EQUITY LIFESTYLE PROPERTIES INC
Form 10-Q
July 26, 2017

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

FORM 10-Q

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 1-11718

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

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

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

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

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

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o
	Emerging growth company o

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
87,005,128 shares of Common Stock as of July 24, 2017.

Equity LifeStyle Properties, Inc.
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Equity LifeStyle Properties, Inc.
Consolidated Balance Sheets
As of June 30, 2017 and December 31, 2016
(amounts in thousands, except share and per share data)

	June 30, 2017 (unaudited)	December 31, 2016
Assets		
Investment in real estate:		
Land	$ 1,167,510	$ 1,163,987
Land improvements	2,922,201	2,893,759
Buildings and other depreciable property	641,931	627,590
	4,731,642	4,685,336
Accumulated depreciation	(1,459,931)	(1,399,531)
Net investment in real estate	3,271,711	3,285,805
Cash	67,740	56,340
Notes receivable, net	48,253	34,520
Investment in unconsolidated joint ventures	21,766	19,369
Deferred commission expense	31,453	31,375
Escrow deposits, goodwill, and other assets, net	44,435	51,578
Total Assets	$ 3,485,358	$ 3,478,987
Liabilities and Equity		
Liabilities:		
Mortgage notes payable, net	$ 1,855,028	$ 1,891,900
Term loan	199,483	199,379
Unsecured lines of credit	—	—
Accrued expenses and accounts payable	93,451	89,864
Deferred revenue – upfront payments from right-to-use contracts	83,580	81,484
Deferred revenue – right-to-use annual payments	12,559	9,817
Accrued interest payable	8,044	8,379
Rents and other customer payments received in advance and security deposits	88,543	76,906
Distributions payable	45,259	39,411
Total Liabilities	2,385,947	2,397,140
Equity:		
Stockholders' Equity:		
Preferred stock, $0.01 par value, 9,945,539 shares authorized as of June 30, 2017 and December 31, 2016; none issued and outstanding.	—	—
6.75% Series C Cumulative Redeemable Perpetual Preferred Stock, $0.01 par value, 54,461 shares authorized and 54,458 issued and outstanding as of June 30, 2017 and December 31, 2016 at liquidation value	136,144	136,144
Common stock, $0.01 par value, 200,000,000 shares authorized as of June 30, 2017 and December 31, 2016; 87,004,507 and 85,529,386 shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	868	854
Paid-in capital	1,121,307	1,103,048
Distributions in excess of accumulated earnings	(219,641)	(231,276)
Accumulated other comprehensive loss/(income)	30	(227)
Total Stockholders' Equity	1,038,708	1,008,543
Non-controlling interests – Common OP Units	60,703	73,304
Total Equity	1,099,411	1,081,847

Total Liabilities and Equity	$3,485,358	$3,478,987

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

Equity LifeStyle Properties, Inc.
Consolidated Statements of Income and Comprehensive Income
For the Quarters Ended and Six Months Ended June 30, 2017 and 2016
(amounts in thousands, except per share data)
(unaudited)

	Quarters Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Revenues:				
Community base rental income	$121,964	$115,385	$242,656	$229,461
Rental home income	3,632	3,543	7,237	7,088
Resort base rental income	50,055	44,732	111,123	100,166
Right-to-use annual payments	11,350	11,187	22,602	22,241
Right-to-use contracts current period, gross	3,798	3,086	7,004	5,618
Right-to-use contract upfront payments, deferred, net	(1,321)	(798)	(2,096)	(1,100)
Utility and other income	20,650	19,523	42,776	40,316
Gross revenues from home sales	7,833	9,130	14,860	17,344
Brokered resale revenues and ancillary services revenues, net	444	398	2,105	1,816
Interest income	1,798	1,625	3,568	3,285
Income from other investments, net	1,109	2,270	1,866	3,993
Total revenues	221,312	210,081	453,701	430,228
Expenses:				
Property operating and maintenance	72,901	66,647	140,955	129,601
Rental home operating and maintenance	1,657	1,581	3,208	3,106
Real estate taxes	13,943	12,869	27,980	26,067
Sales and marketing, gross	2,894	2,931	5,584	5,424
Right-to-use contract commissions, deferred, net	(112)	(116)	(196)	(12)
Property management	13,023	12,044	25,583	23,807
Depreciation on real estate assets and rental homes	30,247	29,029	60,357	57,684
Amortization of in-place leases	958	428	1,990	763
Cost of home sales	7,895	9,481	15,014	17,762
Home selling expenses	929	805	1,854	1,639
General and administrative	8,461	8,255	15,834	15,663
Property rights initiatives and other, net	271	527	490	1,181
Interest and related amortization	24,822	25,561	49,701	51,195
Total expenses	177,889	170,042	348,354	333,880
Income before equity in income of unconsolidated joint ventures	43,423	40,039	105,347	96,348
Equity in income of unconsolidated joint ventures	1,040	765	2,190	1,646
Consolidated net income	44,463	40,804	107,537	97,994
Income allocated to non-controlling interests – Common OP Units	(2,649)	(2,998)	(6,539)	(7,308)
Series C Redeemable Perpetual Preferred Stock Dividends	(2,316)	(2,316)	(4,613)	(4,613)
Net income available for Common Stockholders	$39,498	$35,490	$96,385	$86,073
Consolidated net income	$44,463	$40,804	$107,537	$97,994
Other comprehensive income (loss) ("OCI"):				
Adjustment for fair market value of swap	30	(36)	257	(644)
Consolidated comprehensive income	44,493	40,768	107,794	97,350
Comprehensive income allocated to non-controlling interests – Common OP Units	(2,651)	(2,995)	(6,555)	(7,257)

Series C Redeemable Perpetual Preferred Stock Dividends	(2,316)	(2,316)	(4,613)	(4,613)
Comprehensive income attributable to Common Stockholders	$39,526	$35,457	$96,626	$85,480

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

Equity LifeStyle Properties, Inc.
Consolidated Statements of Income and Comprehensive Income (Continued)
For the Quarters Ended June 30, 2017 and 2016
(amounts in thousands, except per share data)
(unaudited)

	Quarters Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Earnings per Common Share – Basic:				
Net income available for Common Stockholders	$0.46	$ 0.42	$1.12	$ 1.02
Earnings per Common Share – Fully Diluted:				
Net income available for Common Stockholders	$0.45	$ 0.42	$1.11	$ 1.01
Distributions declared per Common Share outstanding	$0.488	$ 0.425	$0.975	$ 0.850
Weighted average Common Shares outstanding – basic	86,763	84,516	86,408	84,419
Weighted average Common Shares outstanding – fully diluted	93,063	92,264	93,041	92,163

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

Equity LifeStyle Properties, Inc.
Consolidated Statement of Changes in Equity
For the Six Months Ended June 30, 2017
(amounts in thousands)
(unaudited)

	Common Stock	Paid-in Capital	6.75% Series C Cumulative Redeemable Perpetual Preferred Stock	Distributions in Excess of Accumulated Earnings	Non-controlling interests – Common OP Units	Accumulated Other Comprehensive Loss/(Income)	Total Equity
Balance, December 31, 2016	$ 854	$ 1,103,048	$ 136,144	$ (231,276)	$ 73,304	$ (227)	$ 1,081,847
Conversion of Common OP Units to Common Stock	14	16,423	—	—	(16,437)	—	—
Issuance of Common Stock through employee stock purchase plan	—	764	—	—	—	—	764
Compensation expenses related to restricted stock	—	4,257	—	—	—	—	4,257
Adjustment for Common OP Unitholders in the Operating Partnership	—	(3,037)	—	—	3,037	—	—
Adjustment for fair market value of swap	—	—	—	—	—	257	257
Net income	—	—	4,613	96,385	6,539	—	107,537
Distributions	—	—	(4,613)	(84,750)	(5,740)	—	(95,103)
Other	—	(148)	—	—	—	—	(148)
Balance, June 30, 2017	$ 868	$ 1,121,307	$ 136,144	$ (219,641)	$ 60,703	$ 30	$ 1,099,411

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

Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2017 and 2016
(amounts in thousands)
(unaudited)

	June 30, 2017	June 30, 2016
Cash Flows From Operating Activities:		
Consolidated net income	$107,537	$97,994
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation	60,960	58,242
Amortization of in-place leases	1,990	763
Amortization of loan costs	1,788	1,876
Debt premium amortization	(1,166)	(1,730)
Equity in income of unconsolidated joint ventures	(2,190)	(1,646)
Distributions of income from unconsolidated joint ventures	1,800	1,041
Stock-based compensation	4,257	4,393
Revenue recognized from right-to-use contract upfront payments	(4,908)	(4,518)
Commission expense recognized related to right-to-use contracts	2,202	2,019
Long term incentive plan compensation	674	(3,852)
Recovery for uncollectible rents receivable	214	(679)
Changes in assets and liabilities:		
Notes receivable activity, net	(282)	361
Deferred commission expense	(2,280)	(2,238)
Escrow deposits, goodwill and other assets	21,814	13,137
Accrued expenses and accounts payable	316	2,453
Deferred revenue – upfront payments from right-to-use contracts	7,004	5,618
Deferred revenue – right-to-use annual payments	2,742	3,139
Rents received in advance and security deposits	11,630	10,434
Net cash provided by operating activities	214,102	186,807
Cash Flows From Investing Activities:		
Real estate acquisition	(2,053)	(76,203)
Investment in unconsolidated joint ventures	(2,267)	(5,000)
Repayments of notes receivable	5,054	5,176
Issuance of notes receivable	(18,696)	(4,356)
Capital improvements	(53,464)	(55,707)
Net cash used in investing activities	(71,426)	(136,090)
Cash Flows From Financing Activities:		
Proceeds from stock options and employee stock purchase plan	764	5,331
Share based award tax withholding	—	(98)
Gross proceeds from sale of Common Stock	—	50,000
Distributions:		
Common Stockholders	(78,699)	(67,565)
Common OP Unitholders	(5,942)	(5,766)
Preferred Stockholders	(4,613)	(4,613)
Principal payments and mortgage debt payoff	(42,637)	(32,564)
Debt issuance and defeasance costs	—	(5)
Other	(149)	(824)
Net cash used in financing activities	(131,276)	(56,104)
Net increase (decrease) in cash	11,400	(5,387)

Cash, beginning of period	56,340	80,258
Cash, end of period	$67,740	$74,871

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

Equity LifeStyle Properties, Inc.
Consolidated Statements of Cash Flows (continued)
For the Six Months Ended June 30, 2017 and 2016
(amounts in thousands)
(unaudited)

	June 30, 2017	June 30, 2016
Supplemental Information:		
Cash paid during the period for interest	$51,135	$53,121
Capital improvements – used homes acquired by repossessions	192	445
Net repayments of notes receivable – used homes acquired by repossessions	(192)	(445)
Building and other depreciable property – reclassification of rental homes	15,322	15,986
Escrow deposits and other assets – reclassification of rental homes	(15,322)	(15,986)
Real estate acquisitions:		
Investment in real estate, fair value	$(7,985)	$(100,148)
Escrow deposits and other assets	—	(20)
Debt assumed	5,900	22,010
Accrued expenses and accounts payable	32	1,955
Real estate acquisitions, net	$(2,053)	$(76,203)

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

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 1 – Basis of Presentation

Equity LifeStyle Properties, Inc., a Maryland corporation, together with MHC Operating Limited Partnership (the “Operating Partnership”) and other consolidated subsidiaries (“Subsidiaries”) are referred to herein as “we,” “us,” and “our.” Capitalized terms used but not defined herein are as defined in our Annual Report on Form 10-K (“2016 Form 10-K”) for the year ended December 31, 2016. These unaudited Consolidated Financial Statements have been prepared pursuant to Securities and Exchange Commission (“SEC”) rules and regulations. Accordingly, they do not include all of the information and note disclosures required by U.S. Generally Accepted Accounting Principles ("GAAP") for complete financial statements and should be read in conjunction with the financial statements and notes thereto included in the 2016 Form 10-K.

The following notes to the Consolidated Financial Statements highlight significant changes to the notes included in the 2016 Form 10-K and present interim disclosures as required by the SEC. The accompanying Consolidated Financial Statements reflect, in the opinion of management, all adjustments and estimates necessary for a fair presentation of the interim financial statements, which are of a normal, recurring nature. Revenues and expenses are subject to seasonal fluctuations and accordingly, quarterly interim results may not be indicative of full year results.

Note 2 – Summary of Significant Accounting Policies

(a) Consolidation

We consolidate our majority-owned Subsidiaries in which we have the ability to control the operations and all variable interest entities with respect to which we are the primary beneficiary. We also consolidate entities in which we have a direct or indirect controlling or voting interest. All significant intercompany balances and transactions have been eliminated in consolidation.

Effective January 1, 2016, we adopted (“ASU 2015-02”) Consolidation (Topic 810): Amendments to the Consolidation Analysis. ASU 2015-02 required us to evaluate whether we should consolidate certain legal entities. The adoption of this standard did not result in any changes to our accounting of interests in less than wholly-owned joint ventures; however, the Operating Partnership now meets the criteria as a VIE. We concluded that the Operating Partnership is a VIE because we are the general partner and controlling owner of approximately 93.7% of the Operating Partnership and the limited partners do not have substantive kick-out or participating rights. Our sole significant asset is our investment in the Operating Partnership, and consequently, substantially all of our assets and liabilities represent those assets and liabilities of the Operating Partnership. The Company has the power to direct the VIE's activities and the obligation to absorb its losses or the right to receive its benefits, which are significant to the VIE. Accordingly, we are the primary beneficiary and we will continue to consolidate the Operating Partnership under this new guidance.

We apply the equity method of accounting to entities in which we do not have a direct or indirect controlling interest or for variable interest entities where we are not considered the primary beneficiary, but can exercise influence over the entity with respect to its operations and major decisions.

(b) Identified Intangibles and Goodwill

As of both June 30, 2017 and December 31, 2016, the gross carrying amount of identified intangible assets and goodwill, a component of escrow deposits, goodwill and other assets, net on our consolidated balance sheets, was approximately $12.1 million. As of both June 30, 2017 and December 31, 2016, this amount was comprised of approximately $4.3 million of identified intangible assets and approximately $7.8 million of goodwill. Accumulated amortization of identified intangible assets was approximately $2.9 million and $2.8 million as of June 30, 2017 and December 31, 2016, respectively.

As of both June 30, 2017 and December 31, 2016, the gross carrying amount of in-place lease intangible assets, a component of buildings and other depreciable property on our consolidated balance sheets, was approximately $76.7 million. Accumulated amortization of in-place lease intangible assets was approximately $75.9 million and $74.0 million as of June 30, 2017 and December 31, 2016, respectively.

(c) Restricted Cash

Cash as of both June 30, 2017 and December 31, 2016 included approximately $5.3 million of restricted cash for the payment of capital improvements, insurance or real estate taxes.

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Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 2 – Summary of Significant Accounting Policies (continued)

(d) Fair Value of Financial Instruments

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

Our mortgage notes payable and term loan, excluding deferred financing costs of approximately $17.8 million and $18.9 million, respectively, had an aggregate carrying value of approximately $2,072.3 million and $2,110.2 million as of June 30, 2017 and December 31, 2016, respectively, and a fair value of approximately $2,106.4 million and $2,081.2 million as of June 30, 2017 and December 31, 2016, respectively. The fair value was measured using quoted prices and observable inputs from similar liabilities (Level 2). At June 30, 2017 and December 31, 2016, our cash flow hedge of interest rate risk included in accrued expenses and accounts payable was measured using quoted prices and observable inputs from similar assets and liabilities (Level 2). We consider our own credit risk as well as the credit risk of our counterparties when evaluating the fair value of our derivative. The fair values of our notes receivable approximate their carrying or contract values. We also utilize Level 2 and Level 3 inputs as part of our determination of the purchase price allocation for our acquisitions.

(e) New Accounting Pronouncements

In January 2017, the FASB issued ("ASU 2017-01") Business Combinations (Topic 805): Clarifying the Definition of a Business. ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. ASU 2017-01 will be effective for annual reporting beginning after December 15, 2017. We are currently in the process of evaluating the potential impact that the adoption of this standard may have on our consolidated financial statements and related disclosures.

In August 2016, the FASB issued (“ASU 2016-15”) Statement of Cash Flows (Topic 230). ASU 2016-15 provides guidance on how certain cash receipts and cash payments are to be presented and classified in the statement of cash flows. ASU 2016-15 will be effective for annual reporting periods beginning after December 15, 2017. Early adoption is permitted. We are currently in the process of evaluating the potential impact, if any, that adoption of this standard may have on our consolidated financial statements and related disclosures.

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

In February 2016, the FASB issued ("ASU 2016-02") Leases. ASU 2016-02 amends the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. ASU 2016-02 requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. ASU 2016-02 will continue to classify leases as either finance or operating, with classification affecting the pattern of expense recognition in the statement of income. ASU 2016-02 will be effective for annual reporting periods beginning after December 15, 2018. Early adoption is permitted. We are currently in the process of evaluating the potential impact this standard may have on our consolidated financial statements and related disclosures.

In May 2014, the FASB issued ("ASU 2014-09") Revenue from Contracts with Customers which along with related subsequent amendments will replace most existing revenue recognition guidance in GAAP. The core principle of ASU 2014-09 is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. ASU 2014-09 requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The new standard will be effective for the Company beginning on January 1, 2018. The standard permits the use of either the full retrospective or modified retrospective transition method.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 2 – Summary of Significant Accounting Policies (continued)

We expect to adopt ASU 2014-09 on January 1, 2018, using the modified retrospective transition method. We are evaluating the complete impact of the adoption to our consolidated financial results. Our primary source of revenue is generated through leasing arrangements, which are excluded from ASU 2014-09. We continue to evaluate and are in the process of quantifying the impact, if any, the adoption of ASU 2014-09 will have on our non-lease revenue streams, including right-to-use annual payments, right-to-use contracts, and utility and other income.

Note 3 – Earnings Per Common Share

The following table sets forth the computation of basic and diluted earnings per Common Share for the quarters and six months ended June 30, 2017 and 2016 (amounts in thousands, except per share data):

	Quarters Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net Income Available for Common Stockholders:				
Net income available for Common Stockholders – basic	$39,498	$35,490	$96,385	$86,073
Amounts allocated to dilutive securities	2,649	2,998	6,539	7,308
Net income available for Common Stockholders – fully diluted	$42,147	$38,488	$102,924	$93,381
Denominator:				
Weighted average Common Shares outstanding – basic	86,763	84,516	86,408	84,419
Effect of dilutive securities:				
Conversion of Common OP Units to Common Shares	5,886	7,205	6,235	7,206
Stock options and restricted shares	414	543	398	538
Weighted average Common Shares outstanding – fully diluted	93,063	92,264	93,041	92,163
Earnings per Common Share – Basic:				
Net income available for Common Stockholders	$0.46	$0.42	$1.12	$1.02
Earnings per Common Share – Fully Diluted:				
Net income available for Common Stockholders	$0.45	$0.42	$1.11	$1.01

Note 4 – Common Stock and Other Equity Related Transactions

Dividends

The following quarterly distributions have been declared on our depositary shares (each representing 1/100 of a share of our Series C Preferred Stock) and paid to our preferred stockholders for the six months ended June 30, 2017.

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

The following quarterly distributions have been declared and paid to common stockholders and common OP Unit non-controlling holders for the six months ended June 30, 2017.

Distribution Amount Per Share	For the Quarter Ended	Stockholder Record Date	Payment Date
$0.4875	March 31, 2017	March 31, 2017	April 14, 2017
$0.4875	June 30, 2017	June 30, 2017	July 14, 2017

Conversions

Subject to certain limitations, holders of Common Operating Partnership units ("OP units") can convert their units to Common Stock at any time. During the six months ended June 30, 2017, 1,334,747 OP units were converted to an equal number of shares of Common Stock.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 5 – Real Estate Acquisitions

On May 10, 2017, we completed the acquisition of Paradise Park Largo, a 108-site manufactured home community located in Largo, Florida. The purchase price of approximately $8.0 million was funded with available cash and an assumed loan. The $5.9 million loan has an interest rate of 4.6% that matures in 2040.

Note 6 – Investment in Unconsolidated Joint Ventures

On June 15, 2017, we entered into a joint venture agreement to purchase Crosswinds Mobile Home Park, a 376-site manufactured home community located in St. Petersburg, Florida. The purchase price of the Property was $18.4 million. We contributed $2.2 million for a 49% equity interest in the joint venture. The joint venture is accounted for under the equity method of accounting. As part of the transaction, we issued a short term loan of $13.8 million to the joint venture. The loan bears interest at 5% per annum, can be repaid with no penalty prior to maturity and matures on December 12, 2017.

The following table summarizes our investment in unconsolidated joint ventures (investment amounts in thousands with the number of Properties shown parenthetically as of June 30, 2017 and December 31, 2016):

Investment	Location	Number of Sites	Economic Interest [(a)]	Investment as of June 30, 2017	Investment as of December 31, 2016	Joint Venture Income/(Loss) for the Six Months Ended June 30, 2017	Joint Venture Income/(Loss) for the Six Months Ended June 30, 2016
Meadows	Various (2,2)	1,077	50 %	$240	$ 510	$ 1,130	$ 577
Lakeshore	Florida (3,2)	720	(b)	2,321	56	147	160
Voyager	Arizona (1,1)	1,801	50 % (c)	3,799	3,376	800	917
ECHO JV	Various	—	50 %	15,406	15,427	113	(8)
		3,598		$21,766	$ 19,369	$ 2,190	$ 1,646

(a) The percentages shown approximate our economic interest as of June 30, 2017. Our legal ownership interest may differ.

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

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

We received approximately $1.8 million and $1.0 million in distributions from these joint ventures for the six months ended June 30, 2017 and 2016, respectively. Approximately $0.3 million and $0.5 million of the distributions made to us exceeded our basis in joint ventures for the quarter and six months ended June 30, 2017, and as such were recorded as income from unconsolidated joint ventures. None of the distributions made to us exceeded our basis in joint ventures for the quarter and six months ended June 30, 2016.

Note 7 – Borrowing Arrangements

Mortgage Notes Payable

As of June 30, 2017 and December 31, 2016, we had outstanding mortgage indebtedness of approximately $1,855.0 million and $1,891.9 million, respectively, net of deferred financing costs. In connection with the Paradise Park Largo acquisition during the quarter ended June 30, 2017, we assumed approximately $5.9 million of mortgage debt secured by the manufactured home community with an interest rate of 4.6% that matures in 2040. During the quarter ended March 31, 2017, we paid off one maturing mortgage loan of approximately $21.1 million, with a weighted average interest rate of 5.76% per annum, secured by one manufactured home Property.

The weighted average interest rate, including the impact of premium/discount amortization and loan cost amortization on mortgage indebtedness, for the six months ended June 30, 2017 was approximately 4.9% per annum. The debt bears interest at stated rates ranging from 3.5% to 8.9% per annum and matures on various dates ranging from 2017 to 2041. The debt encumbered a total of 126 of our Properties as of both June 30, 2017 and December 31, 2016, and the carrying value of such Properties was approximately $2,282.1 million and $2,296.6 million, as of June 30, 2017 and December 31, 2016, respectively.

As of June 30, 2017, we are in compliance in all material respects with the covenants in our borrowing arrangements.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 8 – Equity Incentive Awards

Stock-based compensation expense, reported in general and administrative on the Consolidated Statements of Income and Comprehensive Income, for both of the quarters ended June 30, 2017 and 2016 was approximately $2.5 million and for the six months ended June 30, 2017 and 2016 was approximately $4.3 million and $4.4 million respectively.

Our 2014 Equity Incentive Plan (the “2014 Plan”) was adopted by our Board of Directors on March 11, 2014 and approved by our stockholders on May 13, 2014. Pursuant to the 2014 Plan, our officers, directors, employees and consultants may be awarded (i) shares of common stock (“Restricted Stock”), (ii) options to acquire shares of common stock (“Options”), including non-qualified stock options and incentive stock options within the meaning of Section 422 of the Internal Revenue Code, and (iii) other forms of equity awards, subject to conditions and restrictions determined by the Compensation, Nominating, and Corporate Governance Committee of our Board of Directors (the “Compensation Committee”). The Compensation Committee will determine the vesting schedule, if any, of each Restricted Stock Grant or Option and the term of each Option, which term shall not exceed ten years from the date of grant. Shares that do not vest are forfeited. Dividends paid on restricted stock are not returnable, even if the underlying stock does not entirely vest. A maximum of 3,750,000 shares of common stock were originally available for grant under the 2014 Plan. As of June 30, 2017, 3,126,885 shares remained available for grant.

Grants under the 2014 Plan are approved by the Compensation Committee, which determines the individuals eligible to receive awards, the types of awards, and the terms, conditions and restrictions applicable to any award, except grants to directors which are approved by the Board of Directors.

On May 2, 2017, we awarded to certain members of our Board of Directors, 55,238 shares of Restricted Stock at a fair market value of approximately $4.5 million and Options to purchase 6,930 shares of common stock with an exercise price of $81.15 per share. The shares of common stock covered by these awards are subject to multiple tranches that vest between November 2, 2017 and May 2, 2020.

On February 1, 2017, we awarded 75,000 shares of Restricted Stock at a fair market value of approximately $5.4 million to certain members of our senior management for their service in 2017. These restricted stock grants will vest on December 31, 2017.

The fair market value of our restricted stock grants was determined by using the closing share price of our common stock on the date the shares were issued and is recorded as compensation expense and paid in capital over the vesting period.

Note 9 – Commitments and Contingencies

California Rent Control Litigation

As part of our effort to realize the value of our Properties subject to rent control, we previously initiated lawsuits against certain localities in California with the goal of achieving a level of regulatory fairness in California's rent control jurisdictions, and in particular those jurisdictions that prohibit increasing rents to market upon turnover. Such regulations allow tenants to sell their homes for a price that includes a premium above the intrinsic value of the homes. The premium represents the value of the future discounted rent-controlled rents, which is fully capitalized into the prices of the homes sold. In our view, such regulations result in a transfer to the tenants of the value of our land, which would otherwise be reflected in market rents. We have discovered through the litigation process that certain municipalities considered condemning our Properties at values well below the value of the underlying land. In our view, a failure to articulate market rents for Sites governed by restrictive rent control would put us at risk for condemnation or eminent domain proceedings based on artificially reduced rents. Such a physical taking, should it occur, could represent substantial lost value to stockholders. We are cognizant of the need for affordable housing in the jurisdictions, but assert that restrictive rent regulation does not promote this purpose because tenants pay to their sellers as part of the purchase price of the home all the future rent savings that are expected to result from the rent control regulations, eliminating any supposed improvement in the affordability of housing. In a more well-balanced regulatory environment, we would receive market rents that would eliminate the price premium for homes, which would trade at or near their intrinsic value. Such efforts have included the following matters:

We sued the City of San Rafael on October 13, 2000 in the U.S. District Court for the Northern District of California, challenging its rent control ordinance on constitutional grounds. While the District Court found the rent control ordinance unconstitutional, the United States Court of Appeals for the Ninth Circuit reversed the District Court and ruled that the ordinance had not unconstitutionally taken our property. On September 3, 2013, we filed a petition for review by the U.S. Supreme Court, which was denied.

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements
Note 9 – Commitments and Contingencies (continued)

On January 31, 2012, we sued the City of Santee in the United States District for the Southern District of California challenging its rent control ordinance on constitutional grounds. On September 26, 2013, we entered a settlement agreement with the City pursuant to which we are able to increase Site rents at the Meadowbrook community through January 1, 2034 as follows: (a) a one-time 2.5% rent increase on all Sites in January 2014; plus (b) annual rent increases of 100% of the consumer price index (CPI) beginning in 2014; and (c) a 10% increase in the rent on a site upon turnover of that site. Absent the settlement, the rent control ordinance limited us to annual rent increases of at most 70% of CPI with no increases on turnover of a site.

Settlement of California Lawsuits
On January 18, 2017, we entered into agreements pursuant to which we agreed to settle three California lawsuits related to our California Hawaiian property in San Jose, our Monte del Lago property in Castroville and our Santiago Estates property in Sylmar. Each of the three plaintiff groups was represented by the same law firm and alleged that the Company failed to properly maintain the respective properties. The settlement agreements provided for $9.9 million to be paid to settle the California Hawaiian matter, $1.5 million to be paid to settle the Monte del Lago matter and $1.9 million to be paid to settle the Santiago Estates matter. As a result, a litigation settlement payable was recorded in Accrued expenses and accounts payable as of December 31, 2016. In addition, an insurance receivable was recorded in escrow deposits, goodwill and other assets, net as of December 31, 2016, resulting in a net settlement of approximately $2.4 million reflected as a component of property rights initiatives and other, net on the consolidated statement of income for the year ended December 31, 2016. During the quarter ended March 31, 2017, the settlements were finalized, the settlement payments were made and the insurance payments were received. These settlements resolved all pending matters brought by plaintiffs’ counsel against us or any of our affiliates. Pursuant to the settlement agreements, all plaintiffs provided full releases to each of the defendants and their affiliates including with respect to the claims alleged in the lawsuits, and each of the lawsuits and related appeals were dismissed with prejudice. The settlements do not constitute an admission of liability by us or any of our affiliates and were made to avoid the costs, risks and uncertainties inherent in litigation.

Civil Investigation by Certain California District Attorneys
In November 2014, we received a civil investigative subpoena from the office of the District Attorney for Monterey County, California ("MCDA"), seeking information relating to, among other items, statewide compliance with asbestos and hazardous waste regulations dating back to 2005 primarily in connection with demolition and renovation projects performed by third-party contractors at our California Properties. We responded by providing the information required by the subpoena.
On October 20, 2015, we attended a meeting with representatives of the MCDA and certain other District Attorneys' offices at which the MCDA reviewed the preliminary results of their investigation including, among other things, (i) alleged violations of asbestos and related regulations associated with approximately 200 historical demolition and renovation projects in California; (ii) potential exposure to civil penalties and unpaid fees; and (iii) next steps with respect to a negotiated resolution of the alleged violations. No legal proceedings have been instituted to date and we are involved in settlement discussions with the District Attorneys' offices. We continue to assess the allegations and the underlying facts, and at this time we are unable to predict the outcome of the investigation or reasonably estimate any possible loss.
Other
In addition to legal matters discussed above, we are involved in various other legal and regulatory proceedings ("Other Proceedings") arising in the ordinary course of business. The Other Proceedings include, but are not limited to, notices, consent decrees, information requests, and additional permit requirements and other similar enforcement actions by governmental agencies relating to our utility infrastructure, including water and wastewater treatment

plants and other waste treatment facilities and electrical systems. Additionally, in the ordinary course of business, our operations are subject to audit by various taxing authorities. Management believes these Other Proceedings taken together do not represent a material liability. In addition, to the extent any such proceedings or audits relate to newly acquired Properties, we consider any potential indemnification obligations of sellers in our favor.

Note 10 – Reportable Segments

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

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 10 - Reportable Segments (Continued)

All revenues are from external customers and there is no customer who contributed 10% or more of our total revenues during the quarters and six months ended June 30, 2017 or 2016.
The following tables summarize our segment financial information for the quarters and six months ended June 30, 2017 and 2016 (amounts in thousands):
Quarter Ended June 30, 2017

	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$206,594	$11,811	$218,405
Operations expenses	(102,649)	(10,481)	(113,130)
Income from segment operations	103,945	1,330	105,275
Interest income	754	1,041	1,795
Depreciation on real estate assets and rental homes	(27,609)	(2,638)	(30,247)
Amortization of in-place leases	(958)	—	(958)
Income (loss) from operations	$76,132	$(267)	$75,865
Reconciliation to Consolidated net income:			
Corporate interest income			3
Income from other investments, net			1,109
General and administrative			(8,461)
Property rights initiatives and other			(271)
Interest and related amortization			(24,822)
Equity in income of unconsolidated joint ventures			1,040
Consolidated net income			$44,463
Total assets	$3,267,947	$217,411	$3,485,358

Quarter Ended June 30, 2016

	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$193,184	$13,002	$206,186
Operations expenses	(94,375)	(11,867)	(106,242)
Income from segment operations	98,809	1,135	99,944
Interest income	736	867	1,603
Depreciation on real estate assets and rental homes	(26,317)	(2,712)	(29,029)
Amortization of in-place leases	(428)	—	(428)
Income (loss) from operations	$72,800	$(710)	$72,090
Reconciliation to Consolidated net income:			
Corporate interest income			22
Income from other investments, net			2,270
General and administrative			(8,255)
Property rights initiatives and other			(527)
Interest and related amortization			(25,561)
Equity in income of unconsolidated joint ventures			765
Consolidated net income			$40,804

Total assets	$3,249,375	$236,200	$3,485,575

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Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 10 - Reportable Segments (Continued)

Six Months Ended June 30, 2017

	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$425,582	$22,685	$448,267
Operations expenses	(199,906)	(20,076)	(219,982)
Income from segment operations	225,676	2,609	228,285
Interest income	1,484	2,079	3,563
Depreciation on real estate assets and rental homes	(55,062)	(5,295)	(60,357)
Amortization of in-place leases	(1,990)	—	(1,990)
Income (loss) from operations	$170,108	$(607)	$169,501
Reconciliation to Consolidated net income:			
Corporate interest income			5
Income from other investments, net			1,866
General and administrative			(15,834)
Property rights initiatives and other			(490)
Interest and related amortization			(49,701)
Equity in income of unconsolidated joint ventures			2,190
Consolidated net income			$107,537
Total assets	$3,267,947	$217,411	$3,485,358
Capital improvements	$31,731	$21,733	$53,464

Six Months Ended June 30, 2016

	Property Operations	Home Sales and Rentals Operations	Consolidated
Operations revenues	$397,910	$25,040	$422,950
Operations expenses	(184,887)	(22,507)	(207,394)
Income from segment operations	213,023	2,533	215,556
Interest income	1,453	1,785	3,238
Depreciation on real estate assets and rental homes	(52,281)	(5,403)	(57,684)
Amortization of in-place leases	(763)	—	(763)
Income (loss) from operations	$161,432	$(1,085)	$160,347
Reconciliation to Consolidated net income:			
Corporate interest income			47
Income from other investments, net			3,993
General and administrative			(15,663)
Property rights initiatives and other			(1,181)
Interest and related amortization			(51,195)
Equity in income of unconsolidated joint ventures			1,646
Consolidated net income			$97,994
Total assets	$3,249,375	$236,200	$3,485,575

Equity LifeStyle Properties, Inc.
Notes to Consolidated Financial Statements

Note 10 - Reportable Segments (Continued)

The following table summarizes our financial information for the Property Operations segment for the quarters and six months ended June 30, 2017 and 2016 (amounts in thousands):

	Quarters Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Revenues:				
Community base rental income	$121,964	$115,385	$242,656	$229,461
Resort base rental income	50,055	44,732	111,123	100,166
Right-to-use annual payments	11,350	11,187	22,602	22,241
Right-to-use contracts current period, gross	3,798	3,086	7,004	5,618
Right-to-use contract upfront payments, deferred, net	(1,321)	(798)	(2,096)	(1,100)
Utility and other income	20,650	19,523	42,776	40,316
Ancillary services revenues, net	98	69	1,517	1,208
Total property operations revenues	206,594	193,184	425,582	397,910
Expenses:				
Property operating and maintenance	72,901	66,647	140,955	129,601
Real estate taxes	13,943	12,869	27,980	26,067
Sales and marketing, gross	2,894	2,931	5,584	5,424
Right-to-use contract commissions, deferred, net	(112)	(116)	(196)	(12)
Property management	13,023	12,044	25,583	23,807
Total property operations expenses	102,649	94,375	199,906	184,887
Income from property operations segment	$103,945	$98,809	$225,676	$213,023

The following table summarizes our financial information for the Home Sales and Rentals Operations segment for the quarters and six months ended June 30, 2017 and 2016 (amounts in thousands):

	Quarters Ended		Six Months Ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Revenues:				
Gross revenue from home sales	$7,833	$9,130	$14,860	$17,344
Brokered resale revenues, net	346	329	588	608
Rental home income [(a)]	3,632	3,543	7,237	7,088
Total revenues	11,811	13,002	22,685	25,040
Expenses:				
Cost of home sales	7,895	9,481	15,014	17,762
Home selling expenses	929	805	1,854	1,639
Rental home operating and maintenance	1,657	1,581	3,208	3,106
Total expenses	10,481	11,867	20,076	22,507
Income from home sales and rentals operations segment	$1,330	$1,135	$2,609	$2,533

(a) Segment information does not include Site rental income included in Community base rental income.

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

The following discussion and analysis should be read in conjunction with the Consolidated Financial Statements and related Notes included elsewhere in this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2016, and with the information under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2016.

Overview

We are a self-administered, self-managed, real estate investment trust (“REIT”) with headquarters in Chicago, Illinois. We are a fully integrated owner and operator of lifestyle-oriented properties (“Properties”) consisting primarily of manufactured home ("MH") communities and recreational vehicle ("RV") resorts and campgrounds. As of June 30, 2017, we owned or had an ownership interest in a portfolio of 393 Properties located throughout the United States and Canada containing 147,107 Sites. These properties are located in 32 states and British Columbia, with more than 80 Properties with lake, river or ocean frontage and more than 100 Properties within 10 miles of the coastal United States.

We generate the majority of our revenues from customers renting our Sites, or entering into right-to-use contracts (also referred to as membership products) which provide our customers access to specific Properties for limited stays. Our MH community Sites and annual RV resort Sites are leased on an annual basis. Seasonal Sites are leased to customers generally for one to six months. Transient Sites are leased to customers on a short-term basis. The revenue from seasonal and transient Sites is generally higher during the first and third quarters. We consider the transient revenue stream to be our most volatile as it is subject to weather conditions and other factors affecting the RV customer's vacation and travel preferences. Sites designated as right-to-use Sites are primarily utilized to service the approximately 106,500 customers who have entered into right-to-use contracts (otherwise referred to as "memberships" or "membership dues"). We also have interests in joint venture Properties for which revenue is classified as Equity in income from unconsolidated joint ventures in the Consolidated Statements of Income and Comprehensive Income. The breakdown of our Sites by type are as follows (amounts are approximate):

	Total Sites as of June 30, 2017
Community Sites	71,100
Resort Sites:	
Annual	26,600
Seasonal	11,200
Transient	10,500
Right-to-use [1]	24,100
Joint Ventures [2]	3,600
	147,100

[1] Includes approximately 5,700 Sites rented on an annual basis.
[2] Joint