ESSEX PROPERTY TRUST, INC.
Form 10-K
February 21, 2019

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

FORM 10-K

(MARK ONE)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018
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: 001-13106 (Essex Property Trust, Inc.)
Commission file number: 333-44467-01 (Essex Portfolio, L.P.)

ESSEX PROPERTY TRUST, INC.
ESSEX PORTFOLIO, L.P.
(Exact name of Registrant as Specified in its Charter)

Maryland (Essex Property Trust, Inc.)	77-0369576 (Essex Property Trust, Inc.)
California (Essex Portfolio, L.P.)	77-0369575 (Essex Portfolio, L.P.)
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

1100 Park Place, Suite 200
San Mateo, California 94403
(Address of Principal Executive Offices including Zip Code)
(650) 655-7800
(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Name of each exchange on which registered
Common Stock, $.0001 par value (Essex Property Trust, Inc.)	New York Stock Exchange

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Essex Property Trust, Inc. Yes o No x Essex Portfolio, L.P. Yes o No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter)
is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.
Essex Property Trust, Inc. x Essex Portfolio, L.P. x

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.

Essex Property Trust, Inc.:
Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o
Emerging growth company o

Essex Portfolio, L.P.:
Large accelerated filer o Accelerated filer o Non-accelerated filer x 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.

Essex Property Trust, Inc. o Essex Portfolio, L.P. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Essex Property Trust, Inc. Yes o No x Essex Portfolio, L.P. Yes o No x

As of June 30, 2018, the aggregate market value of the voting stock held by non-affiliates of Essex Property Trust, Inc. was $15,684,127,225. The aggregate market value was computed with reference to the closing price on the New York Stock Exchange on such date. Shares of common stock held by executive officers, directors and holders of more than ten percent of the outstanding common stock have been excluded from this calculation because such persons may be deemed to be affiliates. This exclusion does not reflect a determination that such persons are affiliates for any other purposes. There is no public trading market for the common units of Essex Portfolio, L.P. As a result, the aggregate market value of the common units held by non-affiliates of Essex Portfolio, L.P. cannot be determined.

As of February 15, 2019, 65,692,107 shares of common stock ($.0001 par value) of Essex Property Trust, Inc. were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:
Portions of the definitive Proxy Statement to be filed with the Securities and Exchange Commission (the "SEC") pursuant to Regulation 14A in connection with the 2019 annual meeting of stockholders of Essex Property Trust, Inc. are incorporated by reference in Part III of this Annual Report on Form 10-K. Such Proxy Statement will be filed with the SEC within 120 days of
December 31, 2018.

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2018 of Essex Property Trust, Inc., a Maryland corporation, and Essex Portfolio, L.P., a Delaware limited partnership of which Essex Property Trust, Inc. is the sole general partner.

Unless stated otherwise or the context otherwise requires, references to the "Company," "we," "us," or "our" mean collectively Essex Property Trust, Inc. and those entities/subsidiaries owned or controlled by Essex Property Trust, Inc., including Essex Portfolio, L.P., and references to the "Operating Partnership," or "EPLP" mean Essex Portfolio, L.P. and those entities/subsidiaries owned or controlled by Essex Portfolio, L.P. Unless stated otherwise or the context otherwise requires, references to "Essex" mean Essex Property Trust, Inc., not including any of its subsidiaries.

Essex operates as a self-administered and self-managed real estate investment trust ("REIT"), and is the sole general partner of the Operating Partnership. As of December 31, 2018, Essex owned approximately 96.6% of the ownership interest in the Operating Partnership with the remaining 3.4% interest owned by limited partners. As the sole general partner of the Operating Partnership, Essex has exclusive control of the Operating Partnership's day-to-day management.

The Company is structured as an umbrella partnership REIT ("UPREIT") and Essex contributes all net proceeds from its various equity offerings to the Operating Partnership. In return for those contributions, Essex receives a number of Operating Partnership limited partnership units ("OP Units," and the holders of such OP Units, "Unitholders") equal to the number of shares of common stock it has issued in the equity offerings. Contributions of properties to the Company can be structured as tax-deferred transactions through the issuance of OP Units, which is one of the reasons why the Company is structured in the manner outlined above. Based on the terms of the Operating Partnership's partnership agreement, OP Units can be exchanged into Essex common stock on a one-for-one basis. The Company maintains a one-for-one relationship between the OP Units issued to Essex and shares of common stock.

The Company believes that combining the reports on Form 10-K of Essex and the Operating Partnership into this single report provides the following benefits:

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

Management operates Essex and the Operating Partnership as one business. The management of Essex consists of the same members as the management of the Operating Partnership.

All of the Company's property ownership, development and related business operations are conducted through the Operating Partnership and Essex has no material assets, other than its investment in the Operating Partnership. Essex's primary function is acting as the general partner of the Operating Partnership. As general partner with control of the Operating Partnership, Essex consolidates the Operating Partnership for financial reporting purposes. Therefore, the assets and liabilities of Essex and the Operating Partnership are the same on their respective financial statements. Essex also issues equity from time to time and guarantees certain debt of the Operating Partnership, as disclosed in this report. The Operating Partnership holds substantially all of the assets of the Company, including the Company's ownership interests in its co-investments. The Operating Partnership conducts the operations of the business and is structured as a partnership with no publicly traded equity. Except for the net proceeds from equity offerings by the Company, which are contributed to the capital of the Operating Partnership in exchange for OP Units (on a one-for-one share of common stock per OP Unit basis), the Operating Partnership generates all remaining capital required by the Company's business. These sources of capital include the Operating Partnership's working capital, net cash provided by operating activities, borrowings under its revolving credit facilities, the issuance of secured and unsecured debt and equity securities and proceeds received from disposition of certain properties and co-investments.

The Company believes it is important to understand the few differences between Essex and the Operating Partnership in the context of how Essex and the Operating Partnership operate as a consolidated company. Stockholders' equity, partners' capital and noncontrolling interest are the main areas of difference between the consolidated financial statements of Essex and those of the Operating Partnership. The limited partners of the Operating Partnership are accounted for as partners' capital in the Operating Partnership's consolidated financial statements and as noncontrolling interest in Essex's consolidated financial statements. The noncontrolling interest in the Operating Partnership's consolidated financial statements include the interest of unaffiliated partners in various consolidated partnerships and co-investment partners. The noncontrolling interest in Essex's consolidated financial statements include (i) the same noncontrolling interest as presented in the Operating Partnership's consolidated financial statements and (ii) OP Unit holders. The differences between stockholders' equity and partners' capital result from differences in the equity issued at Essex and Operating Partnership levels.

To help investors understand the significant differences between Essex and the Operating Partnership, this report provides separate consolidated financial statements for Essex and the Operating Partnership; a single set of consolidated notes to such financial statements that includes separate discussions of stockholders' equity or partners' capital, and earnings per share/unit, as applicable; and a combined Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report also includes separate Part II, Item 9A. Controls and Procedures sections and separate Exhibits 31 and 32 certifications for each of Essex and the Operating Partnership in order to establish that the requisite certifications have been made and that Essex and the Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934 (the "Exchange Act") and 18 U.S.C. §1350.

In order to highlight the differences between Essex and the Operating Partnership, the separate sections in this report for Essex and the Operating Partnership specifically refer to Essex and the Operating Partnership. In the sections that combine disclosure of Essex and the Operating Partnership, this report refers to actions or holdings as being actions or holdings of the Company. Although the Operating Partnership is generally the entity that directly or indirectly enters into contracts and co-investments and holds assets and debt, reference to the Company is appropriate because the Company is one business and the Company operates that business through the Operating Partnership. The separate discussions of Essex and the Operating Partnership in this report should be read in conjunction with each other to understand the results of the Company on a consolidated basis and how management operates the Company.

The information furnished in the accompanying consolidated balance sheets, statements of income, comprehensive income, equity, capital, and cash flows of the Company and the Operating Partnership reflect all adjustments which are, in the opinion of management, necessary for a fair presentation of the aforementioned consolidated financial statements for the periods and are normal and recurring in nature, except as otherwise noted.

The accompanying consolidated financial statements should be read in conjunction with the notes to such consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations herein.

ESSEX PROPERTY TRUST, INC.
ESSEX PORTFOLIO, L.P.
2018 ANNUAL REPORT ON FORM 10-K

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PART I
Forward-Looking Statements

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Exchange Act. Such forward-looking statements are described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, "Forward-Looking Statements." Actual results could differ materially from those set forth in each forward-looking statement. Certain factors that might cause such a difference are discussed in this report, including in Item 1A, Risk Factors of this Form 10-K.

Item 1. Business

OVERVIEW

Essex Property Trust, Inc. ("Essex"), a Maryland corporation, is an S&P 500 company that operates as a self-administered and self-managed real estate investment trust ("REIT"). Essex owns all of its interest in its real estate and other investments directly or indirectly through Essex Portfolio, L.P. (the "Operating Partnership" or "EPLP"). Essex is the sole general partner of the Operating Partnership and as of December 31, 2018, had an approximately 96.6% general partnership interest in the Operating Partnership. In this report, the terms the "Company," "we," "us," and "our" also refer to Essex Property Trust, Inc., the Operating Partnership and those entities/subsidiaries owned or controlled by Essex and/or the Operating Partnership.

Essex has elected to be treated as a REIT for federal income tax purposes, commencing with the year ended December 31, 1994. Essex completed its initial public offering on June 13, 1994. In order to maintain compliance with REIT tax rules, the Company utilizes taxable REIT subsidiaries for various revenue generating or investment activities. All taxable REIT subsidiaries are consolidated by the Company for financial reporting purposes.

The Company is engaged primarily in the ownership, operation, management, acquisition, development and redevelopment of predominantly apartment communities, located along the West Coast of the United States. As of December 31, 2018, the Company owned or had ownership interests in 245 operating apartment communities, aggregating 59,661 apartment homes, excluding the Company's ownership in preferred equity co-investments, loan investments, one operating commercial building with approximately 106,716 square feet and six active development projects with 1,861 apartment homes in various stages of development (collectively, the "Portfolio").

The Company's website address is http://www.essex.com. The Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments to those reports, and the Proxy Statement for its Annual Meeting of Stockholders are available, free of charge, on its website as soon as practicable after the Company files the reports with the U.S. Securities and Exchange Commission ("SEC").

BUSINESS STRATEGIES

The following is a discussion of the Company's business strategies in regards to real estate investment and management.

Business Strategies

Research Driven Approach to Investments – The Company believes that successful real estate investment decisions and portfolio growth begin with extensive regional economic research and local market knowledge. The Company continually assesses markets where the Company operates, as well as markets where the Company considers future investment opportunities by evaluating markets and focusing on the following strategic criteria:

- Major metropolitan areas that have regional population in excess of one million;
- Constraints on new supply driven by: (i) low availability of developable land sites where competing housing could be economically built; (ii) political growth barriers, such as protected land, urban growth boundaries, and potential lengthy and expensive development permit processes; and (iii) natural limitations to development, such as mountains or waterways;
- Rental demand enhanced by affordability of rents relative to costs of for-sale housing; and
- Housing demand based on job growth, proximity to jobs, high median incomes and the quality of life including related commuting factors.

Recognizing that all real estate markets are cyclical, the Company regularly evaluates the results of its regional economic, and local market research, and adjusts the geographic focus of its portfolio accordingly. The Company seeks to increase its portfolio

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allocation in markets projected to have the strongest local economies and to decrease allocations in markets projected to have declining economic conditions. Likewise, the Company also seeks to increase its portfolio allocation in markets that have attractive property valuations and to decrease allocations in markets that have inflated valuations and low relative yields.

Property Operations – The Company manages its communities by focusing on activities that may generate above-average rental growth, tenant retention/satisfaction and long-term asset appreciation. The Company intends to achieve this by utilizing the strategies set forth below:

- Property Management – Oversee delivery of and quality of the housing provided to our tenants and manage the properties financial performance.
- Capital Preservation – The Company's asset management services are responsible for the planning, budgeting and completion of major capital improvement projects at the Company's communities.
- Business Planning and Control – Comprehensive business plans are implemented in conjunction with significant investment decisions. These plans include benchmarks for future financial performance based on collaborative discussions between on-site managers and senior management.
- Development and Redevelopment – The Company focuses on acquiring and developing apartment communities in supply constrained markets, and redeveloping its existing communities to improve the financial and physical aspects of the Company's communities.

CURRENT BUSINESS ACTIVITIES

Acquisitions of Real Estate

Acquisitions are an important component of the Company's business plan, and during 2018, the Company acquired ownership interests in two communities comprised of 384 apartment homes for $139.4 million.

The following is a summary of 2018 acquisitions ($ in millions):

Property Name	Location	Apartment Homes	Essex Ownership Percentage	Ownership	Quarter in 2018	Purchase Price
Meridian at Midtown	San Jose, CA	218	50 %	Wesco V	Q4	104.0 (1)
Marquis[2]	San Jose, CA	166	100 %	EPLP	Q4	35.4
Total 2018		384				$ 139.4

(1) Meridian at Midtown contract price represents the total contract price at 100%.

(2) In December 2018, the Company purchased the joint venture partner's 49.9% membership interest in the Marquis co-investment. As part of the acquisition, the Company paid $4.7 million in cash and issued Operating Partnership units for the remaining equity based on an estimated gross property valuation of $71.0 million and an encumbrance of $45.8 million of mortgage debt.

Dispositions of Real Estate

As part of its strategic plan to own quality real estate in supply-constrained markets, the Company continually evaluates all of its communities and sells those which no longer meet its strategic criteria. The Company may use the capital generated from the dispositions to invest in higher-return communities or other real estate investments, or to repay debts. The Company believes that the sale of these communities will not have a material impact on its future results of operations or cash flows nor will their sale materially affect its ongoing operations. Generally, the Company seeks to have any impact of earnings dilution resulting from these dispositions offset by the positive impact of its acquisitions, development and redevelopment activities.

In June 2018, the Company sold Domain, a 379 apartment home community located in San Diego, CA for $132.0 million, resulting in a gain of $22.3 million for the Company.

In November 2018, a Company co-investment, BEXAEW, LLC ("BEXAEW") sold Enclave at Town Square, a 124 apartment home community located in Chino Hills, CA, for $30.5 million, resulting in a gain of $5.4 million for the Company.

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In November 2018, a Company co-investment, Wesco III, LLC ("Wesco III") sold The Summit, a 125 apartment home community located in Chino Hills, CA, for $34.8 million, resulting in a gain of $5.2 million for the Company.

In December 2018, the Company sold 8th & Hope, a 290 apartment home community located in Los Angeles, CA for $220.0 million, resulting in a gain of $39.6 million for the Company.

Development Pipeline

The Company defines development projects as new communities that are being constructed, or are newly constructed and are in a phase of lease-up and have not yet reached stabilized operations. As of December 31, 2018, the Company's development pipeline was comprised of four consolidated projects under development and two joint venture projects under development aggregating 1,861 apartment homes, with total incurred costs of $812.0 million, and estimated remaining project costs of approximately $417.0 million, $310.0 million of which represents the Company's estimated remaining costs, for total estimated project costs of $1.2 billion.

The Company defines predevelopment projects as proposed communities in negotiation or in the entitlement process with an expected high likelihood of becoming entitled development projects. As of December 31, 2018, the Company had various consolidated predevelopment projects. The Company may also acquire land for future development purposes or sale.

The following table sets forth information regarding the Company’s development pipeline ($ in millions):

Development Pipeline	Location	Essex Ownership%	Apartment Homes	As of 12/31/2018 Incurred Project Cost (1)	Estimated Project Cost(1)
Development Projects - Consolidated					
Station Park Green - Phase II	San Mateo, CA	100%	199	$110	$ 141
Station Park Green - Phase III	San Mateo, CA	100%	172	87	124
Gateway Village	Santa Clara, CA	100%	476	155	226
Hollywood	Hollywood, CA	100%	200	43	105
Total - Consolidated Development Projects			1,047	395	596
Development Projects - Joint Venture					
Ohlone	San Jose, CA	50%	269	70	136
500 Folsom (2)	San Francisco, CA	50%	545	265	415
Total - Joint Venture Development Projects			814	335	551
Predevelopment Projects - Consolidated					
Other Projects	Various	100%	—	71	71
Total - Consolidated Predevelopment Projects			—	71	71
Predevelopment Projects - Joint Venture					
Other Projects	Various	50%	—	11	11
Total - Joint Venture Predevelopment Projects			—	11	11
Grand Total - Development and Predevelopment Pipeline			1,861	$812	$ 1,229

(1) Includes costs related to the entire project, including both the Company's and joint venture partners' costs. Includes incurred costs and estimated costs to complete these development projects. For predevelopment projects, only

incurred costs are included in estimated costs.

(2) Estimated project cost for this development is net of a projected value for low-income housing tax credit proceeds and the value of the tax exempt bond structure.

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Redevelopment Pipeline

The Company defines the redevelopment pipeline as existing properties owned or recently acquired, which have been targeted for additional investment by the Company with the expectation of increased financial returns through property improvement. During redevelopment, apartment homes may not be available for rent and, as a result, may have less than stabilized operations. As of December 31, 2018, the Company had ownership interests in five major redevelopment communities aggregating 1,727 apartment homes with estimated redevelopment costs of $140.1 million, of which approximately $27.8 million remains to be expended.

Long Term Debt

During 2018, the Company made regularly scheduled principal payments and loan payoffs of $297.5 million of its secured mortgage notes payable at an average interest rate of 5.1%.

In March 2018, the Company issued $300.0 million of 30-year 4.500% senior unsecured notes that mature on March 15, 2048. The interest is payable semi-annually in arrears on March 15 and September 15 of each year, commencing September 15, 2018, until the maturity date on March 15, 2048. The Company used the net proceeds of this offering to repay indebtedness under its unsecured credit facilities and for other general corporate and working capital purposes.

Bank Debt

As of December 31, 2018, Fitch Ratings, Moody’s Investor Service, and Standard and Poor's ("S&P") credit agencies rated Essex Property Trust, Inc. and Essex Portfolio, L.P. BBB+/Positive, Baa1/Stable, and BBB+/Stable, respectively.

At December 31, 2018, the Company had two lines of unsecured credit aggregating $1.24 billion. The Company's $1.2 billion credit facility had an interest rate of LIBOR plus 0.875%, with a scheduled maturity date in December 2021 with one 18-month extension, exercisable at the Company's option. In January 2019, the line of credit facility was amended such that the scheduled maturity date was extended to December 2022 with one 18-month extension, exercisable at the Company's option. The interest rate on the amended line is based on a tiered rate structure tied to the Company's corporate ratings and is currently at LIBOR plus 0.825%. The Company's $35.0 million working capital unsecured line of credit had an interest rate of LIBOR plus 0.875%, with a scheduled maturity date in January 2020.

Equity Transactions

In September 2018, the Company entered into a new equity distribution agreement pursuant to which the Company may offer and sell shares of its common stock having an aggregate gross sales price of up to $900.0 million (the "2018 ATM Program"). In connection with the 2018 ATM Program, the Company may also enter into forward sale agreements whereby, at the Company’s discretion, it may sell shares of its common stock under the 2018 ATM Program under forward sales agreements. The use of a forward sales agreement would allow the Company to lock in a share price on the sale of shares of its common stock at the time the agreement is executed, but defer receiving the proceeds from the sale of shares until a later date.

Upon entering into the 2018 ATM Program, the Company simultaneously terminated its existing equity distribution agreements, which were entered into in March 2016 in connection with its prior at-the-market equity offering program (the "2016 ATM Program"). During the year ended December 31, 2018, the Company did not sell any shares of its common stock through the 2018 ATM Program or through the 2016 ATM Program. Since commencement of the

2018 ATM Program, as of December 31, 2018, the Company has not sold any shares of its common stock and there are no outstanding forward sale agreements, and $900.0 million of shares remains available to be sold under the 2018 ATM Program.

Co-investments

The Company has entered into, and may continue in the future to enter into, joint ventures or partnerships (including limited liability companies) through which we own an indirect economic interest in less than 100% of the community or land or other investments owned directly by the joint venture or partnership. For each joint venture the Company holds a non-controlling interest in the venture and earns customary management fees and may earn development fees, asset property management fees, and a promote interest.

The Company has also made, and may continue in the future to make, preferred equity investments in various multifamily development projects. The Company earns a preferred rate of return on these investments.

OFFICES AND EMPLOYEES

The Company is headquartered in San Mateo, CA, and has regional offices in Woodland Hills, CA; Irvine, CA; San Diego, CA and Bellevue, WA. As of December 31, 2018, the Company had 1,826 employees.

INSURANCE

The Company purchases general liability and property insurance coverage, including loss of rent, for each of its communities. The Company also purchases limited earthquake, terrorism, environmental and flood insurance. There are certain types of losses which may not be covered or could exceed coverage limits. The insurance programs are subject to deductibles and self-insured retentions in varying amounts. The Company utilizes a wholly owned insurance subsidiary, Pacific Western Insurance LLC ("PWI") to self-insure certain earthquake and property losses. As of December 31, 2018, PWI had cash and marketable securities of approximately $86.6 million, and is consolidated in the Company's financial statements.

All of the Company's communities are located in areas that are subject to earthquake activity. The Company evaluates its financial loss exposure to seismic events by using actuarial loss models developed by the insurance industry and in most cases property vulnerability analysis based on structural evaluations by seismic consultants. The Company manages this exposure, where considered appropriate, desirable, and cost-effective, by upgrading properties to increase their resistance to forces caused by seismic events, by considering available funds and coverages provided by PWI and/or by purchasing seismic insurance. In most cases the Company also purchases limited earthquake insurance for certain properties owned by the Company's co-investments.

In addition, the Company carries other types of insurance coverage related to a variety of risks and exposures.

Based on market conditions, the Company may change or potentially eliminate insurance coverages, or increase levels of self-insurance. Further, the Company may incur losses, which could be material, due to uninsured risks, deductibles and self-insured retentions, and/or losses in excess of coverage limits.

COMPETITION

There are numerous housing alternatives that compete with the Company’s communities in attracting tenants. These include other apartment communities, condominiums and single-family homes. If the demand for the Company’s communities is reduced or if competitors develop and/or acquire competing housing, rental rates and occupancy may drop which may have a material adverse effect on the Company’s financial condition and results of operations.

The Company faces competition from other REITs, businesses and other entities in the acquisition, development and operation of apartment communities. Some competitors are larger and have greater financial resources than the Company. This competition may result in increased costs of apartment communities the Company acquires and/or develops.

WORKING CAPITAL

The Company believes that cash flows generated by its operations, existing cash and cash equivalents, marketable securities balances, availability under existing lines of credit, access to capital markets and the ability to generate cash from the disposition of real estate are sufficient to meet all of its reasonably anticipated cash needs during 2019.

The timing, source and amounts of cash flows provided by financing activities and used in investing activities are sensitive to changes in interest rates, stock price, and other fluctuations in the capital markets environment, which can affect the Company’s plans for acquisitions, dispositions, development and redevelopment activities.

ENVIRONMENTAL CONSIDERATIONS

See the discussion under the caption, "Risks Related to Real Estate Investments and Our Operations - The Company's Portfolio may have environmental liabilities" in Item 1A, Risk Factors, for information concerning the potential effect of environmental regulations on its operations, which discussion under the caption "The Company's Portfolio may have environmental liabilities" is incorporated by reference into this Item 1.

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OTHER MATTERS

Certain Policies of the Company

The Company intends to continue to operate in a manner that will not subject it to regulation under the Investment Company Act of 1940. The Company may in the future (i) issue securities senior to its common stock, (ii) fund acquisition activities with borrowings under its line of credit and (iii) offer shares of common stock and/or units of limited partnership interest in the Operating Partnership or affiliated partnerships as partial consideration for property acquisitions. The Company from time to time acquires partnership interests in partnerships and joint ventures, either directly or indirectly through subsidiaries of the Company, when such entities' underlying assets are real estate.

The Company invests primarily in apartment communities that are located in predominantly coastal markets within Southern California, Northern California, and the Seattle metropolitan area. The Company currently intends to continue to invest in apartment communities in such regions. However, these practices may be reviewed and modified periodically by management.

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ITEM 1A: RISK FACTORS

For purposes of this section, the term "stockholders" means the holders of shares of Essex Property Trust, Inc.'s common stock. Set forth below are the risks that we believe are material to Essex Property Trust, Inc.'s stockholders and Essex Portfolio, L.P.'s unitholders. You should carefully consider the following factors in evaluating our Company, our properties and our business.

Our business, operating results, cash flows and financial condition are subject to various risks and uncertainties, including, without limitation, those set forth below, any one of which could cause our actual operating results to vary materially from recent results or from our anticipated future results.

Risks Related to Our Real Estate Investments and Operations

General real estate investment risks may adversely affect property income and values. Real estate investments are subject to a variety of risks. If the communities and other real estate investments do not generate sufficient income to meet operating expenses, including debt service and capital expenditures, cash flow and the ability to make distributions to Essex's stockholders or the Operating Partnership's unitholders will be adversely affected. Income from the communities may be further adversely affected by, among other things, the following factors:

- changes in the general economic or local climate, including layoffs, plant closings, industry slowdowns, relocations of significant local employers and other events negatively impacting local employment rates and wages and the local economy;
- local economic conditions in which the communities are located, such as oversupply of housing or a reduction in demand for rental housing;
- the attractiveness of our communities to tenants;
- inflationary environments in which the costs to operate and maintain communities increase at a rate greater than our ability to increase rents, or deflationary environments where we may be exposed to declining rents more quickly under our short-term leases;
- competition from other available housing alternatives;
- changes in rent control or stabilization laws or other laws regulating housing;
- the Company's ability to provide for adequate maintenance and insurance;
- declines in the financial condition of our tenants, which may make it more difficult for us to collect rents from some tenants;
- tenants' perceptions of the safety, convenience and attractiveness of our communities and the neighborhoods where they are located; and
- changes in interest rates and availability of financing.

As leases at the communities expire, tenants may enter into new leases on terms that are less favorable to the Company. Income and real estate values also may be adversely affected by such factors as applicable laws, including, without limitation, the Americans with Disabilities Act of 1990 (the "Disabilities Act"), Fair Housing Amendment Act of 1988 (the "FHAA"), permanent and temporary rent control laws, rent stabilization laws, other laws regulating housing that may prevent the Company from raising rents to offset increased operating expenses, and tax laws.

Short-term leases expose us to the effects of declining market rents, and the Company may be unable to renew leases or relet units as leases expire. Substantially all of our apartment leases are for a term of one year or less. If the Company is unable to promptly renew the leases or relet the units, or if the rental rates upon renewal or reletting are significantly lower than expected rates, then the Company's results of operations and financial condition will be adversely affected. With these short term leases, our rental revenues are impacted by declines in market rents more quickly than if our leases were for longer terms.

National and regional economic environments can negatively impact the Company's liquidity and operating results. The Company's forecast for the national economy assumes growth of the gross domestic product of the national economy and the economies of the west coast states. In the event of a recession, the Company could incur reductions in rental rates, occupancy levels, property valuations and increases in operating costs such as advertising and turnover expenses. A recession may affect consumer confidence and spending and negatively impact the volume and pricing of real estate transactions, which could negatively affect the Company's liquidity and its ability to vary its portfolio promptly in response to changes to the economy. Furthermore, if residents do not experience increases in their income, they may be unable or unwilling to pay rent increases, and delinquencies in rent payments and rent defaults may increase.

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Rent control, or other changes in applicable laws, or noncompliance with applicable laws, could adversely affect the Company's operations or expose us to liability. The Company must own, operate, manage, acquire, develop and redevelop its properties in compliance with numerous federal, state and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include zoning laws, building codes, rent control or stabilization laws, federal, state and local tax laws, landlord tenant laws, environmental laws, employment laws, immigration laws and other laws regulating housing or that are generally applicable to the Company's business and operations. Noncompliance with laws could expose the Company to liability. If the Company does not comply with any or all of these requirements, it may have to pay fines to government authorities or damage awards to private litigants. The Company does not know whether these requirements will change or whether new requirements will be imposed. Changes in, or noncompliance with, these regulatory requirements could require the Company to make significant unanticipated expenditures, which could have a material adverse effect on the Company's financial condition, results of operations or cash flows.

In addition, rent control or rent stabilization laws and other regulatory restrictions may limit our ability to increase rents and pass through new or increased operating costs to our tenants. There has been a recent increase in municipalities, including those in which we own properties, considering or being urged by advocacy groups to consider rent control or rent stabilization laws and regulations or take other actions which could limit our ability to raise rents based solely on market conditions. These initiatives and any other future enactments of rent control or rent stabilization laws or other laws regulating multifamily housing, as well as any lawsuits against the Company arising from such rent control or other laws, may reduce rental revenues or increase operating costs. Such laws and regulations limit our ability to charge market rents, increase rents, evict tenants or recover increases in our operating expenses and could reduce the value of our communities or make it more difficult for us to dispose of properties in certain circumstances. Expenses associated with our investment in these communities, such as debt service, real estate taxes, insurance and maintenance costs, are generally not reduced when circumstances cause a reduction in rental income from the community. Furthermore, such regulations may negatively impact our ability to attract higher-paying tenants to such communities.

Acquisitions of communities involve various risks and uncertainties and may fail to meet expectations. The Company intends to continue to acquire apartment communities. However, there are risks that acquisitions will fail to meet the Company’s expectations. The Company’s estimates of future income, expenses and the costs of improvements or redevelopment that are necessary to allow the Company to market an acquired apartment community as originally intended may prove to be inaccurate. In addition, following an acquisition, the value and operational performance of an apartment community may be diminished if obsolescence or neighborhood changes occur before we are able to redevelop or sell the community. Also, in connection with such acquisitions, we may assume unknown liabilities, which could ultimately lead to material costs for us that we did not expect to incur. The Company expects to finance future acquisitions, in whole or in part, under various forms of secured or unsecured financing or through the issuance of partnership units by the Operating Partnership or related partnerships or joint ventures or additional equity by the Company. The use of equity financing, rather than debt, for future developments or acquisitions could dilute the interest of the Company’s existing stockholders. If the Company finances new acquisitions under existing lines of credit, there is a risk that, unless the Company obtains substitute financing, the Company may not be able to undertake additional borrowing for further acquisitions or developments or such borrowing may be not available on advantageous terms.

Development and redevelopment activities may be delayed, not completed, and/or not achieve expected results. The Company pursues development and redevelopment projects and these projects generally require various governmental and other approvals, which have no assurance of being received and/or the timing of which may be delayed from the Company’s expectations. The Company defines development projects as new communities that are being constructed or are newly constructed and are in a phase of lease-up and have not yet reached stabilized operations, and redevelopment projects as existing properties owned or recently acquired that have been targeted for additional investment by the Company with the expectation of increased financial returns through property improvement. As of December 31, 2018, the Company had four consolidated development projects and two joint venture development projects comprised of 1,861 apartment homes for an estimated cost of $1.2 billion, of which $417.0 million remains to be expended, and $310.0 million is the Company's share. In addition, at December 31, 2018, the Company had ownership interests in five major redevelopment projects aggregating 1,727 apartment homes with estimated redevelopment costs of $140.1 million, of which approximately $27.8 million remains to be expended.

The Company’s development and redevelopment activities generally entail certain risks, including, among others:

- funds may be expended and management's time devoted to projects that may not be completed on time or at all;
- construction costs of a project may exceed original estimates possibly making the project economically unfeasible;

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- projects may be delayed due to, without limitation, adverse weather conditions, labor or material shortage, or environmental remediation;
- occupancy rates and rents at a completed project may be less than anticipated;
- expenses at completed development or redevelopment projects may be higher than anticipated, including, without limitation, due to costs of environmental remediation or increased costs for labor, materials and leasing;
- we may be unable to obtain, or experience a delay in obtaining, necessary zoning, occupancy, or other required governmental or third party permits and authorizations, which could result in increased costs or delay or abandonment of opportunities;
- we may be unable to obtain financing with favorable terms, or at all, for the proposed development or redevelopment of a community, which may cause us to delay or abandon an opportunity; and
- we may incur liabilities to third parties during the development process, for example, in connection with managing existing improvements on the site prior to tenant terminations and demolition (such as commercial space) or in connection with providing services to third parties (such as the construction of shared infrastructure or other improvements.)

These risks may reduce the funds available for distribution to the Essex’s stockholders and the Operating Partnership's unitholders. Further, the development and redevelopment of communities is also subject to the general risks associated with real estate investments. For further information regarding these risks, please see the risk factor above titled "General real estate investment risks may adversely affect property income and values."
Investments in mortgages, mezzanine loans, subordinated debt, other real estate, and other marketable securities could adversely affect the Company’s cash flow from operations. The Company may invest in equity, preferred equity or debt securities related to real estate and/or other investment securities and/or cash investments, which could adversely affect the Company’s ability to make distributions to Essex's stockholders or the Operating Partnership's unitholders, including, without limitation, due to a decline in the value of such investments. The Company may also purchase or otherwise invest in securities issued by entities which own real estate and/or invest in mortgages or unsecured debt obligations. Such mortgages may be first, second or third mortgages, and these mortgages and/or other investments may not be insured or otherwise guaranteed. The Company may make or acquire mezzanine loans, which take the form of subordinated loans secured by second mortgages on the underlying property or loans secured by a pledge of the ownership interests of either the entity owning the property or a pledge of the ownership interests of the entity or entities that owns the interest in the entity owning the property. In general, investments in mortgages include the following risks:

- that the value of mortgaged property may be less than the amounts owed, causing realized or unrealized losses;
- the borrower may not pay indebtedness under the mortgage when due, requiring the Company to foreclose, and the amount recovered in connection with the foreclosure may be less than the amount owed;
- that interest rates payable on the mortgages may be lower than the Company’s cost of funds;
- in the case of junior mortgages, that foreclosure of a senior mortgage could eliminate the junior mortgage; and
- delays in the collection of principal and interest if a borrower claims bankruptcy.

If any of the above were to occur, it could adversely affect the Company’s cash flows from operations.
Our apartment communities may be subject to unknown or contingent liabilities which could cause us to incur substantial costs. The properties that the Company owns or may acquire are or may be subject to unknown or contingent liabilities for which the Company may have no recourse, or only limited recourse, against the sellers. In general, the representations and warranties provided under the transaction agreements related to the sales of the properties may not survive the closing of the transactions. While the Company will seek to require the sellers to indemnify us with respect to breaches of representations and warranties that survive, such indemnification may be limited and subject to various materiality thresholds, a significant deductible or an aggregate cap on losses. As a result, there is no guarantee that we will recover any amounts with respect to losses due to breaches by the sellers of their representations and warranties. In addition, the total amount of costs and expenses that may be incurred with respect to liabilities associated with apartment communities may exceed our expectations, and we may experience

other unanticipated adverse effects, all of which may adversely affect our business, financial condition and results of operations.

The geographic concentration of the Company's communities and fluctuations in local markets may adversely impact the Company's financial condition and operating results. The Company generated significant amounts of rental revenues for the year ended December 31, 2018, from the Company's communities concentrated in Southern California (Los Angeles, Orange, Santa Barbara, San Diego, and Ventura counties), Northern California (the San Francisco Bay Area), and the Seattle metropolitan area. For the year ended December 31, 2018, 83% of the Company's rental revenues were generated from communities located in California. This geographic concentration could present risks if local property market performance falls below expectations. In general, factors that may adversely affect local market and economic conditions include, among others, the following:

- the economic climate, which may be adversely impacted by a reduction in jobs or income levels, industry slowdowns, changing demographics and other factors;
- local conditions, such as oversupply of, or reduced demand for, apartment homes;
- declines in household formation or employment or lack of employment growth;
- rent control or stabilization laws, or other laws regulating rental housing, which could prevent the Company from raising rents to offset increases in operating costs, or the inability or unwillingness of tenants to pay rent increases;
- competition from other available apartments and other housing alternatives and changes in market rental rates;
- economic conditions that could cause an increase in our operating expenses, including increases in property taxes, utilities and routine maintenance; and
- regional specific acts of nature (e.g., earthquakes, fires, floods, etc.).

Because the Company's communities are primarily located in Southern California, Northern California and the Seattle metropolitan area, the Company is exposed to greater economic concentration risks than if it owned a more geographically diverse portfolio. The Company is susceptible to adverse developments in California and Washington economic and regulatory environments, such as increases in real estate and other taxes, and increased costs of complying with governmental regulations. In addition, the State of California is generally regarded as more litigious and more highly regulated and taxed than many states, which may reduce demand for the Company's communities. Any adverse developments in the economy or real estate markets in California or Washington, or any decrease in demand for the Company's communities resulting from the California or Washington regulatory or business environments, could have an adverse effect on the Company's business and results of operations.

The Company may experience various increased costs, including increased property taxes, to own and maintain its properties. Real property taxes on our properties may increase as our properties are reassessed by taxing authorities or as property tax rates change. Thus, our real estate taxes in the State of Washington could increase as a result of property value reassessments or increased property tax rates in that state. A current California law commonly referred to as Proposition 13 generally limits annual real estate tax increases on California properties to 2% of assessed value. However, under Proposition 13, property tax reassessment generally occurs as a result of a "change in ownership" of a property, as specially defined for purposes of those rules. Because the property taxing authorities may not determine whether there has been a "change in ownership" or the actual reassessed value of a property for a period of time after a transaction has occurred, we may not know the impact of a potential reassessment for a considerable amount of time following a particular transaction. Therefore, the amount of property taxes we are required to pay could increase substantially from the property taxes we currently pay or have paid in the past, including on a retroactive basis. In addition, from time to time voters and lawmakers have announced initiatives to repeal or amend Proposition 13 to eliminate its application to commercial and industrial property and/or introduce split tax roll legislation. Such initiatives, if successful, could increase the assessed value and/or tax rates applicable to commercial property in California, including our apartment communities. Further, changes in U.S. federal tax law, including U.S. tax legislation enacted in December 2017 (the "2017 Tax Legislation"), could cause state and local governments to alter their taxation of real property.

The Company may experience increased costs associated with capital improvements and routine property maintenance, such as repairs to the foundation, exterior walls, and rooftops of its properties, as its properties advance through their life-cycles. In some cases, we may spend more than budgeted amounts to make necessary improvements or maintenance. Increases in the Company's expenses to own and maintain its properties could adversely impact the Company's financial condition and results of operations.

Competition in the apartment community market and other housing alternatives may adversely affect operations and the rental demand for the Company's communities. There are numerous housing alternatives that compete with the Company's communities in attracting tenants. These include other apartment communities, condominiums and single-family homes that are available for rent or for sale in the markets in which our communities are located. Competitive housing in a particular area and the increasing affordability of owner-occupied single- and multifamily homes caused by lower housing prices, mortgage interest rates and government programs to promote home ownership or create additional rental and/or other types of housing, could adversely affect the Company's ability to retain its tenants, lease apartment homes and increase or maintain rents. If the demand for the Company's communities is reduced or if competitors develop and/or acquire competing apartment communities, rental rates may drop, which may have a material adverse effect on the Company's financial condition and results of operations. The Company also faces competition from other companies, REITs, businesses and other entities in the acquisition, development and operation of apartment communities. This competition may result in an increase in prices and costs of apartment communities that the Company acquires and/or develops.

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The Company’s ownership of co-investments, including joint ventures and joint ownership of communities, its ownership of properties with shared facilities with a homeowners' association or other entity, its ownership of properties subject to a ground lease and its preferred equity investments and its other partial interests in entities that own communities, could limit the Company’s ability to control such communities and may restrict our ability to finance, sell or otherwise transfer our interests in these properties and expose us to loss of the properties if such agreements are breached by us or terminated.

The Company has entered into, and may continue in the future to enter into certain co-investments, including joint ventures or partnerships through which it owns an indirect economic interest in less than 100% of the community or land or other investments owned directly by the joint venture or partnership. As of December 31, 2018, the Company had, through several joint ventures, an interest in 10,613 apartment homes in operating communities for a total book value of $833.3 million.

Joint venture partners often have shared control over the development and operation of the joint venture assets. Therefore, it is possible that a joint venture partner in an investment might become bankrupt, or have economic or business interests or goals that are inconsistent with the Company’s business interests or goals, or be in a position to take action contrary to the Company’s instructions or requests, or its policies or objectives. Consequently, a joint venture partner's actions might subject property owned by the joint venture to additional risk. Although the Company seeks to maintain sufficient influence over any joint venture to achieve its objectives, the Company may be unable to take action without its joint venture partners’ approval. A joint venture partner might fail to approve decisions that are in the Company’s best interests. Should a joint venture partner become bankrupt, the Company could become liable for such partner’s share of joint venture liabilities. In some instances, the Company and the joint venture partner may each have the right to trigger a buy-sell arrangement, which could cause the Company to sell its interest, or acquire a partner’s interest, at a time when the Company otherwise would have not have initiated such a transaction.

From time to time, the Company, through the Operating Partnership, invests in corporations, limited partnerships, limited liability companies or other entities that have been formed for the purpose of acquiring, developing, financing, or managing real property. For example, the Company has made co-investments in the form of preferred equity investments in third party entities that own real estate and may continue in the future to make such preferred equity or other co-investments. With preferred equity investments and certain other co-investments, the Operating Partnership’s interest in a particular entity is typically less than a majority of the outstanding voting interests of that entity. Therefore, the Operating Partnership’s ability to control the daily operations of such co-investment may be limited. Furthermore, the Operating Partnership may not have the power to remove a majority of the board of directors (in the case of a corporation) or the general partner or partners (in the case of a limited partnership) of such co-investment in the event that its operations conflict with the Operating Partnership’s objectives. The Operating Partnership may not be able to dispose of its interests in such co-investment. In the event that such co-investment becomes insolvent or fails to develop or operate the property in the manner anticipated and expected, the Operating Partnership may not receive the expected return in its expected timeframe or at all and may lose up to its entire investment in, and any advances to, the co-investment. The Company may also incur losses if any guarantees or indemnifications were made by the Company.

The Company also owns properties indirectly under "DownREIT" structures. The Company has entered into, and in the future may enter into, transactions that could require the Company to pay the tax liabilities of partners, which contribute assets into DownREITs, joint ventures or the Operating Partnership, in the event that certain taxable events, which are within the Company’s control, occur. Although the Company plans to hold the contributed assets or, if such assets consist of real property, defer recognition of gain on sale of such assets pursuant to the like-kind exchange rules under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Code"), the Company can provide no assurance that the Company will be able to do so and if such tax liabilities were incurred they could have a material impact on its financial position.

Also, from time to time, the Company invests in properties which may be subject to certain shared facilities agreements with homeowners' associations and other entities and/or invests in properties subject to ground leases where a subtenant may have certain similar rights to that of a party under such a shared facilities agreement. For such properties, the Company's ability to control the expenditure of capital improvements and its allocation with such other parties may adversely affect the Company's business, financial condition and results of operations.

We may pursue acquisitions of other REITs and real estate companies, which may not yield anticipated results and could adversely affect our results of operations. We may make acquisitions of and investments in other REITs and real estate companies that offer properties and communities to augment our market coverage, or enhance our property offerings. We may also enter into strategic alliances or joint ventures to achieve these goals. There can be no assurance that we will be able to identify suitable acquisition, investment, alliance, or joint venture opportunities, that we will be able to consummate any such transactions or relationships on terms and conditions acceptable to us, or that such transactions or relationships will be

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successful. In addition, our original estimates and assumptions used in assessing any acquisition may be inaccurate, and we may not realize the expected financial or strategic benefits of any such acquisition.

These transactions or any other acquisitions involve risks and uncertainties. For example, as a consequence of such transactions, we may assume unknown liabilities, which could ultimately lead to material costs for us. In addition, the integration of acquired businesses or other acquisitions may not be successful and could result in disruption to other parts of our business. To integrate acquired businesses or other acquisitions, we must implement our management information systems, operating systems and internal controls, and assimilate and manage the personnel of the acquired operations. The expected synergies from acquisitions may not be fully realized, which could result in increased costs or other issues and have an adverse effect on our business. There can be no assurance that all pre-acquisition property due diligence will have identified all material issues that might arise with respect to such acquired business and its properties or as to any such other acquisitions. Any future acquisitions we make may also require significant additional debt or equity financing, which, in the case of debt financing, would increase our leverage and potentially affect our credit ratings and, in the case of equity or equity-linked financing, could be dilutive to Essex's existing stockholders and the Operating Partnership's unitholders. These and other factors could harm our ability to achieve anticipated levels of profitability at acquired operations or realize other anticipated benefits of an acquisition, and could adversely affect our business, financial condition and results of operations.

Real estate investments are relatively illiquid and, therefore, the Company's ability to vary its portfolio promptly in response to changes in economic or other conditions may be limited. Real estate investments are illiquid and in our markets can at times be difficult to sell at prices we find acceptable. We may be unable to consummate such dispositions in a timely manner, on attractive terms, or at all. These potential difficulties in selling real estate in our markets may limit our ability to change or reduce the apartment communities in our portfolio promptly in response to changes in economic or other conditions, which could have a material adverse effect on our financial condition and results of operations. In addition, if we are found to have held, acquired or developed a community as inventory or primarily for sale to customers in the ordinary course of business, federal tax laws may limit our ability to sell the community without incurring a 100% tax on the gain on the sale of the community and potentially adversely impacting our status as a real estate investment trust ("REIT") unless we own the community through one of our taxable REIT subsidiaries ("TRSs").

Compliance with laws benefiting disabled persons may require the Company to make significant unanticipated expenditures or impact the Company’s investment strategy. Under the Disabilities Act, all places of public accommodation are required to comply with federal requirements related to access and use by disabled persons. The FHAA requires that multifamily communities first occupied after March 13, 1991 be accessible to handicapped tenants and visitors. These and other federal, state and local laws and regulations may require modifications to existing buildings or restrict certain renovations by requiring improved access to such buildings by disabled persons and may require other structural features which add to the cost of buildings under construction. Legislation or regulations adopted in the future may impose further burdens or restrictions on the Company with respect to improved access by disabled persons. The costs of compliance with these laws and regulations may be substantial. Noncompliance with these laws could result in the imposition of fines or an award of damages to private litigants and also could result in an order to correct any noncomplying feature, which could result in substantial capital expenditures.

The Company may not be able to lease its retail/commercial space consistent with its projections or at market rates. The Company has retail/commercial space in its portfolio, which represents approximately 2% of our total revenue. The retail/commercial space at our properties, among other things, serve as additional amenity for our tenants. The long term nature of our retail/commercial leases, and characteristics of many of our retail/commercial tenants (small, local businesses) may subject us to certain risks. We may not be able to lease new space for rents that are consistent with our projections or at market rates, and the longer term leases for existing space could result in below market rents over time. Also, when leases for our existing retail/commercial space expire, the space may not be relet or the terms of reletting, including the cost of allowances and concessions to tenants, may be less favorable that the current lease terms. Our properties compete with other properties with retail/commercial space. The presence of competitive alternatives may affect our ability to lease space and the level of rents we can obtain. If our retail/commercial tenants experience financial distress or bankruptcy, they may fail to comply with their contractual obligations, seek concessions in order to continue operations or cease their operations, which could adversely impact our results of operations and financial condition.

The Company's portfolio may have environmental liabilities. Under various federal, state and local environmental and public health laws, regulations and ordinances we have been from time to time, and may be required in the future, regardless of knowledge or responsibility, to investigate and remediate the effects of hazardous or toxic substances or petroleum product releases at our properties (including in some cases naturally occurring substances such as methane and radon gas) and may be held liable under these laws or common law to a governmental entity or to third parties for response costs, property damage, personal injury or natural resources damages and for investigation and remediation costs incurred as a result of the impacts

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resulting from such releases. While the Company is unaware of any such response action required or damage claims associated with its existing properties which individually or in aggregate would have a materially adverse effect on our business, assets, financial condition or results of operations, potential future costs and damage claims may be substantial and could exceed any insurance coverage we may have for such events or such coverage may not exist. Further, the presence of such substances, or the failure to properly remediate any such impacts, may adversely affect our ability to borrow against, develop, sell or rent the affected property. In addition, some environmental laws create or allow a government agency to impose a lien on the impacted property in favor of the government for damages and costs it incurs as a result of responding to hazardous or toxic substance or petroleum product releases.

Investments in real property create a potential for environmental liabilities on the part of the owner of such real property. The Company carries certain limited insurance coverage for this type of environmental risk as to its properties; however, such coverage is not fully available for all properties and, as to those properties for which limited coverage is fully available it may not apply to certain claims arising from known conditions present on those properties. In general, in connection with the ownership (direct or indirect), operation, financing, management and development of its communities, the Company could be considered as the owner or operator of such properties or as having arranged for disposal or treatment of hazardous substances present there and therefore may be potentially liable for removal or clean-up costs, as well as certain other costs and environmental liabilities. The Company may also be subject to governmental fines and costs related to injuries to third persons and damage to their property.

Properties which we intend to acquire undergo a pre-acquisition Phase I environmental site assessment, which is intended to afford the Company protection against so-called "owner liability" under the primary federal environmental law, as well as further environmental assessment, which may involve invasive techniques such as soil or ground water sampling where conditions warranting such further assessment are identified and seller's consent is obtained. While such assessments are conducted in accordance with applicable "all appropriate inquiry" standards, no assurance can be given that all environmental conditions present on or beneath or emanating from a given property will be discovered or that the full nature and extent of those conditions which are discovered will be adequately ascertained and quantified.

In connection with our ownership, operation and development of communities, from time to time we undertake remedial action in response to the presence of subsurface or other contaminants, including contaminants in soil, groundwater and soil vapor beneath or affecting our buildings. The Company does so pursuant to appropriate environmental regulatory requirements with the objective of obtaining regulatory closure or a no further action determination that will allow for future use, development and sale of any impacted community.

Certain environmental laws impose liability for release of asbestos-containing materials ("ACMs") into the air or exposure to lead-based paint ("LBP"), and third parties may seek recovery from owners or operators of apartment communities for personal injury associated with ACMs or LBP.

Mold growth may occur when excessive moisture accumulates in buildings or on building materials, particularly if the moisture problem remains undiscovered or is not addressed in a timely manner. Although the occurrence of mold at multifamily and other structures, and the need to remediate such mold, is not a new phenomenon, there has been increased awareness in recent years that certain molds may in some instances lead to adverse health effects, including allergic or other reactions. The Company has adopted policies for promptly addressing and resolving reports of mold when it is detected, and to minimize any impact mold might have on tenants of the property. The Company believes its mold policies and proactive response to address any known mold existence reduce its risk of loss from these cases; however, no assurance can be provided that the Company has identified and responded to all mold occurrences.

California has enacted legislation, commonly referred to as "Proposition 65," requiring that "clear and reasonable" warnings be given to persons who are exposed to chemicals known to the State of California to cause cancer or reproductive toxicity, including tobacco smoke. Although the Company has sought to comply with Proposition 65 requirements, we cannot assure you that the Company will not be adversely affected by litigation relating to Proposition 65.

Methane gas is a naturally-occurring gas that is commonly found below the surface in several areas, particularly in the Southern California coastal areas. Methane is a non-toxic gas, but is flammable and can be explosive at sufficient concentrations when in confined spaces and exposed to an ignition source. Naturally-occurring, methane gas is regulated at the state and federal level as a greenhouse gas but is not otherwise regulated as a hazardous substance; however some local governments, such as Los Angeles County, require that new buildings constructed in areas designated methane gas zones install detection and/or venting systems. Methane gas is also associated with certain industrial activities, such as former municipal waste landfills. Radon is also a naturally-occurring gas that is found below the surface and can pose a threat to human health requiring abatement action if present in sufficient concentration within occupied areas. The Company cannot assure you that it

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will not be adversely affected by costs related to its compliance with methane or radon gas related requirements or litigation costs related to methane or radon gas.

We cannot assure you that costs or liabilities incurred as a result of environmental matters will not affect our ability to make distributions to Essex's stockholders or the Operating Partnership's unitholders, or that such costs or liabilities will not have a material adverse effect on our financial condition and results of operations; provided, however, the Company is unaware of any pending or threatened alleged claim resulting from such matters which would have a material adverse effect on the Company’s financial condition, results of operations or cash flows.

The Company may incur general uninsured losses. The Company purchases general liability and property, including loss of rent, insurance coverage for each of its communities. The Company may also purchase limited earthquake, terrorism, environmental and flood insurance for some of its communities. However, there are types of losses, generally catastrophic in nature, such as losses due to wars, acts of terrorism, earthquakes, pollution, environmental matters or extreme weather conditions such as hurricanes, fires and floods that are uninsurable or not economically insurable, or may be insured subject to limitations, such as large deductibles or co-payments. Insurance risks associated with potential terrorist acts could sharply increase the premiums the Company pays for coverage against property and casualty claims. The Company utilizes a wholly owned insurance subsidiary, Pacific Western Insurance LLC ("PWI"), to self-insure certain earthquake and property losses for some of the communities in its portfolio. As of December 31, 2018, PWI has cash and marketable securities of approximately $86.6 million, and is consolidated in the Company's financial statements. The value of the marketable securities of PWI could decline, and if a decline in value were to occur, PWI's ability to cover all or any portion of the amount of any insured losses could be adversely affected.

All the communities are located in areas that are subject to earthquake activity. The Company evaluates its financial loss exposure to seismic events by using actuarial loss models developed by the insurance industry and in most cases property vulnerability analysis based on structural evaluations of seismic consultants. The Company manages this exposure, where considered appropriate, desirable, and cost-effective, by upgrading properties to increase their resistance to forces caused by seismic events, by considering available funds and coverages provided by PWI and/or, in some cases, by purchasing seismic insurance. Purchasing seismic insurance coverage can be costly and such seismic insurance is in limited supply. As a result, the Company may experience a shortage in desired coverage levels if market conditions are such that insurance is not available, or the cost of the insurance makes it, in management's view, not economically practical. The Company may purchase limited earthquake insurance for certain high-density properties and in most cases assets owned by the Company's co-investments.

The Company carries other types of insurance coverage related to a variety of risks and exposures. Based on market conditions, the Company may change or potentially eliminate insurance coverages, or increase levels of self-insurance. Further, we cannot assure you that the Company will not incur losses, which could be material, due to uninsured risks, deductibles and self-insured retentions, and/or losses in excess of coverage limits.

We have significant investments in large metropolitan markets, such as the metropolitan markets in Southern California, Northern California, and Seattle. These markets may in the future be the target of actual or threatened terrorist attacks. Future terrorist attacks in these markets could directly or indirectly damage our communities, both physically and financially, or cause losses that exceed our insurance coverage. Our communities could also directly or indirectly be the location or target of actual or threatened terrorist attacks, crimes, shootings, other acts of violence or other incidents beyond our control, the occurrence of which could directly impact the value of our communities through damage, destruction, loss or increased security costs, as well as operational losses due to reduction of traffic and rental demand for our communities, and the availability of insurance for such acts may be limited or may be subject to substantial costs. If such an incident were to occur at one of our communities, we may also be subject to significant liability claims. Such events and losses could significantly affect our ability to operate those communities and materially impair our ability to achieve our expected results. Additionally, we may be obligated to continue to pay any mortgage indebtedness and other obligations relating to affected properties.

Although the Company may carry insurance for potential losses associated with its communities, employees, tenants, and compliance with applicable laws, it may still incur losses due to uninsured risks, deductibles, copayments or losses in excess of applicable insurance coverage and those losses may be material. In the event of a substantial loss, insurance coverage may not be able to cover the full replacement cost of the Company’s lost investment, or the insurance carrier may become insolvent and not be able to cover the full amount of the insured losses. Changes in building codes and ordinances, environmental considerations and other factors might also affect the Company’s ability to replace or renovate an apartment community after it has been damaged or destroyed. In addition, certain causalities and/or losses incurred may expose the Company in the future to higher insurance premiums.

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Climate change may adversely affect our business. To the extent that climate change does occur, we may experience extreme weather and changes in precipitation and temperature, all of which may result in physical damage or a decrease in demand for our communities located in these areas or affected by these conditions. Should the impact of climate change be material in nature or occur for lengthy periods of time, our financial condition or results of operations may be adversely affected.

In addition, changes in federal and state legislation and regulation on climate change could result in increased capital expenditures to improve the energy efficiency of our existing communities and could also require us to spend more on our new development communities without a corresponding increase in revenue. For example, various federal, regional and state laws and regulations have been implemented or are under consideration to mitigate the effects of climate change caused by greenhouse gas emissions, including the recently updated California energy efficiency standards, referred to as Title 24 or The Energy Efficiency Standards for Residential and Nonresidential Buildings. Among other things, "green" building codes may seek to reduce emissions through the imposition of standards for design, construction materials, water and energy usage and efficiency and waste management. The imposition of such requirements in the future could increase the costs of maintaining or improving our existing properties or developing properties (for example, to improve their energy efficiency and/or resistance to inclement weather) without a corresponding increase in revenue, resulting in adverse impacts to our operating results. Further, the impact of climate change may increase the cost of, or make unavailable, property insurance or other hazard insurance on terms we find acceptable or necessary to adequately protect our properties.

Accidental death or severe injuries due to fires, floods, other natural disasters or hazards could adversely affect our business and results of operations. The accidental death or severe injuries of persons living in our communities due to fires, floods, other natural disasters or hazards could have a material adverse effect on our business and results of operations. Our insurance coverage may not cover all losses associated with such events, and we may experience difficulty marketing communities where any such events have occurred, which could have a material adverse effect on our business and results of operations.

Adverse changes in laws may adversely affect the Company's liabilities and/or operating costs relating to its properties and its operations. Increases in real estate taxes and income, service and transfer taxes cannot always be passed through to tenants or users in the form of higher rents, and may adversely affect the Company's cash available for distribution and its ability to make distributions to Essex's stockholders or the Operating Partnership's unitholders and pay amounts due on its debts. Similarly, changes in laws increasing the potential liability of the Company and/or its operating costs on a range of issues, including those regarding potential liability for other environmental conditions existing on properties or increasing the restrictions on discharges or other conditions, as well as changes in laws affecting development, construction and safety requirements, may result in significant unanticipated expenditures, including without limitation, those related to structural or seismic retrofit or more costly operational safety systems and programs, which could have a material adverse effect on the Company. For example, (1) the California statute, the "Sustainable Communities and Climate Protection Act of 2008," also known as "SB375," provides that, in order to reduce greenhouse emissions, there should be regional planning to coordinate housing needs with regional transportation and such planning could lead to restrictions on, or increases in, property development that adversely affect the Company and (2) the Environmental Protection Agency has implemented a program for long-term phase out of HCFC-22 coolant (freon) by 2030, which could lead to increased capital and/or operating costs.

The soundness of financial institutions could adversely affect us. We maintain cash and cash equivalent balances, including significant cash amounts of our wholly owned insurance subsidiary, PWI, as well as 401(k) plan assets in a limited number of financial institutions. Our cash balances are generally in excess of federally insured limits. The failure or collapse of one or more of these financial institutions may materially adversely affect our ability to recover our cash balances or the 401(k) assets. Certain financial institutions are lenders under our credit facilities, and, from time to time, we execute transactions with counterparties in the financial services industry. In the event that the volatility of the financial markets adversely affects these financial institutions or counterparties, we or other parties to the transactions with us may be unable to complete transactions as intended, which could adversely affect our business and results of operations. Additionally, certain of our tax-exempt bond financing documents require us to obtain a guarantee from a financial institution of payment of the principal and interest on the bonds. The guarantee may take the form of a letter of credit, surety bond, guarantee agreement or other additional collateral. If the financial institution defaults in its guarantee obligations, or if we are unable to renew the applicable guarantee or otherwise post satisfactory collateral, a default will occur under the applicable tax-exempt bonds and the community could be foreclosed upon if we do not redeem the bonds.

Failure to succeed in new markets may limit the Company’s growth. The Company may make acquisitions or commence development activity outside of its existing market areas if appropriate opportunities arise. The Company’s historical experience in its existing markets does not ensure that it will be able to operate successfully in new markets. The Company may be exposed to a variety of risks if it chooses to enter new markets. These risks include, among others:

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- an inability to evaluate accurately local apartment market conditions and local economies;
- an inability to identify appropriate acquisition opportunities or to obtain land for development;
- an inability to hire and retain key personnel; and
- lack of familiarity with local governmental and permitting procedures.

Current volatility in market and economic conditions may impact the accuracy of the various estimates used in the preparation of our financial statements and footnotes to the financial statements. Various estimates are used in the preparation of our financial statements, including estimates related to the fair value of tangible and intangible assets and the carrying value of our real estate investments. Often these estimates require the use of local market knowledge and data that is difficult to assess, as well as estimates of future cash flows associated with our real estate investments that can also be difficult to accurately predict. Although our management believes it has been prudent and used reasonable judgment in making these estimates, it is possible that actual results may differ materially from these estimates.

Our business and reputation depend on our ability to continue providing high quality housing and consistent operation of our communities, the failure of which could adversely affect our business, financial condition and results of operations. Our business and reputation depend on providing tenants with quality housing with highly reliable services, including with respect to water and electric power, along with the consistent operation of our communities, including a wide variety of amenities such as covered parking, swimming pools, clubhouses with fitness facilities, playground areas, tennis courts and similar features. Public utilities, especially those that provide water and electric power, are fundamental for the consistent operation of our communities. The delayed delivery or any material reduction or prolonged interruption of these services may cause tenants to terminate their leases, or may result in a reduction of rents and/or increase in our costs or other issues. In addition, we may fail to provide quality housing and continuous access to amenities as a result of other factors, including mechanical failure, power outage, human error, vandalism, physical or electronic security breaches, war, terrorism or similar events. Such service interruptions, mechanical failures or other events may also expose us to additional liability claims and damage our reputation and brand, and could cause tenants to terminate or not renew their leases, or prospective tenants to seek housing elsewhere. Any such failures could impair our ability to continue providing quality housing and consistent operation of our communities, which could adversely affect our business, financial condition and results of operations.

The Company’s real estate assets may be subject to impairment charges. The Company continually evaluates the recoverability of the carrying value of its real estate assets under U.S. generally accepted accounting principles ("U.S. GAAP"). Factors considered in evaluating impairment of the Company’s existing multifamily real estate assets held for investment include significant declines in property operating profits, recurring property operating losses and other significant adverse changes in general market conditions that are considered permanent in nature. Generally, a multifamily real estate asset held for investment is not considered impaired if the undiscounted, estimated future cash flows of the asset over its estimated holding period are in excess of the asset’s net book value at the balance sheet date. Assumptions used to estimate annual and residual cash flow and the estimated holding period of such assets require the judgment of management. There can be no assurance that the Company will not take charges in the future related to the impairment of the Company’s assets. Any future impairment charges could have a material adverse effect on the Company’s results of operations.

We face risks associated with land holdings and related activities. We hold land for future development and may in the future acquire additional land holdings. The risks inherent in purchasing, owning and developing land increase as demand for apartments, or rental rates, decrease. Real estate markets are highly uncertain and, as a result, the value of undeveloped land may fluctuate significantly. In addition, carrying costs can be significant and can result in losses or reduced profitability. As a result, we hold certain land, and may, in the future acquire additional land, in our development pipeline at a cost we may not be able to fully recover or at a cost which may preclude our developing a profitable multifamily community. If there are subsequent changes in the fair value of our land holdings which we determine is less that the carrying basis of our land holdings reflected in our financial statements plus estimated costs to sell, we may be required to take future impairment changes which could have a material adverse effect on our results of operations.

Under certain circumstances, assets owned by a subsidiary REIT may be required to be disposed of via a sale of capital stock rather than an asset sale. Under certain circumstances, assets owned by a subsidiary REIT may be required to be disposed of via a sale of capital stock rather than as an asset sale by that subsidiary REIT, which may limit the number of persons willing to acquire indirectly any assets held by that subsidiary REIT. As a result, we may not be able to realize a return on our investment in a joint venture that utilizes a subsidiary REIT structure, at the time or on the terms we desire.

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We may from time to time be subject to litigation, which could have a material adverse effect on our business, financial condition and results of operations. We may be a party to various claims and routine litigation arising in the ordinary course of business. Some of these claims or others to which we may be subject from time to time may result in defense costs, settlements, fines or judgments against us, some of which are not, or cannot be, covered by insurance. Payment of any such costs, settlements, fines or judgments that are not insured could have an adverse impact on our financial position and results of operations. In addition, certain litigation or the resolution of certain litigation may affect the availability or cost of some of our insurance coverage, which could adversely impact our results of operations and cash flow, expose us to increased risks that would be uninsured, or adversely impact our ability to attract officers and directors.

Risks Related to Our Indebtedness and Financings

Capital and credit market conditions may affect the Company's access to sources of capital and/or the cost of capital, which could negatively affect the Company's business, results of operations, cash flows and financial condition. In periods when the capital and credit markets experience significant volatility, the amounts, sources and cost of capital available to the Company may be adversely affected. Our current balance sheet, the debt capacity available on the unsecured line of credit with a diversified bank group, access to the public and private placement debt markets and secured debt financing providers such as Fannie Mae and Freddie Mac provides some insulation from volatile capital markets. We primarily use external financing, including sales of equity securities, to fund acquisitions, developments, and redevelopments and to refinance indebtedness as it matures. If sufficient sources of external financing are not available to us on cost effective terms, we could be forced to limit our acquisition, development and redevelopment activity and/or take other actions to fund our business activities and repayment of debt, such as selling assets, reducing our cash dividend or paying out less than 100% of our taxable income. In general, to the extent that the Company's access to capital and credit is at a higher cost than the Company has experienced in recent years (reflected in higher interest rates for debt financing or a lower stock price for equity financing without a corresponding change to investment cap rates) the Company's ability to make acquisitions, develop communities, obtain new financing, and refinance existing borrowing at competitive rates could be adversely affected, which would impact the Company's financial standing and related credit rating. In addition, if our ability to obtain financing is adversely affected, we may be unable to satisfy scheduled maturities on existing financing through other sources of our liquidity, which, in the case of secured financings, could result in lender foreclosure on the apartment communities securing such debt.

Debt financing has inherent risks. At December 31, 2018, the Company had approximately $5.6 billion of indebtedness (including $619.6 million of variable rate indebtedness, of which $175.0 million is subject to an interest rate swap effectively fixing the interest rate on $175.0 million in debt. $9.9 million is subject to interest rate cap protection). The Company is subject to the risks normally associated with debt financing, including, among others, the following:

- cash flow may not be sufficient to meet required payments of principal and interest;
- inability to refinance maturing indebtedness on encumbered apartment communities;
- inability to comply with debt covenants could cause defaults and an acceleration of maturity dates; and
- paying debt before the scheduled maturity date could result in prepayment penalties.

The Company may not be able to renew, repay or refinance its indebtedness when due or may be required to refinance its indebtedness at higher interest rates or on terms that may not be as favorable as the terms of existing indebtedness. If the Company is unable to refinance its indebtedness on acceptable terms, or not at all, the Company might be forced to dispose of one or more of its properties on disadvantageous terms, which might result in losses. Such losses could have an adverse effect on the Company and its ability to make distributions to Essex's stockholders or the Operating Partnership's unitholders and pay amounts due on its debt. Furthermore, if a property is mortgaged to secure payment of indebtedness and the Company is unable to meet mortgage payments, the mortgagee could foreclose on the property, appoint a receiver and exercise rights under an assignment of rents and leases, or pursue other remedies, all with a consequential loss of revenues and asset value. Foreclosures could also create taxable income without accompanying cash proceeds, thereby hindering our ability to meet REIT distribution requirements.

Debt financing of communities may result in insufficient cash flow to service debt and fund distributions. Where appropriate, the Company intends to continue to use leverage to increase the rate of return on the Company's investments and to provide for additional investments that the Company could not otherwise make. There is a risk that the cash flow from the communities will be insufficient to meet both debt payment obligations and the REIT distribution requirements of the Code. Our ability to make payments on and to refinance our indebtedness and to fund our operations, working capital and capital expenditures, depends on our ability to generate cash in the future. There is a risk that we may not be able to refinance existing indebtedness or that a refinancing will not be done on as favorable terms, which in either case could have an adverse effect on our financial condition, results of operations and cash flows. To a certain extent, our cash flow is subject to general economic,

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industry, regional, financial, competitive, operating, legislative, regulatory, taxation and other factors, many of which are beyond our control.

As of December 31, 2018, the Company had 50 consolidated communities encumbered by debt. With respect to such communities, all of them are secured by deeds of trust relating solely to those communities. The holders of this indebtedness will have rights with respect to these communities and, if debt payment obligations are not met, lenders may seek foreclosure of communities which would reduce the Company’s income and net asset value, and its ability to service other debt.

Compliance requirements of tax-exempt financing and below market rent requirements may limit income from certain communities. At December 31, 2018, the Company had approximately $269.6 million of variable rate tax-exempt financing. This tax-exempt financing provides for certain deed restrictions and restrictive covenants. The Company expects to engage in tax-exempt financings in the future. If the compliance requirements of the tax-exempt financing restrict our ability to increase our rental rates to low or moderate income tenants, or eligible/qualified tenants, then our income from these properties may be limited. While we generally believe that the interest rate benefit attendant to properties with tax-exempt bonds more than outweigh any loss of income due to restrictive covenants or deed restrictions, this may not always be the case. Some of these requirements are complex and our failure to comply with them may subject us to material fines or liabilities. Certain state and local authorities may impose additional rental restrictions. These restrictions may limit income from the tax-exempt financed communities if the Company is required to lower rental rates to attract tenants who satisfy the median income test. If the Company does not reserve the required number of apartment homes for tenants satisfying these income requirements, the tax-exempt status of the bonds may be terminated, the obligations under the bond documents may be accelerated and the Company may be subject to additional contractual liability. Besides the limitations due to tax-exempt financing requirements, the income from certain communities may be limited due to below market rent ("BMR") requirements imposed by local authorities in connection with the original development of the community.

The indentures governing our notes and other financing arrangements contain restrictive covenants that limit our operating flexibility. The indentures that govern our publicly registered notes contain financial and operating covenants that, among other things, restrict our ability to take specific actions, even if we believe them to be in our best interest, including restrictions on our ability to:

- consummate a merger, consolidation or sale of all or substantially all of our assets; and
- incur additional secured and unsecured indebtedness.

The instruments governing our other unsecured indebtedness require us to meet specified financial covenants, including covenants relating to net worth, fixed charge coverage, debt service coverage, the amounts of total indebtedness and secured indebtedness, leverage and certain investment limitations. These covenants may restrict our ability to expand or fully pursue our business strategies. Our ability to comply with these provisions and those contained in the indentures governing the notes, may be affected by changes in our operating and financial performance, changes in general business and economic conditions, adverse regulatory developments or other events adversely impacting us. The breach of any of these covenants, including those contained in our indentures, could result in a default under our indebtedness, which could cause those and other obligations to become due and payable. If any of our indebtedness is accelerated, we may not be able to repay it.

Rising interest rates may affect the Company’s costs of capital and financing activities and results of operation. Interest rates could increase, which could result in higher interest expense on the Company’s variable rate indebtedness or increase interest rates when refinancing maturing fixed rate debt. Prolonged interest rate increases could negatively impact the Company’s ability to make acquisitions and develop apartment communities with positive economic returns on investment and the Company’s ability to refinance existing borrowings.

Interest rate hedging arrangements may result in losses. The Company from time to time uses interest rate swaps and interest rate caps contracts to manage certain interest rate risks. Although these agreements may partially protect against rising interest rates, they also may reduce the benefits to the Company if interest rates decline. If a hedging arrangement is not indexed to the same rate as the indebtedness that is hedged, the Company may be exposed to losses to the extent that the rate governing the indebtedness and the rate governing the hedging arrangement change independently of each other. Finally, nonperformance by the other party to the hedging arrangement may subject the Company to increased credit risks. In order to minimize counterparty credit risk, the Company enters into hedging arrangements only with investment grade financial institutions.

A downgrade in the Company's investment grade credit rating could materially and adversely affect its business and financial condition. The Company plans to manage its operations to maintain its investment grade credit rating with a capital structure consistent with its current profile, but there can be no assurance that it will be able to maintain its current credit ratings. Any downgrades in terms of ratings or outlook by any of the rating agencies could have a material adverse impact on

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the Company's cost and availability of capital, which could in turn have a material adverse impact on its financial condition, results of operations and liquidity.

Changes in the Company's financing policy may lead to higher levels of indebtedness. The Company's organizational documents do not limit the amount or percentage of indebtedness that may be incurred. The Company has adopted a policy of maintaining a limit on debt financing consistent with the existing covenants required to maintain the Company's unsecured line of credit bank facility, unsecured debt and senior unsecured bonds. Although pursuant to this policy the Company manages its debt to be in compliance with the debt covenants, the Company may increase the amount of outstanding debt at any time without a concurrent improvement in the Company's ability to service the additional debt. Accordingly, the Company could become more leveraged, resulting in an increased risk of default of its debt covenants or on its debt obligations and in an increase in debt service requirements. Any covenant breach or significant increase in the Company's leverage could materially adversely affect the Company's financial condition and ability to access debt and equity capital markets in the future.

If the Company or its subsidiaries defaults on an obligation to repay outstanding indebtedness when due, the default could trigger a cross-default or cross-acceleration under other indebtedness. If the Company or one of its subsidiaries defaults on its obligations to repay outstanding indebtedness, the default could cause a cross-default or cross-acceleration under other indebtedness. A default under the agreements governing the Company's or its subsidiaries' indebtedness, including a default under mortgage indebtedness, lines of credit, bank term loan, or the indenture for the Company's outstanding senior notes, that is not waived by the required lenders or holders of outstanding notes, could trigger cross-default or cross-acceleration provisions under one or more agreements governing the Company's indebtedness, which could cause an immediate default or allow the lenders to declare all funds borrowed thereunder to be due and payable.

The Company could be negatively impacted by the condition of Fannie Mae or Freddie Mac and by changes in government support for multifamily housing. Historically, the Company has utilized borrowing from Fannie Mae and Freddie Mac. There are no assurances that these entities will lend to the Company in the future. Beginning in 2011, the Company has primarily utilized unsecured debt and has repaid secured debt at or near their respective maturity and has placed less reliance on agency mortgage debt financing. Potential options have been proposed for the future of agency mortgage finance in the U.S. that could involve the phase out of Fannie Mae and Freddie Mac. While we believe Fannie Mae and Freddie Mac will continue to provide liquidity to our sector, should they discontinue doing so, have their mandates changed or reduced or be disbanded or reorganized by the government or if there is reduced government support for multifamily housing more generally, it may adversely affect interest rates, capital availability, development of multifamily communities and the value of multifamily residential real estate and, as a result, may adversely affect the Company and its growth and operations.

Risks Related to the Company in General and the Ownership of Essex's Stock

The Company depends on its key personnel, whose continued service is not guaranteed. The Company's success depends on its ability to attract and retain executive officers, senior officers and company managers. There is substantial competition for qualified personnel in the real estate industry and the departure of any of the Company's key personnel could have an adverse effect on the Company.

The price per share of the Company's stock may fluctuate significantly. The market price per share of the Company's common stock may fluctuate significantly in response to many factors, including without limitation:

- regional, national and global economic conditions;
- actual or anticipated variations in the Company's quarterly operating results or dividends;
- changes in the Company's funds from operations or earnings estimates;
- issuances of common stock, preferred stock or convertible debt securities, or the perception that such issuances might occur;
- publication of research reports about the Company or the real estate industry;
- the general reputation of REITs and the attractiveness of their equity securities in comparison to other equity securities (including securities issued by other real estate based companies);
- general stock and bond market conditions, including changes in interest rates on fixed income securities, that may lead prospective purchasers of the Company's stock to demand a higher annual yield from dividends;

- shifts in our investor base to a higher concentration of passive investors such as exchange traded fund and index funds, which may adversely affect our ability to communicate effectively with our investors;
- availability to capital markets and cost of capital;
- a change in analyst ratings or the Company’s credit ratings;
- terrorist activity may adversely affect the markets in which the Company’s securities trade, possibly increasing market volatility and causing erosion of business and consumer confidence and spending;

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- natural disasters such as earthquakes; and
- changes in public policy and tax law.

Many of the factors listed above are beyond the Company’s control. These factors may cause the market price of shares of the Company’s common stock to decline, regardless of the Company’s financial condition, results of operations, or business prospects.

The Company’s future issuances of common stock, preferred stock or convertible debt securities could be dilutive to current stockholders and adversely affect the market price of the Company’s common stock. In order to finance the Company’s acquisition and development activities, the Company has issued and sold common stock, preferred stock and convertible debt securities. The Company may in the future sell further shares of common stock, including pursuant to its equity distribution program with Citigroup Global Markets Inc., Barclays Capital Inc., BNP Paribas Securities Corp., BTIG, LLC, Capital One Securities, Inc., Jefferies LLC, J.P. Morgan Securities LLC, Mizuho Securities USA LLC, MUFG Securities Americas Inc., and Scotia Capital (USA) Inc.

In 2018, the Company filed a new shelf registration statement with the SEC, allowing the Company to sell an undetermined number of equity and debt securities as defined in the prospectus. Future sales of common stock, preferred stock or convertible debt securities may dilute stockholder ownership in the Company and could adversely affect the market price of the common stock.

The Company’s Chairman is involved in other real estate activities and investments, which may lead to conflicts of interest. The Company’s Chairman, George M. Marcus, is not an employee of the Company, and is involved in other real estate activities and investments, which may lead to conflicts of interest. Mr. Marcus owns interests in various other real estate-related businesses and investments. He is the Chairman of the Marcus & Millichap Company ("MMC"), which is a parent company of a diversified group of real estate service, investment and development firms. Mr. Marcus is also the Co-Chairman of Marcus & Millichap, Inc. ("MMI"), and Mr. Marcus owns a controlling interest in MMI. MMI is a national brokerage firm listed on the NYSE that underwent its initial public offering in 2013.

Mr. Marcus has agreed not to divulge any confidential or proprietary information that may be received by him in his capacity as Chairman of the Company to any of his affiliated companies and that he will absent himself from any and all discussions by Essex's Board of Directors regarding any proposed acquisition and/or development of an apartment community where it appears that there may be a conflict of interest with any of his affiliated companies. Notwithstanding this agreement, Mr. Marcus and his affiliated entities may potentially compete with the Company in acquiring and/or developing apartment communities, which competition may be detrimental to the Company. In addition, due to such potential competition for real estate investments, Mr. Marcus and his affiliated entities may have a conflict of interest with the Company, which may be detrimental to the interests of the Essex's stockholders and the Operating Partnership's unitholders.

The influence of executive officers, directors and significant stockholders may be detrimental to holders of common stock. As of December 31, 2018, George M. Marcus, the Chairman of Essex’s Board of Directors, wholly or partially owned approximately 1.7 million shares of common stock (including shares issuable upon exchange of limited partnership interests in the Operating Partnership and certain other partnerships, indirectly held shares of common stock and assuming exercise of all vested options). Mr. Marcus currently does not have majority control over the Company. However, he currently has, and likely will continue to have, significant influence with respect to the election of directors and approval or disapproval of significant corporate actions. Consequently, his influence could result in decisions that do not reflect the interests of all the Company’s stockholders.

Under the partnership agreement of the Operating Partnership, the consent of the holders of limited partnership interests is generally required for certain amendments of the agreement and for certain extraordinary actions. Through their ownership of limited partnership interests and their positions with the Company, the Company’s directors and executive officers, including Mr. Marcus, have substantial influence on the Company. Consequently, their influence could result in decisions that do not reflect the interests of all stockholders.

Our related party guidelines may not adequately address all of the issues that may arise with respect to related party transactions. The Company has adopted "Related Party Transaction Approval Process Guidelines" that provide generally that any transaction in which a director or executive officer has an interest must have the prior approval of the Audit Committee of Essex's Board of Directors. The review and approval procedures in these guidelines are intended to determine whether a particular related party transaction is fair, reasonable and serves the interests of the Company's stockholders. Pursuant to these guidelines, related party transactions have been approved from time to time. There is no assurance that this policy will be

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adequate for determining whether a particular related party transaction is suitable and fair for the Company. Also, the policy's procedures may not identify and address all the potential issues and conflicts of interests with a related party transaction.

Stockholders have limited control over changes in our policies and operations. Essex's Board of Directors determines our major policies, including our policies regarding investments, financing, growth, debt capitalization, REIT qualification and distributions. Essex's Board of Directors may amend or revise these and other policies without a vote of the stockholders. Under the Company's Charter and the Maryland General Corporation Law, stockholders currently have a right to vote only on the following matters:

- the election of Essex's Board of Directors or the removal of any member of Essex's Board of Directors;
- any amendment of Essex's Charter, except that Essex's Board of Directors may amend the Charter without stockholder approval to:
  - change our name or the name or other designation or the par value of any class or series of our stock and the aggregate par value of our stock;
  - increase or decrease the number of our shares of any class or series of stock that we have the authority to issue;
  - classify or reclassify any unissued shares of stock by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to distributions, qualifications or terms and conditions of redemption of such shares; and
  - effect certain reverse stock splits;
- our liquidation and dissolution; and
- except as otherwise permitted by law, our being a party to any merger, consolidation, conversion, sale or other disposition of all or substantially all of our assets or similar reorganization.

All other matters are subject to the discretion of Essex's Board of Directors. In addition, pursuant to Maryland law, all matters other than the election or removal of a director must be declared advisable by Essex's Board of Directors prior to a stockholder vote.

Our score or rating by proxy advisory firms or other corporate governance consultants advising institutional investors could have an adverse effect on the perception of our corporate governance, and thereby negatively impact the market price of our common stock. Various proxy advisory firms and other corporate governance consultants advising institutional investors provide scores or ratings of our governance measures, nominees for election as directors, executive compensation practices, and other matters that may be submitted to stockholders for consideration at our annual meetings. From time to time certain matters that we propose for approval may not receive a favorable score or rating, or may result in a negative score or rating or recommendation against the nominee or matter proposed. These unfavorable scores or ratings may lead to rejected proposals or a loss of stockholder confidence in our corporate governance measures, which could adversely affect the market price of our common stock.

We periodically review our corporate governance measures and consider implementing changes that we believe are responsive to concerns that have been raised, but there may be times where we decide not to implement changes or other measures recommended by proxy advisors or other corporate governance consultants that we believe are contrary to the best interests of our stockholders, notwithstanding the adverse effect this decision may have on our scores or ratings or the perception of our corporate governance, thereby negatively impacting the market price of our common stock.

We could face adverse consequences as a result of actions of activist investors. Campaigns by stockholders to effect changes at publicly traded companies are sometimes led by investors seeking to increase short-term stockholder value through actions such as financial restructuring, increased debt, special dividends, stock repurchases or sales of assets or the entire company. Responding to stockholder activism or engaging in a process or proxy contest may be costly and time-consuming, disrupt our operations and divert the attention of our management team and our employees from executing our business plan, which could adversely affect our business and results of operations.

Failure to generate sufficient revenue or other liquidity needs could limit cash flow available for distributions to Essex's stockholders or the Operating Partnership's unitholders. A decrease in rental revenue, or liquidity needs such as the repayment of indebtedness or funding of our acquisition and development activities, could have an adverse effect on our ability to pay distributions to Essex's stockholders or the Operating Partnership's unitholders. Significant expenditures associated with each community such as debt service payments, if any, real estate taxes, insurance and maintenance costs are generally not reduced when circumstances cause a reduction in income from a community.

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The form, timing and/or amount of dividend distributions in future periods may vary and be impacted by economic and other considerations. The form, timing and/or amount of dividend distributions will be declared at the discretion of the Board of Directors and will depend on actual cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and other factors as the Board of Directors may consider relevant. The Board of Directors may modify our dividend policy from time to time.

Essex may choose to pay dividends in its own stock, in which case stockholders may be required to pay tax in excess of the cash they receive. We may distribute taxable dividends that are payable in part in Essex's stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of the cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, the trading price of Essex's stock would experience downward pressure if a significant number of our stockholders sell shares of Essex's stock in order to pay taxes owed on dividends.

The Maryland Business Combination Act may delay, defer or prevent a transaction or change in control of the Company that might involve a premium price for the Company's stock or otherwise be in the best interest of our stockholders. Under the Maryland General Corporation Law, certain "business combinations" between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as any person (and certain affiliates of such person) who beneficially owns ten percent or more of the voting power of the then-outstanding voting stock of the corporation. The law also requires a two supermajority stockholder votes for such transactions. This means that the transaction must be approved by at least:

- 80% of the votes entitled to be cast by holders of outstanding voting shares; and
- Two-thirds of the votes entitled to be cast by holders of outstanding voting shares other than shares held by the interested stockholder with whom the business combination is to be effected.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors prior to the time that the interested stockholder becomes an interested stockholder. These voting provisions do not apply if the stockholders receive a minimum price, as defined under the Maryland General Corporation Law. As permitted by the statute, the Board of Directors of Essex irrevocably has elected to exempt any business combination among the Company, George M. Marcus, who is the chairman of the Company, and MMC or any entity owned or controlled by Mr. Marcus and MMC. Consequently, the five-year prohibition and supermajority vote requirements described above will not apply to any business combination between the Company, Mr. Marcus, or MMC. As a result, the Company may in the future enter into business combinations with Mr. Marcus and MMC, without compliance with the supermajority vote requirements and other provisions of the Maryland Business Combination Act.

Certain provisions contained in the Operating Partnership agreement, Charter and Bylaws, and certain provisions of the Maryland General Corporation Law could delay, defer or prevent a change in control. While the Company is the sole general partner of the Operating Partnership, and generally has full and exclusive responsibility and discretion in the management and control of the Operating Partnership, certain provisions of the Operating Partnership agreement place limitations on the Company’s power to act with respect to the Operating Partnership. Such limitations could delay, defer or prevent a transaction or a change in control that might involve a premium price for the Company’s stock or otherwise be in the best interests of its stockholders or that could otherwise adversely affect their interests. The partnership agreement provides that if the limited partners own at least 5% of the outstanding units of partnership interest in the Operating Partnership, the Company may not, without first obtaining the consent of a majority in interest of the limited partners in the Operating Partnership, transfer all or any portion of the Company’s general partner interest in the Operating Partnership to another entity. Such limitations on the Company’s power to act may result in the Company’s being precluded from taking action that the Board of Directors otherwise believes is in the best interests of the Company or its stockholders.

The Company’s Charter authorizes the issuance of additional shares of common stock or preferred stock and the setting of the preferences, rights and other terms of such stock without the approval of the holders of the common stock. The Company may establish one or more classes or series of stock that could delay, defer or prevent a transaction or a change in control. Such a transaction might involve a premium price for the Company’s stock or otherwise be in the best interests of the holders of

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common stock. Also, such a class or series of stock could have dividend, voting or other rights that could adversely affect the interests of holders of common stock.
The Company’s Charter contains provisions limiting the transferability and ownership of shares of capital stock, which may delay, defer or prevent a transaction or a change in control. For example, subject to receiving an exemption from the Board of Directors, potential acquirers may not purchase more than 6% in value of the stock (other than qualified pension trusts which can acquire 9.9%). This may discourage tender offers that may be attractive to the holders of common stock and limit the opportunity for stockholders to receive a premium for their shares of common stock.
The Maryland General Corporation Law restricts the voting rights of holders of shares deemed to be "control shares." Under the Maryland General Corporation Law, "control shares" are those which, when aggregated with any other shares held by the acquirer, entitle the acquirer to exercise voting power within specified ranges. Although the Bylaws exempt the Company from the control share provisions of the Maryland General Corporation Law, the Board of Directors may amend or eliminate the provisions of the Bylaws at any time in the future. Moreover, any such amendment or elimination of such provision of the Bylaws may result in the application of the control share provisions of the Maryland General Corporation Law not only to control shares which may be acquired in the future, but also to control shares previously acquired. If the provisions of the Bylaws are amended or eliminated, the control share provisions of the Maryland General Corporation Law could delay, defer or prevent a transaction or change in control that might involve a premium price for the stock or otherwise be in the best interests of the Company’s stockholders.
The Company’s Charter and Bylaws as well as Maryland General Corporation Law also contain other provisions that may impede various actions by stockholders without approval of Essex’s Board of Directors, and that in turn may delay, defer or prevent a transaction, including a change in control that might involve a premium price for the stock or otherwise be in the best interests of the Company's stockholders. Those provisions include, among others:

- directors may be removed by stockholders, without cause, only upon the affirmative vote of at least two-thirds of the votes entitled to be cast generally in the election of the directors, and with cause, only upon the affirmative vote of a majority of the votes entitled to be cast generally in the election of the directors;
- Essex’s Board of Directors can fix the number of directors and fill vacant directorships upon the vote of a majority of the directors and the Essex's Board of Directors can classify the board such that the entire board is not up for re-election annually;
- stockholders must give advance notice to nominate directors or propose business for consideration at a stockholders’ meeting; and
- for stockholders to call a special meeting, the meeting must be requested by not less than a majority of all the votes entitled to be cast at the meeting.

Rising interest rates could increase interest costs and otherwise adversely affect the market price of our common stock. We are subject to interest rate risk which could adversely affect the market price of our common stock. As noted above, we are primarily exposed to interest rate risk as a result of our lines of credit, where fluctuations in interest rates may cause our interest expense to rise, which could have an adverse effect on our financial condition, results of operations and cash flows. In addition, an increase in market interest rates may lead purchasers of our common stock to demand a greater annual dividend yield, which could adversely affect the market price of our common stock.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or breach of the Company’s privacy or information security systems, or those of our vendors or other third parties, could materially adversely affect the Company’s business and financial condition. The protection of tenant, employee, and company data is critically important to the Company. We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, personally identifiable information, and tenant and lease data. Our business requires us, including some of our vendors, to use and store personally identifiable and other sensitive information of our tenants and employees. The collection and use of personally identifiable information is governed by federal and state laws and regulations. Privacy and information security laws continue to evolve and may be inconsistent from one jurisdiction to another. Compliance with all such laws and regulations may increase the Company’s operating costs and adversely impact the Company’s ability to market the Company’s properties and services.

Although we have taken steps to protect the security of our information systems and maintain confidential tenant, prospective tenant and employee information, the security measures put in place by the Company, and such vendors, cannot provide absolute security, and the Company and our vendors' information technology infrastructure may be vulnerable to criminal cyber-attacks or data security incidents, including, ransom of data, such as, without limitation, tenant and/or employee information, due to employee error, malfeasance, or other vulnerabilities. Any such incident could compromise the Company’s or such vendors' networks (or the networks or systems of third parties that facilitate the Company’s or such vendors’ business activities), and the information stored by the Company or such vendors could be accessed, misused, publicly disclosed, corrupted, lost, or stolen, resulting in fraud, including wire fraud related to Company assets, or other harm. Moreover, if a data security incident or breach affects the Company’s systems or such vendors' systems, whether through a breach of the Company’s systems or a breach of the systems of third parties, or results in the unauthorized release of personally identifiable information, the Company’s reputation and brand could be materially damaged, which could increase our costs in attracting and retaining tenants, and other serious consequences may result. Such potential other consequences include, without limitation, that the Company and certain executive officers may be exposed to a risk of litigation and possible liability, including, without limitation, government enforcement actions and private litigation; and that the Company may be exposed to a risk of loss including, without limitation, loss related to the fact that agreements with such vendors, or such vendors' financial condition, may not allow the Company to recover all costs related to a cyber breach for which they alone or they and the Company should be jointly responsible for, which could result in a material adverse effect on the Company’s business, results of operations, and financial condition.

Privacy and information security risks have generally increased in recent years because of the proliferation of new technologies, such as ransomware, and the increased sophistication and activities of perpetrators of cyber-attacks. In light of the increased risks, we have dedicated additional Company resources to strengthening the security of the Company’s computer systems, including maintaining cyber risk insurance which may provide some coverage for certain risks arising out of cyber breaches. In the future, the Company may expend additional resources to continue to enhance the Company’s information security measures and/or to investigate and remediate any information security vulnerabilities. Despite these steps, there can be no assurance that the Company will not suffer a significant data security incident in the future, that unauthorized parties will not gain access to sensitive data stored on the Company’s systems, or that any such incident will be discovered in a timely manner. Any failure in or breach of the Company's information security systems, those of third party service providers, or a breach of other third party systems that ultimately impacts the operational or information security systems of the Company as a result of cyber-attacks or information security breaches could result in a wide range of potentially serious harm to our business and results of operations. Additionally, government agencies involved in investigating any potential data security incidents may impose injunctive relief or other civil or criminal penalties on the Company and/or certain executives, which could, among other things, divert the attention of management, impact the Company's ability to collect and use tenant information, materially increase data security costs and/or otherwise require us to alter how we operate our business. Further, the techniques used by criminals to obtain unauthorized access to sensitive data, such as phishing and other forms of human engineering, are increasing in sophistication and are often novel or change frequently; accordingly, the Company may be unable to anticipate these techniques or implement adequate preventative measures.

Expanding social media vehicles present new risks. The use of social media could cause us to suffer brand damage or information leakage. Negative posts or comments about us on any social networking website could damage our reputation. In addition, employees or others might disclose non-public sensitive information relating to our business through external media channels. The continuing evolution of social media will present us with new challenges and risks.

Employee theft or fraud could result in loss. Certain of our employees have access to, or signature authority with respect to, bank accounts or other Company assets, which exposes us to the risk of fraud or theft. In addition, certain employees have access to key information technology ("IT") infrastructure and to tenant and other information that is commercially valuable. Should any employee compromise our IT systems, or misappropriate tenant or other information, we could incur losses, including significant financial or reputational harm, from which full recovery cannot be assured. We also may not have insurance that covers any losses in full or that covers losses from particular criminal acts. As of December 31, 2018, potential liabilities for theft or fraud are not quantifiable and an estimate of possible loss cannot be made.

Any material weaknesses identified in the Company's internal control over financial reporting could have an adverse effect on the Company’s stock price. Section 404 of the Sarbanes-Oxley Act of 2002 requires the Company to evaluate and report on its internal control over financial reporting. If the Company identifies one or more material weaknesses in its internal control over financial reporting, the Company could lose investor confidence in the accuracy and completeness of its financial reports, which in turn could have an adverse effect on the Company’s stock price.

Tax Risks

Sales of apartment communities could incur tax risks. If we are found to have held, acquired or developed a community as inventory or primarily for sale to customers in the ordinary course of business, federal tax laws may limit our ability to sell the community without incurring a 100% tax on the gain on the sale of the community and potentially adversely impacting our status as a REIT unless we own the community through one of our TRSs.

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Loss of the Company's REIT status would have significant adverse consequences to the Company and the value of the Company's common stock. The Company has elected to be taxed as a REIT under the Code. The Company's qualification as a REIT requires it to satisfy various annual and quarterly requirements, including income, asset and distribution tests, established under highly technical and complex Code provisions for which there are only limited judicial or administrative interpretations.

To qualify under the income test, (i) at least 75% of the Company's annual gross income generally must be derived from rents from real property, mortgage interest, gain from the sale or other disposition of real property held for investment, dividends or other distributions on, and gain from the sale or other disposition of shares of other REITs and certain other limited categories of income and (ii) at least 95% of the Company's annual gross income generally must be derived from the preceding sources plus other dividends, interest other than mortgage interest, and gain from the sale or other disposition of stock and securities held for investment. To qualify under the asset test, at the end of each quarter, at least 75% of the value of the Company's assets must consist of cash, cash items, government securities and qualified real estate assets and there are significant additional limitations regarding the Company's investment in securities other than government securities and qualified real estate assets, including limitations on the percentage of our assets that can be represented by the Company's TRSs. To comply with the distribution test, the Company generally must distribute to its stockholders each calendar year at least 90% of its REIT taxable income, determined before a deduction for dividends paid and excluding any net capital gain. In addition, to the extent the Company satisfies the 90% test, but distributes less than 100% of its REIT taxable income, it will be subject to corporate income tax on such undistributed income and could be subject to an additional 4% excise tax. Because the Company needs to meet these tests to maintain its qualification as a REIT, it could cause the Company to have to forgo certain business opportunities and potentially require the Company to liquidate otherwise attractive investments.

In addition to the income, asset and distribution tests described above, the Company's qualification as a REIT involves the determination of various factual matters and circumstances not entirely within the Company's control. Although the Company intends that its current organization and method of operation enable it to qualify as a REIT, it cannot assure you that it so qualifies or that it will be able to remain so qualified in the future. If the Company fails to qualify as a REIT in any taxable year, the Company would be subject to U.S. federal income tax on the Company's taxable income at corporate rates (and the Company could be subject to the federal alternative minimum tax for taxable years prior to 2018), and the Company would not be allowed to deduct dividends paid to its stockholders in computing its taxable income. The Company would also be disqualified from treatment as a REIT for the four taxable years following the year in which the Company failed to qualify, unless we are entitled to relief under statutory provisions. The additional tax liability would reduce its net earnings available for investment or distribution to Essex stockholders and Operating Partnership unitholders, and the Company would no longer be required to make distributions to its stockholders for the purpose of maintaining REIT status. As a result of all these factors, the Company's failure to qualify as a REIT also could impair its ability to expand its business and raise capital, and could adversely affect the value and market price of the Company's common stock.

Legislative or other actions affecting REITs could have a negative effect on the Company or its stockholders. The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the U.S. Department of the Treasury. Changes to the tax laws, with or without retroactive legislation, could adversely affect the Company or its stockholders. New legislation, Treasury Regulations, administrative interpretations or court decisions could significantly and negatively affect the Company's ability to qualify as a REIT, the federal income tax consequences of such qualification, or the federal income tax consequences of an investment in the Company. Also, the law relating to the tax treatment of other entities, or an investment in other entities, could change, making an investment in such other entities more attractive relative to an investment in a REIT.

The 2017 Tax Legislation has significantly changed the U.S. federal income taxation of U.S. businesses and their owners, including REITs and their stockholders. Changes made by the 2017 Tax Legislation that could affect the Company and its stockholders include:

- temporarily reducing individual U.S. federal income tax rates on ordinary income (the highest individual U.S. federal income tax rate has been reduced from 39.6% to 37% for taxable years beginning after December 31, 2017 and before January 1, 2026);
- permanently eliminating the progressive corporate tax rate structure, which previously imposed a maximum corporate tax rate of 35%, and replacing it with a flat corporate tax rate of 21%;
- permitting a deduction for certain pass-through business income, including dividends distributed by the Company and received by its stockholders that are not designated by the Company as capital gain dividends or qualified dividend income, which will allow individuals, trusts and estates to deduct up to 20% of such amounts for taxable years beginning after December 31, 2017 and before January 1, 2026;
- reducing the highest rate of withholding with respect to the Company's distributions to non-U.S. stockholders that are treated as attributable to gains from the sale or exchange of U.S. real property interests from 35% to 21%;

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- limiting the Company’s deduction for net operating losses arising in taxable years beginning after December 31, 2017 to 80% of REIT taxable income (determined without regard to the dividends paid deduction);
- generally limiting the deduction for net business interest expense in excess of 30% of a business’s "adjusted taxable income," except for taxpayers (including most equity REITs) that engage in certain real estate businesses and elect out of this rule (provided that such electing taxpayers must use an alternative depreciation system with longer depreciation periods); and
- eliminating the corporate alternative minimum tax.

Many of these changes that are applicable to us are effective beginning with our 2018 taxable year, without any transition periods or grandfathering for existing transactions. The legislation is unclear in many respects and could be subject to potential amendments and technical corrections, as well as interpretations and implementing regulations by the U.S. Department of the Treasury and Internal Revenue Service, any of which could lessen or increase certain adverse impacts of the legislation. In addition, it is unclear how these U.S. federal income tax changes will affect state and local taxation, which often uses federal taxable income as a starting point for computing state and local tax liabilities. Because state and local tax laws may adopt some of the base-broadening provisions of the 2017 Tax Legislation, such as the limitation on the deduction for net interest expense, while not adopting corresponding rate reductions, state and local tax liabilities may increase. While some of the changes made by the tax legislation may adversely affect the Company in one or more reporting periods and prospectively, other changes may be beneficial on a going forward basis. The Company continues to work with its tax advisors and auditors to determine the full impact that the 2017 Tax Legislation as a whole will have on the Company.

The Company’s ownership of TRS's is subject to certain restrictions, and it will be required to pay a 100% penalty tax on certain income or deductions if transactions with the Company’s TRS's are not conducted on arm’s length terms. The Company has established several TRSs. The TRSs must pay U.S. federal income tax on their taxable income. While the Company will attempt to ensure that its dealings with its TRSs do not adversely affect its REIT qualification, it cannot provide assurances that it will successfully achieve that result. Furthermore, the Company may be subject to a 100% penalty tax, to the extent dealings between the Company and its TRSs are not deemed to be arm’s length in nature. The Company intends that its dealings with its TRSs will be on an arm’s length basis. No assurances can be given, however, that the Internal Revenue Service will not assert a contrary position.

Failure of one or more of the Company’s subsidiaries to qualify as a REIT could adversely affect the Company’s ability to qualify as a REIT. The Company owns interests in multiple subsidiary REITs that have elected to be taxed as REITs under the Code. These subsidiary REITs are subject to the various REIT qualification requirements and other limitations that are applicable to the Company. If any of the Company’s subsidiary REITs were to fail to qualify as a REIT, then (i) the subsidiary REIT would become subject to federal income tax and (ii) the Company’s ownership of shares in such subsidiary REIT would cease to be a qualifying asset for purposes of the asset tests applicable to REITs. If any of the Company’s subsidiary REITs were to fail to qualify as REITs, it is possible that the Company could also fail to qualify as a REIT.

The tax imposed on REITs engaging in "prohibited transactions" may limit the Company’s ability to engage in transactions which would be treated as sales for federal income tax purposes. From time to time, the Company may transfer or otherwise dispose of some of its properties. Under the Code, unless certain exceptions apply, any gain resulting from transfers of properties that the Company holds as inventory or primarily for sale to customers in the ordinary course of business could be treated as income from a prohibited transaction subject to a 100% penalty tax. Since the Company acquires properties for investment purposes, it does not believe that its occasional transfers or disposals of property should be treated as prohibited transactions. However, whether property is held for investment purposes depends on all the facts and circumstances surrounding the particular transaction. The Internal Revenue Service may contend that certain transfers or disposals of properties by the Company are prohibited transactions. If the Internal Revenue Service were to argue successfully that a transfer or disposition of property constituted a prohibited transaction, then the Company would be required to pay a 100% penalty tax on any gain allocable to it from the prohibited transaction, and the Company's ability to retain proceeds from real property sales may be jeopardized.

Dividends payable by REITs may be taxed at higher rates than dividends of non-REIT corporations, which could reduce the net cash received by stockholders and may be detrimental to the Company's ability to raise additional funds through any future sale of its stock. Dividends paid by REITs to U.S. stockholders that are individuals, trusts or estates are generally not eligible for the reduced tax rate applicable to qualified dividends received from non-REIT corporations. However, under the 2017 Tax Legislation, U.S. stockholders that are individuals, trusts and estates generally may deduct 20% of ordinary dividends from a REIT for taxable years beginning after December 31, 2017 and before January 1, 2026. Although this deduction reduces the effective tax rate applicable to certain dividends paid by REITs, such tax rate is still higher than the tax rate applicable to regular corporate qualified dividends. This may cause investors to view REIT investments as less attractive than investments in non-REIT corporations, which in turn may adversely affect the value of stock in REITs, including the Company's stock.

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Non-U.S. investors that invest in the Company should be aware of the following U.S. federal income tax considerations in connection with such investment. First, distributions by the Company from its current and accumulated earnings and profits are subject to a 30% U.S. withholding tax in the hands of non-U.S. investors, unless the 30% is reduced by an applicable income tax treaty. Such distributions may also be subject to a 30% withholding tax under the "Foreign Account Tax Compliance Act" ("FATCA") unless a non-U.S. investor complies with certain requirements prescribed by FATCA. Second, distributions by the Company that are attributable to gains from dispositions of U.S. real property ("capital gain dividends") will be treated as income that is effectively connected with a U.S. trade or business in the hands of a non-U.S. investor, such that a non-U.S. investor will have U.S. federal income tax payment and filing obligations with respect to capital gain dividends. Furthermore, capital gain dividends may be subject to an additional 30% "branch profits tax" (which may be reduced by an applicable income tax treaty) in the hands of a non-U.S. investor that is a corporation. Third, any gain derived by a non-U.S. investor on a disposition of such investor's stock in the Company will subject such investor to U.S. federal income tax payment and filing requirements unless the Company is treated as a domestically-controlled REIT. A REIT is "domestically controlled" if less than 50% of the REIT's capital stock, by value, has been owned directly or indirectly by persons who are not qualifying U.S. persons during a continuous five-year period ending on the date of disposition or, if shorter, during the entire period of the REIT's existence. The Company believes that it is a domestically-controlled REIT, but no assurances can be given in this regard. Notwithstanding the foregoing, even if the Company were not a domestically-controlled REIT, under a special exception non-U.S. investors should not have U.S. federal income tax payment and filing obligations on capital gain dividends or a disposition of their stock in the Company if (i) they did not own more than 10% of such stock at any time during the one-year period ending on the date of the disposition, and (ii) the Company's stock continues to be regularly traded on an established securities market located in the United States and certain other non-U.S. investors may also not be subject to these payment and filing obligations. Non-U.S. investors should consult with their independent advisors as to the above U.S. tax considerations and other U.S. tax consequences of an investment in the Company's stock, in light of their particular circumstances.
We may face risks in connection with Section 1031 exchanges. From time to time we dispose of real properties in transactions intended to qualify as "like-kind exchanges" under Section 1031 of the Code. If a transaction intended to qualify as a Section 1031 exchange is later determined to be taxable, we may face adverse consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of real properties on a tax deferred basis.

If Essex Portfolio, L.P. failed to qualify as a partnership for federal income tax purposes, the Company could cease to qualify as a REIT and suffer other adverse consequences. The Company believes that its operating partnership, Essex Portfolio, L.P., will continue to be treated as a partnership for U.S. federal income tax purposes. As a partnership, Essex Portfolio, L.P. is not subject to U.S. federal income tax on its income. Instead, each of its partners is required to pay tax on the partner's allocable share of the income of Essex Portfolio, L.P. No assurances can be given, however, that the Internal Revenue Service will not challenge Essex Portfolio, L.P.'s status as a partnership for U.S. federal income tax purposes, or that a court would not sustain such a challenge. If the Internal Revenue Service were successful in treating Essex Portfolio, L.P. as a corporation for U.S. federal income tax purposes, the Company could fail to meet the income tests and/or the asset tests applicable to REITs and, accordingly, cease to qualify as a REIT. Also, the failure of Essex Portfolio, L.P. to qualify as a partnership would cause it to become subject to federal and state corporate income tax, which would reduce significantly the amount of cash available for distribution to its partners.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

The Company’s portfolio as of December 31, 2018 (including communities owned by unconsolidated joint ventures, but excluding communities underlying preferred equity investments) was comprised of 245 operating apartment communities (comprising 59,661 apartment homes), of which 26,695 apartment homes are located in Southern California, 21,146 apartment homes are located in Northern California, and 11,820 apartment homes are located in the Seattle metropolitan area. The Company’s apartment communities accounted for 99.3% of the Company’s revenues for the year ended December 31, 2018.

Occupancy Rates

Financial occupancy is defined as the percentage resulting from dividing actual rental revenue by total potential rental revenue. Total potential rental revenue represents the value of all apartment homes, with occupied apartment homes valued at contractual rental rates pursuant to leases and vacant apartment homes valued at estimated market rents. When calculating actual rents for occupied apartment homes and market rents for vacant apartment homes, delinquencies and concessions are not taken into account. The Company believes that financial occupancy is a meaningful measure of occupancy because it considers the value of each vacant unit at its estimated market rate. Financial occupancy may not completely reflect short-term trends in physical occupancy and financial occupancy rates and the Company's calculation of financial occupancy may not be comparable to financial occupancy as disclosed by other REITs. Market rates are determined using the recently signed effective rates on new leases at the property and are used as the starting point in the determination of the market rates of vacant apartment homes. The Company may increase or decrease these rates based on a variety of factors, including overall supply and demand for housing, concentration of new apartment deliveries within the same submarket which can cause periodic disruption due to greater rental concessions to increase leasing velocity, and rental affordability.

For communities that are development properties in lease-up without stabilized occupancy figures, the Company believes the physical occupancy rate is the appropriate performance metric. While a community is in the lease-up phase, the Company’s primary motivation is to stabilize the property, which may entail the use of rent concessions and other incentives, and thus financial occupancy which is based on contractual revenue is not considered the best metric to quantify occupancy.

Communities

The Company’s communities are primarily urban and suburban high density wood frame communities comprising of three to seven stories above grade construction with structured parking situated on 1-10 acres of land with densities averaging between 30-80+ units per acre. As of December 31, 2018, the Company’s communities include 103 garden-style, 129 mid-rise, and 13 high-rise communities. The communities have an average of approximately 244 apartment homes, with a mix of studio, one-, two- and some three-bedroom apartment homes. A wide variety of amenities are available at the Company’s communities, including covered parking, fireplaces, swimming pools, clubhouses with fitness facilities, volleyball and playground areas and tennis courts.

The Company hires, trains and supervises on-site service and maintenance personnel. The Company believes that the following primary factors enhance the Company’s ability to retain tenants:

- located near employment centers;
- attractive communities that are well maintained; and
- proactive customer service.

Commercial Buildings

The Company owns an office building with approximately 106,716 square feet located in Irvine, CA, of which the Company occupies approximately 14,000 square feet at December 31, 2018.

Operating Portfolio

The following tables describe the Company’s operating portfolio as of December 31, 2018. The first table describes the Company’s communities and the second table describes the Company’s other real estate assets. (See Note 8, "Mortgage Notes Payable" to the Company’s consolidated financial statements included in Part IV, Item 15 of this Annual Report on Form 10-K for more information about the Company’s secured mortgage debt and Schedule III thereto for a list of secured mortgage loans related to the Company’s portfolio.)

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Communities [1]	Location	Type	Apartment Homes	Rentable Square Footage	Year Built	Year Acquired	Occupancy[2]
Southern California							
Alpine Village	Alpine, CA	Garden	301	254,400	1971	2002	96%
Anavia	Anaheim, CA	Mid-rise	250	312,343	2009	2010	96%
Barkley, The [3][4]	Anaheim, CA	Garden	161	139,800	1984	2000	97%
Park Viridian	Anaheim, CA	Mid-rise	320	254,600	2008	2014	97%
Bonita Cedars	Bonita, CA	Garden	120	120,800	1983	2002	97%
Village at Toluca Lake [5]	Burbank, CA	Mid-rise	145	132,144	1974	2017	98%
Camarillo Oaks	Camarillo, CA	Garden	564	459,000	1985	1996	98%
Camino Ruiz Square	Camarillo, CA	Garden	159	105,448	1990	2006	98%
Pinnacle at Otay Ranch I & II	Chula Vista, CA	Mid-rise	364	384,192	2001	2014	97%
Mesa Village	Clairemont, CA	Garden	133	43,600	1963	2002	97%
Villa Siena	Costa Mesa, CA	Garden	272	262,842	1974	2014	97%
Emerald Pointe	Diamond Bar, CA	Garden	160	134,816	1989	2014	97%
Regency at Encino	Encino, CA	Mid-rise	75	78,487	1989	2009	99%
The Havens [6]	Fountain Valley, CA	Garden	440	414,040	1969	2014	97%
Valley Park	Fountain Valley, CA	Garden	160	169,700	1969	2001	97%
Capri at Sunny Hills [4]	Fullerton, CA	Garden	102	128,100	1961	2001	96%
Haver Hill [7]	Fullerton, CA	Garden	264	224,130	1973	2012	97%
Pinnacle at Fullerton	Fullerton, CA	Mid-rise	192	174,336	2004	2014	97%
Wilshire Promenade	Fullerton, CA	Mid-rise	149	128,000	1992	1997	97%
Montejo Apartments	Garden Grove, CA	Garden	124	103,200	1974	2001	98%
CBC Apartments & The Sweeps	Goleta, CA	Garden	239	179,908	1962	2006	97%
416 on Broadway	Glendale, CA	Mid-rise	115	126,782	2009	2010	96%
The Henley I	Glendale, CA	Mid-rise	83	71,500	1974	1999	97%
The Henley II	Glendale, CA	Mid-rise	132	141,500	1970	1999	97%
Devonshire	Hemet, CA	Garden	276	207,200	1988	2002	96%
Huntington Breakers	Huntington Beach, CA	Mid-rise	342	241,700	1984	1997	96%
The Huntington	Huntington Beach, CA	Garden	276	202,256	1975	2012	97%
Axis 2300	Irvine, CA	Mid-rise	115	170,714	2010	2010	97%
Hillsborough Park [8]	La Habra, CA	Garden	235	215,500	1999	1999	97%
Village Green	La Habra, CA	Garden	272	175,762	1971	2014	96%
The Palms at Laguna Niguel	Laguna Niguel, CA	Garden	460	362,136	1988	2014	97%
Trabuco Villas	Lake Forest, CA	Mid-rise	132	131,000	1985	1997	98%
Marbrisa	Long Beach, CA	Mid-rise	202	122,800	1987	2002	96%
Pathways at Bixby Village	Long Beach, CA	Garden	296	197,700	1975	1991	97%
5600 Wilshire	Los Angeles, CA	Mid-rise	284	243,910	2008	2014	97%
Alessio	Los Angeles, CA	Mid-rise	624	552,716	2001	2014	96%
Ashton Sherman Village	Los Angeles, CA	Mid-rise	264	296,186	2014	2016	97%
Avant	Los Angeles, CA	Mid-rise	440	305,989	2014	2015	96%
The Avery	Los Angeles, CA	Mid-rise	121	129,393	2014	2014	97%
Bellerive	Los Angeles, CA	Mid-rise	63	79,296	2011	2011	98%
Belmont Station	Los Angeles, CA	Mid-rise	275	225,000	2009	2009	97%
Bunker Hill	Los Angeles, CA	High-rise	456	346,600	1968	1998	93%

Catalina Gardens	Los Angeles, CA	Mid-rise	128	117,585	1987	2014	97%

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Communities [1]	Location	Type	Apartment Homes	Rentable Square Footage	Year Built	Year Acquired	Occupancy[2]
Cochran Apartments	Los Angeles, CA	Mid-rise	58	51,400	1989	1998	97%
Emerson Valley Village	Los Angeles, CA	Mid-rise	144	179,060	2012	2016	96%
Gas Company Lofts [7]	Los Angeles, CA	High-rise	251	226,666	2004	2013	96%
Kings Road	Los Angeles, CA	Mid-rise	196	132,100	1979	1997	97%
Marbella	Los Angeles, CA	Mid-rise	60	50,108	1991	2005	97%
Pacific Electric Lofts [9]	Los Angeles, CA	High-rise	314	277,980	2006	2012	96%
Park Catalina	Los Angeles, CA	Mid-rise	90	72,864	2002	2012	97%
Park Place	Los Angeles, CA	Mid-rise	60	48,000	1988	1997	97%
Regency Palm Court [7]	Los Angeles, CA	Mid-rise	116	54,844	1987	2014	96%
Santee Court	Los Angeles, CA	High-rise	165	132,040	2004	2010	96%
Santee Village	Los Angeles, CA	High-rise	73	69,817	2011	2011	96%
Tiffany Court	Los Angeles, CA	Mid-rise	101	74,538	1987	2014	98%
Wilshire La Brea	Los Angeles, CA	Mid-rise					