ESSEX PROPERTY TRUST INC
Form 10-K
March 01, 2007

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, 2006
OR
[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ___________ TO _____________
Commission file number 1-13106

Essex Property Trust, Inc.
(Exact name of Registrant as Specified in its Charter)

Maryland	77-0369576
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

925 East Meadow Drive
Palo Alto, California 94303
(Address of Principal Executive Offices including Zip Code)
(650) 494-3700
(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	**New York Stock Exchange**
Rights to purchase Series A Junior Participating	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes [X] No [ ]

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, and accelerated filer, or a non-accelerated filer.

Large accelerated filer [X]   Accelerated filer [   ]   Non-accelerated filer [   ]

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

As of June 30, 2006, the aggregate market value of the voting stock held by non-affiliates of the registrant was $2,566,533,462. 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.

As of February 26, 2007, 24,205,047 shares of Common Stock ($.0001 par value) were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:
The following document is incorporated by reference in Part III of the Annual Report on Form 10-K: Proxy statement for the annual meeting of stockholders of Essex Property Trust, Inc. to be held May 8, 2007.

Essex Property Trust, Inc.
2006 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 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements are described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, in the section, "Forward Looking Statements." Our 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 Item 1A, Risk Factors of this Form 10-K.

Item 1. Business

OVERVIEW

Essex Property Trust, Inc. ("Essex" or the "Company") is a Maryland corporation that operates as a self-administered and self-managed real estate investment trust ("REIT"). Essex owns all of its interest in its real properties directly or indirectly through Essex Portfolio, L.P. (the "Operating Partnership"). Essex is the sole general partner of the Operating Partnership and as of December 31, 2006 owns a 90.4% general partnership interest. In this report, the terms "we," "us" and "our" refer to Essex Property Trust, its Operating Partnership and their subsidiaries.

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

We are engaged primarily in the ownership, operation, management, acquisition, development and redevelopment of real estate. The majority of our real estate consists of apartment communities. As of December 31, 2006, we owned or held an interest in 130 apartment communities, aggregating 27,553 units, located predominantly along the West Coast (collectively, the "Properties", and individually, a "Property"). Our other properties included two recreational vehicle parks (totaling 338 spaces), three office buildings (totaling approximately 166,340 square feet), which the Company primarily occupies and uses as office space, and one manufactured housing community (containing 157 pads). We currently have five development projects, with 908 units in various stages of development (together with the Properties, the "Portfolio").

The Company's website address is http://www.essexpropertytrust.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 our website as soon as practicable after we file the reports with the Securities and Exchange Commission ("SEC").

BUSINESS OBJECTIVES AND STRATEGIES

The following is a discussion of our business objectives and strategies in regards to real estate investment and management. One or more of these criteria may be amended or rescinded from time to time without stockholder vote.

Business Objectives

Our primary business objectives are to increase shareholders' value by investing in properties located in supply constrained markets, and by improving operating results and the value of our Properties, while maintaining a strong balance sheet. We intend to achieve these objectives by:

- Pursuing an occupancy and rent rate growth strategy that capitalizes on the locations of our Properties;
- Expanding our Portfolio through acquisitions, development and, when appropriate, re-development of apartment communities in selected major metropolitan areas;
- Optimizing financial performance through a portfolio asset allocation program, and to increase or decrease investments in a market based on projected changes in regional economic and local market conditions; and
- Maintaining a conservative leverage ratio by identifying and utilizing capital resources that provide a lower cost of capital.

We cannot assure our shareholders that we will achieve our business objectives.

Business Strategies

Research Driven Approach - We believe that successful real estate investment decisions and portfolio growth begin with extensive regional economic research and local market knowledge. Utilizing a proprietary research model that we have developed over the last two decades, we continually assess markets where we currently operate, as well as markets where we consider future investment opportunities by evaluating:

- Markets in major metropolitan areas that have regional population primarily in excess of one million, thereby creating liquidity, which is an important element when modifying the geographic concentration of the Company's portfolio in response to changing market conditions;
  - Demand for housing that is greater than supply driven by: (i) low availability of developable land sites where competing housing could be 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;
    - Markets where rental demand is enhanced by expensive for-sale housing; and
- Housing demand that is based on proximity to jobs, high quality of life and related commuting factors, as well as potential job growth.

Recognizing that all real estate markets are cyclical, we regularly evaluate the results of our regional economic, as well as, our local market research and adjust the geographic focus of our portfolio accordingly. We seek to increase our portfolio allocation in markets projected to have the strongest local economies and to decrease such 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 such allocations in markets that have inflated valuations and low relative yields.

Property Operations - We manage our Properties by focusing on strategies that will generate above-average rental growth, tenant retention/satisfaction and long-term asset appreciation. We intend to achieve this by utilizing the strategies set forth below:

- *Property Management* - The Chief Operating Officer, Divisional Managers, Regional Portfolio Managers and Area Managers are accountable for the performance and maintenance of the Properties. They supervise, provide training for the on-site managers, manage budgeted expectations against performance, monitor market trends and prepare operating and capital budgets.
- *Capital Preservation* - The Capital and Maintenance department is responsible for the planning, budgeting, and completion of major deferred maintenance and capital improvement projects at our Properties.
- *Business Planning and Control* - Comprehensive business plans are implemented in conjunction with every investment decision. These plans include benchmarks for future financial performance, based on collaborative discussions between on-site managers and senior management.
- *Development and Redevelopment* - We focus on acquiring and developing apartment communities in supply constrained markets, and redeveloping our existing communities to improve the financial and physical aspects of our communities.

CURRENT BUSINESS ACTIVITIES

Acquisitions

Acquisitions have been a significant growth component of our business. During 2006, we completed a series of acquisitions that added to our overall Portfolio.

- In January 2006, the Company acquired two apartment communities - Chimney Sweep and CBC, aggregating 239 units, located in Goleta, California for a combined price of approximately $57.1 million.

· In September 2006, the Company acquired Hillsdale Garden, a 697-unit apartment community located in San Mateo, California for approximately $97.3 million. The property is subject to a ground lease with annual payments of $46,000 that will expire in 2047.

· In October 2006, the Company acquired Belmont Terrace, a 71-unit apartment community located in Belmont, California for approximately $14.7 million in a transaction structured as an UpREIT.

- In December 2006, the Company acquired Camino Ruiz Square, a 160-unit apartment community located in Camarillo, California for approximately $32.9 million.

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Dispositions

As part of our strategic plan to own quality real estate in supply-constrained markets, we continually evaluate our Properties and sell those which no longer meet our strategic criteria. We may use the capital generated from the dispositions to invest in higher-return Properties or repay debts. We believe that the sale of these Properties will not have a material impact on our future results of operations or cash flows nor will their sale materially affect our ongoing operations. Generally, any impact of earnings dilution resulting from these dispositions will be offset by the positive impact of our acquisitions, development and redevelopment activities.

- In January 2006, the Company sold Vista Capri East and Casa Tierra apartment communities for approximately $7.0 million and in March 2006, the Company sold Diamond Valley Recreational Vehicle Park for approximately $1.3 million, for a combined gain of $3.1 million.

- In June 2006, the unconsolidated joint venture property, Vista Pointe, a 286-unit apartment community located in Anaheim, California, was sold for approximately $46 million. The Company's share of the proceeds from the transaction totaled $19.3 million, resulting in an $8.8 million gain on the sale, and $8.2 million for fees and a promote distribution.

- In December 2006, the Company sold Emerald Palms, a 152-unit apartment community located in San Diego for approximately $20.5 million, for a gain of approximately $6.7 million.

- During 2006 the Company undertook a condominium conversion of the Peregrine Point property, a TRS, in Issaquah, Washington. In April 2006, the property was reclassified from a rental property to real estate under development. During the third and fourth quarters of 2006, the Company sold 45 of the 66 available condominiums, for an aggregate gain of $2.0 million, net of taxes and expenses. The 21 remaining units are expected to be sold in the first four months of 2007.

- City Heights, a 687-unit community located in Los Angeles was classified as held for sale as of December 31, 2006, and was sold to a third party for a gain in February 2007.

Development and Predevelopment Pipeline

The Company defines development activities as new properties that are being constructed, or are newly constructed and, in the case of development communities, are in a phase of lease-up and have not yet reached stabilized operations; or, in the case of TRS development projects, have not yet been sold. As of December 31, 2006, the Company had two development projects comprised of 513 units for an estimated cost of $167.3 million, of which $126.9 million remains to be expended (excluding development projects owned by Essex Apartment Value Fund II, L.P.). The Company also incurred $0.7 million in costs related to a joint venture development with a third-party.

The Company defines the predevelopment pipeline as new properties in negotiation or in the entitlement process with a high likelihood of becoming development activities. As of December 31, 2006, the Company had development communities aggregating 1,845 units that were classified as predevelopment projects. The estimated total cost of the predevelopment pipeline at December 31, 2006 is $557.0 million, of which $514.8 million remains to be expended. The Company had four other development projects owned by TRS entities that are under development aggregating 120 units. The estimated total cost of the other development projects at December 31, 2006 is $42.0 million, of which $21.8 million remains to be expended. The following table sets forth information regarding the Company's development pipeline:

	As of 12/31/06 ($ in millions)		
	Estimated	Incurred	Projected

Development Pipeline	Location	Units		Project Cost(1)		Project Cost	Stabilization
Development Projects							
Northwest Gateway	Los Angeles, CA	275	$	71.1	$	28.2	Oct-08
100 Grand	Oakland, CA	238		96.2		12.2	May-09
		513		167.3		40.4	
Predevelopment projects	various	1,845		557.0		42.2	Dec-09 to Jul-14
Other projects (TRS)	various	120		42.0		20.2	Mar-07 to Mar-09
Develoment joint venture	Seattle, WA	-		0.7		0.7	-
Consolidated Development Pipeline		2,478	$	767.0	$	103.5	

(1) Includes incurred costs and estimated costs to complete these development projects.

Redevelopment Pipeline

The Company defines redevelopment communities 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 units may not be available for rent and, as a result, may have less than stabilized operations. As of December 31, 2006, the Company had ownership interests in twelve major redevelopment communities aggregating 3,648 apartment units with estimated redevelopment costs of $90.2 million, of which approximately $51.2 million remains to be expended. These amounts exclude redevelopment projects owned by Fund II. The following table illustrates these redevelopment projects:

			As of 12/31/06 ($ in thousands)			
Redevelopment Pipeline	**Location**	**Units**		**Estimated Renovation Cost(1)**		**Incurred Project Cost**
Southern California						
Kings Road	Los Angeles, CA	196	$	6,183	$	4,400
Mira Monte	Mira Mesa, CA	355		6,013		5,132
Avondale at Warner Center	Woodland Hills, CA	446		11,950		9,543
Pathways	Long Beach, CA	296		10,705		532
Northern California						
Montclaire - Phase I-III	Sunnyvale, CA	390		15,090		2,667
Treetops	Fremont, CA	172		8,266		746
Summerhill Commons	Newark, CA	184		4,318		2,809
Wimbledon Woods	Hayward, CA	560		9,350		791
Seattle Metro						
Palisades - Phase I and II	Bellevue, WA	192		6,583		5,703
Sammamish View	Bellevue, WA	153		3,342		2,149
Bridle Trails	Kirkland, WA	108		5,071		4,367
Woodland/Foothill Commons	Bellevue, WA	596		3,372		227
Total Redevelopment Pipeline		3,648	$	90,243	$	39,066

(1) Includes incurred costs and estimated costs to complete these redevelopment projects.

Debt Transactions

In January 2006, the Company originated a mortgage loan secured by the Fairwood Pond apartment community in the amount of $14.9 million, with a fixed interest rate of 5.31%, which matures on February 1, 2015.

In March 2006, the Company paid-off a loan secured by the Windsor Ridge apartment community in the amount of $11.6 million, with a fixed interest rate of 7.09%.

In March 2006, the Company renegotiated its revolving line of credit to increase the maximum principal amount to $200 million from $185 million. Additionally, the maturity date was extended from April 2007 to March 2009, with an option for a one-year extension, and the underlying rate, based on a tiered rate structure tied to the Company's corporate ratings, was reduced to LIBOR plus 0.8% from LIBOR plus 1.0%.

Derivative Transactions

As of December 31, 2006 the Company had entered into forward-starting interest rate swaps totaling a notional amount of $450 million with interest rates ranging from 4.9% to 5.9% and settlements dates ranging from April 2007 to July 2011. These derivatives qualify for hedge accounting and will economically hedge the cash flows associated with the refinancing of debt that matures between April 2007 and July 2011. The decrease in the fair value of these derivatives during the year ended December 31, 2006 was approximately $2.9 million and is reflected in accumulated other comprehensive (loss) income in the Company's consolidated financial statements. No hedge ineffectiveness on cash flow hedges was recognized during the year ended December 31, 2006.

Equity Transactions

During the third quarter of 2006, the Company sold 5,980,000 shares of 4.875% Series G Cumulative Convertible Preferred Stock for gross proceeds of $149.5 million. Holders may convert Series G Preferred Stock into shares of the Company's common stock subject to certain conditions. The conversion rate will initially be .1830 shares of common stock per the $25 per share liquidation preference, which is equivalent to an initial conversion price of approximately $136.62 per share of common stock. The conversion rate will be subject to adjustment upon the occurrence of specified events. On or after July 31, 2011, the Company may, under certain circumstances, cause some or all of the Series G Preferred Stock to be converted into that number of shares of common stock at the then prevailing conversion rate. The Company used the net proceeds from the Series G offering to pay down outstanding borrowings under the Company's lines of credit, to fund the development pipeline and for general corporate purposes.

During 2006, the Company issued and sold approximately 427,700 shares of common stock for $48.3 million, net of fees and commissions, under its Controlled Equity Offering program. Under this program, the Company may from time to time sell shares of common stock into the existing trading market at current market prices, and the Company used the net proceeds from such sales to primarily fund real estate investments.

ESSEX APARTMENT VALUE FUNDS

Essex Apartment Value Fund, L.P. ("Fund I" and "Fund II"), are investment funds formed by the Company to add value through rental growth and asset appreciation, utilizing the Company's development, redevelopment and asset management capabilities. All of the assets in Fund I were sold during 2004 and 2005, and Fund I is in the process of liquidation.

Fund II has eight institutional investors, including the Company, with combined partner equity commitments of $265.9 million. Essex has committed $75.0 million to Fund II, which represents a 28.2% interest as general partner and limited partner. Fund II expects to utilize leverage equal to approximately 65% of the estimated value of the underlying real estate. Fund II invests in apartment communities in the Company's targeted West Coast markets with an emphasis on investment opportunities in the Seattle metropolitan area and the San Francisco Bay Area. Subject to certain exceptions, Fund II has been Essex's primary investment vehicle during 2005 and 2006. As of October 2006, Fund II was fully invested and closed for any future acquisitions or development. As of December 31, 2006, Fund II owned 11 apartment communities and 3 development projects. Consistent with Fund I, Essex records revenue for its asset management, property management, development and redevelopment services when earned, and promote income if Fund II exceeds certain financial return benchmarks.

Fund II - Acquisitions

During 2006, Fund II acquired the following apartment communities:

- Davey Glen, in April 2006, a 69-unit apartment community located in Belmont, California for approximately $13.5 million.

- Renaissance, in September 2006, a 168-unit apartment community located in Los Angeles, California for approximately $46.3 million.

- Alderwood Park, in September 2006, a 96-unit apartment community located in Newark, California for approximately $13.4 million.

Fund II - Development Pipeline

As of December 31, 2006, the following table sets forth information regarding Fund II's development pipeline:

	As of 12/31/06 ($ in millions)		
	Estimated	Incurred	Projected

Development Pipeline - Fund II	**Location**	**Units**	**Project Cost[(1)]**	**Project Cost**	**Stabilization**
Development Projects					
Lake Union	Seattle, WA	127	$ 35.4	$ 10.9	Jun-08
Studio City	Studio City, CA	149	53.3	22.3	Apr-09
Chatsworth	Chatsworth, CA	119	39.4	9.3	Sep-09
Fund II - Development Pipeline		395	$ 128.1	$ 42.5	

(1) Includes incurred costs and estimated costs to complete these development projects.

OFFICES AND EMPLOYEES

The Company is headquartered in Palo Alto, California, and has regional offices in Woodland Hills, California; Irvine, California; San Diego, California; Bellevue, Washington; and Portland, Oregon. As of December 31, 2006, the Company had approximately 869 employees.

INSURANCE

The Company carries comprehensive liability, fire, extended coverage and rental loss insurance for each of the Properties. There are, however, certain types of extraordinary losses, such as, for example, losses from terrorism or earthquake, for which the Company does not have insurance coverage.

Substantially all of the Properties are located in areas that are subject to earthquake activity. The Company believes it has a proactive approach to its potential earthquake losses. The Company utilizes third-party seismic consultants for its acquisitions and performs seismic upgrades to those acquisitions that are determined to have a higher level of potential loss from an earthquake. The Company utilizes internal and third-party loss models to help to determine its exposure. In addition, the majority of the Company’s Properties are lower density garden-style apartments which may be less susceptible to earthquake damage. The Company will continue to monitor third-party earthquake insurance pricing and conditions and may consider obtaining third-party coverage if it deems it cost effective in the future.

Although the Company may carry insurance for potential losses associated with its Properties, employees, residents, and compliance with applicable laws, it may still incur losses due to uninsured risks, deductibles, co-payments or losses in excess of applicable insurance coverage and those losses may be material.

COMPETITION

There are numerous housing alternatives that compete with our apartment communities in attracting residents. These include other apartment communities and single-family homes that are available for rent in the markets in which the properties are located. The Properties also compete for residents with new and existing homes and condominiums that are for sale. If the demand for our Properties is reduced or if competitors develop and/or acquire competing properties on a more cost-effective basis, rental rates and occupancy may drop, which may have a material adverse affect on our financial condition and results of operations.

We face competition from other real estate investment trusts, businesses and other entities in the acquisition, development and operation of properties. Some of the competitors are larger and have greater financial resources than we do. This competition may result in increased costs of properties we acquire and/or develop.

WORKING CAPITAL

We believe that cash flows generated by our operations, existing cash balances, availability under existing lines of credit, access to capital markets and the ability to generate cash gains from the disposition of real estate are sufficient to meet all of our reasonably anticipated cash needs during 2007. The timing, source and amounts of cash flows provided by financing activities and used in investing activities are sensitive to changes in interest rates and other fluctuations in the capital markets environment, which can affect our plans for acquisitions, dispositions, development and redevelopment activities.

ENVIRONMENTAL CONSIDERATIONS

See the discussion under the caption, “Possible environmental liabilities” in Item 1A, Risk Factors, for information concerning the potential effect of environmental regulations on our operations.

OTHER MATTERS

Certain Policies of the Company

We intend to continue to operate in a manner that will not subject us to regulation under the Investment Company Act of 1940. The Company has in the past five years and 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. In general, the Company does not (i) underwrite securities of other issuers or (ii) actively trade in loans or other investments.

We invest primarily in apartment communities that are located in predominantly coastal markets within Southern California, the San Francisco Bay Area, and parts of the Pacific Northwest. 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.

Item 1A. Risk Factors

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

We depend on our key personnel - Our success depends on our 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 loss of several of our key personnel could have an adverse effect on us.

Debt financing - At December 31, 2006, we had approximately $1.41 billion of indebtedness (including $186.3 million of variable rate indebtedness, of which $182.8 million is subject to interest rate protection agreements). We are subject to the risks normally associated with debt financing, including the following:

- cash flow may not be sufficient to meet required payments of principal and interest;
- inability to refinance maturing indebtedness on encumbered properties;
- the terms of any refinancing may not be as favorable as the terms of existing indebtedness;
- inability to comply with debt covenants could cause an acceleration of the maturity date; and
- repaying debt before the scheduled maturity date could result in prepayment penalties.

Uncertainty of our ability to refinance balloon payments - As of December 31, 2006, we had approximately $1.41 billion of mortgage debt, exchangeable bonds and line of credit borrowings, most of which are subject to balloon payments. We do not expect to have sufficient cash flows from operations to make all of these balloon payments. These mortgages, bonds and lines of credit borrowings have the following scheduled principal and balloon payments:

2007--$69.1 million;
2008--$179.5 million;
2009--$24.6 million;
2010--$156.9 million;
2011--$155.5 million;
Thereafter--$733.0 million.

We may not be able to refinance such mortgage indebtedness, bonds, or lines of credit. The Properties subject to these mortgages could be foreclosed upon or otherwise transferred to the lender. This could cause us to lose income and asset value. We may be required to refinance the debt at higher interest rates or on terms that may not be as favorable as the terms of existing indebtedness.

Debt financing on properties may result in insufficient cash flow - Where possible, we intend to continue to use leverage to increase the rate of return on our investments and to provide for additional investments that we could not otherwise make. There is a risk that the cash flow from the properties will be insufficient to meet both debt payment obligations and the distribution requirements of the real estate investment trust provisions of the Internal Revenue Code. We may obtain additional debt financing in the future, through mortgages on some or all of the properties. These mortgages may be recourse, non-recourse, or cross-collateralized.

As of December 31, 2006, Essex had 69 of its 118 consolidated apartment communities encumbered by debt. Of the 69 properties, 53 are secured by deeds of trust relating solely to those properties. With respect to the remaining 19 properties, there are 4 cross-collateralized mortgages secured by 8 properties, 6 properties, 3 properties and 2 properties, respectively. The holders of this indebtedness will have claims against these properties and, to the extent indebtedness is cross-collateralized, lenders may seek to foreclose upon properties, which are not the primary collateral for their loan. This may accelerate other indebtedness secured by properties. Foreclosure of properties would reduce our income and net asset value.

Risk of rising interest rates **-** Current interest rates could potentially increase rapidly, which could result in higher interest expense on our variable rate indebtedness. Prolonged interest rate increases could negatively impact our ability to make acquisitions and develop properties at economic returns on investment and our ability to refinance existing borrowings at acceptable rates.

As of December 31, 2006, we had approximately $186.3 million of long-term variable rate indebtedness bearing interest at floating rates tied to the rate of short-term tax-exempt revenue bonds (which mature at various dates from 2020 through 2034), and $93.0 million of variable rate indebtedness under our lines of credit, bearing interest at the Freddie Mac Reference Rate plus from 0.55% to 0.59%. Approximately $182.8 million of the long-term indebtedness is subject to interest rate cap protection agreements, which may reduce the risks associated with fluctuations in interest rates. The remaining $34.0 million of long-term variable rate indebtedness was not subject to any interest rate cap protection agreements as of December 31, 2006. An increase in interest rates may have an adverse effect on our net income and results of operations.

Risk of losses on interest rate hedging arrangements - Periodically, we have entered into agreements to reduce the risks associated with increases in interest rates, and may continue to do so. Although these agreements may partially protect against rising interest rates, they also may reduce the benefits to us if interest rates decline. If a hedging arrangement is not indexed to the same rate as the indebtedness that is hedged, we 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 us to increased credit risks. In order to minimize counterparty credit risk, our policy is to enter into hedging arrangements only with A-rated financial institutions.

Bond compliance requirements may limit income from certain properties - At December 31, 2006, we had approximately $186.3 million of variable rate tax-exempt financing relating to the Inglenook Court Apartments, Wandering Creek Apartments, Treetops Apartments, Huntington Breakers Apartments, Camarillo Oaks Apartments, Fountain Park, Anchor Village and Parker Ranch Apartments. This tax-exempt financing subjects these properties to certain deed restrictions and restrictive covenants. We expect to engage in tax-exempt financings in the future. In addition, the Internal Revenue Code and rules and regulations thereunder impose various restrictions, conditions and requirements excluding interest on qualified bond obligations from gross income for federal income tax purposes. The Internal Revenue Code also requires that at least 20% of apartment units be made available to residents with gross incomes that do not exceed a specified percentage, generally 50%, of the median income for the applicable family size as determined by the Housing and Urban Development Department of the federal government. In addition to federal requirements, certain state and local authorities may impose additional rental restrictions. These restrictions may limit income from the tax-exempt financed properties if we are required to lower rental rates to attract residents who satisfy the median income test. If Essex does not reserve the required number of apartment homes for residents satisfying these income requirements, the tax-exempt status of the bonds may be terminated, the obligations under the bond documents may be accelerated and we may be subject to additional contractual liability.

***Adverse effect to property income and value due to general real estate investment risks* -** Real property investments are subject to a variety of risks. The yields available from equity investments in real estate depend on the amount of income generated and expenses incurred. If the properties do not generate sufficient income to meet operating expenses, including debt service and capital expenditures, cash flow and the ability to make distributions to stockholders will be adversely affected. The performance of the economy in each of the areas in which the properties are located affects occupancy, market rental rates and expenses. Consequently, the income from the properties and their underlying values may be impacted. The financial results of major local employers may have an impact on the cash flow and value of certain of the properties as well.

Income from the properties may be further adversely affected by, among other things, the following factors:

- the general economic climate;
- local economic conditions in which the properties are located, such as oversupply of housing or a reduction in demand for rental housing;
- the attractiveness of the properties to tenants;
- competition from other available space; and
- Essex’s ability to provide for adequate maintenance and insurance.

As leases on the properties expire, tenants may enter into new leases on terms that are less favorable to us. Income and real estate values also may be adversely affected by such factors as applicable laws (e.g., the Americans With Disabilities Act of 1990 and tax laws), interest rate levels and the availability and terms of financing. Real estate investments are relatively illiquid and, therefore, our ability to vary our portfolio promptly in response to changes in economic or other conditions may be quite limited.

Economic environment and impact on operating results - The national economy and the economies of the western states in markets where we operate can impact our operating results. Some of these markets are concentrated in high-tech sectors, which have experienced economic downturns, and could again in the future. Our property type and diverse geographic locations provide some degree of risk mitigation. However, we are not immune to prolonged economic downturns. Although we believe we are well positioned to meet these challenges, it is possible a reduction in rental rates, occupancy levels, property valuations and increases in operating costs such as advertising, turnover and repair and maintenance expense could occur in the event of economic uncertainty.

Risk of Inflation/Deflation - Substantial inflationary or deflationary pressures could have a negative effect on rental rates and property operating expenses.

Risks that acquisitions will fail to meet expectations - We intend to continue to acquire apartment communities. However, there are risks that acquisitions will fail to meet our expectations. Our estimates of future income, expenses and the costs of improvements or redevelopment that are necessary to allow us to market an acquired property as originally intended may prove to be inaccurate. We expect 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 additional equity by Essex. The use of equity financing, rather than debt, for future developments or acquisitions could dilute the interest of Essex’s existing stockholders. If we finance new acquisitions under existing lines of credit, there is a risk that, unless we obtain substitute financing, Essex may not be able to secure further lines of credit for new development or such lines of credit may be not available on advantageous terms.

Risks that development activities will be delayed, not completed, and/or not achieve expected results - We pursue apartment community development projects and these projects generally require various governmental and other approvals, which have no assurance of being received. Our development activities generally entail certain risks, including the following:

- funds may be expended and management's time devoted to projects that may not be completed;
- construction costs of a project may exceed original estimates, possibly making the project economically unfeasible;
- development projects may be delayed due to, without limitation, adverse weather conditions, labor shortages, or unforeseen complications;
- occupancy rates and rents at a completed project may be less than anticipated; and
- the operating expenses at a completed development may be higher than anticipated.

These risks may reduce the funds available for distribution to Essex’s stockholders. Further, the development of properties is also subject to the general risks associated with real estate investments. For further information regarding these risks, please see “Adverse Effect to Property Income and Value Due to General Real Estate Investment Risks.”

The geographic concentration of our Properties and fluctuations in local markets may adversely impact our financial condition and operating results - We generated significant amounts of rental revenues for the year ended December 31, 2006 from properties concentrated in Southern California (Los Angeles, Ventura, Orange, San Diego and Riverside counties), Northern California (the San Francisco Bay Area), and the Pacific Northwest (the Seattle, Washington and Portland, Oregon metropolitan areas). As of December 31, 2006, more than half (76%) of our Properties were located in California. This geographic concentration could present risks if local property market performance falls below expectations. The economic condition of these markets could affect occupancy, market rental rates, and expenses, as well as impact the income generated from the Properties and their underlying asset values. The financial results of major local employers also may impact the cash flow and value of certain of the Properties. This could have a negative impact on our financial condition and operating results, which could affect our ability to pay expected dividends to our stockholders.

Competition in the apartment community market may adversely affect operations and the rental demand for our Properties - There are numerous housing alternatives that compete with our apartment communities in attracting residents. These include other apartment communities and single-family homes that are available for rent in the markets in which the Properties are located. The Properties also compete for residents with new and existing homes and condominiums that are for sale. If the demand for our Properties is reduced or if competitors develop and/or acquire competing properties on a more cost-effective basis, rental rates may drop, which may have a material adverse affect on our financial condition and results of operations.

We also face competition from other real estate investment trusts, businesses and other entities in the acquisition, development and operation of properties. Some of the competitors are larger and have greater financial resources than we do. This competition may result in increased costs of properties we acquire and/or develop.

***Dividend requirements as a result of preferred stock may lead to a possible inability to sustain dividends* -** We have Series F Cumulative Redeemable Preferred Stock ("Series F Preferred Stock") with an aggregate liquidation preference of approximately $25 million outstanding and Series G Cumulative Convertible Preferred Stock ("Series G Preferred Stock") with an aggregate liquidation preference of approximately $149.5 million outstanding. In addition, we are required under limited conditions to issue Series B Cumulative Redeemable Preferred Stock ("Series B Preferred Stock") with an aggregate liquidation preference of $80 million and Series D Cumulative Redeemable Preferred Stock ("Series D Preferred Stock") with an aggregate liquidation preference of $50 million in each case in exchange for outstanding preferred interests in the Operating Partnership. The terms of the Series B, D, F and G Preferred Stock provide for certain cumulative preferential cash distributions per each share of preferred stock.

These terms also provide that while such preferred stock is outstanding, we cannot authorize, declare, or pay any distributions on our common stock, unless all distributions accumulated on all shares of such preferred stock have been paid in full. Our failure to pay distributions on such preferred stock would impair our ability to pay dividends on our common stock. Our credit agreement limits our ability to pay dividends on our preferred stock if we fail to satisfy a fixed charge coverage ratio.

If Essex wishes to issue any common stock in the future (including upon the exercise of stock options), the funds required to continue to pay cash dividends at current levels will be increased. Essex's ability to pay dividends will depend largely upon the performance of our current properties and other properties that may be acquired or developed in the future.

If Essex cannot pay dividends on its common stock, Essex's status as a real estate investment trust may be jeopardized. Our ability to pay dividends on our common stock is further limited by the Maryland General Corporation Law. Under the Maryland General Corporation Law, Essex may not make a distribution on stock if, after giving effect to such distribution, either:

· we would not be able to pay our indebtedness as it becomes due in the usual course of business; or
· our total assets would be less than our total liabilities, including the liquidation preference on our Series B, Series D, Series F, and Series G preferred stock.

Resale of shares pursuant to our effective registration statement or that are issued upon conversion of our convertible preferred stock may have an adverse effect on the market price of the shares - Essex has the following effective registration statements, which allows for the resale into the public stock of common stock held by stockholders, as specified in the registration statements:

· A registration statement, declared effective in 2003, which covers the resale of up to 6,513,490 shares, including (i) up to 2,769,875 shares issued, or potentially issuable, in connection with the acquisition of John M. Sachs, Inc., a real estate company, (ii) up to 2,270,490 shares of common stock that are issuable upon exchange of limited partnership interests in the Operating Partnership and (iii) up to 1,473,125 shares that are issuable upon exchange of limited partnership interests in certain other real estate partnerships;
· Registration statements, declared effective in 2006, that cover (i) the resale of up to 142,076 shares issuable in connection with our Waterford and Vista Belvedere acquisitions and (ii) the resale of shares issuable in connection with the exchange rights of our 3.625% Exchangeable Senior Notes, as to which there is a principal amount of $225 million outstanding.

During the third quarter of 2006, we issued, pursuant to a registration statement, 5,980,000 million shares of 4.875% Series G Cumulative Preferred Stock for estimated gross proceeds of $149.5 million; such shares are convertible, subject to certain conditions, into common stock, which could be resold into the public market.

The resale of the shares of common stock pursuant to these various registration statements or that are issued upon conversion of our outstanding convertible preferred stock may have an adverse effect on the market price of our shares.

The exchange and repurchase rights of Exchangeable Senior Notes and Series G Preferred Stock may be detrimental to holders of common stock - The Operating Partnership has $225 million principal amount of 3.625% Exchangeable Senior Notes (the "Notes") outstanding which mature on November 1, 2025. The Notes are exchangeable into the Company's common stock on or after November 1, 2020 or prior to November 1, 2020 under certain circumstances. The Notes are redeemable at the Company's option for cash at any time on or after November 4, 2010 and are subject to repurchase for cash at the option of the holder on November 1st in the years 2010, 2015 and 2020, or upon the occurrence of certain events. The Notes are senior unsecured and unsubordinated obligations of the Company.

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In 2006, the Company sold 5,980,000 million shares of 4.875% Series G Cumulative Convertible Preferred Stock (the “Series G Preferred Stock”) for gross proceeds of $149.5 million. Holders may convert Series G Preferred Stock into shares of the Company’s common stock subject to certain conditions. The conversion rate will initially be .1830 shares of common stock per $25 share liquidation preference, which is equivalent to an initial conversion price of $136.62 per share of common stock (the conversion rate will be subject to adjustment upon the occurrence of specified events). On or after July 31, 2011, the Company may, under certain circumstances cause some or all of the Series G Preferred Stock to be converted into shares of common stock at the then prevailing conversion rate. Further, if a fundamental change occurs, as defined in the articles supplementary for the Series G Preferred Stock, then the holders may require Essex to repurchase all or part of their Series G Preferred Stock subject to certain conditions.

The exchange of the Notes and/or Series G Preferred Stock for common stock would dilute stockholder ownership in the Company, and such exchange could adversely affect the market price of our common stock and our ability to raise capital through the sale of additional equity securities. If the Notes and Series G Preferred Stock are not exchanged, the repurchase price of the Notes and Series G Preferred Stock may discourage or impede transactions that might otherwise be in the interest of the holders of common stock. Further, these repurchase rights may be triggered in situations where Essex needs to conserve its cash reserves, in which event such repurchase might adversely affect Essex and its common stockholders.

***Our future issuances of common stock, preferred stock or convertible debt securities could adversely affect the market price of our common stock* -** In order to finance our property acquisition and development activities, we have issued and sold common stock, preferred stock and convertible debt securities. For example, in 2005, the Operating Partnership sold $225 million principal amount of 3.625% Exchangeable Senior Notes, which are exchangeable into the Company’s common stock under certain conditions. In 2006, the Company issued 5,980,000 million shares of 4.875% Series G Cumulative Convertible Preferred Stock for gross proceeds of approximately $149.5 million. During 2006, pursuant to a Controlled Equity Offering program that the Company entered into with Cantor Fitzgerald & Co., the Company issued and sold approximately 427,700 shares of common Stock for $48.3 million, net of fees and commissions. The Company may in the future sell further shares of common stock pursuant to a Controlled Equity Offering program with Cantor Fitzgerald & Co.

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.

Our Chairman is involved in other real estate activities and investments, which may lead to conflicts of interest - Our Chairman, George M. Marcus is not an employee of Essex, 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, or “TMMC,” which is a holding company for certain real estate brokerage and services companies. TMMC has an interest in Pacific Property Company, a company that invests in apartment communities.

Mr. Marcus has agreed not to divulge any information that may be received by him in his capacity as Chairman of Essex to any of his affiliated companies and that he will abstain his vote on any and all resolutions by the Essex Board of Directors regarding any proposed acquisition and/or development of a multifamily property 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 us in acquiring and/or developing multifamily properties, which competition may be detrimental to us. In addition, due to such potential competition for real estate investments, Mr. Marcus and his affiliated entities may have a conflict of interest with us, which may be detrimental to the interests of Essex’s stockholders.

The influence of executive officers, directors and significant stockholders may be detrimental to holders of common stock - As of December 31, 2006, George M. Marcus, the Chairman of our Board of Directors, wholly or partially owned 1,759,267 shares of common stock (including shares issuable upon exchange of limited partnership interests in the Operating Partnership and certain other partnerships and assuming exercise of all vested options). This represents approximately 7.5% of the outstanding shares of our common stock. Mr. Marcus currently does not have majority control over us. 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 our stockholders.

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

***The voting rights of preferred stock may allow holders of preferred stock to impede actions that otherwise benefit holders of common stock* -** In general, the holders of our outstanding shares of preferred stock do not have any voting rights. However, if full distributions are not made on any outstanding preferred stock for six quarterly distributions periods, the holders of preferred stock who have not received distributions, voting together as a single class, will have the right to elect two additional directors to serve on our Board of Directors.

These voting rights continue until all distributions in arrears and distributions for the current quarterly period on the preferred stock have been paid in full. At that time, the holders of the preferred stock are divested of these voting rights, and the term and office of the directors so elected immediately terminates. While any shares of our preferred stock are outstanding, Essex may not, without the consent of the holders of two-thirds of the outstanding shares of each series of preferred stock, each voting separately as a single class:

- authorize or create any class or series of stock that ranks senior to such preferred stock with respect to the payment of dividends, rights upon liquidation, dissolution or winding-up of our business;
- amend, alter or repeal the provisions of Essex's Charter or Bylaws, including by merger or consolidation, that would materially and adversely affect the rights of such series of preferred stock; or
- in the case of the preferred stock into which our preferred units are exchangeable, merge or consolidate with another entity or transfer substantially all of its assets to another entity, except if such preferred stock remains outstanding with the surviving entity and has the same terms and in certain other circumstances.

These voting rights of the preferred stock may allow holders of preferred stock to impede or veto actions that would otherwise benefit the holders of our common stock.

***The redemption rights of the Series B preferred units, Series D preferred units, Series F preferred stock and Series G preferred stock may be detrimental to holders of Essex common stock* -** Upon the occurrence of one of the following events, the terms of the Operating Partnership's Series B and D Preferred Units require it to redeem all of such units and the terms of Essex's Series F Preferred Stock and the Series G Preferred Stock provide the holders of the majority of the outstanding Series F Preferred Stock and Series G Preferred Stock the right to require Essex to redeem all of such stock:

- Essex completes a "going private" transaction and its common stock is no longer registered under the Securities Exchange Act of 1934, as amended;
- Essex completes a consolidation or merger or sale of substantially all of its assets and the surviving entity's debt securities do not possess an investment grade rating;
- Essex fails to qualify as a REIT; or
- in the case of Series G preferred stock, Essex common stock is not traded on a major exchange.

The aggregate redemption price of the Series B Preferred Units would be $80 million, the aggregate redemption price of the Series D Preferred Units would be $50 million, the aggregate redemption price of the Series F Preferred Stock would be $25 million and the aggregate redemption price of the Series G Preferred Stock would be $149.5 million, plus, in each case, any accumulated distributions.

These redemption rights may discourage or impede transactions that might otherwise be in the interest of holders of common stock. Further, these redemption rights might trigger situations where Essex needs to conserve its cash reserves, in which event such redemption might adversely affect Essex and its common holders.

***Maryland business combination law may not allow certain transactions between Essex and its affiliates to proceed without compliance with such law* -** Under Maryland law, "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.

The law also requires a supermajority stockholder vote 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 Maryland law. As permitted by the statute, the Board of Directors of Essex irrevocably has elected to exempt any business combination by us, George M. Marcus, William A. Millichap, who are the chairman and a director of Essex, respectively, and TMMC or any entity owned or controlled by Messrs. Marcus and Millichap and TMMC. Consequently, the five-year prohibition and supermajority vote requirement described above will not apply to any business combination between us and Mr. Marcus, Mr. Millichap, or TMMC. As a result, we may in the future enter into business combinations with Messrs. Marcus and Millichap and TMMC, without compliance with the supermajority vote requirements and other provisions of the Maryland General Corporation Law.

***Anti-takeover provisions contained in the Operating Partnership agreement, charter, bylaws, and certain provisions of Maryland law could delay, defer or prevent a change in control* -** While Essex 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 Essex's ability 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 our stock or otherwise be in the best interest of the stockholders or that could otherwise adversely affect the interest of Essex's stockholders. The partnership agreement provides that if the limited partners own at least 5% of the outstanding units of partnership interest in the Operating Partnership, Essex cannot, without first obtaining the consent of a majority-in-interest of the limited partners in the Operating Partnership, transfer all or any portion of our general partner interest in the Operating Partnership to another entity. Such limitations on Essex's ability to act may result in our being precluded from taking action that the Board of Directors believes is in the best interests of Essex's stockholders. As of December 31, 2006, the limited partners held or controlled approximately 9.6% of the outstanding units of partnership interest in the Operating Partnership, allowing such actions to be blocked by the limited partners.

Essex'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 preferred stock without the approval of the holders of the common stock. We may establish one or more series of preferred stock that could delay, defer or prevent a transaction or a change in control. Such a transaction might involve a premium price for our stock or otherwise be in the best interests of the holders of common stock. Also, such a class of preferred stock could have dividend, voting or other rights that could adversely affect the interest of holders of common stock.

Essex's Charter, as well as Essex's stockholder rights plan, contains other provisions that may delay, defer or prevent a transaction or a change in control that might be in the best interest of Essex's stockholders. Essex's stockholder rights plan is designed, among other things, to prevent a person or group from gaining control of us without offering a fair price to all of Essex's stockholders. The Bylaws may be amended by the Board of Directors to include provisions that would have a similar effect, although Essex presently has no such intention. The Charter contains ownership provisions limiting the transferability and ownership of shares of capital stock, which may have the effect of delaying, deferring or preventing 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 Corporations Law restricts the voting rights of shares deemed to be "control shares."

Under the Maryland General Corporations 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 Essex from the control share provisions of the Maryland General Corporations 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 Corporations 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 Corporations 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 Essex's stockholders.

***Essex's joint ventures and joint ownership of Properties and partial interests in corporations and limited partnerships could limit Essex's ability to control such Properties and partial interests* -** Instead of purchasing properties directly, we have invested and may continue to invest as a co-venturer. Joint venturers often have shared control over the operation of the joint venture assets. Therefore, it is possible that the co-venturer in an investment might become bankrupt, or have economic or business interests or goals that are inconsistent with our business interests or goals, or be in a position to take action contrary to our instructions or requests, or our policies or objectives. Consequently, a co-venturer's actions might subject property owned by the joint venture to additional risk. Although we seek to maintain sufficient influence over any joint venture to achieve its objectives, we may be unable to take action without our joint venture partners' approval, or joint venture partners could take actions binding on the joint venture without our consent. Should a joint venture partner become bankrupt, we could become liable for such partner's share of joint venture liabilities.

From time to time, we, through the Operating Partnership, invest in corporations, limited partnerships, limited liability companies or other entities that have been formed for the purpose of acquiring, developing or managing real property. In certain circumstances, the Operating Partnership's interest in a particular entity may be 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 an entity 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 an entity 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 an entity. In the event that such an entity becomes insolvent, the Operating Partnership may lose up to its entire investment in and any advances to the entity. We have, and in the future may, enter into transactions that could require us to pay the tax liabilities of partners, which contribute assets into joint ventures or the Operating Partnership, in the event that certain taxable events, which are within our control, occur. Although we plan to hold the contributed assets or defer recognition of gain on their sale pursuant to the like-kind exchange rules under Section 1031 of the Internal Revenue Code, we can provide no assurance that we will be able to do so and if such tax liabilities were incurred they can expect to have a material impact on our financial position.

Dedicated investment activities and other factors specifically related to Fund II - Fund II involves risks to us such as the following:

- our partners in Fund II might remove Essex as the general partner of Fund II;
- our partners in Fund II might become bankrupt (in which event we might become generally liable for the liabilities of Fund II);
- our partners in Fund II might have economic or business interests or goals that are inconsistent with our business interests or goals;
- our partners in Fund II might fail to fund capital commitments as contractually required; or
- our partners in Fund II might fail to approve decisions regarding Fund II that are in our best interest.

We will, however, generally seek to maintain sufficient influence over Fund II to permit it to achieve its business objectives.

Investments in mortgages and other real estate securities - We may invest in securities related to real estate, which could adversely affect our ability to make distributions to stockholders. We may purchase securities issued by entities which own real estate and invest in mortgages or unsecured debt obligations. These mortgages may be first, second or third mortgages that may or may not be insured or otherwise guaranteed. 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 us 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 our cost of funds; and
- in the case of junior mortgages, that foreclosure of a senior mortgage would eliminate the junior mortgage.

If any of the above were to occur, cash flows from operations and our ability to make expected dividends to stockholders could be adversely affected.

Possible environmental liabilities - Under various federal, state and local laws, ordinances and regulations, an owner or operator of real estate is liable for the costs of removal or remediation of certain hazardous or toxic substances on, in, to or migrating from such property. Such laws often impose liability without regard as to whether the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. The presence of such substances, or the failure to properly remediate such substances, may adversely affect the owner's or operator's ability to sell or rent such property or to borrow using such property as collateral. Persons exposed to such substances, either through soil vapor or ingestion of the substances may claim personal injury damages. Persons who arrange for the disposal or treatment of hazardous or toxic substances or wastes also may be liable for the costs of removal or remediation of such substances at the disposal or treatment facility to which such substances or wastes were sent, whether or not such facility is owned or operated by such person. Certain environmental laws impose liability for release of asbestos-containing materials ("ACMs") into the air, and third parties may seek recovery from owners or operators of real properties for personal injury associated with ACMs. In connection with the ownership (direct or indirect), operation, management and development of real properties, the Company could be considered an owner or operator of such properties or as having arranged for the disposal or treatment of hazardous or toxic substances and, therefore, may be potentially liable for removal or remediation costs, as well as certain other costs, including governmental fines and costs related to injuries of persons and property.

Investments in real property create a potential for environmental liabilities on the part of the owner of such real property. We carry certain limited insurance coverage for this type of environmental risk. We have conducted environmental studies which revealed the presence of groundwater contamination at certain Properties. Such contamination at certain of these properties was reported to have migrated on-site from adjacent industrial manufacturing operations. The former industrial users of the Properties were identified as the source of contamination. The environmental studies noted that certain Properties are located adjacent to any possible down gradient from sites with known groundwater contamination, the lateral limits of which may extend onto such properties. The environmental studies also noted that at certain of these properties, contamination existed because of the presence of underground fuel storage tanks, which have been removed. In general, in connection with the ownership, operation, financing, management and development of real properties, we may be potentially liable for removal or clean-up costs, as well as certain other costs and environmental liabilities. We may also be subject to governmental fines and costs related to injuries to persons and property.

Recently there has been an increasing number of lawsuits against owners and managers of apartment communities alleging personal injury and property damage caused by the presence of mold in residential real estate. Some of these lawsuits have resulted in substantial monetary judgments or settlements. Essex has been sued for mold related matters and has settled some, but not all, such matters, which matters remain unresolved and pending. Insurance carriers have reacted to mold related liability awards by excluding mold related claims from standard policies and pricing mold endorsements at prohibitively high rates. Essex has, however, purchased pollution liability insurance, which includes limited coverage for mold, although the insurance may not cover all pending or future mold claims. Essex has adopted programs designed to manage the existence of mold in its properties as well as guidelines for promptly addressing and resolving reports of mold to minimize any impact mold might have on residents or the property. Essex cannot assure you that it will not be sued in the future for mold related matters and cannot assure you that the liabilities resulting from such current or future mold related matters will not be substantial. The costs of carrying insurance to address potential mold related claims may also be substantial.

California has enacted legislation commonly referred to as "Proposition 65" requiring that "clear and reasonable" warnings be given to consumers who are exposed to chemicals known to the State of California to cause cancer or reproductive toxicity, including tobacco smoke. Although we have sought to comply with Proposition 65 requirements, we cannot assure you that we 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 can be ignitable in confined spaces. Although naturally-occurring, methane gas is not regulated at the state or federal level, some local governments, such as the

County of Los Angeles, have imposed requirements that new buildings install detection systems in areas where methane gas is known to be located.

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. Essex cannot assure you that it will not be adversely affected by costs related to its compliance with methane gas related requirements or litigation costs related to methane or radon gas.

The Company has almost no indemnification agreements from third parties for potential environmental clean-up costs at its Properties.

The Company has no way of determining at this time the magnitude of any potential liability to which it may be subject arising out of unknown environmental conditions or violations with respect to the properties formerly owned by the Company. No assurance can be given that existing environmental studies with respect to any of the Properties reveal all environmental liabilities, that any prior owner or operator of a Property did not create any material environmental condition not known to the Company, or that a material environmental condition does not exist as to any one or more of the Properties. The Company has limited insurance coverage for the types of environmental liabilities described above.

General uninsured losses - The Company carries comprehensive liability, fire, extended coverage and rental loss insurance for each of the Properties. There are, however, certain types of extraordinary losses, such as, for example, losses for terrorism or earthquake, for which the Company does not have insurance coverage. Substantially all of the Properties are located in areas that are subject to earthquake activity. In January 2007, the Company canceled the earthquake policy and established a wholly owned insurance subsidiary. Through this subsidiary, the Company is self-insured as it relates to earthquake related losses.

Although the Company may carry insurance for potential losses associated with its Properties, employees, residents, and compliance with applicable laws, it may still incur losses due to uninsured risks, deductibles, co-payments or losses in excess of applicable insurance coverage and those losses may be material.

Changes in real estate tax and other laws - Generally we do not directly pass through costs resulting from changes in real estate tax laws to residential property tenants. We also do not generally pass through increases in income, service or other taxes, to tenants under leases. These costs may adversely affect funds from operations and the ability to make distributions to stockholders. Similarly, compliance with changes in (i) laws increasing the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions or (ii) rent control or rent stabilization laws or other laws regulating housing may result in significant unanticipated expenditures, which would adversely affect funds from operations and the ability to make distributions to stockholders.

***Changes in financing policy; no limitation on debt* -** We have adopted a policy of maintaining for a debt-to-total-market-capitalization ratio of less than 50%. The calculation of debt-to-total-market-capitalization is as follows: total indebtedness divided by the sum of total indebtedness plus total equity market capitalization. As used in this calculation, total equity market capitalization is equal to the aggregate market value of the outstanding shares of common stock (based on the greater of current market price or the gross proceeds per share from public offerings of the outstanding shares plus any undistributed net cash flow), assuming the conversion of all limited partnership interests in the Operating Partnership into shares of common stock and the gross proceeds of the preferred units. Based on this calculation (including the current market price and excluding undistributed net cash flow), our debt-to-total-market-capitalization ratio was approximately 28% as of December 31, 2006.

Our organizational documents do not limit the amount or percentage of indebtedness that may be incurred. Accordingly, the Board of Directors of Essex could change current policies and the policies of the Operating Partnership regarding indebtedness. If we changed these policies, we could incur more debt, resulting in an increased risk of default on our obligations and the obligations of the Operating Partnership, and an increase in debt service requirements that could adversely affect our financial condition and results of operations. Such increased debt could exceed the underlying value of the Properties.

***We are subject to certain tax risks* -** Essex has elected to be taxed as a REIT under the Internal Revenue Code. Essex's qualification as a REIT requires it to satisfy numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within Essex's control. Although Essex 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. Future legislation, new regulations, administrative interpretations or court decisions (any of which could have retroactive effect) could adversely affect Essex's ability to qualify as a REIT or adversely affect its stockholders. If it fails to qualify as a REIT in any taxable year, Essex would be subject to U.S. federal income tax (including any applicable alternative minimum tax) on its taxable income at corporate rates, and would not be allowed to deduct dividends paid to its shareholders in computing its taxable income. Essex may also be disqualified from treatment as a REIT for the four taxable years following the year in which it failed to qualify. The additional tax liability would reduce its net earnings available for investment or distribution to stockholders, and it would no longer be required to make distributions to its stockholders. Even if Essex continues to qualify as a REIT, it will continue to be subject to certain federal, state and local taxes on its income and property.

Essex has established several taxable REIT subsidiaries ("TRSs"). Despite Essex's qualification as a REIT, its TRSs' must pay U.S. federal income tax on their taxable income. While Essex will attempt to ensure that their dealing with its TRSs' does not adversely affect its REIT qualification, it cannot provide assurance that it will successfully achieve that result. Furthermore, Essex may be subject to a 100% penalty tax, or its TRSs' may be denied deductions, to the extent its dealings with its TRSs' are not deemed to be arm's length in nature. No assurances can be given that Essex's dealings with its TRSs' will be arm's length in nature.

From time to time, we may transfer or otherwise dispose of some of our Properties. Under the Internal Revenue Code, any gain resulting from transfers of Properties that we hold as inventory or primarily for sale to customers in the ordinary course of business would be treated as income from a prohibited transaction subject to a 100% penalty tax. Since we acquire properties for investment purposes, we do not believe that our occasional transfers or disposals of property are prohibited transactions. However, whether property is held for investment purposes is a question of fact that 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 us are prohibited transactions. If the Internal Revenue Service were to argue successfully that a transfer or disposition of property constituted a prohibited transaction, then Essex would be required to pay a 100% penalty tax on any gain allocable to Essex from the prohibited transaction and Essex's ability to retain future gains on real property sales may be jeopardized. Income from a prohibited transaction might adversely affect Essex's ability to satisfy the income tests for qualification as a REIT for U.S. federal income tax purposes. Therefore, no assurances can be given that Essex will be able to satisfy the income tests for qualification as a REIT.

Item 1B. Unresolved Staff Comments.

None**.**

Item 2. Properties

Our core apartment Portfolio as of December 31, 2006 (including partial ownership interests) was comprised of 130 apartment communities (comprising 27,553 apartment units), of which 13,285 units are located in Southern California, 7,490 units are located in the San Francisco Bay Area, 5,441 units are located in the Seattle Metropolitan Area, and 1,337 units are located in the other areas including Portland, Oregon and Houston, Texas. The Company's apartment communities accounted for 99% of the Company's property revenues for the year ended December 31, 2006.

Occupancy Rates

The 130 apartment communities had an average Same-Properties occupancy (as defined in Item 7), based on "financial occupancy," during the year ended December 31, 2006, of approximately 96.4 %. With respect to stabilized apartment communities with sufficient operating history, occupancy figures are based on financial occupancy (the percentage resulting from dividing actual rental revenue by total possible rental revenue). Actual rental revenue represents contractual revenue pursuant to leases without considering delinquency and concessions. Total possible rental revenue represents the value of all apartment units, with occupied units valued at contractual rental rates pursuant to leases and vacant units valued at estimated market rents. We believe 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 as disclosed by other REITs may not be comparable to our calculation of financial occupancy.

As of December 31, 2006, the headquarters building was 100% occupied by the Company and the Southern California office building was 95% occupied, based on physical occupancy. With respect to office buildings, occupancy figures are based on "physical occupancy" which refers to the percentage resulting from dividing leased and occupied square footage by rentable square footage. With respect to recreational vehicle parks, manufactured housing communities, or apartment communities which have not yet stabilized or have insufficient operating history, occupancy figures are based on “physical occupancy” which refers to the percentage resulting from dividing leased and occupied units by rentable units.

For the year ended December 31, 2006, none of the Company’s Properties had book values equal to 10% or more of total assets of the Company or gross revenues equal to 10% or more of aggregate gross revenues of the Company.

Apartment Communities

Our apartment communities are generally suburban garden apartments and town homes comprising multiple clusters of two and three story buildings situated on three to fifteen acres of land. The apartment communities have on average of 212 units, with a mix of studio, one, two and some three-bedroom units. A wide variety of amenities are available at each apartment community, including covered parking, fireplaces, swimming pools, clubhouses with complete fitness facilities, volleyball and playground areas and tennis courts.

We select, train and supervise a full team of on-site service and maintenance personnel. We believe that the following primary factors enhance our ability to retain tenants:

- well built communities that have been well maintained since acquisition; and
- proactive customer service approach.

Office Buildings

The Company's corporate headquarters is located in a two-story office building with approximately 17,400 square feet located at 925 East Meadow Drive, Palo Alto, California. The Company acquired this property in 1997. The Company also owns an office building in Southern California (Woodland Hills), comprised of approximately 38,940 square feet building, of which the Company occupies approximately 11,200 square feet at December 31, 2006. The building has nine third-party tenants occupying approximately 26,000 feet. The largest single tenant occupies approximately 10,900 square feet. The Company acquired the Woodland Hills property in 2001. The Company has a mortgage loan receivable on an office building with approximately 110,000 square feet located in Irvine, California, which is consolidated under FIN 46R.

Recreational Vehicle Parks and Manufactured Housing Community

The Company owns two recreational vehicle parks (comprising of 338 spaces), acquired in the Company's December 2002 acquisition of John M. Sachs, Inc., located in El Cajon, California.

The Company owns one manufactured housing community (containing 157 sites), acquired in the Company's December 2002 acquisition of John M. Sachs, Inc., located in Vista, California.

The following tables describe the Company's Properties as of December 31, 2006. The first table describes the Company's apartment communities and the second table describes the Company's other real estate assets.

Apartment Communities (1)	Location	Units	Rentable Square Footage	Built	Acquired	Occupancy(2)
Southern California						
Alpine Country	Alpine, CA	108	81,900	1986	2002	97%
Alpine Village	Alpine, CA	306	254,400	1971	2002	97%
Barkley, The(3)(4)	Anaheim, CA	161	139,800	1984	2000	98%
Bonita Cedars	Bonita, CA	120	120,800	1983	2002	96%
Camarillo Oaks	Camarillo, CA	564	459,000	1985	1996	96%
Mountain View	Camarillo, CA	106	83,900	1980	2004	98%
Cambridge	Chula Vista, CA	40	22,100	1965	2002	97%
Woodlawn Colonial	Chula Vista, CA	159	104,500	1974	2002	95%
Mesa Village	Clairemont, CA	133	43,600	1963	2002	98%
Parcwood(5)	Corona, CA	312	270,000	1989	2004	92%
Coral Gardens	El Cajon, CA	200	182,000	1976	2002	95%
Tierra del Sol/Norte	El Cajon, CA	156	117,000	1969	2002	97%
Grand Regency	Escondido, CA	60	42,400	1967	2002	99%
Valley Park(6)	Fountain Valley, CA	160	169,700	1969	2001	95%
Capri at Sunny Hills(6)	Fullerton, CA	100	128,100	1961	2001	97%
Wilshire Promenade	Fullerton, CA	149	128,000	1992(7)	1997	98%
Montejo(6)	Garden Grove, CA	124	103,200	1974	2001	97%
CBC Apartments	Goleta, CA	148	91,538	1962	2006	98%
Chimney Sweep Apartments	Goleta, CA	91	88,370	1967	2006	96%
Hampton Court (Columbus)	Glendale, CA	83	71,500	1974(8)	1999	96%
Hampton Place (Lorraine)	Glendale, CA	132	141,500	1970(9)	1999	95%
Devonshire	Hemet, CA	276	207,200	1988	2002	91%
Huntington Breakers	Huntington Beach, CA	342	241,700	1984	1997	98%
Hillsborough Park	La Habra, CA	235	215,500	1999	1999	98%
Trabuco Villas	Lake Forest, CA	132	131,000	1985	1997	99%
Marbrisa	Long Beach, CA	202	122,800	1987	2002	99%
Pathways	Long Beach, CA	296	197,700	1975(10)	1991	97%
Bunker Hill	Los Angeles, CA	456	346,600	1968	1998	98%
City Heights(11)	Los Angeles, CA	687	424,100	1968	2000	95%
Cochran Apartments	Los Angeles, CA	58	51,400	1989	1998	98%
Kings Road.	Los Angeles, CA	196	132,100	1979(12)	1997	98%
Marbella, The	Los Angeles, CA	60	50,108	1991	2005	97%
Park Place	Los Angeles, CA	60	48,000	1988	1997	98%
Windsor Court	Los Angeles, CA	58	46,600	1988	1997	98%
Marina City Club(13)	Los Angeles, CA	101	127,200	1971	2004	98%
Renaissance(5)	Los Angeles, CA	168	154,268	1990	2006	95%
Mirabella	Marina Del Rey, CA	188	176,800	2000	2000	98%
Mira Monte (Mira Woods Villa)	Mira Mesa, CA	355	262,600	1982(14)	2002	97%
Hillcrest Park (Mirabella)	Newbury Park, CA	608	521,900	1973(15)(16)	1998	97%

Fairways(17)	Newport Beach, CA	74	107,100	1972	1999	97%
Country Villas	Oceanside, CA	180	179,700	1976	2002	96%
Mission Hills	Oceanside, CA	282	244,000	1984	2005	96%
Mariner's Place	Oxnard, CA	105	77,200	1987	2000	97%
Tierra Vista(18)	Oxnard, CA	404	387,100	2001	2001	97%
Monterey Villas (Village Apartments)	Oxnard, CA	122	122,100	1974(19)	1997	97%
Monterra del Mar (Windsor Terrace)	Pasadena, CA	123	74,400	1972(20)	1997	96%
Monterra del Rey (Glenbrook)	Pasadena, CA	84	73,100	1972(21)	1999	95%
Monterra del Sol (Euclid)	Pasadena, CA	85	69,200	1972(22)	1999	96%
Villa Angelina(6)	Placentia, CA	256	217,600	1970	2001	98%

(continued)

Apartment Communities (1)	Location	Units	Square Footage	Year Built	Year Acquired	Occupancy(2)
Southern California (continued)						
Fountain Park	Playa Vista, CA	705	608,900	2002	2004	92%
Highridge(6)	Rancho Palos Verdes, CA	255	290,200	1972	1997	94%
Bluffs II, The(23)	San Diego, CA	224	126,700	1974	1997	99%
Summit Park	San Diego, CA	300	229,400	1972	2002	96%
Vista Capri - North	San Diego, CA	106	51,800	1975	2002	97%
Brentwood (Hearthstone)(6)	Santa Ana, CA	140	154,800	1970	2001	97%
Treehouse(6)	Santa Ana, CA	164	135,700	1970	2001	95%
Carlton Heights	Santee, CA	70	48,400	1979	2002	98%
Meadowood	Simi Valley, CA	320	264,500	1986	1996	95%
Hidden Valley (Parker Ranch)(24)	Simi Valley, CA	324	310,900	2004	2004	97%
Shadow Point	Spring Valley, CA	172	131,200	1983	2002	96%
Lofts at Pinehurst, The (Villa Scandia)	Ventura, CA	118	71,100	1971(25)	1997	96%
Pinehurst(26)	Ventura, CA	28	21,200	1973	2004	99%
Woodside Village	Ventura, CA	145	136,500	1987	2004	96%
Walnut Heights	Walnut, CA	163	146,700	1964	2003	93%
Avondale at Warner Center	Woodland Hills, CA	446	331,000	1970(27)	1997	96%
		13,285	**10,911,384**			**96%**
Northern California						
Belmont Terrace	Belmont, CA	71	72,951	1974	2006	91%
Carlmont Woods(5)	Belmont, CA	195	107,200	1971	2004	98%
Davey Glen(5)	Belmont, CA	69	65,974	1962	2006	90%
Brookside Oaks(6)	Cupertino, CA	170	119,900	1973	2000	97%
Point at Cupertino, The (Westwood)(18)	Cupertino, CA	116	135,200	1963(28)	1998	98%
Harbor Cove(5)	Foster City, CA	400	306,600	1971	2004	96%
Waterstone at Fremont (Mountain Vista)(29)	Fremont, CA	526	433,100	1975	2000	94%
Stevenson Place (The Apple)	Fremont, CA	200	146,200	1971(30)	1983	96%
Treetops	Fremont, CA	172	131,200	1978(31)	1996	96%
Wimbledon Woods	Hayward, CA	560	462,400	1975(32)	1998	95%
Alderwood Park(5)	Newark, CA	96	74,624	1987	2006	98%
Summerhill Commons	Newark, CA	184	139,000	1987(33)	1987	97%
Regency Towers(5)	Oakland, CA	178	140,900	1975	2005	93%
San Marcos (Vista del Mar)	Richmond, CA	432	407,600	2003	2003	96%
Mt. Sutro	San Francisco, CA	99	64,000	1973	2001	97%
The Carlyle	San Jose, CA	132	129,200	2000	2000	96%
The Enclave(5)	San Jose, CA	637	525,463	1998	2005	93%
Waterford, The	San Jose, CA	238	219,600	2000	2000	97%
Esplanade	San Jose, CA	278	279,000	2002	2004	97%

Hillsdale Garden Apartments(34)	San Mateo, CA	697	611,505	1948	2006	95%
Bel Air (The Shores)	San Ramon, CA	462	391,000	1988(35)	1997	95%
Foothill Gardens	San Ramon, CA	132	155,100	1985	1997	97%
Twin Creeks	San Ramon, CA	44	51,700	1985	1997	97%
Le Parc Luxury Apartments (Plumtree)	Santa Clara, CA	140	113,200	1975(36)	1994	98%
Marina Cove(37)	Santa Clara, CA	292	250,200	1974	1994	98%
Bristol Commons	Sunnyvale, CA	188	142,600	1989	1997	97%
Montclaire (Oak Pointe)	Sunnyvale, CA	390	294,100	1973(38)	1988	94%
Summerhill Park	Sunnyvale, CA	100	78,500	1988	1988	99%
Windsor Ridge	Sunnyvale, CA	216	161,800	1989	1989	97%
Vista Belvedere	Tiburon, CA	76	78,300	1963	2004	98%
		7,490	**6,288,117**			**96%**

(continued)

Apartment Communities [1]	Location	Units	Square Footage	Year Built	Year Acquired	Occupancy[2]
Seattle, Washington Metropolitan Area						
Cedar Terrace	Bellevue, WA	180	174,200	1984	2005	96%
Emerald Ridge-North	Bellevue, WA	180	144,000	1987	1994	97%
Foothill Commons	Bellevue, WA	360	288,300	1978(39)	1990	98%
Palisades, The	Bellevue, WA	192	159,700	1977(40)	1990	96%
Sammamish View	Bellevue, WA	153	133,500	1986(41)	1994	98%
Woodland Commons	Bellevue, WA	236	172,300	1978(39)	1990	97%
Canyon Pointe	Bothell, WA	250	210,400	1990	2003	97%
Inglenook Court	Bothell, WA	224	183,600	1985	1994	95%
Salmon Run at Perry Creek	Bothell, WA	132	117,100	2000	2000	97%
Stonehedge Village	Bothell, WA	196	214,800	1986	1997	97%
Park Hill at Issaquah(42)	Issaquah, WA	245	277,700	1999	1999	97%
Peregrine Point	Issaquah, WA	21	85,900	2003(43)	2003	48%
Wandering Creek	Kent, WA	156	124,300	1986	1995	99%
Bridle Trails	Kirkland, WA	108	73,400	1986(44)	1997	94%
Evergreen Heights	Kirkland, WA	200	188,300	1990	1997	98%
Laurels, The	Mill Creek, WA	164	134,300	1981	1996	98%
Morning Run(5)	Monroe, WA	222	221,786	1991	2005	98%
Anchor Village(6)	Mukilteo, WA	301	245,900	1981	1997	95%
Castle Creek	Newcastle, WA	216	191,900	1997	1997	97%
Brighton Ridge	Renton, WA	264	201,300	1986	1996	95%
Forest View	Renton, WA	192	182,500	1998	2003	96%
Fairwood Pond	Renton, WA	194	189,200	1997	2004	96%
Fountain Court	Seattle, WA	320	207,000	2000	2000	97%
Linden Square	Seattle, WA	183	142,200	1994	2000	97%
Maple Leaf	Seattle, WA	48	35,500	1986	1997	98%
Spring Lake	Seattle, WA	69	42,300	1986	1997	98%
Tower @ 801(5)	Seattle, WA	173	118,500	1970	2005	95%
Wharfside Pointe	Seattle, WA	142	119,200	1990	1994	98%
Echo Ridge(5)	Snoqualmie, WA	120	124,539	2000	2005	95%
		5,441	**4,703,625**			**96%**
Portland, Oregon Metropolitan Area						
Jackson School Village	Hillsboro, OR	200	196,800	1996	2000	95%
Landmark	Hillsboro, OR	285	282,900	1990	1996	97%
Meadows @ Cascade Park	Vancouver, WA	198	199,300	1989	1997	97%
Village @ Cascade Park	Vancouver, WA	192	178,100	1989	1997	97%
		875	**857,100**			**97%**
Other areas and property owned by a TRS						
St. Cloud	Houston, TX	302	306,800	1968	2002	91%
Camino Ruiz Square(45)	Camarillo, CA	160	105,448	1990	2006	97%
		462	**412,248**			**93%**
Total/Weighted Average		**27,553**	**23,172,474**			**96%**

Other real estate assets[1]	Location	Tenants	Rentable Square Footage	Year Built	Year Acquired	Occupancy[2]
Office Buildings						
925 East Meadow Drive	Palo Alto, CA	1	17,400	1988	1997	100%(46)
17461 Derian Ave(47)	Irvine, CA	3	110,000	1983	2000	100%(48)
22110-22120 Clarendon Street	Woodland Hills, CA	9	38,940	1982	2001	96%(49)
Total Office Buildings		**13**	**166,340**			**99%**
Recreational Vehicle Parks						
Circle RV	El Cajon, CA	179 spaces		1977	2002	(50)
Vacationer	El Cajon, CA	159 spaces		1973	2002	(50)
Total Recreational Vehicle Parks		**338 spaces**				
Manufactured Housing Community						
Green Valley	Vista, CA	157 sites		1973	2002	(50)
Total Manufactured Housing Community		**157 sites**				

(1) Unless otherwise specified, the Company has a 100% ownership interest in each Property.

(2) For apartment communities, occupancy rates are based on financial occupancy for the year ended December 31, 2006; for the office buildings, recreational vehicle parks, manufactured housing communities or properties which have not yet stabilized or have insufficient operating history, occupancy rates are based on physical occupancy as of December 31, 2006. For an explanation of how financial occupancy and physical occupancy are calculated, see "Properties-Occupancy Rates" in this Item 2.

(3) The Company has a 30% special limited partnership interest in the entity that owns this apartment community. This investment was made under arrangements whereby the Essex Management Corporation ("EMC") became the general partner and the existing partners were granted the right to require the applicable partnership to redeem their interest for cash. Subject to certain conditions, the Company may, however, elect to deliver an equivalent number of shares of the Company's common stock in satisfaction of the applicable partnership's cash redemption obligation.

(4) The property is subject to a ground lease, which, unless extended, will expire in 2082.

(5) This property is owned by Fund II. The Company has a 28.2% interest in Fund II which is accounted for using the equity method of accounting.

(6) The Company holds a 1% special limited partner interest in the partnerships which own these apartment communities. These investments were made under arrangements whereby EMC became the 1% sole general partner and the other limited partners were granted the right to require the applicable partnership to redeem their interest for cash. Subject to certain conditions, the Company may, however, elect to deliver an equivalent number of shares of the Company's common stock in satisfaction of the applicable partnership's cash redemption obligation.

(7) In 2002 the Company purchased an additional 21 units adjacent to this property for $3 million. This property was built in 1992.

(8) The Company completed a $1.6 million redevelopment on this property in 2000.

(9) The Company completed a $2.3 million redevelopment on this property in 2000.

(10) The Company is in the process of performing a $10.7 million redevelopment on this property.

(11)

The Company owns the land and has leased the improvements to an unrelated third party. The leasehold interest entitles the Company to receive a monthly payment for the 34-year term of the land lease and promote fees upon sale. The property was sold in February 2007 to a third-party.

(12) The Company is in the process of performing a $6.2 million redevelopment on this property.

(13) This property is subject to a ground lease, which, unless extended, will expire in 2067.

(14) The Company is in the process of performing a $6.0 million redevelopment on this property.

(15) The Company completed an $11.0 million redevelopment on this property in 2001.

(16) The Company completed an additional $3.6 million redevelopment on this property in 2005.

(17) This property is subject to a ground lease, which, unless extended, will expire in 2027.

(18) The Company had a 20.0% ownership interest this property. In 2004, the Company acquired the remaining 80%.

(19) The Company completed a $3.2 million redevelopment on this property in 2002.

(20) The Company completed a $1.9 million redevelopment on this property in 2000.

(21) The Company completed a $1.9 million redevelopment on this property in 2001.

(22) The Company completed a $1.7 million redevelopment on this property in 2001.

(23) The Company had an 85% controlling limited partnership interest in this property as of December 31, 2006, and during January 2007 the Company acquired the remaining 15% partnership interest.

(24) The Company and EMC have a 74.0% and 1% member interests, respectively, in this property.
(25) The Company completed a $3.5 million redevelopment on this property in 2002.
(26) The property is subject to a ground lease, which, unless extended, will expire in 2028.
(27) The Company is in the process of performing a $12.0 million redevelopment on this property.
(28) The Company completed a $2.7 million redevelopment in 2001.
(29) The Company has a preferred limited partnership interest in this property.
(30) The Company completed a $4.5 million redevelopment on this property in 1998.
(31) The Company is in the process of performing an $8.3 million redevelopment on this property.
(32) The Company is in the process of performing a $9.4 million redevelopment on this property.
(33) The Company is in the process of performing a $4.3 million redevelopment on this property
(34) The property is subject to a ground lease, which unless extended, will expire in 2047.
(35) The Company completed construction of 114 units of the property's 462 total units in 2000.
(36) The Company completed a $3.4 million redevelopment on this property in 2002.
(37) A portion of this Property on which 84 units are presently located is subject to a ground lease, which, unless extended, will expire in 2028.
(38) The Company is in the process of performing a $15.1 million redevelopment on this property.
(39) The Company is in the process of performing a joint $3.4 million redevelopment at these properties.
(40) The Company is in the process of performing a $6.6 million redevelopment on this property
(41) The Company is in the process of performing a $3.3 million redevelopment on this property.
(42) The Company had an approximate 45% preferred limited partnership interest in this property. In 2004 the Company acquired the remaining 55% partnership interest.
(43) The Company converted this property into condominiums and sold 45 units during 2006.
(44) The Company is in the process of performing a $5.1 million redevelopment on this property and completed construction of 16 units of the property's 108 units in 2006.
(45) The property is owned by a TRS.
(46) The Company occupies 100% of this property.
(47) The Company has a mortgage receivable, and consolidates this property pursuant to FIN 46R.
(48) The Company occupies 4.6% of this property.
(49) The Company occupies 29% of this property.
(50) The Company leased these three properties in 2003 to an unrelated third party for approximately 5 years with an option to purchase the property in approximately 2007.

Item 3. Legal Proceedings

In April 2004, an employee lawsuit was filed against the Company in the California Superior Court in the County of Alameda. In this lawsuit, two former Company maintenance employees sought unpaid wages, associated penalties and attorneys' fees on behalf of a putative class of the Company's current and former maintenance employees who were required to wear a pager while they were on call during evening and weekend hours. In June 2005, the Company settled the lawsuit for $1.5 million.

Recently there has been an increasing number of lawsuits against owners and managers of apartment communities alleging personal injury and property damage caused by the presence of mold in residential real estate. Some of these lawsuits have resulted in substantial monetary judgments or settlements. The Company has been sued for mold related matters and has settled some, but not all, of such matters. Insurance carriers have reacted to mold related liability awards by excluding mold related claims from standard policies and pricing mold endorsements at prohibitively high rates. The Company has, however, purchased pollution liability insurance, which includes some coverage for mold. The Company has adopted programs designed to manage the existence of mold in its properties as well as guidelines for promptly addressing and resolving reports of mold to minimize any impact mold might have on residents or property. Liabilities resulting from such mold related matters and the costs of carrying insurance to address potential mold related claims may also be substantial. The Company is subject to various other lawsuits in the normal course of its business operations. Accordingly, such lawsuits, as well as the class action lawsuit described above, could result in substantial costs and diversion of resources and could have a material adverse effect on the Company's financial condition, results of operations or cash flows.

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

During the fourth quarter of 2006, no matters were submitted to a vote of security holders.

Part II

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

The shares of the Company's common stock are traded on the New York Stock Exchange ("NYSE") under the symbol ESS.

Market Information

The Company's common stock has been traded on the NYSE since June 13, 1994. The high, low and closing price per share of common stock reported on the NYSE for the quarters indicated are as follows:

Quarter Ended	High	Low	Close
December 29, 2006	$ 133.99	$ 119.76	$ 129.25
September 29, 2006	$ 128.58	$ 111.54	$ 121.40
June 30, 2006	$ 128.57	$ 100.90	$ 111.66
March 31, 2006	$ 111.10	$ 92.10	$ 108.73
December 31, 2005	$ 93.44	$ 80.35	$ 92.20
September 30, 2005	$ 93.14	$ 82.86	$ 90.00
June 30, 2005	$ 86.13	$ 68.50	$ 83.06
March 31, 2005	$ 84.32	$ 68.56	$ 69.10

The closing price as of February 26, 2007 was $140.00.

Holders

The approximate number of holders of record of the shares of the Company's common stock was 248 as of February 26, 2007. This number does not include stockholders whose shares are held in trust by other entities. The actual number of stockholders is greater than this number of holders of record.

Return of Capital

Under provisions of the Internal Revenue Code of 1986, as amended, the portion of the cash dividend, if any, that exceeds earnings and profits is considered a return of capital. The return of capital is generated due to a variety of factors, including the deduction of non-cash expenses, primarily depreciation, in the determination of earnings and profits.

The status of cash dividends distributed for the year ended December 31, 2006 related to Series G preferred stock is 100% ordinary income and, the status of the cash dividends distributed for the years ended December 31, 2006, 2005 and 2004 related to common stock and Series F preferred stock for tax purposes are as follows:

	2006	2005	2004
Common stock:			
Ordinary income	100.00%	74.91%	41.40%
Capital gains	0.00%	25.09%	58.60%
Return of capital	0.00%	0.00%	0.00%
	100.00%	100.00%	100.00%

	2006	2005	2004
Series F Preferred stock:			
Ordinary income	100.00%	74.91%	41.40%
Capital gains	0.00%	25.09%	58.60%
Return of capital	0.00%	0.00%	0.00%
	100.00%	100.00%	100.00%

Dividends and Distributions

Since its initial public offering on June 13, 1994, the Company has paid regular quarterly dividends to its stockholders. The Company has paid the following dividends per share of common stock:

Quarter Ended	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
3/31.....	N/A	$0.4175	$0.425	$0.435	$0.450	$0.500	$0.550	$0.700	$0.770	$0.780	$0.790	$0.810	$0.840
6/30.....	$0.0800	$0.4175	$0.425	$0.435	$0.500	$0.550	$0.610	$0.700	$0.770	$0.780	$0.790	$0.810	$0.840
9/30.....	$0.4175	$0.4250	$0.435	$0.450	$0.500	$0.550	$0.610	$0.700	$0.770	$0.780	$0.790	$0.810	$0.840
12/31....	$0.4175	$0.4250	$0.435	$0.450	$0.500	$0.550	$0.610	$0.700	$0.770	$0.780	$0.790	$0.810	$0.840

Future distributions by the Company will be at the discretion of the Board of Directors and will depend on the actual cash flows from operations of the Company, its financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code, applicable legal restrictions and such other factors as the Board of Directors deems relevant. There are currently no contractual restrictions on the Company's present or future ability to pay dividends.

On February 23, 2007, the Company announced the Board of Directors approved a $0.09 per share increase to the quarterly cash dividend, which represents a $0.36 increase on an annualized basis. Accordingly, the first quarter dividend distribution, payable on April 16, 2007 to stockholders as of record as of March 31, 2007, will be $0.93 per share.

Dividend Reinvestment and Share Purchase Plan

The Company has adopted a dividend reinvestment and share purchase plan designed to provide holders of Common Stock with a convenient and economical means to reinvest all or a portion of their cash dividends in shares of Common Stock and to acquire additional shares of Common Stock through voluntary purchases. Computershare, LLC, which serves as the Company's transfer agent, administers the dividend reinvestment and share purchase plan. For a copy of the plan, contact Computershare, LLC at (312) 360-5354.

Stockholder Rights Plan

In 1998, the Company adopted a stockholder rights plan that is designed to enhance the ability of all of the Company's stockholders to realize the long-term value of their investment. The rights plan is designed, in part, to prevent a person or group from gaining control of the Company without offering a fair price to all of the Company's stockholders.

On October 13, 1998, the Board declared a one-for-one preferred share purchase right (a "Right") for each outstanding share of Common Stock. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value $.0001 per share, of the Company, at a price of $99.13 per one-hundredth of a share, subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement dated as of November 11, 1998, as amended between the Company and Computershare, LLC as Rights Agent.

Securities Authorized for Issuance under Equity Compensation Plans

See our disclosure in the 2007 Proxy Statement under the heading "Equity Compensation Plan Information", which disclosure is incorporated herein by reference.

Issuance of Registered Equity Securities

Period	Total Number of Shares Sold	Average Price per Share	Proceeds (net of fees and commissions)
5/24/06 to 10/17/06	427,700	$115.16	$48,273,142

During 2006, pursuant to a registration statement and its Controlled Equity Offering program, the Company issued and sold approximately 427,700 shares of common stock for $48.3 million, net of fees and commissions. The Company used the net proceeds from the offerings to pay down outstanding borrowings under the Company's lines of credit, to fund real estate investments and for general corporate purposes.

Unregistered Sale of Equity Securities and Use of Proceeds

During October 2006, the Operating Partnership acquired Belmont Terrace, a 71-unit apartment community located in Belmont, California. As part of the consideration for this acquisition, the Operating Partnership issued approximately 72,685 partnership units, representing limited partnership interests in the Operating Partnership, to the sellers of this property. Such units were valued in aggregate at approximately $7.7 million. Such units were issued in a private placement and pursuant to the exemption from registration set forth in Section 4(2) of the Securities Act of 1933, as amended. After one year after issuance, the units are exchangeable on a one-for-one basis into shares of Essex common stock. Were all of such units to be exchanged for common stock, then Essex would issue 72,685 shares of common stock, which is less than 1% of the number of its shares of common stock currently outstanding.

Item 6. Selected Financial Data

The following tables set forth summary financial and operating information for the Company from January 1, 2002 through December 31, 2006.

	Years Ended December 31,				
	2006	**2005(1)**	**2004(1)**	**2003(1)**	**2002(1)**
	(Dollars in thousands, except share and per share amounts)				
OPERATING DATA:					
REVENUES					
Rental and other property	$ 343,044	$ 310,970	$ 274,170	$ 240,969	$ 202,627
Management and other fees from affiliates	5,030	10,951	23,146	6,027	5,604
	348,074	321,921	297,316	246,996	208,231
EXPENSES					
Property operating expenses, excluding depreciation and amortization	117,783	107,710	96,701	80,289	63,304
Depreciation and amortization	80,147	76,848	68,609	53,796	41,501
Amortization of deferred financing costs	2,743	1,947	1,560	1,187	743
General and administrative	22,235	19,148	18,042	9,549	8,636
Interest(2)	72,898	70,784	60,709	49,985	41,641
Other expenses	1,770	5,827	-	-	-
	297,576	282,264	245,621	194,806	155,825
Earnings from operations	50,498	39,657	51,695	52,190	52,406
Gain on the sales of real estate	-	6,391	7,909	-	145
Interest and other income	6,176	8,524	3,077	668	6,882
Equity (loss) income in co-investments	(1,503)	18,553	40,683	2,349	4,647
Minority interests	(19,309)	(20,936)	(28,332)	(26,030)	(27,372)
Income from continuing operations before income tax provision	35,862	52,189	75,032	29,177	36,708
Income tax provision	(525)	(2,538)	(257)	-	-
Income from continuing operations	35,337	49,651	74,775	29,177	36,708
Income from discontinued operations (net of minority interests)	27,411	30,065	4,918	5,913	11,932
Net income	62,748	79,716	79,693	35,090	48,640
Write off of Series C preferred units offering costs	-	-	-	(625)	-
Amortization of discount on Series F preferred stock	-	-	-	(336)	-
Dividends to preferred stockholders	(5,145)	(1,953)	(1,952)	(195)	-
Net income available to common stockholders .	$ 57,603	$ 77,763	$ 77,741	$ 33,934	$ 48,640

Per share data:					
Basic:					
Net income from continuing operations available to common stockholders	$ 1.31	$ 2.08	$ 3.18	$ 1.31	$ 1.98
Net income available to common stockholders	$ 2.50	$ 3.38	$ 3.39	$ 1.58	$ 2.62
Weighted average common stock outstanding- (in thousands)	23,082	23,039	22,921	21,468	