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

FORM 10-Q

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

For the quarterly period ended September 30, 2004

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 1-10272

ARCHSTONE-SMITH OPERATING TRUST
(Exact name of registrant as specified in its charter)

Maryland	**74-6056896**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. employer identification no.)**

9200 E Panorama Circle, Suite 400
Englewood, Colorado 80112
(Address of principal executive offices and zip code)

(303) 708-5959
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 for the past 90 days.

Yes __X__ No _____

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

At November 3, 2004, there were approximately 23,183,000 Class A-1 Common Units outstanding held by non-affiliates.

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PART I – FINANCIAL INFORMATION
Item 1. Financial Statements

Archstone-Smith Operating Trust

Condensed Consolidated Balance Sheets

(In thousands, except unit data)

ASSETS	September 30, 2004 (Unaudited)	December 31, 2003
Real estate	$ 8,885,846	$ 8,638,954
Real estate – held for sale	428,804	360,226
Less accumulated depreciation	744,898	648,982
	8,569,752	8,350,198
Investments in and advances to unconsolidated entities	95,811	86,367
Net investments	8,665,563	8,436,565
Cash and cash equivalents	179,642	5,230
Restricted cash in tax-deferred exchange escrow	83,357	180,920
Other assets	149,215	298,980
Total assets	$ 9,077,777	$ 8,921,695
LIABILITIES AND EQUITY		
Liabilities:		
Unsecured credit facilities	$ –	$ 103,790
Long-Term Unsecured Debt	2,119,913	1,871,965
Mortgages payable	1,931,363	1,866,252
Mortgages payable – held for sale	60,810	61,373
Accounts payable, accrued expenses and other liabilities	313,203	281,212
Total liabilities	4,425,289	4,184,592
Minority interest	2,050	11,510
Other common unitholders' interest, at redemption value (A-1 and B Common Units: 23,330,417 in 2004 and 25,301,069 in 2003)	738,174	707,924
Unitholders' equity:		
Convertible Preferred Units	25,000	50,000
Perpetual Preferred Units	79,090	160,120
Common unitholders' equity (A-2 Common Units: 197,224,705 in 2004 and 194,762,263 in 2003)	3,815,765	3,793,314
Accumulated other comprehensive (loss)/income	(7,591)	14,235
Total unitholders' equity	3,912,264	4,017,669
Total liabilities and unitholders' equity	$ 9,077,777	$ 8,921,695

The accompanying notes are an integral part of these condensed consolidated financial statements.

Archstone-Smith Operating Trust

Condensed Consolidated Statements of Earnings

(In thousands, except per unit amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues:				
Rental revenues	$ 224,497	$ 198,894	$ 649,193	$ 586,454
Other income	4,930	3,833	13,836	14,690
	229,427	202,727	663,029	601,144
Expenses:				
Rental expenses	60,864	51,072	168,699	146,897
Real estate taxes	20,900	17,459	63,388	52,851
Depreciation on real estate investments	54,119	42,729	154,834	123,480
Interest expense	46,692	36,800	129,476	111,728
General and administrative expenses	12,898	12,558	37,423	38,200
Other expenses	2,809	2,380	6,107	28,978
	198,282	162,998	559,927	502,134
Earnings from operations	31,145	39,729	103,102	99,010
Minority interest	108	(10)	460	(17)
Income from unconsolidated entities	5,485	1,714	18,115	1,008
Other non-operating income	7,701	–	28,162	–
Earnings before discontinued operations	44,439	41,433	149,839	100,001
Earnings from discontinued apartment communities	115,184	136,274	214,817	249,970
Net earnings	159,623	177,707	364,656	349,971
Preferred Unit distributions	5,706	6,128	14,612	21,737
Net earnings attributable to Common Units – Basic	$ 153,917	$ 171,579	$ 350,044	$ 328,234
Weighted average Common Units outstanding – Basic	219,234	214,195	219,516	210,431
Weighted average Common Units outstanding – Diluted	222,791	221,519	222,970	219,968
Earnings per Common Unit – Basic:				
Earnings before discontinued operations	$ 0.18	$ 0.16	$ 0.61	$ 0.37
Discontinued operations, net	0.52	0.64	0.98	1.19
Net earnings	$ 0.70	$ 0.80	$ 1.59	$ 1.56
Earnings per Common Unit – Diluted:				
Earnings before discontinued operations	$ 0.18	$ 0.16	$ 0.61	$ 0.37
Discontinued operations, net	0.52	0.63	0.97	1.18
Net earnings	$ 0.70	$ 0.79	$ 1.58	$ 1.55
Distributions paid per Common Unit	$ 0.43	$ 0.4275	$ 1.29	$ 1.2825

The accompanying notes are an integral part of these condensed consolidated financial statements.

Archstone-Smith Operating Trust

Condensed Consolidated Statement of Unitholders' Equity, other Common Unitholders' Interest and Comprehensive Income

Nine Months Ended September 30, 2004

(In thousands)
(Unaudited)

	Convertible Preferred Units at Aggregate Liquidation Preference	Perpetual Preferred Units at Aggregate Liquidation Preference	Common Unitholders' Equity	Accumulated Other Comprehensive Income/(Loss)	Total Unitholders' Equity	Other Common Unitholders' Interest	Total
Balances at December 31, 2003	$ 50,000	$ 160,120	$ 3,793,314	$ 14,235	$ 4,017,669	$ 707,924	$ 4,725,593
Comprehensive income:							
Net earnings	–	–	321,359	–	321,359	43,297	364,656
Change in fair value of cash flow hedges	–	–	–	1,970	1,970	–	1,970
Change in fair value of marketable securities	–	–	–	(23,796)	(23,796)	–	(23,796)
Comprehensive income attributable to Common Units							342,830
Preferred Unit distributions	–	–	(14,612)	–	(14,612)	1,727	(12,885)
Common Units distributions	–	–	(253,933)	–	(253,933)	(31,378)	(285,311)
A-1 Common Units converted into A-2 Common Units	–	–	46,920	–	46,920	(46,920)	–
A-2 Common Unit repurchases	–	–	(88,502)	–	(88,502)	–	(88,502)
Conversion of Preferred Units into Common Units	(25,000)	–	25,000	–	–	–	–
Preferred Unit repurchases	–	(81,030)	–	–	(81,030)	–	(81,030)
Exercise of options	–	–	35,795	–	35,795	–	35,795
Issuance of A-1 Common Units	–	–	–	–	–	10,788	10,788
Issuance of A-2 Common Units	–	–	4,502	–	4,502	–	4,502
Adjustment to redemption value	–	–	(52,736)	–	(52,736)	52,736	–
Other, net	–	–	(1,342)	–	(1,342)	–	(1,342)
Balances at September 30, 2004	$ 25,000	$ 79,090	$ 3,815,765	$ (7,591)	$ 3,912,264	$ 738,174	$ 4,650,438

The accompanying notes are an integral part of these condensed consolidated financial statements.

Archstone-Smith Operating Trust

Condensed Consolidated Statements of Cash Flows

(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Operating activities:		
Net earnings	$ 364,656	$ 349,971
Adjustments to reconcile net earnings to net cash flow provided by operating activities:		
Depreciation and amortization	172,172	148,162
Gains on dispositions of depreciated real estate, net	(226,296)	(243,718)
Gains on sale of marketable equity securities and property management business	(28,162)	–
Provision for possible loss on real estate investments	–	3,714
Minority interest	(460)	17
Equity in earnings/loss from unconsolidated entities	(18,115)	(1,008)
Change in other assets	(586)	7,972
Change in accounts payable, accrued expenses and other liabilities	13,133	(19,413)
Other, net	(6,087)	4,030
Net cash flow provided by operating activities	270,255	249,727
Investing activities:		
Real estate investments, net	(1,164,522)	(623,713)
Change in investments in unconsolidated entities, net	16,508	20,548
Proceeds from dispositions, net of closing costs	1,163,277	1,217,461
Change in tax-deferred exchange escrow	97,563	(84,232)
Other, net	125,449	(47,061)
Net cash flow provided by investing activities	238,275	483,003
Financing activities:		
Payments on Long-Term Unsecured Debt	(52,950)	(151,250)
Proceeds from Long-Term Unsecured Debt, net	297,052	247,225
Principal prepayment of mortgages payable, including prepayment penalties	(78,285)	(263,442)
Regularly scheduled principal payments on mortgages payable	(9,003)	(8,993)
Proceeds from mortgage notes payable	44,241	52,299
Repayments of borrowings from unsecured credit facilities, net	(103,790)	(363,578)
Proceeds from Common Units issued under DRIP and employee stock options	35,795	87,885
Repurchase of Common Units and Preferred Units	(137,442)	(13,624)
Repurchase of Series E and F Perpetual Preferred Units	(32,090)	–
Cash dividends paid on Common Units	(285,311)	(271,128)
Cash dividends paid on Preferred Units	(12,885)	(23,955)
Other, net	550	(1,819)
Net cash flow (used in) financing activities	(334,118)	(710,380)
Net change in cash and cash equivalents	174,412	22,350
Cash and cash equivalents at beginning of period	5,230	12,846
Cash and cash equivalents at end of period	$ 179,642	$ 35,196
Significant non-cash investing and financing activities:		
A-1 Common Units issued in exchange for real estate	$ 10,788	$ 33,355
Common Units issued in exchange for real estate	4,502	–
A-1 Common Units converted to Common Units	46,920	22,913
Assumption of mortgages payable upon purchase of apartment communities	113,585	–
Conversion of Series K Preferred Units into Common Units	25,000	–
Conversion of Series H Preferred Units into Common Units	–	71,500

The accompanying notes are an integral part of these condensed consolidated financial statements.

Archstone-Smith Operating Trust

Notes to Condensed Consolidated Financial Statements

September 30, 2004 and 2003
(Unaudited)

(1) Description of the Business and Summary of Significant Accounting Policies

Business

Archstone-Smith is structured as an UPREIT under which substantially all property ownership and business operations are conducted through the Operating Trust. Archstone-Smith is our sole trustee and owns approximately 89.4% of the Operating Trust's outstanding Common Units; the remaining 10.6% are owned by minority interest holders. As used herein, "we", "our" and the "company" refers to the Operating Trust and Archstone-Smith, collectively, except where the context otherwise requires. Archstone-Smith is an equity REIT organized under the laws of the State of Maryland. We focus on creating value for our shareholders by acquiring, developing and operating apartments in markets characterized by: (i) protected locations with limited land on which to build new housing; (ii) expensive single-family home prices; and (iii) a strong, diversified economic base and job growth potential.

Interim Financial Reporting

The accompanying condensed consolidated financial statements of the Operating Trust are unaudited and certain information and footnote disclosures normally included in financial statements have been omitted. While management believes that the disclosures presented are adequate for interim reporting, these interim financial statements should be read in conjunction with the financial statements and notes included in the Operating Trust's 2003 Form 10-K. See the glossary in our 2003 Form 10-K for all defined terms not defined herein.

In the opinion of management, the accompanying unaudited financial statements contain all adjustments necessary for a fair presentation of the Operating Trust's financial statements for the interim periods presented. The results of operations for the three and nine months ended September 30, 2004 are not necessarily indicative of the results to be expected for the entire year.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and the related notes. Actual results could differ from those estimates. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the period they are determined to be necessary.

Moisture Infiltration and Resulting Mold Remediation Costs

We estimate and accrue costs related to the correction of moisture infiltration and related mold remediation when we anticipate incurring such remediation costs because of the assertion of a legal claim or threatened litigation. When we incur remediation costs at our own discretion, the cost is recognized as incurred. Costs of addressing moisture infiltration and resulting mold remediation issues are only capitalized, subject to recoverability, when it is determined by management that such costs also extend the life, increase the capacity, or improve the safety or efficiency of the property relative to when the community was originally constructed or acquired, if later. All other related costs are expensed.

Archstone-Smith Operating Trust

Notes to Condensed Consolidated Financial Statements – (Continued)

Loss Contingencies

We accrue for loss contingencies when it is probable that a loss will be incurred and that loss can by reasonably estimated consistent with the criteria established in SFAS No. 5 "Accounting for Contingencies". We also record insurance recoveries up to the amount of the actual loss contingency when the insurance recovery is both probable and can be reasonably estimated.

Legal Fees

We generally recognize legal expenses as incurred; however, if such fees are related to the accrual for an estimated legal settlement, we accrue for the related incurred and anticipated legal fees at the same time we accrue the cost of settlement.

Real Estate Depreciation

We allocate the cost of newly acquired properties between net tangible and identifiable intangible assets. The primary intangible asset associated with an apartment community acquisition is the value of the existing lease agreements. When allocating cost to an acquired property, we estimate the value of land, building and fixtures assuming the property is vacant, and then allocate costs to the intangible value of the existing lease agreements. We depreciate the building and fixtures based on the expected useful life of the asset and amortize the intangible value of the lease agreements over the average remaining life of the existing leases.

Income Taxes

We primarily incur income taxes through our consolidated taxable REIT subsidiary Ameriton. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the enactment date.

Stock-Based Compensation

As of September 30, 2004, the company has one stock-based employee compensation plan. Effective January 1, 2003, the company adopted the fair value recognition provision of FASB Statement No. 123, *"Accounting for Stock-Based Compensation,"* prospectively to all employee awards granted, modified or settled after January 1, 2003, which results in expensing of options. During the nine months ended September 30, 2004, we granted approximately 300,000 Restricted Share Units and 648,000 stock options. Restricted Share Units are valued using the current unit price at the date of grant and this amount is amortized over the vesting period. For employee option awards granted prior to January 1, 2003, the company accounted for this plan under the recognition and measurement provisions of APB Opinion No. 25, *"Accounting for Stock Issued to Employees,"* and related Interpretations. With respect to options granted under the plan prior to January 1, 2003, no stock-based employee compensation expense is reflected in the accompanying condensed consolidated statements of earnings, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net earnings and earnings per unit if the fair value based method had been applied to all outstanding and unvested awards in each period (dollar amounts in thousands, except per share amounts):

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
Net earnings attributable to Common Units – Basic	$ 153,917	$ 171,579	$ 350,044	$ 328,234
Add: Stock-based employee compensation expense included in reported net earnings	73	–	218	–
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards	(534)	(429)	(1,604)	(1,394)
Pro forma net earnings attributable to Common Units – Basic	$ 153,456	$ 171,150	$ 348,658	$ 326,840
Net earnings per Common Unit:				
Basic – as reported	$ 0.70	$ 0.80	$ 1.59	$ 1.56
Basic – pro forma	$ 0.70	$ 0.80	$ 1.59	$ 1.55
Diluted – as reported	$ 0.70	$ 0.79	$ 1.58	$ 1.55
Diluted – pro forma	$ 0.69	$ 0.79	$ 1.58	$ 1.54
Weighted average risk-free interest rate	3.48%	3.54%	3.48%	3.54%
Weighted average dividend yield	6.92%	6.74%	6.92%	6.74%
Weighted average volatility	15.33%	19.58%	15.33%	19.58%
Weighted average expected option life	5.0 years	5.0 years	5.0 years	5.0 years

Reclassifications

Certain 2003 amounts have been reclassified to conform to the 2004 presentation.

Comprehensive Income

Comprehensive income, which is defined as net earnings and all other non-owner changes in equity, is displayed in the accompanying Statements of Unitholders' Equity, Other Common Unitholders' Interest and Comprehensive Income. Other comprehensive income reflects unrealized holding gains and losses on the available-for-sale investments and changes in the fair value of effective cash flow hedges.

Our accumulated other comprehensive income for the nine months ended September 30, 2004 was as follows (in thousands):

	Net Unrealized Gains on Marketable Securities	Cash Flow Hedges	Accumulated Other Comprehensive Income/(Loss)
Balance at December 31, 2003	$ 23,808	$ (9,573)	$ 14,235
Change in fair value of cash flow hedges	–	4,379	4,379
Fair value of long-term debt hedge	–	(2,409)	(2,409)
Less: reclassification adjustments for realized net gains	(23,796)	–	(23,796)
Balance at September 30, 2004	$ 12	$ (7,603)	$ (7,591)

Per Unit Data

Following is a reconciliation of basic net earnings attributable to Common Units to diluted net earnings per Common Unit for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Reconciliation of numerator between basic and diluted net earnings per Common Unit [1]:				
Net earnings attributable to Common Units – Basic	$ 153,917	$ 171,579	$ 350,044	$ 328,234
Dividends on Convertible Preferred Units	1,061	2,782	3,269	11,692
Net earnings attributable to Common Units – Diluted	$ 154,978	$ 174,361	$ 353,313	$ 339,926
Reconciliation of denominator between basic and diluted net earnings per Common Unit [1]:				
Weighted average number of Common Units outstanding – Basic	219,234	214,195	219,516	210,431
Assumed conversion of Convertible Preferred Units into Common Units	2,439	6,517	2,535	9,155
Assumed exercise of options	1,118	807	919	382
Weighted average number of Common Units outstanding – Diluted	222,791	221,519	222,970	219,968

(1) Excludes the impact of potentially dilutive equity securities during periods in which they are anti-dilutive.

(2) Real Estate

Investments in Real Estate

Investments in real estate, at cost, were as follows (dollar amounts in thousands):

	September 30, 2004		December 31, 2003	
	Investment	Units [1]	Investment	Units [1]
Operating Trust Apartment Communities:				
Operating communities [2]	$ 8,307,247	61,088	$ 8,067,075	63,848
Communities under construction	344,722	2,757	301,634	2,607
Development communities In Planning:				
Owned [3]	40,039	1,011	95,911	2,633
Under control [4]	–	133	–	112
Total development communities In Planning	40,039	1,144	95,911	2,745
Total Operating Trust apartment communities	8,692,008	64,989	8,464,620	69,200
Ameriton apartment communities	530,053	6,186	494,338	5,646
Land	44,758	–	9,648	–
Other	47,831	–	30,574	–
Total real estate	$ 9,314,650	71,175	$ 8,999,180	74,846

(1) Unit information is based on management's estimates and has not been audited or reviewed by our independent auditors.
(2) Excludes 350 units associated with an unconsolidated development project.
(3) Excludes 432 units associated with an unconsolidated development project.
(4) We had $1.0 million in developments Under Control as of September 30, 2004 and $1.1 million as of December 31, 2003, as is reflected on the "Other assets" caption of our Balance Sheets.

The change in investments in real estate, at cost, consisted of the following (in thousands):

Balance at December 31, 2003	$	8,999,180
Acquisition-related expenditures		1,015,512
Redevelopment expenditures		26,680
Recurring capital expenditures		34,230
Development expenditures, excluding land acquisitions		245,135
Dispositions		(990,789)
Net apartment community activity		9,329,948
Change in other real estate assets		(15,298)
Balance at September 30, 2004	$	9,314,650

At September 30, 2004, we had unfunded contractual commitments related to real estate investment activities aggregating approximately $400.3 million, of which $367.2 million related to communities under construction.

(3) Discontinued Operations

The results of operations for properties sold during the period or designated as held for sale at the end of the period are required to be classified as discontinued operations. The property specific components of net earnings that are classified as discontinued operations include rental revenues, rental expenses, real estate taxes, income taxes from taxable REIT subsidiary sales, depreciation expense and interest expense (actual interest expense for encumbered properties and a pro-rata allocation of interest expense for any unencumbered property up to our weighted average leverage ratio), as well as the net gain or loss on the disposition of properties.

Consistent with our capital recycling program, we had 12 operating apartment communities, representing 3,380 units, classified as held for sale under the provisions of SFAS 144, at September 30, 2004. Accordingly, we have classified the operating earnings from these 12 properties within discontinued operations for the three and nine months ended September 30, 2004 and 2003. During the nine months ended September 30, 2004, we sold 23 REIT and Ameriton operating communities. The operating results of these 23 communities and the related gain/loss on sale are also included in discontinued operations for both 2004 and 2003. During the twelve months ended December 31, 2003 we sold 48 operating communities. The operating results of these 48 operating communities and the related gain/loss on the sale are also included in discontinued operations for the three and nine months ended September 30, 2003. The following is a summary of net earnings from discontinued operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Rental revenues	$ 20,284	$ 48,686	$ 80,900	$ 185,450
Rental expenses	(8,314)	(18,200)	(29,215)	(64,301)
Real estate taxes	(2,079)	(6,395)	(9,656)	(19,901)
Depreciation on real estate investments	(1,579)	(6,652)	(9,173)	(27,886)
Interest expense (1)	(6,873)	(14,731)	(25,042)	(49,595)
Income taxes from taxable REIT subsidiary sales	(19,068)	(8,063)	(18,172)	(11,005)
Provision for possible loss on real estate investments	–	–	–	(3,714)
Debt extinguishment costs related to dispositions	–	(905)	(1,120)	(2,796)
Gains on disposition of taxable REIT subsidiary real estate investments, net	55,417	23,641	69,930	31,260
Gains on dispositions of REIT real estate investments, net	77,396	118,893	156,365	212,458
Earnings from discontinued apartment communities	$115,184	$ 136,274	$ 214,817	$ 249,970

(1) The portion of interest expense included in discontinued operations that is allocated to properties based on the company's leverage ratio was $4.6 million and $11.5 million for the three months ended September 30, 2004 and 2003, and $17.0 million and all of $35.4 million for the nine months ended September 30, 2004 and 2003, respectively.

(4) Investments in and Advances to Unconsolidated Entities

Real Estate Joint Ventures

We have investments in entities that we account for using the equity method. At September 30, 2004, the investment balance consisted of $64.4 million in our joint ventures and $31.4 million in Ameriton joint ventures. At December 31, 2003, the investment balance consisted of $42.9 million in our joint ventures and $43.5 million in Ameriton joint ventures.

(5) Borrowings

Unsecured Credit Facilities

The following table summarizes our $600 million unsecured revolving credit facility borrowings (in thousands, except for percentages):

	As of and for the Nine Months Ended September 30, 2004	As of and for the Year Ended December 31, 2003
Total unsecured revolving credit facility	$ 600,000	$ 600,000
Borrowings outstanding at end of period	–	97,000
Outstanding letters of credit under this facility	4,329	1,050
Weighted average daily borrowings	107,372	231,354
Maximum borrowings outstanding during the period	375,000	511,500
Weighted average daily nominal interest rate	1.56%	1.95%
Weighted average daily effective interest rate	2.20%	2.55%

We also have a short-term unsecured borrowing agreement with JPMorgan Chase Bank, which provides for maximum borrowings of $100 million. The agreement bears interest at an overnight rate that ranged from 1.60% to 2.40% during the nine months ended September 30, 2004. There were no borrowings outstanding under the agreement at September 30, 2004 and $6.8 million outstanding at December 31, 2003.

Long-Term Unsecured Debt

Following is a summary of our Long-Term Unsecured Debt (dollar amounts in thousands):

Type of Debt	Coupon Rate (1)	Effective Interest Rate (2)	Balance at September 30, 2004	Balance at December 31, 2003	Average Remaining Life (Years)
Long-term unsecured senior notes	6.22%	6.40%	$ 2,039,685	$ 1,771,167	5.5
Unsecured tax-exempt bonds	1.69%	1.95%	80,228	100,798	18.9
Total/average	6.05%	6.23%	$ 2,119,913	$ 1,871,965	6.0

(1) Represents a fixed rate for the long-term unsecured notes and a variable rate for the unsecured tax-exempt bonds.
(2) Represents the effective interest rate, including interest rate hedges, loan cost amortization and other ongoing fees and expenses, where applicable.

During August 2004, we issued $300 million in long-term unsecured ten-year senior notes with a coupon rate of 5.6% and an effective interest rate of 5.8% from its shelf registration statement. The notes were issued pursuant to a supplemental indenture with modified debt covenants, which are specific to these notes. The primary change pertains to the leverage covenant, which limits total debt to 65% of the market value of total assets as defined, using a capitalization rate of 7.5% to value stabilized operating assets.

Mortgages payable

Our mortgages payable generally feature either monthly interest and principal payments or monthly interest-only payments with balloon payments due at maturity. Following is a summary of our mortgages payable (dollar amounts in thousands):

Type of Mortgage	Effective Interest Rate (1)	Principal Balance (2) at September 30, 2004	Principal Balance (2) at December 31, 2003	Average Remaining Life (Years)
Conventional fixed rate (3)	6.45%	$ 1,508,687	$ 1,511,277	5.3
Tax-exempt floating rate	2.02%	391,467	317,351	19.5
Conventional floating rate	2.91%	21,705	21,705	4.1
Construction loans	4.14%	49,874	56,129	0.6
Other	5.08%	20,440	21,163	18.8
Total/average mortgage debt	5.45%	$ 1,992,173	$ 1,927,625	8.1

(1) Includes the effect of fair value hedges, credit enhancement fees, the amortization of fair market value purchase adjustment, and other related costs, where applicable as of September 30, 2004.
(2) Includes net fair market value adjustment recorded in connection with the Smith Merger of $52.1 million and $58.5 million at September 30, 2004 and December 31, 2003, respectively.
(3) Includes a long-term secured debt agreement with Fannie Mae. The Fannie Mae secured debt matures on dates ranging from January 2006 to July 2009, although we have the option to extend the term of any portion of the debt for up to an additional 30-year period at any time, subject to Fannie Mae's approval.

The change in mortgages payable, including properties classified as held for sale, during the nine months ended September 30, 2004 consisted of the following (in thousands):

Balance at December 31, 2003	$ 1,927,625
Regularly scheduled principal amortization	(9,003)
Prepayments, final maturities and other	(84,276)
Mortgage assumptions related to property acquisitions	113,585
Proceeds from mortgage notes payable	44,242
Balance at September 30, 2004	$ 1,992,173

Other

The book value of total assets pledged as collateral for mortgage loans and other obligations at September 30, 2004 and December 31, 2003 was $3.8 billion. Our debt instruments generally contain certain covenants common to the type of facility or borrowing, including financial covenants establishing minimum debt service coverage ratios and maximum leverage ratios. We were in compliance with all financial covenants pertaining to our debt instruments during the three and nine months ended September 30, 2004.

For the nine months ended September 30, 2004 and 2003, the total interest paid on all outstanding debt was $189.7 and $175.3 million, respectively. We capitalize interest incurred during the construction period as part of the cost of apartment communities under development. Interest capitalized during the nine months ended September 30, 2004 and 2003 was $17.1 and $17.8 million, respectively.

(6) Distributions to Unitholders

The following table summarizes the quarterly cash distributions paid per unit on Common and Preferred Units during the three months ended March 31, June 30, and September 30, 2004 and the annualized distributions we expect to pay for 2004:

	Quarterly Cash Distributions Per Unit	Annualized Cash Distributions Per Unit
Common Units and A-1 Units	$ 0.4300	$ 1.72
Series D Perpetual Preferred Units (1)	0.5475	1.31
Series E Preferred Units (2)	0.5225	2.10
Series F Preferred Units (3)	0.5075	1.51
Series G Preferred Units	0.5400	2.16
Series I Perpetual Preferred Units (4)	1,915	7,660
Series K Convertible Preferred Units (5)	0.8500	1.70
Series L Convertible Preferred Units	0.8500	3.40

(1) We redeemed the Series D Preferred Units in August 2004.
(2) In accordance with the terms of the securities, we repurchased 520 units of the Series E Preferred Units in August 2004. We intend to repurchase 400 units in November 2004 and 200 units on February 2005.
(3) In accordance with the terms of the securities, we repurchased the Series F Preferred Units in September 2004.
(4) Series I Preferred Units have a par value of $100,000 per unit.
(5) We converted the series K Preferred Units to Common Units in September 2004.

(7) Segment Data

We define our garden communities and high-rise properties each as individual operating segments. We have determined that each of our garden communities and each of our high-rise properties have similar economic characteristics and also meet the other GAAP criteria, which permit the garden communities and high-rise properties to be aggregated into two reportable segments. Net Operating Income (NOI) is defined as rental revenues less rental expenses and real estate taxes. We rely on NOI for purposes of making decisions about resource allocations and assessing segment performance. We also believe NOI is a valuable means of comparing year-to-year property performance.

Following are reconciliations, which exclude the amounts classified as discontinued operations, of each reportable segment's (i) revenues to consolidated revenues; (ii) NOI to consolidated earnings from operations; and (iii) assets to consolidated assets, for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Reportable apartment communities segment revenues:				
Same-Store:				
Garden communities	$ 113,281	$ 112,806	$ 336,949	$ 344,991
High-rise properties	72,084	71,187	213,376	213,070
Non Same-Store:				
Garden communities	27,123	8,601	65,851	11,565
High-rise properties	10,968	5,324	30,441	14,380
Other non-reportable operating segment revenues	1,041	976	2,576	2,448
Total segment and consolidated revenues	$ 224,497	$ 198,894	$ 649,193	$ 586,454

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Reportable apartment communities segment NOI:				
Garden communities	$ 89,901	$ 81,525	$ 260,386	$ 240,611
High-rise properties	51,919	48,011	154,487	144,062
Other non-reportable operating segment NOI	913	827	2,233	2,033
Total segment and consolidated NOI	142,733	130,363	417,106	386,706
Reconciling items:				
Other income	4,930	3,833	13,836	14,690
Depreciation on real estate investments	(54,119)	(42,729)	(154,834)	(123,480)
Interest expense	(46,692)	(36,800)	(129,476)	(111,728)
General and administrative expenses	(12,898)	(12,558)	(37,423)	(38,200)
Other expenses	(2,809)	(2,380)	(6,107)	(28,978)
Consolidated earnings from operations	$ 31,145	$ 39,729	$ 103,102	$ 99,010

	September 30, 2004	December 31, 2003
Reportable operating communities segment assets, net:		
Same-Store:		
Garden communities	$ 3,058,377	$ 3,104,977
High-rise properties	2,571,871	2,597,810
Non Same-Store:		
Garden communities	1,867,830	1,415,434
High-rise properties	550,246	842,180
Other non-reportable operating segment assets	92,624	29,571
Total segment assets	8,140,948	7,989,972
Real estate held for sale	428,804	360,226
Total real estate assets	8,569,752	8,350,198
Reconciling items:		
Investment in and advances to unconsolidated entities	95,811	86,367
Cash and cash equivalents	179,642	5,230
Restricted cash in tax deferred exchange escrow	83,357	180,920
Other assets	149,215	298,980
Consolidated total assets	$ 9,077,777	$ 8,921,695

Total capital expenditures for garden communities, were $13.8 million and $27.0 million for the three and nine months ended September 30, 2004, and $8.7 million and $19.5 million for the same periods of 2003, respectively. Total capital expenditures for high-rise properties, were $8.9 million and $16.0 million for the three and nine months ended September 30, 2004 and $7.7 million and $21.9 million for the same periods of 2003, respectively.

(8) Litigation and Contingencies

We are party to alleged moisture infiltration and resulting mold lawsuits at various apartment properties. We have negotiated a settlement with the plaintiffs in certain of these lawsuits and have recorded accruals related to these claims based on estimated legal fees associated with known and anticipated costs for our counsel and plaintiffs' counsel. Additionally, we have estimated costs related to the negotiated settlements, additional resident property repair and replacement costs and temporary resident relocation expenses. It is possible that these estimates could increase or decrease as better information becomes available. Our accruals represent management's best estimate of the probable and reasonably estimable costs and are based, in part, on the status of settlement discussions, estimates obtained from third-party contractors and actual costs incurred to date. Not all plaintiffs have accepted the negotiated settlement, and further court proceedings and additional legal fees and damages may be required to fully resolve these claims.

We are aggressively pursuing recovery of a significant portion of these costs from our insurance carriers. During the nine months ended September 30, 2004, we received $5.1 million in insurance recoveries pertaining to ongoing moisture infiltration and resulting mold litigation. Of this amount, approximately $1.3 million was recorded to other income as it pertains to legal and professional fees previously expensed; the remaining $3.8 million was a reduction of previously capitalized costs. We are in litigation with our insurance providers, and therefore we have not recorded an estimate for future insurance recoveries. In addition, we will continue to pursue potential recoveries from third parties whom we believe bear responsibility for a considerable portion of the costs we have incurred. We cannot make assurances that we will obtain these recoveries or that our ultimate liability associated with these claims will not be material to our results of operations.

During the three months ended September 30, 2004, we incurred estimated losses associated with multiple hurricanes in Florida. As a result of this damage, we recorded a loss contingency in other expense of approximately $4.9 million associated with both wholly owned and unconsolidated apartment communities. We are currently in the process of determining what amounts associated with these losses will be recovered by insurance. Given the unique nature of these losses, we were unable to reasonably estimate the amount of any insurance recoveries as of September 30, 2004. Accordingly, the $4.9 million does not include any of the insurance recoveries we expect to receive as the outstanding claims are resolved over the next several quarters.

We are a party to various other claims and routine litigation arising in the ordinary course of business. We do not believe that the results of any such claims or litigation, individually or in the aggregate, will have a material adverse effect on our business, financial position or results of operations.

(9) Derivatives and Hedging Activities

We are exposed to the impact of interest rate changes and will occasionally utilize interest rate swaps and interest rate caps as hedges with the objective of lowering our overall borrowing costs. These derivatives are designated as either cash flow or fair value hedges. We are also exposed to price risk associated with changes in the fair value of certain equity securities. We have entered into forward sale agreements to protect against a reduction in the fair value of these securities, the last of which settled in July 2004. We have designated these forward sales as fair value hedges. We do not use these derivatives for trading or other speculative purposes. Further, as a matter of policy, we only enter into contracts with major financial institutions based upon their credit ratings and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, we have not, nor do we expect to sustain a material loss from the use of these hedging instruments.

We formally assess, both at inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. We measure hedge effectiveness by comparing the changes in the fair value or cash flows of the derivative instrument with the changes in the fair value or cash flows of the hedged item. We exclude the hedging instrument's time value component when assessing hedge effectiveness. If it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, we will discontinue hedge accounting prospectively.

To determine the fair values of derivative and other financial instruments, we use a variety of methods and assumptions that are based on market value conditions and risks existing at each balance sheet date. These methods and assumptions include standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost and termination cost. All methods of assessing fair value result in a general approximation of value, and therefore are not necessarily indicative of the actual amounts that we could realize upon disposition. During 2003, we entered into forward sale agreements with an aggregate notional amount, which represents the fair value of the underlying marketable securities, of approximately $128.5 million and an aggregate fair value of the forward sale agreements of approximately $486,000. During the nine months ended September 30, 2004, we settled all of the forward sales agreements for approximately 2.8 million shares and sold 308,200 shares of marketable securities, which were not subject to forward sales agreements, resulting in an aggregate gain of approximately $24.9 million. The total net proceeds from the sale were $143.0 million, with the marketable securities basis determined using the average costs of the securities.

During June 2004, we entered into swap transactions to mitigate the risk of changes in the interest-related cash outflows on a forecasted issuance of long-term unsecured debt. At inception, these swap transactions had an aggregate notional amount of $144 million and a fair value of zero. The long-term unsecured debt these swap transactions related to was issued in August 2004. At the time of the debt issuance, the fair value of the cash flow hedge was a liability of approximately $2.5 million. The termination fees associated with these cash flow hedges are included in comprehensive income and are being amortized over the term of the underlying debt as additional interest expense.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Trustee and Unitholders
Archstone-Smith Operating Trust:

We have reviewed the accompanying condensed consolidated balance sheet of Archstone-Smith Operating Trust and subsidiaries as of September 30, 2004, and the related condensed consolidated statements of earnings for the three and nine month periods ended September 30, 2004 and 2003, the condensed consolidated statement of unitholders' equity, other common unitholders' interest and comprehensive income for the nine month period ended September 30, 2004 and the condensed consolidated statements of cash flows for the nine month periods ended September 30, 2004 and 2003. These condensed consolidated financial statements are the responsibility of Archstone-Smith Operating Trust's management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Archstone-Smith Operating Trust as of December 31, 2003, and the related consolidated statements of earnings, unitholders' equity, other common unitholders' interest and comprehensive income, and cash flows for the year then ended (not presented herein); and in our report dated February 9, 2004, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2003 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

KPMG LLP

Denver, Colorado
October 18, 2004

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

The following information should be read in conjunction with Archstone-Smith Operating Trust's 2003 Form 10-K as well as the financial statements and notes included in Item 1 of this report.

Forward-Looking Statements

Certain statements in this Form 10-Q that are not historical facts are "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on our current expectations, beliefs, assumptions, estimates and projections about the industry and markets in which we operate. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates" and variations of such words and similar expressions are intended to identify such forward-looking statements. Information concerning expected investment balances, expected funding sources, planned investments, forecasted dates and revenue and expense growth assumptions are examples of forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions, which are difficult to predict and many of which are beyond our control. Therefore, actual outcomes and results may differ materially from what is expressed, forecasted or implied in such forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

Our operating results depend primarily on income from apartment communities, which is substantially influenced by supply and demand for apartment units, operating expense levels, property level operations and the pace and price at which we can develop, acquire or dispose of apartment communities. Capital and credit market conditions, which affect our cost of capital, also influence operating results. See Archstone-Smith Operating Trust's 2003 Form 10-K "Item 1. Business" for a more complete discussion of risk factors that could impact our future financial performance.

The Company

We are engaged primarily in the operation, development, redevelopment, acquisition, management and long-term ownership of apartment communities throughout the United States. Archstone-Smith is structured as an UPREIT, under which all property ownership and business operations are conducted through the Operating Trust and our subsidiaries and affiliates. Archstone-Smith is our sole trustee and owns 89.4% of our Common Units at September 30, 2004.

Results of Operations

Overview

In conjunction with our capital recycling strategy, rental revenues and rental expenses, including real estate taxes, will fluctuate based upon the timing and volume of dispositions, acquisitions and development lease-ups. Accordingly, our results are not only driven by the performance of our operating portfolio, but also by gains/losses from the disposition of real estate, the corresponding loss of ongoing income from assets sold, and increased income generated from acquisitions and developments. These factors all contribute to the overall financial performance of the company.

<u>Quarter-to-Date Net Earnings Analysis</u>

Basic net earnings attributable to Common Units decreased $17.7 million, or 10.3%, for the three months ended September 30, 2004 as compared to the same period in 2003. This decrease is primarily attributable to:

- A $9.7 million decrease in gains from the sale of depreciable real estate during the three months ended September 30, 2004;
- The loss of rental revenues and a corresponding decrease in rental expenses due to $990.8 million and $1.6 billion in total dispositions, including Ameriton, in the nine months ended September 30, 2004 and the twelve months ended December 31, 2003, respectively;
- A 3.7% increase in expenses from our Same-Store portfolio for the three months ended September 30, 2004, primarily due to higher personnel and utility costs;
- An $8.8 million increase in Ameriton taxes consistent with increased gains during the quarter; and
- A $4.9 million expense associated with damage from hurricanes in Florida.

These decreases were partially offset by:

- Increased revenues partially offset by a corresponding increase in operating expenses associated with $1.0 billion and $508.9 million in asset acquisitions that occurred during the nine months ended September 30, 2004 and the twelve months ended December 31, 2003, respectively;
- Increased income from the continued lease-up of new development projects;
- A 0.6% increase in revenues from our Same-Store portfolio for the three months ended September 30, 2004, primarily due to increases in revenues in the high rise division;
- A $3.8 million increase in income from unconsolidated entities, primarily related to increased gains from the sale of joint venture operating assets during the three months ended September 30, 2004;
- Non-operating income from the settlement of a forward contract on marketable equity securities resulting in a gain of $7.7 million; and,
- A $1.2 million reduction in Preferred Unit distributions due to the conversion of Series A and H Preferred Units during 2003, the conversion of Series K Preferred Units in September 2004 and the redemption of Series D Preferred Units in August 2004. These conversions and the redemption also eliminated the impact of the related preferred unit distributions on our fixed charge coverage ratio.

Year-to-Date Net Earnings Analysis

Basic net earnings attributable to Common Units increased $21.8 million, or 6.6%, during the nine months ended September 30, 2004 as compared to the same period in 2003. This increase is primarily attributable to:

- Increased revenues partially offset by a corresponding increase in operating expenses associated with $1.0 billion and $508.9 million in asset acquisitions that occurred during the nine months ended September 30, 2004 and the twelve months ended December 31, 2003, respectively;
- Increased income from the continued lease-up of new development projects;
- A $17.1 million increase in income from unconsolidated entities, primarily related to the recognition of contingent proceeds associated with the expiration of certain indemnifications related to the sale of CES, which was sold in 2002, and increased gains from the sale of joint venture operating assets during the nine months ended September 30, 2004;
- Non-operating income of $28.2 million, from the sale and settlement of forward contracts on marketable equity securities resulting in a gain of $24.9 million, and the disposition of our property management business, resulting in a $3.3 million gain, during the nine months ended September 30, 2004;
- The collection and recognition of $3.1 million related to the settlement of an ongoing CES lawsuit during 2004;
- A $14.6 million decrease in other expenses primarily due to moisture infiltration and resulting mold-related expenses recognized during 2003; and,
- A $7.9 million reduction in Preferred Unit distributions due to the conversion of Series A and H Preferred Units during 2003, the conversion of Series K Preferred Units in September 2004 and the redemption of Series D Preferred Units in August 2004. These conversions and the redemption also eliminated the impact of the related preferred unit distributions on our fixed charge coverage ratio.

These increases were partially offset by:

- A 0.2% decrease in Same-Store rental revenues during the nine months ended September 30, 2004 primarily due to revenue declines in non-core markets in addition to the San Francisco Bay area and Chicago;
- A 4.0% increase in expenses from our Same-Store portfolio for the nine months ended September 30, 2004, primarily due to increases in personnel costs and real estate taxes;
- The loss of rental revenues and a corresponding decrease in rental expenses due to $990.8 million and $1.6 billion in total dispositions, including Ameriton, in the nine months ended September 30, 2004 and the twelve months ended December 31, 2003, respectively;
- A $17.4 million decrease in gains from the sale of depreciable real estate during the nine months ended September 30, 2004;
- A $6.6 million increase in Ameriton taxes consistent with increased gains during the year; and
- A $4.9 million expense associated with damage from hurricanes in Florida.

Apartment Community Operations

We utilize net operating income (NOI) as the primary measure to evaluate the performance of our operating communities. NOI is defined as rental revenues less rental expenses and real estate taxes for each of our operating properties. We rely on NOI for purposes of making decisions about resource allocations and assessing segment performance. We also believe NOI is a valuable means of comparing period-to-period property performance. The following is a reconciliation of NOI to earnings from operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net operating income	$ 142,733	$ 130,363	$ 417,106	$ 386,706
Other income	4,930	3,833	13,836	14,690
Depreciation on real estate investments	(54,119)	(42,729)	(154,834)	(123,480)
Interest expense	(46,692)	(36,800)	(129,476)	(111,728)
General and administrative expenses	(12,898)	(12,558)	(37,423)	(38,200)
Other expense	(2,809)	(2,380)	(6,107)	(28,978)
Earnings from operations	$ 31,145	$ 39,729	$ 103,102	$ 99,010

At September 30, 2004, investments in operating apartment communities comprised over 99% of our total real estate portfolio, based on NOI. The following table summarizes the performance of our operating portfolio (in thousands, except for percentages):

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2004	2003	Variance	2004	2003	Variance
Rental revenues:						
Garden communities	$ 140,404	$ 121,407	$ 18,997	$ 402,800	$ 356,557	$46,243
High-rise properties	83,052	76,510	6,542	243,816	227,449	16,367
Non-multifamily	1,041	977	64	2,577	2,448	129
Total revenues	224,497	198,894	25,603	649,193	586,454	62,739
Operating expenses:						
Garden communities	50,503	39,882	10,621	142,414	115,945	26,469
High-rise properties	31,133	28,499	2,634	89,329	83,387	5,942
Non-multifamily	128	150	(22)	344	416	(72)
Total operating expenses	81,764	68,531	13,233	232,087	199,748	32,339
Net operating income:						
Garden communities	89,901	81,525	8,376	260,386	240,612	19,774
High-rise properties	51,919	48,011	3,908	154,487	144,062	10,425
Non-multifamily	913	827	86	2,233	2,032	201
Total net operating income	142,733	130,363	12,370	417,106	386,706	30,400
NOI classified as discontinued operations	9,891	24,091	(14,200)	42,029	101,248	(59,219)
NOI including discontinued operations	$ 152,624	$ 154,454	$ (1,830)	$ 459,135	$ 487,954	$(28,819)
Operating margin (NOI/rental revenues):						
Garden communities	64.0%	67.2%	(3.2%)	64.6%	67.5%	(2.9%)
High-rise properties	62.5%	62.8%	(0.3%)	63.4%	63.3%	0.1%
Average occupancy during period:						
Garden communities	94.5%	95.6%	(1.1%)	94.9%	95.0%	(0.1%)
High-rise properties	95.1%	93.2%	1.9%	95.2%	92.8%	2.4%

The following table reflects revenue, expense and NOI growth/(decline) for Same-Store communities that were fully operating during the three and nine months ended September 30 for each respective comparison period (our Same-Store population excludes Ameriton properties, as they are acquired or developed to achieve short-term opportunistic gains and therefore, the average holding period is typically much shorter than the holding period of assets operated by the REIT):

	Same-Store Revenue Growth/(Decline)	**Same-Store Expense Growth/(Decline)**	**Same-Store NOI Growth/(Decline)**
Q3 2004 vs. Q3 2003	0.6%	3.7%	(1.0%)
YTD 2004 vs. YTD 2003...........	(0.2%)	4.0%	(2.4%)

Quarter-to-Date NOI Analysis

NOI increased by $12.4 million, or 9.5%, during the three months ended September 30, 2004 as compared to the same period during 2003. Of this increase, $8.4 million was derived from our garden communities and $3.9 million resulted from our high-rise portfolio.

The $8.4 million increase in garden NOI during the three months ended September 30, 2004 as compared to September 30, 2003 was primarily attributable to:

- The acquisition of 20 garden communities for approximately $1.3 billion since the third quarter of 2003;
- The ongoing lease-up and stabilization of development communities.

This increase was partially offset by a 1.5% decline in our garden Same-Store NOI on a quarter-to-date basis primarily due to:

- Continued weakness primarily in non-core markets in addition to the San Francisco Bay area and Chicago; and
- A decline in garden operating margins, resulting from a 4.0% increase in Same-Store operating expenses. This expense increase resulted principally from higher personnel and utility costs, offset by lower insurance costs.

The $3.9 million increase in high-rise NOI during the three months ended September 30, 2004 as compared to September 30, 2003 was caused by:

- The acquisition of four high-rise properties for approximately $380 million since the third quarter of 2003;
- The continued lease-up and stabilization of a new Chicago high-rise development property in the prior year; and

This increase was partially offset by a 0.2% decline in high-rise Same-Store NOI on a quarter-to-date basis primarily due to:

- Lower effective rent per unit resulting from ongoing market weakness in Chicago; and
- A decline in high-rise operating margins resulting from a 3.4% increase in Same-Store operating expenses primarily due to higher personnel and utility costs partially offset by lower insurance costs.

Year-to-Date NOI Analysis

NOI increased by $30.4 million, or 7.9%, during the nine months ended September 30, 2004 as compared to the same period during 2003. Of this increase, $19.8 million was derived from our garden communities and $10.4 million resulted from our high-rise portfolio.

The $19.8 million increase in garden NOI during the nine months ended September 30, 2004 as compared to September 30, 2003 was primarily attributable to the garden acquisitions and lease-ups described above, partially offset by a 3.0% decline in garden Same-Store NOI. This decline in Same-Store NOI was due to:

- Lower effective rent per unit resulting from continued weakness in non-core markets and the San Francisco Bay area; and
- A 4.8% increase in Same-Store operating expenses primarily due to higher personnel costs and real estate taxes.

The $10.4 million increase in high-rise NOI during the nine months ended September 30, 2004 as compared to September 30, 2003 was attributable to the high-rise acquisitions and lease-ups described above, partially offset by a 1.2% decline in high-rise Same-Store NOI. This decline in Same-Store NOI was due to:

- Lower effective rent per unit resulting from continued weakness primarily in Chicago; and
- A 2.8% increase in Same-Store operating expenses primarily due to higher personnel costs and real estate taxes partially offset by lower ground lease expense resulting from the favorable outcome on a lease interpretation.

NOI including Discontinued Operations

NOI for our entire portfolio, including properties classified within discontinued operations, decreased by $1.8 million and $28.8 million during the three and nine months ended September 30, 2004 as compared to the same periods during 2003, respectively. This net decrease in NOI was primarily attributable to:

- The loss of NOI from the disposition of $990.8 million in operating assets, including Ameriton, during the nine months ended September 30, 2004;
- The loss of NOI from the disposition of $1.6 billion of operating assets, including Ameriton, during the twelve months ended December 31, 2003; and
- A decline in Same-Store NOI of 1.0% and 2.4% for the three and nine months ended September 30, 2004 compared to the same periods in prior year, respectively.

This decrease was partially offset by increased NOI from the acquisitions, lease-ups and redevelopments described above, as well as an increase in NOI associated with assets classified as held-for-sale, as certain of these assets were either under redevelopment or in lease-up during the prior year.

Other Income

Other income increased $1.1 million, or 28.6%, for the three months ended September 30, 2004 as compared to the same period in 2003, principally due to a $2.4 million gain on sale of land. This was partially offset by a decrease in the collection of indemnified CES accounts receivable over 120 days during 2004 as compared to 2003, and the loss of dividend income on stock investments recognized during the three months ended September 30, 2003.

The $0.9 million, or 5.8% decrease during the nine months ended September 30, 2004 as compared to the same period in 2003 is principally attributable to a decrease in the collection of indemnified CES accounts receivable over 120 days during 2004 as compared to 2003, and the loss of dividend income on stock investments recognized during the nine months ended September 30, 2003. This was partially offset by the collection and recognition of $3.1 million from the settlement of an ongoing CES lawsuit, recognition of $1.3 million in insurance recoveries and a $2.4 million gain on sale of land during the nine months ended September 30, 2004.

Depreciation Expense

Depreciation expense increased $11.4 million, or 26.7% and $31.4 million, or 25.4%, during the three and nine months ended September 30, 2004 as compared to the same periods in 2003, respectively. These increases are primarily due to a greater number of operating assets classified within discontinued operations during the prior year resulting in a greater depreciation allocation of $5.1 million and $18.7 million during the three and nine months ended September 30, 2003, respectively, as compared to the same periods in 2004.

Including depreciation expense on properties classified within discontinued operations, depreciation expense increased $6.3 million, or 12.8%, and $12.6 million, or 8.4%, during the three and nine months ended September 30, 2004 as compared to the same periods in 2003, respectively. These increases are principally attributable to the amortization of the intangible value of lease agreements obtained in connection with apartment community acquisitions, which are amortized over the average life of the underlying lease. During the three and nine months ended September 30, 2004, amortization of these intangible assets were $4.2 million and $12.4 million, respectively. Depreciation expense also increased due to our overall depreciable basis associated with the disposition of real estate assets with lower depreciable basis and the reinvestment of these proceeds into assets with a higher depreciable basis.

Interest Expense

Interest expense increased $9.9 million, or 26.9%, and $17.7 million, or 15.9%, for the three and nine months ended September 30, 2004 as compared to the same period in 2003, respectively. These increases are principally attributable to a greater number of operating assets classified within discontinued operations during the prior year, which resulted in a greater allocation of interest expense to discontinued operations during 2003 as compared to 2004.

Including interest expense on properties reflected in discontinued operations, interest expense increased $2.0 million, or 3.9% and decreased $6.8 million, or 4.2%, during the three and nine months ended September 30, 2004, as compared to the same period in 2003, respectively. The increase for the three months ended September 30, 2004 is consistent with an increase in the average debt outstanding during the three months ended September 30, 2004 as compared to the same period in 2003. The decrease for the nine months ended September 30, 2004 is primarily the result of a reduction in the weighted average debt rates during the nine months ended September 30, 2004 and a reduction in our average debt balances during 2004 as compared to 2003 consistent with an overall reduction in our leverage levels.

Other Expenses

Other expense increased $0.4 million, or 18.0%, for the three months ended September 30, 2004, as compared to the same period in 2003 due to a $3.8 million expense associated with damage from hurricanes in Florida. These increases were partially offset by moisture infiltration costs of $1.3 million during 2003.

Other expense decreased $22.9 million, or 78.9 %, for the nine months ended September 30, 2004 as compared to the same period in 2003 primarily due to a $27.8 million moisture infiltration charges in 2003 compared to $1.0 million in 2004. This increase was partially offset by a $3.8 million loss contingency associated with damage from hurricanes in Florida.

Income from Unconsolidated Entities

Income from unconsolidated entities increased $3.8 million and $17.1 million during the three and nine months ended September 30, 2004 as compared to the same periods during 2003, respectively, primarily due to gains from the sale of joint venture operating communities recognized during the three and nine months ended September 30, 2004 and the recognition of contingent proceeds from the expiration of certain indemnifications related to the sale of CES during the second quarter of 2004. This was partially offset by $1.1 million in hurricane losses from damage to unconsolidated communities.

Other Non-Operating Income

Other non-operating income increased by $7.7 million and $28.2 million during the three and nine months ended September 30, 2004 as compared to the same periods in 2003 due to the recognition of $7.7 million and $24.9 million in gains from the sale and settlement of marketable securities during the three and nine months ended September 30, 2004, respectively. The nine months ended September 30, 2004 also include a $3.3 million gain from the sale of our property management business. We had no non-operating income during the three or nine months ended September 30, 2003.

Preferred Unit Distributions

The $0.4 million and $7.1 million decrease in Preferred Unit distributions for the three and nine months ended September 30, 2004, respectively, is primarily due to the conversion of Series H Preferred Units into Common Units in May 2003, the conversion of Series A Preferred Units into Common Units in December 2003, the conversion of Series K Preferred Units into Common Units in September 2004 and the redemption of our Series D Preferred Units in August 2004. These savings were partially offset by the recognition of $1.7 million of issuance costs related to the Series D Preferred Units.

Discontinued Operations

The results of operations for properties sold during the period or designated as held for sale at the end of the period are required to be classified as discontinued operations. The property specific components of net earnings that are classified as discontinued operations include rental revenues, rental expenses, real estate taxes, depreciation expense, income taxes and interest expense (actual interest expense for encumbered properties and a pro-rata allocation of interest expense for any unencumbered property up to our weighted average leverage ratio), as well as the net gain or loss on the disposition of properties.

Consistent with our capital recycling program, we had 12 operating apartment communities, representing 3,380 units, classified as held for sale under the provisions of SFAS 144, as of September 30, 2004. Accordingly, we have classified the operating earnings from these 12 properties within discontinued operations for the three and nine months ended September 30, 2004 and 2003. During the nine months ended September 30, 2004, we sold 23 REIT and Ameriton operating communities. The operating results of these 23 communities and the related gain/loss on sale are also included in discontinued operations for both 2004 and 2003. During the twelve months ended December 31, 2003, we sold 48 operating communities. The operating results of these 48 operating communities and the related gain/loss on the sale are also included in discontinued operations for the three and nine months ended September 30, 2003. The following is a summary of earnings from discontinued operations (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	**2003**	**2004**	**2003**
Rental revenues	$ 20,284	$ 48,686	$ 80,900	$ 185,450
Rental expenses	(8,314)	(18,200)	(29,215)	(64,301)
Real estate taxes	(2,079)	(6,395)	(9,656)	(19,901)
Depreciation on real estate investments	(1,579)	(6,652)	(9,173)	(27,886)
Interest expense [(1)]	(6,873)	(14,731)	(25,042)	(49,595)
Income taxes from taxable REIT subsidiary sales	(19,068)	(8,063)	(18,172)	(11,005)
Provision for possible loss on real estate investment	–	–	–	(3,714)
Debt extinguishment costs related to dispositions	–	(905)	(1,120)	(2,796)
Gains on disposition of taxable REIT subsidiary real estate investments, net	55,417	23,641	69,930	31,260
Gain on dispositions of REIT real estate investments, net	77,396	118,893	156,365	212,458
Earnings from discontinued apartment communities	$ 115,184	$ 136,274	$ 214,817	$ 249,970

(1) The portion of interest expense included in discontinued operations that is allocated to properties based on the company's leverage ratio was $4.6 million and $11.5 million for the three months ended September 30, 2004 and 2003, and $17.0 million and $35.4 million for the nine months ended September 30, 2004 and 2003, respectively.

Liquidity and Capital Resources

We are committed to maintaining a strong balance sheet and preserving our financial flexibility, which we believe enhances our ability to capitalize on attractive investment opportunities as they become available. As a result of the significant cash flow generated by our operations, current cash positions, the available capacity under our unsecured credit facilities, gains from the disposition of real estate, and proceeds from the July 2004 settlement of marketable equity securities, we believe our liquidity and financial condition are sufficient to meet all of our reasonably anticipated cash flow needs during 2004.

Operating Activities

Net cash flow provided by operating activities increased $20.5 million, or 8.2%, for the nine months ended September 30, 2004 as compared to the same period of 2003. This increase was principally due to: (i) lower moisture infiltration and resulting mold-related expenses during the nine months ended September 30, 2004 and (ii) lower interest expense due to a reduction in the weighted average debt rates and a reduction in the average debt balances during the nine months ended September 30, 2004. See Results of Operations for a more complete discussion of the factors impacting our operating performance.

Investing and Financing Activities

For the nine months ended September 30, 2004, cash flows from investing activities decreased by $244.7 million, or 50.7%, as compared to the same period in 2003. This was due to a $280.6 million decrease in net proceeds from the disposition of real estate assets during 2004 as compared to the same period of 2003. Additionally, we spent an additional $132.6 million for acquisitions and development activity during 2004 as compared to 2003. The disposition, acquisition and development amounts are net of tax-deferred exchange proceeds. The decrease is partially offset by proceeds from the sale of marketable securities during the nine months ended September 30, 2004, which is included in "Other, net" in the accompanying Condensed Consolidated Statement of Cash Flows.

Cash flows used in financing activities decreased by $376.3 million, or 53.0%, as compared to the same period in 2003. This decrease is primarily due to increased borrowings to finance a net increase in real estate investments during the nine months ended September 30, 2004 as compared to the prior year, partially offset by an increase in cash used to repurchase Common and Preferred Units.

Our most significant non-cash investing and financing activities during the nine months ended September 30, 2004 and 2003 included: (i) the issuance of A-1 Common Units and Common Units in exchange for real estate in 2004, (ii) the conversion of A-1 Common Units to A-2 Common Units in both 2004 and 2003, (iii) the assumption of mortgages payable upon the purchase of apartment communities in 2004 and 2003, and (vi) the conversion of the Series K Preferred Units to Common Units in 2004.

Scheduled Debt Maturities and Interest Payment Requirements

We have structured the repayments of our long-term debt to create a relatively level principal maturity schedule to avoid significant repayment obligations in any year, which would impact our financial flexibility. As of September 30, 2004, we have approximately $25.4 million of long-term debt maturing during the remainder of 2004, $323.3 million maturing during 2005 and $359.7 million maturing during 2006.

At November 3, 2004, we had $910.0 million of liquidity, including cash, restricted cash in tax-deferred escrows and capacity on our unsecured credit facilities. Our unsecured credit facilities, Long-Term Unsecured Debt and mortgages payable had effective average interest rates of 2.11%, 6.23% and 5.45%, respectively, during the three months ended September 30, 2004. These rates give effect to the impact of interest rate swaps and caps, as applicable.

We were in compliance with all financial covenants pertaining to our debt instruments during the period ended September 30, 2004.

Unitholder Distribution Requirements

Based on anticipated distribution levels for 2004 and the number of units outstanding as of September 30, 2004, we anticipate that we will pay distributions of $393.3 million in the aggregate during 2004, which includes the effect of the redemption of our Series D Preferred Units, Series F Preferred Units, and a portion of our Series E Preferred Units, during the third and fourth quarter of 2004. This amount represents distributions on our Common Units and all our Preferred Units.

Planned Investments

Following is a summary of unfunded planned investments as of September 30, 2004, including amounts for Ameriton (dollar amounts in thousands). The amounts labeled "Discretionary" represent future investments that we plan to make, although there is not a contractual commitment to do so. The amounts labeled "Committed" represent the approximate amount that we are contractually committed to fund for properties under construction.

		Planned Investments	
	Units	**Discretionary**	**Committed**
Communities under redevelopment	2,201	$ 6,238	$ 33,131
Communities under construction [1]	4,064	–	367,202
Communities In Planning and owned [2]	2,713	410,486	–
Communities In Planning and Under Control	133	69,054	–
Community acquisitions under contract	1,343	253,352	–
Total	10,454	$ 739,130	$ 400,333

In addition to the planned investments noted above, we expect to make additional investments relating to planned expenditures on recently acquired communities, as well as recurring expenditures to improve and maintain our established operating communities.

We anticipate completion of most of the communities that are currently under construction and the planned operating community improvements during the remainder of 2004 and 2005. We expect to start construction on approximately $73 million, based on Total Expected Investment, of REIT communities that are currently classified as In Planning during the remainder of 2004. We expect to fund the costs of these development projects over a two-to-three year period following the date construction commences. No assurances can be given that communities we do not currently own will be acquired or that planned developments will actually occur. In addition, actual costs incurred could be greater or less than our current estimates.

Funding Sources

We anticipate financing our planned investment and operating needs primarily with cash flow from operating activities, disposition proceeds from our capital redeployment program and borrowings under our unsecured credit facilities, prior to arranging long-term financing. We anticipate that net cash flow from operating activities and gains on dispositions during 2004 will be sufficient to fund anticipated distribution requirements and debt principal amortization payments. To fund planned investment activities, we had $695.0 million in available capacity on our unsecured credit facilities, $20.0 million of cash in tax-deferred exchange escrow and $195.0 million of cash on hand at November 3, 2004. In addition, we expect to complete the disposition of $1.1 - $1.4 billion of REIT operating communities during 2004.

In April 2004, the Operating Trust filed a shelf registration statement on Form S-3 to register an additional $450 million in unsecured debt securities. This registration statement was declared effective in April 2004. At November 3, 2004, Archstone-Smith and the Operating Trust had $900 million available in shelf registered debt and equity securities which can be issued subject to our ability to affect offerings on satisfactory terms based on prevailing market conditions.

Other Contingencies and Hedging Activities

We are party to alleged moisture infiltration and resulting mold lawsuits at various apartment properties. We have negotiated a settlement with the plaintiffs in certain of these lawsuits and have recorded accruals related to these claims based on estimated legal fees associated with known and anticipated costs for our counsel and plaintiffs' counsel. Additionally, we have estimated costs related to the negotiated settlements, additional resident property repair and replacement costs and temporary resident relocation expenses. It is possible that these estimates could increase or decrease as better information becomes available. Our accruals represent management's best estimate of the probable and reasonably estimable costs and are based, in part, on the status of settlement discussions, estimates obtained from third-party contractors and actual costs incurred to date. Not all plaintiffs have accepted the negotiated settlement, and further court proceedings and additional legal fees and damages may be required to fully resolve these claims.

We are aggressively pursuing recovery of a significant portion of these costs from our insurance carriers. During the nine months ended September 30, 2004, we received $5.1 million in insurance recoveries pertaining to ongoing moisture infiltration and resulting mold litigation. Of this amount, approximately $1.3 million was recorded to other income as it pertains to legal and professional fees previously expensed; the remaining $3.8 million was a reduction of previously capitalized costs. We are in litigation with our insurance providers, and therefore we have not recorded an estimate for future insurance recoveries. In addition, we will continue to pursue potential recoveries from third parties whom we believe bear responsibility for a considerable portion of the costs we have incurred. We cannot make assurances that we will obtain these recoveries or that our ultimate liability associated with these claims will not be material to our results of operations.

During the three months ended September 30, 2004, we incurred estimated losses associated with multiple hurricanes in Florida. As a result of this damage, we recorded a loss contingency in other expense of approximately $4.9 million associated with both wholly owned and unconsolidated apartment communities. We are currently in the process of determining what amounts associated with these losses will be recovered by insurance. Given the unique nature of these losses, we were unable to reasonably estimate the amount of any insurance recoveries as of September 30, 2004. Accordingly, the $4.9 million does not include any of the insurance recoveries we expect to receive as the outstanding claims are resolved over the next several quarters.

We are a party to various other claims and routine litigation arising in the ordinary course of business. We do not believe that the results of any such claims or litigation, individually or in the aggregate, will have a material adverse effect on our business, financial position or results of operations.

As a general matter, concern about indoor exposure to mold has been increasing, as such exposure has been alleged to have a variety of adverse effects on health. There has been an increasing number of lawsuits in our industry against owners and managers of apartment communities relating to moisture infiltration and resulting mold. Whenever we receive a resident complaint concerning moisture infiltration, condensation or mold problems and/or become aware that an air quality concern exists, we implement corrective measures in accordance with guidelines and protocols we have developed with the assistance of indoor air quality experts. We are working proactively with all of our residents to resolve all moisture infiltration and mold-related issues. However, we can make no assurance that additional material legal claims relating to moisture infiltration and the presence of, or exposure to, mold will not arise in the future.

The terms of our property and general liability policies after June 30, 2002, may exclude certain mold-related claims. Should an uninsured loss arise against the company, we may be required to use our own funds to resolve the issue, including litigation costs.

We are exposed to the impact of interest rate changes and will occasionally utilize interest rate swaps and interest rate caps as hedges with the objective of lowering our overall borrowing costs. These derivatives are designated as either cash flow or fair value hedges. We are also exposed to price risk associated with changes in the fair value of certain equity securities. We have entered into forward sale agreements to protect against a reduction in the fair value of these securities, the last of which settled in July 2004. We have designated these forward sales as fair value hedges. We do not use these derivatives for trading or other speculative purposes. Further, as a matter of policy, we only enter into contracts with major financial institutions based upon their credit ratings and other factors. When viewed in conjunction with the underlying and offsetting exposure that the derivatives are designed to hedge, we have not, nor do we expect to sustain a material loss from the use of these hedging instruments.

We formally assess, both at inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedged item. We measure hedge effectiveness by comparing the changes in the fair value or cash flows of the derivative instrument with the changes in the fair value or cash flows of the hedged item. We exclude the hedging instrument's time value component when assessing hedge effectiveness. If it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, we will discontinue hedge accounting prospectively.

To determine the fair values of derivative and other financial instruments, we use a variety of methods and assumptions that are based on market value conditions and risks existing at each balance sheet date. These methods and assumptions include standard market conventions and techniques such as discounted cash flow analysis, option pricing models, replacement cost and termination cost. All methods of assessing fair value result in a general approximation of value, and therefore are not necessarily indicative of the actual amounts that we could realize upon disposition. During 2003, we entered into forward sale agreements with an aggregate notional amount, which represents the fair value of the underlying marketable securities, of approximately $128.5 million and an aggregate fair value of the forward sale agreements of approximately $486,000. During the nine months ended September 30, 2004, we settled all of the forward sales agreements for approximately 2.8 million units and sold 308,200 units of marketable securities, which were not subject to forward sales agreements, resulting in an aggregate gain of approximately $24.9 million. The total net proceeds from the sale were $143.0 million, with the marketable securities basis determined using the average costs of the securities.

During June 2004, we entered into swap transactions to mitigate the risk of changes in the interest-related cash outflows on a forecasted issuance of long-term unsecured debt. At inception, these swap transactions had an aggregate notional amount of $144 million and a fair value of zero. The long-term unsecured debt these swap transactions related to was issued in August 2004. At the time of the debt issuance, the fair value of the cash flow hedge was a liability of approximately $2.5 million. The termination fees associated with these cash flow hedges are included in comprehensive income and are being amortized over the term of the underlying debt as additional interest expense.

Critical Accounting Policies

We define critical accounting policies as those accounting policies that require our management to exercise their most difficult, subjective and complex judgments. Our management has discussed the development and selection of all of these critical accounting policies with our audit committee, and the audit committee has reviewed the disclosure relating to these policies. Our critical accounting policies relate principally to the following key areas:

Internal Cost Capitalization

We have an investment organization that is responsible for development and redevelopment of apartment communities. Consistent with GAAP, all direct and certain indirect costs, including interest and real estate taxes, incurred during development and redevelopment activities are capitalized. Interest is capitalized on real estate assets that require a period of time to prepare them for their intended use. The amount of interest capitalized is based upon the average amount of accumulated development expenditures and indirect project costs associated with our development and redevelopment activities. Indirect project costs consist primarily of personnel costs associated with construction administration and development accounting, legal fees, and various office costs that clearly relate to projects under development. Because the estimation of capitalizable internal costs requires management's judgment, we believe internal cost capitalization is a "critical accounting estimate".

Valuation of Real Estate

Long-lived assets to be held and used are carried at cost and evaluated for impairment when events or changes in circumstances indicate such an evaluation is warranted. We also evaluate assets for potential impairment when we deem them to be held for sale. Valuation of real estate is considered a "critical accounting estimate" because the evaluation of impairment and the determination of fair values involve a number of management assumptions relating to future economic events that could materially affect the determination of the ultimate value, and therefore, the carrying amounts of our real estate.

When determining if there is an indication of impairment, we estimate the asset's NOI over the anticipated holding period on an undiscounted cash flow basis and compare this amount to its carrying value. Estimating the expected NOI and holding period requires significant management judgment. If it is determined that there is an indication of impairment for assets to be held and used, or if an asset is deemed to be held for sale, we then determine the asset's fair value.

The apartment industry uses capitalization rates as the primary measure of fair value. Specifically, annual NOI for a community is divided by an estimated capitalization rate to determine the fair value of the community. Determining the appropriate capitalization rate requires significant judgment and is typically based on many factors including the prevailing rate for the market or submarket as well as the asset type, age, and quality. Further, capitalization rates can fluctuate up or down due to a variety of factors in the overall economy or within local markets. If the actual capitalization rate for a community is significantly different from our estimated rate, the impairment evaluation for an individual asset could be materially affected. Historically we have had limited and infrequent impairment charges, and the majority of our apartment community sales have produced gains. We evaluate a real estate asset for potential impairment when events or changes in circumstances indicate that its carrying amount may not be recoverable.

Capital Expenditures and Depreciable Lives

We incur costs relating to redevelopment initiatives, revenue enhancing and expense reducing capital expenditures, and recurring capital expenditures that are capitalized as part of our real estate. These amounts are capitalized and depreciated over estimated useful lives determined by management. We allocate the cost of newly acquired properties between net tangible and identifiable intangible assets. The primary intangible asset associated with an apartment community acquisition is the value of the existing lease agreements. When allocating cost to an acquired property, we estimate value of the land, building and fixtures assuming the property is vacant and then allocate costs to the intangible value of the existing lease agreements. We depreciate the building and fixtures based on the expected useful life of the asset and amortize the intangible value of the lease agreements over the average remaining life of the existing leases.

Determining whether expenditures meet the criteria for capitalization, the assignment of depreciable lives and determining the appropriate amounts to allocate between tangible and intangible assets for property acquisitions requires our management to exercise significant judgment and is therefore considered a "significant accounting estimate."

Pursuit Costs

We incur costs relating to the potential acquisition of real estate, which we refer to as pursuit costs. To the extent that these costs are identifiable with a specific property and would be capitalized if the property were already acquired, the costs are accumulated by project and capitalized in the Other Asset section of the balance sheet. If these conditions are not met, the costs are expensed as incurred. Capitalized costs include but are not limited to earnest money, option fees, environmental reports, traffic reports, surveys, photos, blueprints, direct and incremental personnel costs and legal costs. Upon acquisition, the costs are included in the basis of the acquired property. When it becomes probable that a prospective acquisition will not be acquired, the accumulated costs for the property are charged to other expense on the statement of earnings in the period such a determination is made. Because of the inherent judgment involved in evaluating whether a prospective property will ultimately be acquired, we believe capitalizable pursuit costs are a "critical accounting estimate."

Moisture Infiltration and Resulting Mold Remediation Costs

Accounting for correction of moisture infiltration and mold remediation costs is considered a "critical accounting estimate" because significant judgment is required by management to determine when to record a liability, how much should be accrued as a liability, and whether such costs meet the criteria for capitalization.

We estimate and accrue costs related to correcting the moisture infiltration and remediating resulting mold when we anticipate incurring costs because of the threat of litigation or the assertion of a legal claim. When we incur costs at our own discretion, the cost is recognized as incurred. Moisture infiltration and resulting mold remediation costs are only capitalized when it is determined by management that such remediation costs also extend the life, increase the capacity, or improve the safety or efficiency of the property relative to when the community was originally constructed or acquired, if later. All other related costs are expensed.

There are considerable uncertainties that affect our ability to estimate the ultimate cost of correction and remediation efforts. These uncertainties include, but are not limited to, assessing the exact nature and extent of the issues, the extent of required remediation efforts and the varying costs of alternative strategies for addressing the issues. Any accrual represents management's best estimate of the probable and reasonably estimable costs and is based, in part, on estimates obtained from third-party environmental contractors and actual costs incurred to date. It is possible that these estimates could increase or decrease as better information becomes available.

We accrue for litigation settlement costs when a loss contingency is both probable and the amount of loss can be reasonably estimated. Estimating the likelihood and amount of a loss contingency requires significant judgment by management and is therefore considered a "critical accounting estimate". We base these estimates on the best information available as of the end of the period, which includes, but is not limited to, estimates obtained from third-party contractors as well as actual costs incurred to date. It is possible that these estimates could increase or decrease as better information becomes available. We generally recognize legal expenses as incurred; however, if such fees are related to the accrual for a known legal settlement, we accrue for the related incurred and anticipated legal fees at the same time we accrue the cost of settlement.

Off Balance Sheet Arrangements

Investments in entities that are not controlled through majority economic interest are not consolidated and are reported as investments in unconsolidated entities. Our investments in unconsolidated entities at September 30, 2004, consisted of $95.8 million in real estate joint ventures, which generally consist of our percentage ownership in the equity of the joint ventures.

Consolidated Engineering Services is a service business that we acquired during the Smith Merger in 2001, which prior to its sale had been reported as an unconsolidated entity in our financial statements. CES provides engineering services for commercial and residential real estate across the country. On December 19, 2002, CES was sold to a third party for $178 million in cash, and we recorded a $35.4 million net gain on the sale of the business or $0.16 per unit on a fully diluted basis. Excluded from the gain was approximately $6.7 million in contingent proceeds related to indemnification of accounts receivable over 120 days. Also excluded from the gain were liabilities for certain indemnifications that expired during June 2004. During the nine months ended September 30, 2004 and 2003, we recognized $923,000 and $5.1 million related to the collection of accounts receivable over 120 days, respectively. During the nine months ended September 30, 2004, we also recognized $3.2 million related to the expiration of certain indemnified liabilities recorded as part of the CES sale.

Smith Management Construction is a service business that we acquired in the Smith Merger during 2001. We sold SMC during February 2003 to former members of SMC's senior management. Prior to the sale, we reported SMC as an unconsolidated entity in our financial statements. We received two notes receivable totaling $5.8 million and bearing an interest rate of 7.0% as consideration for the sale. The first note for $3.5 million has principal payments beginning in August 2003 with payment in full by February 2008. The second note for $2.3 million was fully repaid along with all accrued interest due during May 2003. During the second quarter of 2004, we recognized the divestiture since our responsibilities under the majority of outstanding performance guarantees, which pertain to ongoing construction projects at the time of sale, expired.

Contractual Commitments

The following table summarizes information contained in Management's Discussion and Analysis of Financial Condition and Results of Operations and in our financial statements in this Form 10-Q regarding contractual commitments (amounts in millions):

	2004	2005 and 2006	2007 and 2008	2009 thru 2095	Total
Scheduled long-term debt maturities	$ 25.4	$ 683.0	$ 999.3	$ 2,404.4	$ 4,112.1
Unsecured credit facilities [(1)]	–	–	–	–	–
Development and redevelopment expenditures	80.4	319.9	–	–	400.3
Performance bond guarantees [(2)]	18.6	19.7	–	1.2	39.5
Lease commitments and other [(3)]	7.3	15.1	13.5	352.6	388.5
Total	$ 131.7	$ 1,037.7	$ 1,012.8	$ 2,758.2	$ 4,940.4

(1) The $600 million unsecured facility matures on October 30, 2006, with a one-year extension option available at our discretion.

(2) The Operating Trust, our subsidiaries and investees have not been required to perform on these guarantees, nor do we anticipate being required to perform on such guarantees. Since we believe that our risk of loss under these contingencies is remote, no accrual for potential loss has been made in the accompanying financial statements. We are still obligated for performance bond guarantees for CES and SMC subsequent to their sale, but there are recourse provisions available to us to recover any potential future payments from the new owners of CES and SMC.

(3) Lease commitments relate principally to ground lease payments as of September 30, 2004.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our capital structure includes the use of both fixed and floating rate debt and we are exposed to the impact of changes in interest rates. We also use interest rate swap and interest rate cap derivative financial instruments in order to modify interest rate characteristics of our debt in an effort to minimize our overall borrowing costs. We do not utilize these derivative financial instruments for speculative purposes. To assist us in evaluating our interest rate risk and counter-party credit risk, we use the services of third party consultants.

As a result of our balance sheet management philosophy, we have managed our debt maturities to create a relatively level principal maturity schedule, without significant repayment obligations in any year. If current market conditions do not permit us to replace maturing debt at comparable interest rates, we are not exposed to significant portfolio level interest rate volatility due to the management of our maturity schedules. There have been no material changes to our market risk profile since December 31, 2003. See Item 7a in our 2003 Form 10-K for detailed information about the qualitative and quantitative disclosures about our market risk.

Item 4. Controls and Procedures

An evaluation was carried out under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934). Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were, to the best of their knowledge, effective as of September 30, 2004, to ensure that information required to be disclosed in reports that are filed or submitted under the Securities Exchange Act are recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. Subsequent to September 30, 2004, there were no significant changes in the Operating Trust’s disclosure controls or in other factors that could significantly affect these controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are subject to the following claims in connection with moisture infiltration and resulting mold issues at high-rise properties in Southeast Florida.

Henriques, et al. v. Archstone-Smith Operating Trust, et al., filed on August 27, 2002 (the "Henriques Claim"), in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, on behalf of a class of residents at Harbour House. We have reached a court-approved settlement with the plaintiffs in this matter. The case alleged that water infiltration and resulting mold contamination at the property had been caused by faulty air-conditioning and had resulted in both personal injuries to the plaintiffs and damage to their property. Based on the settlement, we have recorded a liability for estimated legal fees associated with known and anticipated costs for our counsel and plaintiffs' counsel, as well as estimated settlement costs. Not all plaintiffs have accepted the court-approved settlement, and some of these individuals have filed separate lawsuits. We are in the process of determining the merits of their claims and therefore, potential legal fees and damages associated with these claims are not contemplated in our current accrual. See Management's Discussion and Analysis of Financial Conditions and Results of Operations in this Quarterly Report for further discussion regarding this accrual.

Santos, et al. v. Archstone-Smith Operating Trust, et al., filed on February 13, 2003, in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, on behalf of a class of residents at Harbour House. The plaintiffs in this case make substantially the same allegations as those made in the *Henriques* claim and seek both injunctive relief and unspecified monetary and punitive damages. We believe this case to be without merit, and given our evaluation of the claims with the individuals actually represented by opposing counsel, we have recorded a liability for estimated legal fees associated with known and anticipated costs for our counsel and plaintiffs' counsel, as well as estimated settlement costs. See Management's Discussion and Analysis of Financial Conditions and Results of Operations in this Quarterly Report for further discussion regarding this accrual.

Michel, et al., v. Archstone-Smith Operating Trust, et al., was filed on May 9, 2003, in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, on behalf of the class of residents at the property. The plaintiffs in this case make substantially the same allegations as those made in the *Henriques* claim and seek both injunctive relief and unspecified monetary and punitive damages. In connection with the sale of this asset on August 31, 2004, the purchaser assumed any liabilities arising from this action and ASN and its affiliates have been dismissed with prejudice from this action.

Semidey, et al., v. Archstone-Smith Operating Trust, et al., was filed on June 9, 2003, in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida, on behalf of the class of residents at the property. The plaintiffs in this case made substantially the same allegations as those made in the *Henriques* claim and sought both injunctive relief and unspecified monetary and punitive damages. Although we were never served with this complaint, we have reached a settlement with a majority of the represented residents and therefore this complaint was dismissed without prejudice. We have recorded a liability consistent with the settlement reached in this claim.

Although we continued discussions with the remaining represented residents in the *Semidey* case, plaintiffs' counsel elected to re-file a class action suit on behalf of these individuals (*Sullivan, et al., v. Archstone-Smith Operating Trust, et al.*) on July 6, 2004 in the Circuit Court of the Eleventh Judicial Circuit in and for Miami-Dade County, Florida. This is based upon the same allegation as the *Semidey* action and seeks the same relief, with the exception of damages for bodily injury, which are excluded. Plaintiffs' counsel advised us that they intended to seek recovery for any bodily injury claims through individual lawsuits. We have since settled the claims of all of the named plaintiffs in this action as well as with all but eleven of the individuals represented by opposing counsel. On October 27, 2004, Plaintiffs' counsel amended the *Semidey* complaint to name new class representatives in *Bercovits et al., v. Archstone-Smith Operating Trust, et al.*

We are party to various other claims and routine litigation arising in the ordinary course of business. We do not believe that the results of any such claims and litigation, individually or in the aggregate, will have a material adverse effect on our business, financial position or results of operations.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

The following table summarizes the A-1 Common Units that were repurchased for either cash or A-2 Units:

Period	Number of Units Purchased	Average Price Paid per Unit	Total Number of Units Purchased as Part of Publicly Announced Plan	Maximum Approximate Dollar Value That May Yet Be Purchased Under the Plan
7/1/04 – 7/31/04	530,791	$ 30.38	–	–
8/1/04 – 8/31/04	2,000	30.11	–	–
9/1/04 – 9/30/04	42,538	31.12	–	–
Total	575,329		–	

Item 6. Exhibits

(a) Exhibits:

12.1 Computation of Ratio of Earnings to Fixed Charges

12.2 Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Unit Distributions

15.1 Consent of Independent Public Accounting Firm

31.1 Certification of Chief Executive Officer

31.2 Certification of Chief Financial Officer

32.1 Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

ARCHSTONE-SMITH OPERATING TRUST

BY: /S/ R. SCOT SELLERS
R. Scot Sellers
Chief Executive Officer

BY: /S/ CHARLES E. MUELLER, JR.
Charles E. Mueller, Jr.
Chief Financial Officer
(Principal Financial Officer)

BY: /S/ MARK A. SCHUMACHER
Mark A. Schumacher
Controller and Senior Vice-President
(Principal Accounting Officer)

Date: November 8, 2004

EXHIBIT 12.1

ARCHSTONE-SMITH OPERATING TRUST
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(Dollar amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,		Twelve Months Ended December 31,				
	2004 (1)	2003 (1)	2003 (1)	2002 (1)	2001 (1)	2000 (1)	1999 (1)
Earnings from operations	$ 103,102	$ 99,010	$ 138,758	$ 121,545	$ 90,646	$ 105,220	$ 131,219
Add:							
Interest expense	129,476	111,728	163,105	169,357	82,599	88,045	96,777
Earnings as adjusted	$ 232,578	$ 210,738	$ 301,863	$ 290,902	$ 173,245	$ 193,265	$ 227,996
Fixed charges:							
Interest expense	$ 129,476	$ 111,728	$ 163,105	$ 169,357	$ 82,599	$ 88,045	$ 96,777
Capitalized interest	17,110	17,753	26,854	32,377	29,186	37,079	41,099
Total fixed charges	$ 146,586	$ 129,481	$ 189,959	$ 201,734	$ 111,785	$ 125,124	$ 137,876
Ratio of earnings to fixed charges	1.6	1.6	1.6	1.4	1.5	1.5	1.7

(1) Net earnings from discontinued operations have been reclassified for all periods presented.

EXHIBIT 12.2

ARCHSTONE-SMITH OPERATING TRUST
COMPUTATION OF RATIO OF EARNINGS TO COMBINED FIXED CHARGES
AND PREFERRED UNIT DISTRIBUTIONS

(Dollar amounts in thousands)

(Unaudited)

	Nine Months Ended September 30,		Twelve Months Ended December 31,				
	2004 (1)	2003 (1)	2003 (1)	2002 (1)	2001 (1)	2000 (1)	1999 (1)
Earnings from operations	$ 103,102	$ 99,010	$ 138,758	$ 121,545	$ 90,646	$ 105,220	$ 131,219
Add:							
Interest expense	129,476	111,728	163,105	169,357	82,599	88,045	96,777
Earnings as adjusted	$232,578	$ 210,738	$ 301,863	$ 290,902	$ 173,245	$ 193,265	$ 227,996
Combined fixed charges and Preferred Unit distributions:							
Interest expense	$ 129,476	$ 111,728	$ 163,105	$ 169,357	$ 82,599	$ 88,045	$ 96,777
Capitalized interest	17,110	17,753	26,854	32,377	29,186	37,079	41,099
Total fixed charges	146,586	129,481	189,959	201,734	111,785	125,124	137,876
Preferred Unit distributions	14,612	21,737	26,153	34,309	25,877	25,340	23,733
Combined fixed charges and Preferred Unit distributions	$ 161,198	$ 151,218	$ 216,112	$ 236,043	$ 137,662	$ 150,464	$ 161,609
Ratio of earnings to combined fixed charges and Preferred Unit distributions	1.4	1.4	1.4	1.2	1.3	1.3	1.4

(1) Net earnings from discontinued operations have been reclassified for all periods presented.

EXHIBIT 15.1

The Board of Trustees and Unitholders
Archstone-Smith Operating Trust:

Re: Registration Statements Nos. 333-89164 (Form S-3) and 333-1114394 (Form S-3).

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated October 18, 2004, related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the “Act”), such report is not considered a part of a registration statement prepared or certified by an accountant, or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Act.

KPMG LLP

Denver, Colorado
November 8, 2004

EXHIBIT 31.1

CERTIFICATIONS

I, R. Scot Sellers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Archstone-Smith Operating Trust (the "registrant").

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of trustees (or persons performing the equivalent function);

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial data; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

BY: /S/ R. SCOT SELLERS
R. Scot Sellers
Chief Executive Officer

Date: November 8, 2004

EXHIBIT 31.2

CERTIFICATIONS

I, Charles E. Mueller, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Archstone-Smith Operating Trust (the “registrant”).

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   c) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of registrant’s board of trustees (or persons performing the equivalent function);

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial data; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

BY: /S/ CHARLES E. MUELLER, JR.
Charles E. Mueller, Jr.
Chief Financial Officer
(Principal Financial Officer)

Date: November 8, 2004

EXHIBIT 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, being the Chief Executive Officer of Archstone-Smith Operating Trust, a Maryland real estate investment trust (the "Issuer"), hereby certifies that the Quarterly Report on Form 10-Q (the "Periodic Report") of the Issuer for the quarter ended September 30, 2004, which accompanies this certification, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. §78m(a)) and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Date: November 8, 2004

/S/ R. SCOT SELLERS
R. Scot Sellers, Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, being the Chief Financial Officer of Archstone-Smith Operating Trust, a Maryland real estate investment trust (the "Issuer"), hereby certifies, that the Quarterly Report on Form 10-Q (the "Periodic Report") of the Issuer for the quarter ended September 30, 2004, which accompanies this certification, fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. §78m(a)) and that the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

Date: November 8, 2004

/S/ CHARLES E. MUELLER, JR.
Charles E. Mueller, Jr., Chief Financial Officer