EQUITY LIFESTYLE PROPERTIES INC
Form 10-Q
October 25, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018
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: 1-11718

EQUITY LIFESTYLE PROPERTIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

Maryland	36-3857664
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
Two North Riverside Plaza, Suite 800, Chicago, Illinois	60606
(Address of Principal Executive Offices)	(Zip Code)

(312) 279-1400
(Registrant’s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No o

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

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

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

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

Indicate the number of shares outstanding of each of the issuer’s classes of common stock, as of the latest practicable date:

89,747,439 shares of Common Stock as of October 19, 2018.

Equity LifeStyle Properties, Inc.
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Part I – Financial Information
Item 1. Financial Statements

Equity LifeStyle Properties, Inc.
Consolidated Balance Sheets
(amounts in thousands, except share and per share data)

	As of September 30, 2018 (unaudited)	As of December 31, 2017
Assets		
Investment in real estate:		
Land	$ 1,342,925	$ 1,221,375
Land improvements	3,114,815	3,045,221
Buildings and other depreciable property	708,600	649,217
	5,166,340	4,915,813
Accumulated depreciation	(1,613,158)	(1,516,694)
Net investment in real estate	3,553,182	3,399,119
Cash and restricted cash	112,410	31,085
Notes receivable, net	35,889	49,477
Investment in unconsolidated joint ventures	57,366	53,080
Deferred commission expense	40,352	31,443
Escrow deposits, goodwill, and other assets, net	55,838	45,828
Total Assets	$ 3,855,037	$ 3,610,032
Liabilities and Equity		
Liabilities:		
Mortgage notes payable, net	$ 2,016,257	$ 1,971,715
Term loan	198,545	198,302
Unsecured line of credit	80,000	30,000
Accrued expenses and accounts payable	102,620	80,744
Deferred revenue – upfront payments from right-to-use contracts	115,172	85,596
Deferred revenue – right-to-use annual payments	11,025	9,932
Accrued interest payable	8,369	8,387
Rents and other customer payments received in advance and security deposits	80,011	79,267
Distributions payable	52,521	46,047
Total Liabilities	2,664,520	2,509,990
Equity:		
Stockholders' Equity:		
Preferred stock, $0.01 par value, 10,000,000 shares authorized as of September 30, 2018 and December 31, 2017; none issued and outstanding.	—	—
Common stock, $0.01 par value, 200,000,000 shares authorized as of September 30, 2018 and December 31, 2017; 89,746,747 and 88,585,160 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively.	895	883
Paid-in capital	1,325,648	1,242,109
Distributions in excess of accumulated earnings	(211,743)	(211,980)
Accumulated other comprehensive income	3,959	942
Total Stockholders' Equity	1,118,759	1,031,954
Non-controlling interests – Common OP Units	71,758	68,088
Total Equity	1,190,517	1,100,042
Total Liabilities and Equity	$ 3,855,037	$ 3,610,032

The accompanying notes are an integral part of these Consolidated Financial Statements.

Equity LifeStyle Properties, Inc.
Consolidated Statements of Income and Comprehensive Income
(amounts in thousands, except per share data)
(unaudited)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Community base rental income	$130,746	$123,177	$386,064	$365,833
Rental home income	3,507	3,592	10,583	10,829
Resort base rental income	64,351	58,471	183,836	169,594
Right-to-use annual payments	12,206	11,531	35,616	34,133
Right-to-use contracts current period, gross	4,863	4,208	11,969	11,212
Right-to-use contract upfront payments, deferred, net	(2,883)	(1,670)	(6,189)	(3,766)
Utility and other income	25,917	26,295	75,758	69,071
Gross revenues from home sales	9,339	10,012	26,753	24,872
Brokered resale and ancillary services revenues, net	1,362	1,983	3,380	4,088
Interest income	1,846	1,974	5,658	5,542
Income from other investments, net	5,421	2,052	9,774	3,918
Total revenues	256,675	241,625	743,202	695,326
Expenses:				
Property operating and maintenance	84,445	80,164	239,444	221,119
Rental home operating and maintenance	1,904	1,704	4,957	4,912
Real estate taxes	13,240	14,006	40,815	41,986
Sales and marketing, gross	3,568	3,277	9,685	8,861
Right-to-use contract commissions, deferred, net	(458)	(176)	(744)	(372)
Property management	13,589	13,160	40,742	38,743
Depreciation on real estate assets and rental homes	32,856	30,493	96,630	90,849
Amortization of in-place leases	2,124	138	5,069	2,128
Cost of home sales	9,742	10,377	27,948	25,391
Home selling expenses	1,101	1,447	3,149	3,301
General and administrative	8,816	7,505	26,523	23,339
Other expenses	386	324	1,096	814
Interest and related amortization	26,490	25,027	78,478	74,728
Total expenses	197,803	187,446	573,792	535,799
Income before equity in income of unconsolidated joint ventures	58,872	54,179	169,410	159,527
Equity in income of unconsolidated joint ventures	788	686	3,596	2,876
Consolidated net income	59,660	54,865	173,006	162,403
Income allocated to non-controlling interests – Common OP Units	(3,590)	(3,286)	(10,569)	(9,825)
Redeemable perpetual preferred stock dividends and original issuance costs	—	(3,054)	(8)	(7,667)
Net income available for Common Stockholders	$56,070	$48,525	$162,429	$144,911
Consolidated net income	$59,660	$54,865	$173,006	$162,403
Other comprehensive income:				
Adjustment for fair market value of swap	380	(30)	3,017	227
Consolidated comprehensive income	60,040	54,835	176,023	162,630
	(3,613)	(3,237)	(10,754)	(9,792)

Comprehensive income allocated to non-controlling interests – Common OP Units				
Redeemable perpetual preferred stock dividends and original issuance costs	—	(3,054)	(8)	(7,667)
Comprehensive income attributable to Common Stockholders	$56,427	$48,544	$165,261	$145,171

The accompanying notes are an integral part of these Consolidated Financial Statements.

Equity LifeStyle Properties, Inc.
Consolidated Statements of Income and Comprehensive Income (Continued)
(amounts in thousands, except per share data)
(unaudited)

	Quarters Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Earnings per Common Share – Basic:				
Net income available for Common Stockholders	$0.63	$ 0.56	$1.83	$ 1.67
Earnings per Common Share – Fully Diluted:				
Net income available for Common Stockholders	$0.63	$ 0.56	$1.82	$ 1.66
Weighted average Common Shares outstanding – basic	89,200	87,037	88,760	86,620
Weighted average Common Shares outstanding – fully diluted	95,263	93,324	94,827	93,135

The accompanying notes are an integral part of these Consolidated Financial Statements.

Equity LifeStyle Properties, Inc.
Consolidated Statements of Changes in Equity
(amounts in thousands)
(unaudited)

	Common Stock	Paid-in Capital	Redeemable Perpetual Preferred Stock	Distributions in Excess of Accumulated Earnings	Accumulated Other Comprehensive Loss/(Income)	Non-controlling interests – Common OP Units	Total Equity
Balance, December 31, 2017	$ 883	$ 1,242,109	$ —	$ (211,980)	$ 942	$ 68,088	$ 1,100,042
Cumulative effect of change in accounting principle (as described in Note 2)	—	—	—	(15,186)	—	—	(15,186)
Balance, January 1, 2018	883	1,242,109	—	(227,166)	942	68,088	1,084,856
Exchange of Common OP Units for Common Stock	—	80	—	—	—	(80)	—
Issuance of Common Stock through employee stock purchase plan	—	503	—	—	—	—	503
Compensation expenses related to restricted stock and stock options	—	1,800	—	—	—	—	1,800
Adjustment for Common OP Unitholders in the Operating Partnership	—	782	—	—	—	(782)	—
Adjustment for fair market value of swap	—	—	—	—	1,873	—	1,873
Consolidated net income	—	—	—	60,222	—	3,955	64,177
Distributions	—	—	—	(48,805)	—	(3,205)	(52,010)
Other	—	(60)	—	—	—	—	(60)
Balance, March 31, 2018	883	1,245,214	—	(215,749)	2,815	67,976	1,101,139
Exchange of Common OP Units for Common Stock	1	81	—	—	—	(82)	—
Issuance of Common Stock through employee stock purchase plan	—	343	—	—	—	—	343
Compensation expenses related to restricted stock and stock options	—	2,741	—	—	—	—	2,741
Adjustment for Common OP Unitholders in the Operating Partnership	—	(57)	—	—	—	57	—
Adjustment for fair market value of swap	—	—	—	—	764	—	764
Consolidated net income	—	—	8	46,137	—	3,024	49,169
Distributions	—	—	(8)	(48,841)	—	(3,201)	(52,050)
Other	—	(275)	—	—	—	—	(275)
Balance, June 30, 2018	884	1,248,047	—	(218,453)	3,579	67,774	1,101,831
Exchange of Common OP Units for Common Stock	1	858	—	—	—	(859)	—
Issuance of Common Stock through employee stock purchase	—	765	—	—	—	—	765

plan							
Issuance of Common Stock	10	78,745	—	—	—	—	78,755
Compensation expenses related to restricted stock and stock options	—	2,746	—	—	—	—	2,746
Adjustment for Common OP Unitholders in the Operating Partnership	—	(4,414)	—	—	—	4,414	—
Adjustment for fair market value of swap	—	—	—	—	380	—	380
Consolidated net income	—	—	—	56,070	—	3,590	59,660
Distributions	—	—	—	(49,360)	—	(3,161)	(52,521)
Other	—	(1,099)	—	—	—	—	(1,099)
Balance, September 30, 2018	$ 895	$ 1,325,648	$ —	$ (211,743)	$ 3,959	$ 71,758	$ 1,190,517

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Equity LifeStyle Properties, Inc.
Consolidated Statements of Changes in Equity
(amounts in thousands)
(unaudited)

	Common Stock	Paid-in Capital	Redeemable Perpetual Preferred Stock	Distributions in Excess of Accumulated Earnings	Accumulated Other Comprehensive Loss/(Income)	Non-controlling interests – Common OP Units	Total Equity
Balance, January 1, 2017	$ 854	$1,103,048	$136,144	$(231,276)	$ (227)	$ 73,304	$1,081,847
Exchange of Common OP Units for Common Stock	12	15,339				(15,351)	—
Issuance of Common Stock through employee stock purchase plan	—	403	—	—	—	—	403
Compensation expenses related to restricted stock and stock options	—	1,755	—	—	—	—	1,755
Adjustment for Common OP Unitholders in the Operating Partnership	—	(2,885)	—	—	—	2,885	—
Adjustment for fair market value of swap	—	—	—	—	226	—	226
Consolidated net income	—	—	2,297	56,888	—	3,890	63,075
Distributions	—	—	(2,297)	(42,335)	—	(2,895)	(47,527)
Other	—	(32)	—	(1)	—	—	(33)
Balance, March 31, 2017	866	1,117,628	136,144	(216,724)	(1)	61,833	1,099,746
Exchange of Common OP Units for Common Stock	1	1,085	—	—	—	(1,086)	—
Issuance of Common Stock through employee stock purchase plan	—	361	—	—	—	—	361
Compensation expenses related to restricted stock and stock options	—	2,502	—	—	—	—	2,502
Adjustment for Common OP Unitholders in the Operating Partnership	—	(152)	—	—	—	152	—
Adjustment for fair market value of swap	—	—	—	—	31	—	31
Consolidated net income	—	—	2,316	39,497	—	2,649	44,462
Distributions	—	—	(2,316)	(42,415)	—	(2,845)	(47,576)
Other	—	(116)	—	1	—	—	(115)
Balance, June 30, 2017	867	1,121,308	136,144	(219,641)	30	60,703	1,099,411
Exchange of Common OP Units for Common Stock	—	5	—	—	—	(5)	—
Issuance of Common Stock through employee stock purchase plan	—	851	—	—	—	—	851

Issuance of Common Stock	5	42,032	—	—	—	—	42,037
Compensation expenses related to restricted stock and stock options	—	2,556	—	—	—	—	2,556
Adjustment for Common OP Unitholders in the Operating Partnership	—	(2,276)	—	—	—	2,276	—
Adjustment for fair market value of swap	—	—	—	—	(30)	—	(30)
Consolidated net income	—	—	3,054	48,525	—	3,286	54,865
Distributions	—	—	(2,297)	(42,655)	—	(2,844)	(47,796)
Series C Preferred stock redemption	—	—	(136,144)	—	—	—	(136,144)
Series C Preferred stock original issuance costs	—	757	(757)	—	—	—	—
Other	—	(575)	—	—	—	—	(575)
Balance, September 30, 2017	$ 872	$1,164,658	$—	$(213,771)	$ —	$ 63,416	$1,015,175

The accompanying notes are an integral part of these Consolidated Financial Statements.

LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows
(amounts in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows From Operating Activities:		
Consolidated net income	$173,006	$162,403
Adjustments to reconcile Consolidated net income to Net cash provided by operating activities:		
Depreciation	97,729	91,781
Amortization of in-place leases	5,069	2,128
Amortization of loan costs	2,675	2,676
Debt premium amortization	(1,061)	(1,664)
Equity in income of unconsolidated joint ventures	(3,596)	(2,876)
Distributions of income from unconsolidated joint ventures	2,869	2,071
Proceeds from insurance claims, net	(3,353)	(134)
Compensation expenses related to restricted stock and stock options	7,287	6,813
Revenue recognized from right-to-use contract upfront payments	(5,780)	(7,440)
Commission expense recognized related to right-to-use contracts	2,715	3,327
Long-term incentive plan compensation	819	1,011
Provision for (recovery of) uncollectible rents receivable	412	(52)
Changes in assets and liabilities:		
Notes receivable activity, net	280	(337)
Deferred commission expense	(3,424)	(3,560)
Escrow deposits, goodwill and other assets	17,910	21,822
Accrued expenses and accounts payable	13,858	16,752
Deferred revenue – upfront payments from right-to-use contracts	11,969	11,210
Deferred revenue – right-to-use annual payments	1,093	696
Rents received in advance and security deposits	665	(3,305)
Net cash provided by operating activities	321,142	303,322
Cash Flows From Investing Activities:		
Real estate acquisitions, net	(131,804)	(2,163)
Investment in unconsolidated joint ventures	(3,914)	(33,479)
Distributions of capital from unconsolidated joint ventures	168	640
Proceeds from insurance claims	6,615	1,547
Repayments of notes receivable	21,618	7,643
Issuance of notes receivable	(8,716)	(22,297)
Capital improvements	(128,436)	(87,877)
Net cash used in investing activities	(244,469)	(135,986)
Cash Flows From Financing Activities:		
Proceeds from stock options and employee stock purchase plan	1,610	1,615
Gross proceeds from sale of Common Stock	78,755	42,037
Distributions:		
Common Stockholders	(140,850)	(121,114)
Common OP Unitholders	(9,250)	(8,786)
Perpetual Preferred Stockholders	(8)	(6,910)
Principal payments and mortgage debt payoff	(36,308)	(60,392)
New mortgage notes payable financing proceeds	64,014	146,000

Line of Credit payoff	(174,000)	—
Line of Credit proceeds	224,000	—
Redemption of preferred stock	—	(136,144)
Debt issuance and defeasance costs	(1,878)	(1,864)
Other	(1,433)	(723)
Net cash provided by (used in) financing activities	4,652	(146,281)
Net increase in Cash and restricted cash	81,325	21,055
Cash and restricted cash, beginning of period	31,085	56,340
Cash and restricted cash, end of period	$112,410	$77,395

The accompanying notes are an integral part of these Consolidated Financial Statements.

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Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows (continued)
(amounts in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2018	2017
Supplemental Information:		
Cash paid during the period for interest	$76,881	$76,713
Building and other depreciable property – reclassification of rental homes	29,170	25,852
Escrow deposits and other assets – reclassification of rental homes	(29,170)	(25,852)
Real estate acquisitions:		
Investment in real estate, fair value	$(150,926)	$(7,985)
Investment in real estate, cost	—	(110)
Escrow deposits and other assets	(9)	—
Debt assumed	9,200	5,900
Debt financed	8,786	—
Accrued expenses and accounts payable	1,066	32
Rents and other customer payments received in advance and security deposits	79	—
Real estate acquisitions, net	$(131,804)	$(2,163)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 1 – Basis of Presentation

Equity LifeStyle Properties, Inc., a Maryland corporation, together with MHC Operating Limited Partnership (the "Operating Partnership") and other consolidated subsidiaries ("Subsidiaries") are referred to herein as "we," "us," and "our." W are a fully integrated owner and operator of lifestyle-oriented properties ("Properties") consisting primarily of manufactured home ("MH") communities and recreational vehicle ("RV") resorts and campgrounds. We provide our customers the opportunity to place factory built homes, cottages, cabins or RVs on our properties either on a long-term or short-term basis. Our customers may lease individual developed areas ("Sites") or enter right-to-use contracts, which provide them access to specific Properties for limited stays.

Capitalized terms used but not defined herein are as defined in our Annual Report on Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K"). These unaudited interim Consolidated Financial Statements have been prepared pursuant to Securities and Exchange Commission ("SEC") rules and regulations. Accordingly, they do not include all of the information and note disclosures required by U.S. Generally Accepted Accounting Principles ("GAAP") for complete financial statements and should be read in conjunction with the financial statements and notes thereto included in the 2017 Form 10-K.

The following notes to the unaudited interim Consolidated Financial Statements highlight significant changes to the notes included in the 2017 Form 10-K and present interim disclosures as required by the SEC. The accompanying Consolidated Financial Statements reflect, in the opinion of management, all adjustments and estimates necessary for a fair presentation of the interim financial statements, which are of a normal, recurring nature. Revenues and expenses are subject to seasonal fluctuations and accordingly, quarterly interim results may not be indicative of full year results.

Note 2 – Summary of Significant Accounting Policies

(a) Consolidation

We consolidate our majority-owned Subsidiaries in which we have the ability to control the operations and all variable interest entities ("VIEs") with respect to which we are the primary beneficiary. We have determined the Operating Partnership, which is our sole significant asset, meets the definition of a VIE. Therefore, we consolidate the Operating Partnership. We also consolidate entities in which we have a direct or indirect controlling or voting interest. All significant intercompany balances and transactions have been eliminated in consolidation.

We apply the equity method of accounting to entities in which we do not have a direct or indirect controlling interest or for variable interest entities where we are not considered the primary beneficiary, but can exercise significant influence over the entity with respect to its operations and major decisions. We apply the cost method of accounting when our investment is (i) minimal (typically less than 5.0%) and (ii) passive. Our exposure to losses associated with unconsolidated joint ventures is primarily limited to the carrying value of these investments. Accordingly, distributions from a joint venture in excess of our carrying value are recognized in earnings.

(b) Identified Intangibles and Goodwill

As of both September 30, 2018 and December 31, 2017, the gross carrying amount of identified intangible assets and goodwill, a component of Escrow deposits, goodwill and other assets, net on the Consolidated Balance Sheets, was approximately $12.1 million. As of both September 30, 2018 and December 31, 2017, this amount was comprised of approximately $4.3 million of identified intangible assets and approximately $7.8 million of goodwill. Accumulated amortization of identified intangible assets was approximately $3.0 million and $2.9 million as of September 30, 2018 and December 31, 2017, respectively.

As of September 30, 2018 and December 31, 2017, the gross carrying amount of in-place lease intangible assets, a component of Buildings and other depreciable property on the Consolidated Balance Sheets, was approximately $84.9 million and $76.7 million, respectively. Accumulated amortization of in-place lease intangible assets was approximately $81.7 million and $76.5 million as of September 30, 2018 and December 31, 2017, respectively.

(c) Restricted Cash

As of both September 30, 2018 and December 31, 2017, Cash and restricted cash included approximately $5.3 million of restricted cash for the payment of capital improvements, insurance or real estate taxes pursuant to certain loan agreements.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (continued)

(d) Fair Value of Financial Instruments

Our financial instruments include notes receivable, accounts receivable, accounts payable, other accrued expenses, interest rate swaps and mortgage notes payable. We disclose the estimated fair value of our financial instruments according to a fair value hierarchy (Level 1, 2 and 3).

Our mortgage notes payable and term loan, excluding deferred financing costs of approximately $23.6 million and $23.7 million as of September 30, 2018 and December 31, 2017, respectively, had an aggregate carrying value of approximately $2,238.4 million and $2,193.7 million as of September 30, 2018 and December 31, 2017, respectively, and a fair value of approximately $2,200.8 million and $2,184.0 million as of September 30, 2018 and December 31, 2017, respectively. The fair value was measured using quoted prices and observable inputs from similar liabilities (Level 2). At September 30, 2018 and December 31, 2017, our cash flow hedge of interest rate risk included in Escrow deposits, goodwill and other assets, net was measured using quoted prices and observable inputs from similar assets and liabilities (Level 2). We consider our own credit risk as well as the credit risk of our counterparties when evaluating the fair value of our derivative. The fair values of our notes receivable approximate their carrying or contract values. We also utilize Level 2 inputs as part of our determination of the purchase price allocation for our acquisitions.

(e) Revenue Recognition

Our revenue streams are predominantly derived from customers renting our Sites and are accounted for in accordance with ("ASC 840"), Leases, which include the following classifications on the Consolidated Statements of Income and Comprehensive Income: Community base rental income; Rental home income; Resort base rental income; and Utility and other income. Customers lease the Site on which their home is located, and either own or lease their home. Lease revenues for Sites and homes are accounted for as operating leases and recognized over the term of the respective lease or the length of a customer’s stay. A typical lease for the rental of a Site between us and the owner or renter of a home is month-to-month or for a one-year term, renewable upon the consent of both parties, or in some instances, as provided by statute.

All other classifications on the Consolidated Statements of Income and Comprehensive Income are accounted for under other applicable accounting standards.

We enter into right-to-use contracts that give the customer the right to a set schedule of usage at a specified group of Properties. Payments are deferred and recognized ratably over the one year period in which access to Sites at certain Properties are provided. Right-to-use upgrade contracts grant certain additional access rights to the customer and require upfront non-refundable payments. The right-to-use upfront non-refundable payments are recognized on a straight-line basis over 20 years. On January 1, 2018, we adopted (“ASU 2014-09”), Revenue from Contracts with Customers. See Recently Adopted Accounting Pronouncements within Note 2 for further discussion.

Income from home sales is recognized when the earnings process is complete. The earnings process is complete when the home has been delivered, the purchaser has accepted the home and title has transferred.

(f) Recently Adopted Accounting Pronouncements

On January 1, 2018, we adopted on a prospective basis ("ASU 2017-01") Business Combinations: Clarifying the Definition of a Business (Topic 805). This guidance clarifies the definition of a business and provides a screen to determine when an integrated set of assets and activities is not considered a business and, thus, is accounted for as an asset acquisition rather than a business combination. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not considered a business. Under this new guidance, transaction costs associated with asset acquisitions are capitalized, while transaction costs associated with business combinations are expensed as incurred. All of the acquisitions completed subsequent to January 1, 2018 met the screen and, therefore, were accounted for as asset acquisitions and, as such, the related transaction costs of $1.5 million were capitalized for the nine months ended

September 30, 2018.

On January 1, 2018, we adopted ("ASU 2016-18") Statement of Cash Flows: Restricted Cash (Topic 230). This guidance requires companies to include restricted cash with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The adoption of this guidance did not have any effect on the Consolidated Financial Statements.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (continued)

On January 1, 2018, we adopted ("ASU 2016-15") Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments (Topic 230) on a retrospective basis. This update adds or clarifies guidance on the classification of certain cash receipts and payments on the Consolidated Statements of Cash Flows. The adoption of ASU 2016-15 impacted our classification of proceeds from the settlement of insurance claims and distributions received from equity method investments. The retrospective adoption of this guidance resulted in the reclassification of $1.5 million of insurance proceeds from Operating Activities to Investing Activities and $0.6 million of distributions from equity method investments from Operating Activities to Investing Activities on the Consolidated Statement of Cash Flows for the nine months ended September 30, 2017.
On January 1, 2018, we adopted ASU 2014-09, which is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. We applied the modified retrospective method to our right-to-use upgrade contracts and related commissions that were not fully amortized as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under ASU 2014-09, while prior period amounts are not adjusted and continue to be reported under the previous accounting standards. As a result of the cumulative impact of adopting this guidance, we recorded a net reduction to retained earnings of approximately $15.2 million as of January 1, 2018 in Distributions in excess of accumulated earnings on the Consolidated Statement of Changes in Equity. There have not been significant changes to our business processes, systems, or internal controls as a result of implementing the standard. In addition to the information included within Note 2 regarding the impact of ASU 2014-09, also see Note 10, Reportable Segments, for further disaggregation of our various revenue streams by major source.

The cumulative effect adjustments resulting from the adoption of ASU 2014-09 as of January 1, 2018 were as follows:

(amounts in thousands)	Balance at December 31, 2017	Adjustment due to ASU 2014-09 Adoption	Balance at January 1, 2018
Assets			
Deferred commission expense	$31,443	$8,200	$39,643
Liabilities			
Deferred revenue-upfront payment from right-to-use contracts	$85,596	$23,386	$108,982
Equity			
Distribution in excess of accumulated earnings	$(211,980)	$(15,186)	$(227,166)

The impact of ASU 2014-09 on the Company's Consolidated Statements of Income and Comprehensive Income for the quarter ended September 30, 2018 was as follows:

(amounts in thousands, except per share data)	As Reported	Balances Without Adoption of ASU 2014-09 (a)	Effect of Change Higher/(Lower)
Revenues			
Right-to-use contract upfront payments, deferred, net	$(2,883)	$(2,131)	$ 752
Total revenues	$256,675	$257,427	$ (752)

Expenses			
Right-to-use contract commissions, deferred, net	$(458)	$(245)	$ 213
Total expenses	$197,803	$198,016	$ (213)
Consolidated net income	$59,660	$60,189	$ (529)
Net income available for Common Stockholders	$56,070	$56,567	$ (497)
Earnings per Common Share - Basic	$0.63	$0.63	$ —
Earnings per Common Share - Fully Diluted	$0.63	$0.63	$ —

(a) Represents the amounts that would have been reported under GAAP that existed prior to the January 1, 2018 adoption of ASU 2014-09.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (continued)

The impact of ASU 2014-09 on the Company's Consolidated Statements of Income and Comprehensive Income for the nine months ended September 30, 2018 was as follows:

(amounts in thousands, except per share data)	As Reported	Balances Without Adoption of ASU 2014-09 (a)	Effect of Change Higher/(Lower)
Revenues			
Right-to-use contract upfront payments, deferred, net	$(6,189)	$(3,968)	$ 2,221
Total revenues	$743,202	$745,423	$ (2,221)
Expenses			
Right-to-use contract commissions, deferred, net	$(744)	$(81)	$ 663
Total expenses	$573,792	$574,455	$ (663)
Consolidated net income	$173,006	$174,554	$ (1,548)
Net income available for Common Stockholders	$162,429	$163,890	$ (1,461)
Earnings per Common Share - Basic	$1.83	$1.85	$ (0.02)
Earnings per Common Share - Fully Diluted	$1.82	$1.84	$ (0.02)

(a) Represents the amounts that would have been reported under GAAP that existed prior to the January 1, 2018 adoption of ASU 2014-09.

(g) New Accounting Pronouncements

In August 2018, the FASB issued ("ASU 2018-15") Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. ASU 2018-15 provides clarity on the accounting for implementation costs of a cloud computing arrangement that is a service contract. The project stage (that is, preliminary project stage, application development stage, or post implementation stage) and the nature of the implementation costs determine which costs to capitalize as an asset related to the service contract and which ones to expense. This update also requires the capitalized implementation costs to be expensed over the term of the arrangement and presented in the same line item in the Consolidated Financial Statements as the fees associated with the service of the arrangement. ASU 2018-15 is effective in fiscal years beginning after December 15, 2019, including interim periods within those years. Early adoption is permitted. This guidance can be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. We are currently in the process of evaluating the potential impact, if any, that the adoption of this standard may have on the Consolidated Financial Statements and related disclosures.

In August 2017, the FASB issued ("ASU 2017-12") Derivatives and Hedging: Targeted Improvements to Accounting for Hedging Activities (Topic 815). ASU 2017-12 provides guidance about income statement classification and eliminates the requirement to separately measure and report hedge ineffectiveness. The entire change in fair value for qualifying hedge instruments including ineffectiveness will be recorded in Other comprehensive income ("OCI") and amounts deferred in OCI will be reclassified to earnings in the same income statement line item in which the earnings effect of the hedged item is reported. The new guidance also amends the presentation and disclosure requirements. The intention is to align hedge accounting with companies' risk management strategies more closely, thereby simplifying the application of hedge accounting and increasing transparency as to the scope and results of hedging programs. ASU 2017-12 is effective in fiscal years beginning after December 15, 2018, including interim periods within those years. We are currently in the process of evaluating the potential impact, if any, that the adoption of this standard may have on the Consolidated Financial Statements and related disclosures.

In June 2016, the FASB issued ("ASU 2016-13") Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments (Topic 326). ASU 2016-13 requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Entities will now use forward-looking information to better form their credit loss estimates. ASU 2016-13 also requires enhanced disclosures to help financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. ASU 2016-13 will be effective for annual reporting periods beginning after December 15, 2019. Early adoption is permitted. We are currently in the process of evaluating the potential impact, if any, that adoption of this standard may have on the Consolidated Financial Statements and related disclosures.

In February 2016, the FASB issued ("ASU 2016-02") Leases, regarding the accounting for leases for both lessees and lessors. The pronouncement generally requires lessees to record a right of use asset and a corresponding lease liability on the balance sheet for all leases with terms longer than 12 months. In July 2018, ASU 2016-02 was amended, providing another transition

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 2 - Summary of Significant Accounting Policies (continued)

method by allowing companies to initially apply the new lease standard in the period of adoption, recognizing a cumulative-effect adjustment to the opening balance sheet of retained earnings, if necessary. The lease standard amendment also provided a practical expedient for an accounting policy election for lessors, by class of underlying asset, to not separate nonlease components from the associated lease components, if certain requirements are met. The new guidance is effective for public companies for annual reporting periods and interim periods within those annual periods beginning after December 15, 2018.

The Company expects to adopt this new guidance on January 1, 2019 using the modified retrospective approach, which will result in a cumulative-effect adjustment to the opening balance of retained earnings as of January 1, 2019. Upon adoption, the Company will recognize a right of use asset and corresponding lease liability for operating leases where it is the lessee, such as ground leases and office leases. The Company is in the process of evaluating the inputs required to calculate the amounts that will be recorded on its balance sheet for each lease. For leases with a term of 12 months or less, the Company expects to make an accounting policy election by class of underlying asset to not recognize lease liabilities and lease assets. For leases where we are the lessor, the Company expects that accounting for lease components will be largely unchanged from existing GAAP and to elect the practical expedient to not separate non-lease components from lease components based upon the predominant component for these operating leases.

Note 3 – Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per common share for the quarters and nine months ended September 30, 2018 and 2017:

	Quarters Ended September 30,		Nine Months Ended September 30,	
(amounts in thousands, except per share data)	2018	2017	2018	2017
Numerator:				
Net Income Available for Common Stockholders:				
Net income available for Common Stockholders – basic	$56,070	$48,525	$162,429	$144,911
Amounts allocated to dilutive securities	3,590	3,286	10,569	9,825
Net income available for Common Stockholders – fully dilutive	$59,660	$51,811	$172,998	$154,736
Denominator:				
Weighted average Common Shares outstanding – basic	89,200	87,037	88,760	86,620
Effect of dilutive securities:				
Exchange of Common OP Units for Common Shares	5,771	5,836	5,808	6,100
Stock options and restricted shares	292	451	259	415
Weighted average Common Shares outstanding – fully diluted	95,263	93,324	94,827	93,135
Earnings per Common Share – Basic:				
Net income available for Common Stockholders	$0.63	$0.56	$1.83	$1.67
Earnings per Common Share – Fully Diluted:				
Net income available for Common Stockholders	$0.63	$0.56	$1.82	$1.66

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 4 – Common Stock and Other Equity Related Transactions
Common Stockholder Distribution Activity
The following quarterly distributions have been declared and paid to common stockholders and non-controlling common operating partnership unit ("OP Unit") holders since January 1, 2017:

Distribution Amount Per Share	For the Quarter Ended	Stockholder Record Date	Payment Date
$0.4875	March 31, 2017	March 31, 2017	April 14, 2017
$0.4875	June 30, 2017	June 30, 2017	July 14, 2017
$0.4875	September 30, 2017	September 29, 2017	October 13, 2017
$0.4875	December 31, 2017	December 29, 2017	January 12, 2018
$0.5500	March 31, 2018	March 30, 2018	April 13, 2018
$0.5500	June 30, 2018	June 29, 2018	July 13, 2018
$0.5500	September 30, 2018	September 28, 2018	October 12, 2018

On November 2, 2017, we adopted a new at-the-market ("ATM") equity offering program with certain sales agents, pursuant to which we may sell, from time-to-time, shares of our Common Stock, par value $0.01 per share, having an aggregate offering price of up to $200.0 million. Under our prior ATM program, the aggregate offering price was up to $125.0 million.
The following table presents the shares that were issued under the ATM equity offering programs during the nine months ended September 30, 2018 and nine months ended September 30, 2017.

(amounts in thousands, except stock data):	Nine Months Ended	
	September 30, 2018	September 30, 2017
Shares of Common Stock sold	861,141	484,913
Weighted average price	$91.45	$ 86.69
Total gross proceeds	$78,755	$ 42,037
Commissions paid to sales agents	$1,028	$ 526

As of September 30, 2018, approximately $71.2 million of Common Stock remained available for issuance under the ATM equity offering program.
Exchanges
Subject to certain limitations, holders of OP Units can request an exchange of any or all of their OP Units for shares of Common Stock at any time. Upon receipt of such a request, we may, in lieu of issuing shares of Common Stock, cause the Operating Partnership to pay cash. During the nine months ended September 30, 2018, 87,718 OP Units were exchanged for an equal number of shares of Common Stock. During the same period in 2017, 1,335,247 OP Units were exchanged for an equal number of shares of Common Stock.
Series C Preferred Stock Redemption and Distribution Activity

During the nine months ended September 30, 2017, we redeemed our 6.75% Series C Preferred Stock for $138.4 million, including accrued dividends. The shares of Series C Preferred Stock that were redeemed now have the status of authorized but unissued preferred stock, without designation as to class or series. There were no shares of 6.75% Series C Preferred Stock issued or outstanding as of September 30, 2017 or 2018.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 4 –Common Stock and Other Equity Related Transactions (continued)

The following quarterly distributions have been declared and paid to our preferred stockholders since January 1, 2017 and prior to the stock's redemption, which occurred in September 2017:

Distribution Amount Per Share	For the Quarter Ended	Stockholder Record Date	Payment Date
$0.421875	March 31, 2017	March 10, 2017	March 31, 2017
$0.421875	June 30, 2017	June 15, 2017	June 30, 2017
$0.421875	September 30, 2017	September 15, 2017	September 25, 2017

Note 5 – Real Estate Acquisitions

On September 21, 2018, we completed the acquisition of Sunseekers, a 241-site RV resort in North Fort Myers, Florida. The purchase price was $6.5 million and was funded with net proceeds from sales of Common Stock under our ATM equity offering program.

On July 20, 2018, we completed the acquisition of Everglades Lakes, a 612-site manufactured home community in Fort Lauderdale, Florida. The purchase price was $72.2 million, including $0.2 million of transaction costs, and was funded with net proceeds from sales of Common Stock under our ATM equity offering program.

On April 20, 2018, we completed the acquisition of Holiday Travel Park, a 613-site RV Resort in Holiday, Florida. The purchase price was $22.5 million, including $0.3 million of transaction costs, and was funded with available cash and proceeds from our line of credit.

On March 15, 2018, we completed the acquisition of Serendipity, a 425-site manufactured home community located in Clearwater, Florida. The purchase price was $30.7 million, including $0.6 million of transaction costs, and was funded with available cash, a loan assumption of $9.2 million and new loan proceeds of $8.8 million.

On March 8, 2018, we completed the acquisition of Kingswood, a 229-site manufactured home community located in Riverview, Florida. The purchase price was $17.5 million, including $0.4 million of transaction costs, and was funded with available cash.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 6 – Investment in Unconsolidated Joint Ventures

The following table summarizes our Investment in unconsolidated joint ventures (amounts in thousands, except number of Properties shown parenthetically as of September 30, 2018 and December 31, 2017):

				Investment as of		Joint Venture Income/(Loss) Nine Months Ended	
Investment	Location	Number of Sites [(a)]	Economic Interest [(b)]	September 30, 2018	December 31, 2017	September 30, 2018	September 30, 2017
Meadows	Various (2,2)	1,077	50 %	$558	$ 307	$ 1,252	$ 1,610
Lakeshore	Florida (3,3)	720	(c)	2,278	2,530	(62)	10
Voyager	Arizona (1,1)	1,801	50 % [(d)]	3,249	3,205	866	795
Loggerhead	Florida	2,343	49 %	35,205	31,414	1,089	230
ECHO JV	Various	—	50 %	16,076	15,624	451	231
		5,941		$57,366	$ 53,080	$ 3,596	$ 2,876

(a) Loggerhead sites represent marina slip count.

(b) The percentages shown approximate our economic interest as of September 30, 2018. Our legal ownership interest may differ.

(c) Includes two joint ventures in which we own a 65% interest and Crosswinds joint venture in which we own a 49% interest.

(d) Voyager joint venture primarily consists of a 50% interest in Voyager RV Resort and 33% interest in the utility plant servicing the Property.

On March 29, 2018, the Crosswinds joint venture repaid a short-term loan to us in the amount of $13.8 million. We provided the loan to Crosswinds in conjunction with the formation of the joint venture in June 2017.

We received approximately $3.0 million and $2.7 million in distributions from these joint ventures for the nine months ended September 30, 2018 and 2017, respectively. Approximately $0.1 million and $0.6 million of the distributions made to us exceeded our basis in joint ventures for the nine months ended September 30, 2018 and September 30, 2017, respectively, and as such were recorded as income from unconsolidated joint ventures.

Note 7 – Borrowing Arrangements

Mortgage Notes Payable

During the nine months ended September 30, 2018, we closed on one loan, secured by two RV resorts, for gross proceeds of approximately $64.0 million. The loan carries an interest rate of 4.83% per annum and matures in 2038. In connection with the Serendipity acquisition during the first quarter of 2018, we assumed a loan of approximately $9.2 million and obtained additional financing of $8.8 million for a total mortgage debt, secured by the manufactured home community, of $18.0 million. The loans carry an average interest rate of 4.75% and mature in 2039.

As of September 30, 2018 and December 31, 2017, we had outstanding mortgage indebtedness of approximately $2,016.3 million and $1,971.7 million, respectively, net of deferred financing costs.

The weighted average interest rate on our outstanding mortgage indebtedness, including the impact of premium/discount amortization and loan cost amortization on mortgage indebtedness, for the nine months ended September 30, 2018 was approximately 4.7% per annum. The debt bears interest at stated rates ranging from 3.1% to 8.9% per annum and matures on various dates ranging from 2018 to 2041. The debt encumbered a total of 124 and 120 of our Properties as of September 30, 2018 and December 31, 2017, respectively, and the carrying value of such Properties was approximately $2,508.5 million and $2,323.1 million, as of September 30, 2018 and December 31, 2017, respectively.

Unsecured Line of Credit

During the nine months ended September 30, 2018, we borrowed and paid off amounts on our unsecured line of credit, leaving a balance of $80.0 million outstanding as of September 30, 2018.

As of September 30, 2018, we are in compliance in all material respects with the covenants in our borrowing arrangements.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 8 – Equity Incentive Awards
Compensation expense related to restricted stock and stock options, reported in General and administrative on the Consolidated Statements of Income and Comprehensive Income, for the quarters ended September 30, 2018 and 2017 was approximately $2.7 million and $2.6 million, respectively, and for the nine months ended September 30, 2018 and 2017 was approximately $7.3 million and $6.8 million, respectively.
Our 2014 Equity Incentive Plan (the “2014 Plan”) was adopted by our Board of Directors on March 11, 2014 and approved by our stockholders on May 13, 2014. Grants under the 2014 Plan are approved by the Compensation Committee, which determines the individuals eligible to receive awards, the types of awards, and the terms, conditions and restrictions applicable to any award, except grants to directors which are approved by the Board of Directors. The Compensation Committee determines the vesting schedule, if any, of each restricted stock grant or stock option grant and the term of each stock option, which term shall not exceed ten years from the date of grant. Shares that do not vest are forfeited. Dividends paid on restricted stock are not returnable, even if the underlying stock does not entirely vest. A maximum of 3,750,000 shares of Common Stock were originally available for grant under the 2014 Plan. As of September 30, 2018, 2,927,923 shares remained available for grant.
On February 1, 2018, we awarded 70,250 shares of restricted stock (the “2018 Awards”) at a fair market value of approximately $5.9 million to certain members of our senior management for their service in 2018. These restricted stock grants vest over a three-year vesting period, with one-third vesting on December 28, 2018 and the remaining two-thirds vesting on each of December 28, 2019 and December 28, 2020, respectively (the “Extended Vesting Portion”). One-half of the Extended Vesting Portion of the 2018 Awards provide solely for time-based vesting and will vest in equal installments on December 28, 2019 and December 28, 2020. The remaining one-half of the Extended Vesting Portion of the 2018 Awards provide for performance-based vesting and will vest, subject to the satisfaction of the performance conditions to be established by the Compensation Committee in the year of the vesting period, in equal installments on December 28, 2019 and December 28, 2020.
Additionally, on February 1, 2018, we awarded a one-time transition award of time-based restricted stock (the "Transition Awards") as a transition from our prior practice of granting annual restricted stock awards which vest in full on December 31 of the relevant grant year. On February 1, 2018, we awarded Transition Awards for 70,250 shares of common stock at a fair market value of approximately $5.9 million to certain members of our senior management. These Transition Awards are intended to mitigate the impact of a reduction in the realized pay for certain members of our senior management in 2018 and 2019 resulting from the three-year vesting period for the 2018 Awards. Two-thirds of each Transition Award will vest on December 28, 2018, and the remaining one-third will vest on December 28, 2019. The Transition Awards are not subject to performance goals. The Compensation Committee does not intend to replicate these Transition Awards in future years.
On May 1, 2018, we awarded to certain members of our Board of Directors, 51,388 shares of Restricted Stock at a fair market value of approximately $4.6 million and Options to purchase 6,270 shares of common stock with an exercise price of $89.65 per share. The shares of common stock covered by these awards are subject to multiple tranches that vest between November 1, 2018 and May 1, 2021.
On July 31, 2018, we awarded to certain members of our Board of Directors 617 shares of Restricted Stock at a fair market value of approximately $0.1 million. The shares of common stock covered by these awards are subject to multiple tranches that vest between January 31, 2019 and July 31, 2021.
The fair market value of our restricted stock grants was determined by using the closing share price of our common stock on the date the shares were issued. Time-based restricted stock awards are recorded as stock-based compensation expense and paid in capital over the vesting period. Stock-based compensation for restricted stock awards with performance conditions will be recognized using the closing price of our common stock at the grant date when the key terms and conditions are known to all parties.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 9 – Commitments and Contingencies

Civil Investigation by Certain California District Attorneys

In November 2014, we received a civil investigative subpoena from the office of the District Attorney for Monterey County, California ("MCDA"), seeking information relating to, among other items, statewide compliance with asbestos and hazardous waste regulations dating back to 2005 primarily in connection with demolition and renovation projects performed by third-party contractors at our California Properties. We responded by providing the information required by the subpoena.

On October 20, 2015, we attended a meeting with representatives of the MCDA and certain other District Attorneys' offices at which the MCDA reviewed the preliminary results of their investigation including, among other things, (i) alleged violations of asbestos and related regulations associated with approximately 200 historical demolition and renovation projects in California; (ii) potential exposure to civil penalties and unpaid fees; and (iii) next steps with respect to a negotiated resolution of the alleged violations. No legal proceedings have been instituted to date and we are involved in settlement discussions with the District Attorneys' offices. We continue to assess the allegations and the underlying facts, and at this time we are unable to predict the outcome of the investigation or reasonably estimate any possible loss.

Other

In addition to legal matters discussed above, we are involved in various other legal and regulatory proceedings ("Other Proceedings") arising in the ordinary course of business. Other Proceedings include, but are not limited to, notices, consent decrees, information requests, and additional permit requirements and other similar enforcement actions by governmental agencies relating to our utility infrastructure, including water and wastewater treatment plants and other waste treatment facilities and electrical systems. Additionally, in the ordinary course of business, our operations are subject to audit by various taxing authorities. Management believes these Other Proceedings taken together do not represent a material liability. In addition, to the extent any such proceedings or audits relate to newly acquired Properties, we consider any potential indemnification obligations of sellers in our favor.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 10 – Reportable Segments

We have identified two reportable segments which are: (i) Property Operations and (ii) Home Sales and Rentals Operations. The Property Operations segment owns and operates land lease Properties and the Home Sales and Rentals Operations segment purchases, sells and leases homes at the Properties. The distribution of the Properties throughout the United States reflects our belief that geographic diversification helps insulate the portfolio from regional economic influences.

All revenues are from external customers and there is no customer who contributed 10% or more of our total revenues during the quarters and nine months ended September 30, 2018 or 2017.

The following tables summarize our segment financial information for the quarters and nine months ended September 30, 2018 and 2017:

Quarter Ended September 30, 2018

(amounts in thousands)	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$236,204	$13,204	$249,408
Operations expenses	(114,384)	(12,747)	(127,131)
Income from segment operations	121,820	457	122,277
Interest income	863	978	1,841
Depreciation on real estate assets and rental homes	(30,425)	(2,431)	(32,856)
Amortization of in-place leases	(2,124)	—	(2,124)
Income (loss) from operations	$90,134	$(996)	$89,138
Reconciliation to consolidated net income:			
Corporate interest income			5
Income from other investments, net			5,421
General and administrative			(8,816)
Other expenses			(386)
Interest and related amortization			(26,490)
Equity in income of unconsolidated joint ventures			788
Consolidated net income			$59,660
Total assets	$3,630,136	$224,901	$3,855,037
Capital improvements	$21,722	$25,339	$47,061

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 10 – Reportable Segments (continued)

Quarter Ended September 30, 2017

(amounts in thousands)	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$223,184	$14,415	$237,599
Operations expenses	(110,431)	(13,528)	(123,959)
Income from segment operations	112,753	887	113,640
Interest income	773	1,042	1,815
Depreciation on real estate assets and rental homes	(27,879)	(2,614)	(30,493)
Amortization of in-place leases	(138)	—	(138)
Income (loss) from operations	$85,509	$(685)	$84,824
Reconciliation to consolidated net income:			
Corporate interest income			159
Income from other investments, net			2,052
General and administrative			(7,505)
Other expenses			(324)
Interest and related amortization			(25,027)
Equity in income of unconsolidated joint ventures			686
Consolidated net income			$54,865
Total assets	$3,298,122	$227,725	$3,525,847
Capital improvements	$20,308	$14,104	$34,412

Nine Months Ended September 30, 2018

(amounts in thousands)	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$689,387	$38,383	$727,770
Operations expenses	(329,942)	(36,054)	(365,996)
Income from segment operations	359,445	2,329	361,774
Interest income	2,494	2,918	5,412
Depreciation on real estate assets and rental homes	(89,308)	(7,322)	(96,630)
Amortization of in-place leases	(5,069)	—	(5,069)
Income (loss) from operations	$267,562	$(2,075)	$265,487
Reconciliation to consolidated net income:			
Corporate interest income			246
Income from other investments, net			9,774
General and administrative			(26,523)
Other expenses			(1,096)
Interest and related amortization			(78,478)
Equity in income of unconsolidated joint ventures			3,596
Consolidated net income			$173,006
Total assets	$3,630,136	$224,901	$3,855,037
Capital improvements	$69,591	$58,845	$128,436

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 10 – Reportable Segments (continued)

Nine Months Ended September 30, 2017

(amounts in thousands)	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$648,766	$ 37,100	$ 685,866
Operations expenses	(310,337)	(33,604)	(343,941)
Income from segment operations	338,429	3,496	341,925
Interest income	2,256	3,122	5,378
Depreciation on real estate assets and rental homes	(82,939		