawsuit in Florida. The Company anticipates that general and administrative expenses will approximate \$48.0 million to \$50.0 million for the year ending December 31, 2008. The above assumption is based on current expectations and is forward-looking.

Impairment from continuing operations decreased \$0.1 million primarily as a result of the write-off of various pursuit and out-of-pocket costs for a terminated development transaction during the quarter ended March 31, 2007, partially offset by the write-off of various deferred sales costs on halted condominium conversions during the quarter ended March 31, 2008

**Interest and other income from continuing operations increased \$0.9 million primarily as a result of an increase in forfeited deposits and litigation settlement proceeds, partially offset by a decrease in interest on cash and restricted deposits. The Company anticipates that interest and other income will approximate \$5.0 million to \$10.0 million for the year ending December 31, 2008. The above assumption is based on current expectations and is forward-looking.**

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

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Interest expense from continuing operations, including amortization of deferred financing costs, increased approximately \$6.5 million primarily as a result of higher overall debt levels outstanding due to the Company's 2007 share repurchase activity and its pre-funding of its 2008 debt maturities, partially offset by lower overall effective interest rates. During the quarter ended March 31, 2008, the Company capitalized interest costs of approximately \$14.7 million as compared to \$7.9 million for the quarter ended March 31, 2007. This capitalization of interest primarily relates to consolidated projects under development. The effective interest cost on all indebtedness for the quarter ended March 31, 2008 was 5.61% as compared to 5.93% for the quarter ended March 31, 2007. The Company anticipates that interest expense (including discontinued operations) will approximate \$470.0 million to \$490.0 million for the year ending December 31, 2008. The

above assumption is based on current expectations and is forward-looking.

Income and other tax expense from continuing operations increased \$2.3 million primarily due to a change in the estimate for Texas state taxes. The Company anticipates that income and other tax expense will approximate \$5.0 million to \$6.0 million for the year ending December 31, 2008. The above assumption is based on current expectations and is forward-looking.

Loss from investments in unconsolidated entities decreased \$0.1 million as compared to the quarter ended March 31, 2007 due to improved operating performance at the Company's partially owned unconsolidated entities.

Discontinued operations, net of minority interests, decreased approximately \$3.0 million between the periods under comparison. This decrease is primarily due to the mix of those properties sold during the quarter ended March 31, 2008 as compared to the same period in 2007 and the operations of those properties. See Note 13 in the Notes to Consolidated Financial Statements for further discussion.

#### **Liquidity and Capital Resources**

As of January 1, 2008, the Company had approximately \$50.8 million of cash and cash equivalents and \$1.3 billion available under its revolving credit facility (net of \$80.8 million which was restricted/dedicated to support letters of credit and not available for borrowing). After taking into effect the various transactions discussed in the following paragraphs and the net cash provided by operating activities, the Company's cash and cash equivalents balance at March 31, 2008 was approximately \$502.6 million and the amount available on the Company's revolving credit facility was \$1.4 billion (net of \$77.5 million which was restricted/dedicated to support letters of credit and not available for borrowing). The significant increase in the Company's cash and cash equivalents balance since December 31, 2007 is a direct result of its decision to pre-fund its 2008 debt maturities with the closing of a \$500.0 million secured mortgage pool in March 2008. See Note 10 in the Notes to Consolidated Financial Statements for further discussion.

During the quarter ended March 31, 2008, the Company generated proceeds from various transactions, which included the following:

- Disposed of 17 properties and various individual condominium units, receiving net proceeds of approximately \$284.3 million;
- Obtained \$563.1 million in new mortgage financing and terminated three forward starting swaps designated to hedge the first \$150.0 million of one of the loan issuances, making payments of \$13.2 million; and
- Issued approximately 0.2 million Common Shares and received net proceeds of \$5.8 million.

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

During the quarter ended March 31, 2008, the above proceeds were primarily utilized to:

- Invest \$125.9 million primarily in development projects;
- Acquire two properties, utilizing cash of \$41.9 million;
- Repurchase 0.2 million Common Shares and settle 0.1 million Common Shares, utilizing cash of \$10.9 million (see Note 3); and
- Repay \$74.5 million of mortgage loans.

Depending on its analysis of market prices, economic conditions, and other opportunities for the investment of available capital, the Company may repurchase its Common Shares pursuant to its existing share repurchase program authorized by the Board of Trustees. The Company repurchased \$6.3 million (171,161 shares at an average price per share of \$36.78) of its Common Shares during the quarter ended March 31, 2008. As of March 31, 2008, the Company had authorization to repurchase an additional \$469.3 million of its shares. See Note 3 in the Notes to Consolidated Financial Statements for further discussion.

The Company's total debt summary and debt maturity schedules as of March 31, 2008 are as follows:

**Debt Summary as of March 31, 2008**

(Amounts in thousands)

|                                     | Amounts (1)  | % of Total | Weighted Average Rates (1) | Weighted Average Maturities (years) |
|-------------------------------------|--------------|------------|----------------------------|-------------------------------------|
| Secured                             | \$ 4,096,357 | 41.5%      | 5.23%                      | 7.9                                 |
| Unsecured                           | 5,767,075    | 58.5%      | 5.59%                      | 6.0                                 |
| Total                               | \$ 9,863,432 | 100.0%     | 5.45%                      | 6.8                                 |
| Fixed Rate Debt:                    |              |            |                            |                                     |
| Secured Conventional                | \$ 2,935,779 | 29.7%      | 6.06%                      | 5.8                                 |
| Unsecured Public/Private            | 5,003,070    | 50.7%      | 5.68%                      | 6.2                                 |
| Unsecured Tax Exempt                | 111,390      | 1.2%       | 5.06%                      | 21.1                                |
| Fixed Rate Debt                     | 8,050,239    | 81.6%      | 5.80%                      | 6.3                                 |
| Floating Rate Debt:                 |              |            |                            |                                     |
| Secured Conventional                | 533,665      | 5.4%       | 4.01%                      | 5.0                                 |
| Secured Tax Exempt                  | 626,913      | 6.4%       | 2.86%                      | 20.8                                |
| Unsecured Public/Private            | 652,615      | 6.6%       | 5.10%                      | 2.2                                 |
| Unsecured Revolving Credit Facility |              |            | 4.29%                      | 3.9                                 |
| Floating Rate Debt                  | 1,813,193    | 18.4%      | 4.01%                      | 9.2                                 |
| Total                               | \$ 9,863,432 | 100.0%     | 5.45%                      | 6.8                                 |

(1) Net of the effect of any derivative instruments. Weighted average rates are for the quarter ended March 31, 2008.

Note: The Company capitalized interest of approximately \$14.7 million and \$7.9 million for the quarters ended March 31, 2008 and 2007, respectively.

**Debt Maturity Schedule as of March 31, 2008**

(Amounts in thousands)

| Year | Fixed Rate (1) | Floating Rate (1) | Total      | % of Total | Weighted Average Rates on Fixed Rate Debt (1) | Weighted Average Rates on Total Debt (1) |
|------|----------------|-------------------|------------|------------|-----------------------------------------------|------------------------------------------|
| 2008 | \$ 399,695     | \$ 67,392         | \$ 467,087 | 4.7%       | 6.62%                                         | 6.32%                                    |
| 2009 | 458,419        | 476,246           | 934,665    | 9.5%       | 6.35%                                         | 5.28%                                    |
| 2010 | (2) 282,829    | 580,960           | 863,789    | 8.8%       | 7.02%                                         | 5.21%                                    |
| 2011 | (3) 1,519,782  | 41,537            | 1,561,319  | 15.8%      | 5.57%                                         | 5.50%                                    |
| 2012 | 907,993        |                   | 907,993    | 9.2%       | 6.08%                                         | 6.08%                                    |
| 2013 | 566,295        |                   | 566,295    | 5.7%       | 5.93%                                         | 5.93%                                    |
| 2014 | 517,454        |                   | 517,454    | 5.3%       | 5.28%                                         | 5.28%                                    |

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

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|       |              |              |              |        |       |       |
|-------|--------------|--------------|--------------|--------|-------|-------|
| 2015  | 355,622      |              | 355,622      | 3.6%   | 6.41% | 6.41% |
| 2016  | 1,089,323    |              | 1,089,323    | 11.0%  | 5.32% | 5.32% |
| 2017  | 803,653      | 456          | 804,109      | 8.2%   | 6.01% | 6.01% |
| 2018+ | 1,149,174    | 646,602      | 1,795,776    | 18.2%  | 5.76% | 5.10% |
| Total | \$ 8,050,239 | \$ 1,813,193 | \$ 9,863,432 | 100.0% | 5.86% | 5.54% |

- 
- (1) Net of the effect of any derivative instruments. Weighted average rates are as of March 31, 2008.
- (2) Includes the Company's \$500.0 million floating rate term loan facility, which matures on October 5, 2010, subject to two one-year extension options exercisable by the Company.
- (3) Includes \$650.0 million of 3.85% convertible unsecured debt with a final maturity of 2026. The notes are callable by the Company on or after August 18, 2011. The notes are putable by the holders on August 18, 2011, August 15, 2016 and August 15, 2021.

**The following table provides a summary of the Company's unsecured debt as of March 31, 2008:**

## Unsecured Debt Summary as of March 31, 2008

(Amounts in thousands)

|                                     | Coupon<br>Rate | Due<br>Date |     | Face<br>Amount | Unamortized<br>Premium/<br>(Discount) | Net<br>Balance |
|-------------------------------------|----------------|-------------|-----|----------------|---------------------------------------|----------------|
| <b>Fixed Rate Notes:</b>            |                |             |     |                |                                       |                |
|                                     | 7.500%         | 08/15/08    | (1) | \$ 130,000     | \$                                    | \$ 130,000     |
|                                     | 4.750%         | 06/15/09    | (2) | 300,000        | (331)                                 | 299,669        |
|                                     | 6.950%         | 03/02/11    |     | 300,000        | 2,665                                 | 302,665        |
|                                     | 6.625%         | 03/15/12    |     | 400,000        | (1,162)                               | 398,838        |
|                                     | 5.500%         | 10/01/12    |     | 350,000        | (1,553)                               | 348,447        |
|                                     | 5.200%         | 04/01/13    |     | 400,000        | (592)                                 | 399,408        |
|                                     | 5.250%         | 09/15/14    |     | 500,000        | (397)                                 | 499,603        |
|                                     | 6.584%         | 04/13/15    |     | 300,000        | (782)                                 | 299,218        |
|                                     | 5.125%         | 03/15/16    |     | 500,000        | (426)                                 | 499,574        |
|                                     | 5.375%         | 08/01/16    |     | 400,000        | (1,546)                               | 398,454        |
|                                     | 5.750%         | 06/15/17    |     | 650,000        | (4,705)                               | 645,295        |
|                                     | 7.125%         | 10/15/17    |     | 150,000        | (619)                                 | 149,381        |
|                                     | 7.570%         | 08/15/26    |     | 140,000        |                                       | 140,000        |
|                                     | 3.850%         | 08/15/26    | (3) | 650,000        | (7,482)                               | 642,518        |
| Floating Rate Adjustments           |                |             | (2) | (150,000)      |                                       | (150,000)      |
|                                     |                |             |     | 5,020,000      | (16,930)                              | 5,003,070      |
| <b>Fixed Rate Tax Exempt Notes:</b> |                |             |     |                |                                       |                |
|                                     | 4.750%         | 12/15/28    | (1) | 35,600         |                                       | 35,600         |
|                                     | 5.200%         | 06/15/29    | (1) | 75,790         |                                       | 75,790         |
|                                     |                |             |     | 111,390        |                                       | 111,390        |
| <b>Floating Rate Notes:</b>         |                |             |     |                |                                       |                |
|                                     |                | 06/15/09    | (2) | 150,000        |                                       | 150,000        |
| FAS 133 Adjustments net             |                |             | (2) | 2,615          |                                       | 2,615          |
| Term Loan Facility                  |                | 10/05/10    | (4) | 500,000        |                                       | 500,000        |
|                                     |                |             |     | 652,615        |                                       | 652,615        |
| <b>Revolving Credit Facility:</b>   |                |             |     |                |                                       |                |
|                                     |                | 02/28/12    | (5) |                |                                       |                |
| <b>Total Unsecured Debt</b>         |                |             |     |                |                                       |                |
|                                     |                |             |     | \$ 5,784,005   | \$ (16,930)                           | \$ 5,767,075   |

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

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

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

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

(5) As of March 31, 2008, there was no amount outstanding on the Company's \$1.5 billion unsecured revolving

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

credit facility which matures on February 28, 2012.

As of May 1, 2008, an unlimited amount of debt securities remains available for issuance by the Operating Partnership under a registration statement that became automatically effective upon filing with the SEC in June 2006 (under SEC regulations enacted in 2005, the registration statement automatically expires on June 29, 2009 and does not contain a maximum issuance amount). As of May 1, 2008, \$956.5 million in equity securities remains available for issuance by the Company under a registration statement the SEC declared effective in February 1998.

The Company's Consolidated Debt-to-Total Market Capitalization Ratio as of March 31, 2008 is presented in the following table. The Company calculates the equity component of its market capitalization as the sum of (i) the total outstanding Common Shares and assumed conversion of all OP Units at the equivalent

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market value of the closing price of the Company's Common Shares on the New York Stock Exchange; (ii) the Common Share Equivalent of all convertible preferred shares and preference units; and (iii) the liquidation value of all perpetual preferred shares outstanding.

**Capital Structure as of March 31, 2008**

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

|                                        |             |       |                   |               |               |
|----------------------------------------|-------------|-------|-------------------|---------------|---------------|
| Secured Debt                           |             | \$    | 4,096,357         | 41.5%         |               |
| Unsecured Debt                         |             |       | 5,767,075         | 58.5%         |               |
| <b>Total Debt</b>                      |             |       | <b>9,863,432</b>  | <b>100.0%</b> | <b>44.7%</b>  |
| Common Shares                          | 270,502,249 |       |                   | 93.8%         |               |
| OP Units                               | 18,001,023  |       |                   | 6.2%          |               |
| Total Shares and OP Units              | 288,503,272 |       |                   | 100.0%        |               |
| Common Share Equivalents (see below)   | 439,296     |       |                   |               |               |
| Total outstanding at quarter-end       | 288,942,568 |       |                   |               |               |
| Common Share Price at March 31, 2008   | \$          | 41.49 |                   |               |               |
|                                        |             |       | 11,988,227        | 98.4%         |               |
| Perpetual Preferred Equity (see below) |             |       | 200,000           | 1.6%          |               |
| <b>Total Equity</b>                    |             |       | <b>12,188,227</b> | <b>100.0%</b> | <b>55.3%</b>  |
| <b>Total Market Capitalization</b>     |             | \$    | <b>22,051,659</b> |               | <b>100.0%</b> |

**Convertible Preferred Equity as of March 31, 2008**

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

| Series                             | Redemption Date | Outstanding Shares/Units | Liquidation Value | Annual Dividend Per Share/Unit | Annual Dividend Amount | Weighted Average Rate | Conversion Ratio | Common Share Equivalents |
|------------------------------------|-----------------|--------------------------|-------------------|--------------------------------|------------------------|-----------------------|------------------|--------------------------|
| Preferred Shares:                  |                 |                          |                   |                                |                        |                       |                  |                          |
| 7.00% Series E                     | 11/1/98         | 357,616                  | \$ 8,940          | \$ 1.75                        | \$ 626                 |                       | 1.1128           | 397,955                  |
| 7.00% Series H                     | 6/30/98         | 23,359                   | 584               | 1.75                           | 41                     |                       | 1.4480           | 33,824                   |
| Junior Preference Units:           |                 |                          |                   |                                |                        |                       |                  |                          |
| 8.00% Series B                     | 7/29/09         | 7,367                    | 184               | 2.00                           | 15                     |                       | 1.020408         | 7,517                    |
| Total Convertible Preferred Equity |                 | 388,342                  | \$ 9,708          |                                | \$ 682                 | 7.03%                 |                  | 439,296                  |

**Perpetual Preferred Equity as of March 31, 2008**

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

| Redemption | Outstanding | Liquidation | Annual Dividend | Annual Dividend | Weighted Average |
|------------|-------------|-------------|-----------------|-----------------|------------------|
|------------|-------------|-------------|-----------------|-----------------|------------------|

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

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

The Company expects to meet its short-term liquidity requirements, including capital expenditures related to maintaining its existing properties and certain scheduled unsecured note and mortgage note repayments, generally through its working capital, net cash provided by operating activities and borrowings under its revolving credit facility. The Company considers its cash provided by operating activities to be adequate to meet operating requirements and payments of distributions. The Company also expects to meet its long-term liquidity requirements, such as scheduled unsecured note and mortgage debt maturities, property acquisitions, financing of construction and development activities and capital improvements through the issuance of unsecured notes and equity securities, including additional OP Units, and proceeds received

from the disposition of certain properties as well as joint ventures. In addition, the Company has significant unencumbered properties available to secure additional mortgage borrowings in the event that the public capital markets are unavailable or the cost of alternative sources of capital is too high. The fair value of and cash flow from these unencumbered properties are in excess of the requirements the Company must maintain in order to comply with covenants under its unsecured notes and line of credit. Of the \$18.3 billion in investment in real estate on the Company's balance sheet at March 31, 2008, \$11.3 billion or 61.5%, was unencumbered.

As of May 1, 2008, the Operating Partnership's senior debt credit ratings from Standard & Poors (S&P), Moody's and Fitch are BBB+, Baa1 and A-, respectively. As of May 1, 2008, the Company's preferred equity ratings from S&P, Moody's and Fitch are BBB, Baa2 and BBB+, respectively.

The Operating Partnership has a long-term revolving credit facility with potential borrowings of up to \$1.5 billion which matures in February 2012. This facility may, among other potential uses, be used to fund property acquisitions, costs for certain properties under development and short term liquidity requirements. As of May 1, 2008, no amounts were outstanding under this facility.

See Note 16 in the Notes to Consolidated Financial Statements for discussion of the events which occurred subsequent to March 31, 2008.

#### *Capitalization of Fixed Assets and Improvements to Real Estate*

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

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

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

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

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

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

For the quarter ended March 31, 2008, our actual improvements to real estate totaled approximately

**\$40.7 million. This includes the following (amounts in thousands except for unit and per unit amounts):**

**Capitalized Improvements to Real Estate**

**For the Quarter Ended March 31, 2008**

|                                   | Total<br>Units (1) | Replacements     | Avg.<br>Per Unit | Building<br>Improvements | Avg.<br>Per Unit | Total            | Avg.<br>Per Unit |
|-----------------------------------|--------------------|------------------|------------------|--------------------------|------------------|------------------|------------------|
| Established Properties (2)        | 111,463            | \$ 8,925         | \$ 80            | \$ 13,214                | \$ 119           | \$ 22,139        | \$ 199           |
| New Acquisition Properties<br>(3) | 17,879             | 1,154            | 65               | 5,096                    | 285              | 6,250            | 350              |
| Other (4)                         | 6,250              | 9,391            |                  | 2,964                    |                  | 12,355           |                  |
| <b>Total</b>                      | <b>135,592</b>     | <b>\$ 19,470</b> |                  | <b>\$ 21,274</b>         |                  | <b>\$ 40,744</b> |                  |

- 
- (1) Total units Excludes 10,446 unconsolidated units and 3,731 military housing (fee managed) units, for which capitalized improvements to real estate are self-funded and do not consolidate into the Company's results.
- (2) Established Properties Wholly Owned Properties acquired prior to January 1, 2006.
- (3) New Acquisition Properties Wholly Owned Properties acquired during 2006, 2007 and 2008.
- (4) Other Includes properties either partially owned or sold during the period, commercial space, corporate housing and condominium conversions. Also includes \$7.5 million included in replacements spent on various assets related to major renovations and repositioning of these assets.

**For 2008, the Company estimates an annual stabilized run rate of approximately \$1,100 per unit of capital expenditures for its established properties. The above assumption is based on current expectations and is forward-looking.**

**During the quarter ended March 31, 2008, the Company's total non-real estate capital additions, such as computer software, computer equipment, and furniture and fixtures and leasehold improvements to the Company's property management offices and its corporate offices, were approximately \$1.0 million. The Company expects to fund approximately \$2.7 million in total additions to non-real estate property for the remainder of 2008. The above assumption is based on current expectations and is forward-looking.**

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

***Derivative Instruments***

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

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In the normal course of business, the Company is exposed to the effect of interest rate changes. The Company limits these risks by following established risk management policies and procedures including the use of derivatives to hedge interest rate risk on debt instruments.

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

See Note 11 in the Notes to Consolidated Financial Statements for additional discussion of derivative instruments at March 31, 2008.

### *Other*

**Minority Interests as of March 31, 2008** decreased by \$9.3 million when compared to December 31, 2007, primarily as a result of the following:

- Distributions declared to Minority Interests, which amounted to \$8.8 million (excluding Junior Preference Unit distributions);
- The allocation of income from operations to holders of OP Units in the amount of \$9.3 million; and
- The conversion of 0.4 million OP Units into Common Shares.

Total distributions paid in April 2008 amounted to \$141.8 million (excluding distributions on Partially Owned Properties), which included certain distributions declared during the first quarter ended March 31, 2008.

#### Off-Balance Sheet Arrangements and Contractual Obligations

The Company has co-invested in various properties that are unconsolidated and accounted for under the equity method of accounting. Management does not believe these investments have a materially different impact upon the Company's liquidity, cash flows, capital resources, credit or market risk than its property management and ownership activities. During 2000 and 2001, the Company entered into institutional ventures with an unaffiliated partner. At the respective closing dates, the Company sold and/or contributed 45 properties containing 10,846 units to these ventures and retained a 25% ownership interest in the ventures. The Company's joint venture partner contributed cash equal to 75% of the agreed-upon equity value of the properties comprising the ventures, which was then distributed to the Company. The Company's strategy with respect to these ventures was to reduce its concentration of properties in a variety of markets. The Company sold one property consisting of 400 units during the year ended December 31, 2007.

As of March 31, 2008, the Company has 13 projects totaling 4,484 units in various stages of development with estimated completion dates ranging through June 30, 2011. The development agreements currently in place are discussed in detail in Note 14 of the Company's Consolidated Financial Statements.

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

The Company's contractual obligations for the next five years and thereafter have not changed materially from the amounts and disclosures included in its annual report on Form 10-K, other than as it relates to scheduled debt maturities. See the updated debt maturity schedule included in Liquidity and Capital Resources for further discussion.

#### Critical Accounting Policies and Estimates

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

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

### *Impairment of Long-Lived Assets, Including Goodwill*

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

*Depreciation of Investment in Real Estate*

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

*Cost Capitalization*

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

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

*Fair Value of Financial Instruments, Including Derivative Instruments*

The Company follows the guidance under SFAS No. 157 when valuing its financial instruments. The valuation of financial instruments under SFAS No. 107 and SFAS No. 133, as amended, 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 statements.

*Revenue Recognition*

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

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

*Share-Based Compensation*

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

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. This model is only one method of valuing options and the Company's use of this model should not be interpreted as an endorsement of its

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accuracy. Because the Company's share options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its share options and the actual value of the options may be significantly different.

## Funds From Operations

For the quarter ended March 31, 2008, Funds From Operations ( FFO ) available to Common Shares and OP Units decreased by \$2.5 million or 1.4%, as compared to the quarter ended March 31, 2007.

The following is a reconciliation of net income to FFO available to Common Shares and OP Units for the quarters ended March 31, 2008 and 2007:

## Funds From Operations

(Amounts in thousands)

(Unaudited)

|                                                                     | Quarter Ended March 31, |            |
|---------------------------------------------------------------------|-------------------------|------------|
|                                                                     | 2008                    | 2007       |
| Net income                                                          | \$ 140,482              | \$ 126,237 |
| Allocation to Minority Interests Operating Partnership, net         | 1,518                   | 94         |
| Adjustments:                                                        |                         |            |
| Depreciation                                                        | 146,598                 | 138,932    |
| Depreciation Non-real estate additions                              | (2,051)                 | (2,035)    |
| Depreciation Partially Owned and Unconsolidated Properties          | 1,034                   | 943        |
| Discontinued operations:                                            |                         |            |
| Depreciation                                                        | 982                     | 15,742     |
| Gain on sales of discontinued operations, net of minority interests | (114,725)               | (104,983)  |
| Net incremental gain on sales of condominium units                  | 366                     | 4,684      |
| Minority Interests Operating Partnership                            | (18)                    | 829        |
| FFO (1) (2)                                                         | 174,186                 | 180,443    |
| Preferred distributions                                             | (3,633)                 | (7,424)    |
| FFO available to Common Shares and OP Units (1) (2)                 | \$ 170,553              | \$ 173,019 |

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

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

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

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

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

The Company's market risk has not changed materially from the amounts and information reported in Item 7A, *Quantitative and Qualitative Disclosures About Market Risk*, to the Company's Form 10-K for the year ended December 31, 2007. See also Note 11 in the Notes to Consolidated Financial Statements for additional discussion of derivative instruments.

**Item 4. Controls and Procedures**

**(a) Evaluation of Disclosure Controls and Procedures:**

Effective as of March 31, 2008, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures pursuant to Exchange Act Rules 13a-15 and 15d-15. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in its Exchange Act filings is recorded, processed, summarized and reported within the periods specified in the SEC's rules and forms.

**(b) Changes in Internal Control over Financial Reporting:**

During the first quarter of 2008, the Company completed the implementation of a new general ledger and accounts payable system designed to integrate its financial and operating platforms. The Company believes this implementation constitutes an improvement to its internal control over financial reporting.

Except for the preceding change, there were no changes to the internal control over financial reporting of the Company identified in connection with the Company's evaluation referred to above that occurred during the first quarter of 2008 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II.****OTHER INFORMATION****Item 1. Legal Proceedings**

The Company is party to a housing discrimination lawsuit brought by a non-profit civil rights organization in April 2006 in the U.S. District Court for the District of Maryland. The suit alleges that the Company designed and built approximately 300 of its properties in violation of the accessibility requirements of the Fair Housing Act and Americans with Disabilities Act. The suit seeks actual and punitive damages, injunctive relief (including modification of non-compliant properties), costs and attorneys' fees. The Company believes it has a number of viable defenses, including that a majority of the named properties were completed before the operative dates of the statutes in question and/or were not designed or built by the Company. Accordingly, the Company is defending the suit vigorously. Due to the pendency of the Company's defenses and the uncertainty of many other critical factual and legal issues, it is not possible to determine or predict the outcome of the suit and as a result, no amounts have been accrued at March 31, 2008. While no assurances can be given, the Company does not believe that the suit, if adversely determined, will have a material adverse effect on the Company.

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

**Item 1A. Risk Factors**

There have been no material changes related to the risk factors that were discussed in Part I, Item 1A of the Company's Form 10-K for the year ended December 31, 2007.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***(c) Common Shares Repurchased in the Quarter Ended March 31, 2008*

The Company repurchased the following Common Shares during the quarter ended March 31, 2008:

| Period        | Total Number<br>of Common<br>Shares<br>Purchased (1) | Average Price<br>Paid Per<br>Share (1) | Total Number of<br>Common Shares<br>Purchased as Part<br>of Publicly Announced<br>Plans or Programs (1) | Dollar Value of<br>Common Shares<br>that May Yet Be<br>Purchased Under<br>the Plans or<br>Programs (1) |
|---------------|------------------------------------------------------|----------------------------------------|---------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------|
| January 2008  | 100,000                                              | \$ 35.74                               | 100,000                                                                                                 | \$ 471,995,345                                                                                         |
| February 2008 | 71,161                                               | \$ 38.25                               | 71,161                                                                                                  | \$ 469,273,467                                                                                         |

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

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|                    |         |    |       |         |             |
|--------------------|---------|----|-------|---------|-------------|
| March 2008         |         | \$ |       | \$      | 469,273,467 |
| First Quarter 2008 | 171,161 | \$ | 36.78 | 171,161 |             |

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(1) The Common Shares repurchased during the quarter ended March 31, 2008 represent Common Shares repurchased under the Company's publicly announced share repurchase program approved by its Board of Trustees. Of the total shares repurchased, 71,161 shares were repurchased from employees at an average price of \$38.25 per share (the average of the then current market prices) to cover the minimum statutory tax withholding obligations related to the vesting of employees' restricted shares. The remaining 100,000 shares were repurchased in the open market at an average price of \$35.74 per share. The Company has authorization to repurchase an additional \$469.3 million of its shares as of March 31, 2008.

**Item 6.** Exhibits See the Exhibit Index

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EQUITY RESIDENTIAL

Date: May 8, 2008

By: /s/

Mark J. Parrell  
Mark J. Parrell  
Executive Vice President and  
Chief Financial Officer

Date: May 8, 2008

By: /s/

Ian S. Kaufman  
Ian S. Kaufman  
First Vice President and  
Chief Accounting Officer

**EXHIBIT INDEX**

The exhibits listed below are filed as part of this report. References to exhibits or other filings under the caption "Location" indicate that the exhibit or other filing has been filed, that the indexed exhibit and the exhibit referred to are the same and that the exhibit referred to is incorporated by reference. The Commission file number for our Exchange Act filings referenced below is 1-12252.

| <b>Exhibit</b> | <b>Description</b>                                                                                                                                                                      | <b>Location</b>  |
|----------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|
| 10.1           | The Equity Residential Supplemental Executive Retirement Plan as Amended and Restated Effective January 1, 2008.                                                                        | Attached herein. |
| 10.2           | The Equity Residential Grandfathered Supplemental Executive Retirement Plan as Amended and Restated Effective January 1, 2005.                                                          | Attached herein. |
| 31.1           | Certification of David J. Neithercut, Chief Executive Officer.                                                                                                                          | Attached herein. |
| 31.2           | Certification of Mark J. Parrell, Chief Financial Officer.                                                                                                                              | Attached herein. |
| 32.1           | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of David J. Neithercut, Chief Executive Officer of the Company. | Attached herein. |
| 32.2           | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, of Mark J. Parrell, Chief Financial Officer of the Company.     | Attached herein. |

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