

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

FORM 10-K

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

For the fiscal year ended December 31, 2015

Commission file number 1-12672

AVALONBAY COMMUNITIES, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of
incorporation or organization)

77-0404318

(I.R.S. Employer
Identification No.)

Ballston Tower
671 N. Glebe Rd, Suite 800
Arlington, Virginia 22203

(Address of principal executive offices, including zip code)

(703) 329-6300

(Registrant's telephone number, including area code)

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

<u>(Title of each class)</u>	<u>(Name of each exchange on which registered)</u>
Common Stock, par value \$.01 per share	New York Stock Exchange

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes No

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 twelve (12) months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the registrant's Common Stock, par value \$.01 per share, held by nonaffiliates of the registrant, as of June 30, 2015 was \$21,847,735,762.

The number of shares of the registrant's Common Stock, par value \$.01 per share, outstanding as of January 29, 2016 was 137,002,607.

Documents Incorporated by Reference

Portions of AvalonBay Communities, Inc.'s Proxy Statement for the 2016 annual meeting of stockholders, a definitive copy of which will be filed with the SEC within 120 days after the year end of the year covered by this Form 10-K, are incorporated by reference herein as portions of Part III of this Form 10-K.

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PART I

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Our actual results could differ materially from those set forth in each forward-looking statement. Certain factors that might cause such a difference are discussed in this report, including in the section entitled "Forward-Looking Statements" included in this Form 10-K. You should also review Item 1A. "Risk Factors" for a discussion of various risks that could adversely affect us.

ITEM 1. BUSINESS

General

AvalonBay Communities, Inc. (the "Company," which term, unless the context otherwise requires, refers to AvalonBay Communities, Inc. together with its subsidiaries), is a Maryland corporation that has elected to be treated as a real estate investment trust ("REIT") for federal income tax purposes. We develop, redevelop, acquire, own and operate multifamily communities primarily in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Pacific Northwest, and Northern and Southern California. We focus on leading metropolitan areas in these regions that we believe are characterized by growing employment in high wage sectors of the economy, lower housing affordability and a diverse and vibrant quality of life. We believe these market characteristics offer the opportunity for superior risk-adjusted returns on apartment community investments relative to other markets.

At January 31, 2016, we owned or held a direct or indirect ownership interest in:

- 257 operating apartment communities containing 75,549 apartment homes in 10 states and the District of Columbia, of which 238 communities containing 69,652 apartment homes were consolidated for financial reporting purposes, two communities containing 618 apartment homes were held by joint ventures in which we hold an ownership interest, and 17 communities containing 5,279 apartment homes were owned by the Funds (as defined below). Nine of the consolidated communities containing 2,795 apartment homes were under redevelopment, as discussed below;
- 26 wholly-owned communities under construction that are expected to contain an aggregate of 8,112 apartment homes when completed; and
- rights to develop an additional 32 communities that, if developed in the manner expected, will contain an estimated 9,634 apartment homes.

We generally obtain ownership in an apartment community by developing a new community on either vacant land or land with improvements that we raze, or by acquiring an existing community. In selecting sites for development or acquisition, we favor locations that are near expanding employment centers and convenient to transportation, recreation areas, entertainment, shopping and dining.

Our consolidated real estate investments consist of the following reportable segments: Established Communities, Other Stabilized Communities and Development/Redevelopment Communities.

Established Communities are generally operating communities that were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year such that year-over-year comparisons are meaningful. Other Stabilized Communities are generally all other operating communities that have stabilized occupancy and operating expenses during the current year, but that were not owned or had not achieved stabilization as of the beginning of the prior year such that year-over-year comparisons are not meaningful, as well as communities that are planned for disposition during the current year. Development/Redevelopment Communities consist of communities that are under construction, communities where substantial redevelopment is in progress or is planned to begin during the current year and communities under lease-up. A more detailed description of these segments and other related information can be found in Note 8, "Segment Reporting," of the Consolidated Financial Statements set forth in Item 8 of this report.

Our principal financial goal is to increase long-term shareholder value through the development, redevelopment, acquisition, operation and, when appropriate, disposition of apartment communities in our markets. To help meet this goal, we regularly (i) monitor our investment allocation by geographic market and product type, (ii) develop, redevelop and acquire interests in apartment communities in our selected markets, (iii) selectively sell apartment communities that no longer meet our long-term strategy or when opportunities are presented to realize a portion of the value created through our investment and redeploy the proceeds from those sales and (iv) endeavor to maintain a capital structure that is aligned with our business risks with a view to maintaining continuous access to cost-effective capital. We pursue our development, investment and operating activities with the purpose of *Creating a Better Way to Live*. Our strategic vision is to be the leading apartment company in select US markets, providing a range of distinctive living experiences that customers value. We pursue this vision by targeting what we believe are the best markets and submarkets, leveraging our strategic capabilities in market research and consumer insight and being disciplined in our capital allocation and balance sheet management. In addition to our in-house development and construction capabilities, we supplement our growth through our in-house redevelopment and acquisition platforms. We believe that our organizational structure, which includes dedicated development and operational teams in each of our regions, and strong culture are key differentiators and provide us with access to highly talented, dedicated and capable associates.

We operate our apartment communities under three core brands *Avalon*, *AVA* and *Eaves by Avalon*. We believe that this branding differentiation allows us to target our product offerings to multiple customer groups and submarkets within our existing geographic footprint. The "*Avalon*" brand is our core offering, focusing on upscale apartment living and high end amenities and services in urban and suburban markets. Our "*AVA*" brand is designed for people who want to live in or near urban neighborhoods and in close proximity to public transportation, services, shopping and night-life. *AVA* apartments are generally smaller, many engineered for roommate living and feature modern design and a technology focus. Our *Eaves by Avalon* brand is designed for renters who seek good quality apartment living, often in a suburban setting, with practical amenities and services at a more modest price point.

On February 27, 2013, pursuant to an asset purchase agreement dated November 26, 2012, the Company, together with Equity Residential, acquired, directly or indirectly, all of the assets owned by Archstone Enterprise LP ("Archstone," which has since changed its name to Jupiter Enterprise LP), including all of the ownership interests in joint ventures and other entities owned by Archstone, and assumed Archstone's liabilities, both known and unknown, with certain limited exceptions. Under the terms of the purchase agreement, the Company acquired approximately 40.0% of Archstone's assets and liabilities and Equity Residential acquired approximately 60.0% of Archstone's assets and liabilities (the "Archstone Acquisition").

During the three years ended December 31, 2015, excluding activity for the Funds (as defined below) and interests acquired in unconsolidated joint ventures as part of the Archstone Acquisition detailed below, we acquired 56 apartment communities, of which 54 were acquired as part of the Archstone Acquisition. During the three years ended December 31, 2015, we disposed of 17 apartment communities, six of which were acquired in the Archstone Acquisition, and completed the development of 42 apartment communities and the redevelopment of 15 apartment communities. In addition, we acquired two wholly-owned communities in 2016 through the date this Form 10-K was filed.

In March 2005, we formed AvalonBay Value Added Fund, L.P. ("Fund I"), a private, discretionary real estate investment vehicle, which we managed and in which we owned a 15.2% interest. Fund I acquired communities with the objective of either redeveloping or repositioning them, or taking advantage of market cycle timing and improved operating performance. From its inception in March 2005 through the close of its investment period in 2008, Fund I acquired 20 communities. During the three years ended December 31, 2015, we realized our pro rata share of the gain from the sale of the last of the 11 communities owned by Fund I. Fund I disposed of the last of its communities in 2014, and was dissolved in April 2015.

In September 2008, we formed AvalonBay Value Added Fund II, L.P. ("Fund II"), a second institutional discretionary real estate investment fund which we manage and in which we own a 31.3% interest. In 2012, Fund II acquired its final operating community. From the commencement of Fund II through the close of its investment period, Fund II acquired 13 operating communities. During the three years ended December 31, 2015, we realized our pro rata share of the gain from the sale of seven communities owned by Fund II. In 2016, through the date this Form 10-K was filed, Fund II sold one community.

In conjunction with the Archstone Acquisition, excluding the Residual JV, we acquired interests in three additional joint ventures, Archstone Multifamily Partners AC LP (the "U.S. Fund"), Archstone Multifamily Partners AC JV LP (the "AC JV") and Brandywine Apartments of Maryland, LLC ("Brandywine").

The U.S. Fund was formed in July 2011 and is fully invested. As of December 31, 2015, the U.S. Fund owns nine communities containing 1,730 apartment homes, one of which includes a marina containing 229 boat slips. Through subsidiaries, we acquired and own the general partner of the fund and hold a 28.6% interest in the fund. In 2016, through the date this Form 10-K was filed, the U.S. Fund had sold two communities.

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The AC JV is a joint venture in which we acquired Archstone's 20.0% ownership interest. The AC JV was formed in 2011 and owns three operating apartment communities containing 921 apartment homes, one of which completed development in 2014. The AC JV partnership agreement contains provisions that require us to provide a right of first offer ("ROFO") to the AC JV in connection with additional opportunities to acquire or develop additional interests in multifamily real estate assets within a specified geographic radius of the existing assets, generally one mile or less. The ROFO restriction expires in 2019.

Brandywine owns a 305 apartment home community located in Washington, DC, which is managed by a third party. Brandywine is comprised of five members who hold various interests in the joint venture. In conjunction with the Archstone Acquisition, we acquired a 26.1% equity interest in the venture, and subsequently purchased an additional 2.6% interest, and as of December 31, 2015, hold a 28.7% equity interest in the venture.

A more detailed description of Fund I, Fund II, and the U.S. Fund (collectively, the "Funds"), the AC JV, Brandywine and the related investment activity can be found in the discussion in Note 5, "Investments in Real Estate Entities," of the Consolidated Financial Statements in Item 8 of this report and in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Through subsidiaries, the Company and Equity Residential entered into three limited liability company agreements (collectively, the "Residual JV") through which the Company and Equity Residential acquired (i) certain assets of Archstone that the Company and Equity Residential have divested (to third parties or to the Company or Equity Residential) (the "Residual Assets"), and (ii) various liabilities of Archstone that the Company and Equity Residential agreed to assume in conjunction with the Archstone Acquisition (the "Residual Liabilities"). The Residual Assets included a 20.0% interest in Lake Mendota Investments, LLC and Subsidiaries ("SWIB"), a joint venture which disposed of the last of its communities in 2015, various licenses, insurance policies, contracts, office leases and other miscellaneous assets. The Residual Liabilities include most existing or future litigation and claims related to Archstone's operations for periods before the close of the Archstone Acquisition, except for (i) claims that principally relate to the physical condition of the assets acquired directly by the Company or Equity Residential, which generally remain the sole responsibility of the Company or Equity Residential, as applicable, and (ii) certain tax and other litigation between Archstone and various equity holders in Archstone related to periods before the close of the Archstone Acquisition, and claims which may arise due to changes in the capital structure of Archstone that occurred prior to closing, for which the seller has agreed to indemnify the Company and Equity Residential. The Company and Equity Residential jointly control the Residual JV and the Company holds a 40.0% economic interest in the Residual JV.

During 2015, we sold seven operating communities including sales by unconsolidated entities, excluding the Residual JV, and recognized a gain in accordance with U.S. generally accepted accounting principles ("GAAP") of \$145,351,000. In addition, we sold two undeveloped land parcels and air rights, representing the right to increase density for future residential development, and recognized a gain in accordance with GAAP of \$9,647,000.

A further discussion of our development, redevelopment, disposition, acquisition, property management and related strategies follows.

Development Strategy. We select land for development and follow established procedures that we believe minimize both the cost and the risks of development. As one of the largest developers of multifamily rental apartment communities in our selected markets, we identify development opportunities through local market presence and access to local market information achieved through our regional offices. In addition to our principal executive office in Arlington, Virginia, we also maintain regional offices, administrative offices or specialty offices, including offices that are in or near the following cities:

- Boston, Massachusetts;
- Fairfield, Connecticut;
- Irvine, California;
- Long Island, New York;
- Los Angeles, California;
- New York, New York;
- San Diego, CA;
- San Francisco, California;
- San Jose, California;
- Seattle, Washington;

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- Virginia Beach, Virginia; and
- Woodbridge, New Jersey.

After selecting a target site, we usually negotiate for the right to acquire the site either through an option or a long-term conditional contract. Options and long-term conditional contracts generally allow us to acquire the target site shortly before the start of construction, which reduces development-related risks and preserves capital. However, as a result of competitive market conditions for land suitable for development, we have sometimes acquired and held land prior to construction for extended periods while entitlements are obtained, or acquired land zoned for uses other than residential with the potential for rezoning. For further discussion of our Development Rights, refer to Item 2. "Communities" in this report.

We generally act as our own general contractor and construction manager, except for certain mid-rise and high-rise apartment communities, where we may elect to use third-party general contractors as construction managers. We generally perform these functions directly (although we may use a wholly-owned subsidiary) both for ourselves and for the joint ventures and partnerships of which we are a member or a partner. We believe direct involvement in construction enables us to achieve higher construction quality, greater control over construction schedules and cost savings. Our development, property management and construction teams monitor construction progress to ensure quality workmanship and a smooth and timely transition into the leasing and operating phase.

During periods where competition for development land is more intense, we may acquire improved land with existing commercial uses and rezone the site for multifamily residential use. During the period that we hold these buildings for future development, any rent received in excess of expenses from these operations, which we consider to be incidental, is accounted for as a reduction in our investment in the development pursuit and not as net income. Any expenses relating to these operations, in excess of any rents received, are accounted for as a reduction in net income. We have also participated, and may in the future participate, in master planned or other large multi-use developments where we commit to build infrastructure (such as roads) to be used by other participants or commit to act as construction manager or general contractor in building structures or spaces for third parties (such as unimproved ground floor retail space, municipal garages or parks). Costs we incur in connection with these activities may be accounted for as additional invested capital in the community or we may earn fee income for providing these services. Particularly with large scale, urban in-fill developments, we may engage in significant environmental remediation efforts to prepare a site for construction.

Throughout this report, the term "development" is used to refer to the entire property development cycle, including pursuit of zoning approvals, procurement of architectural and engineering designs and the construction process. References to "construction" refer to the actual construction of the property, which is only one element of the development cycle.

Redevelopment Strategy. When we undertake the redevelopment of a community, our goal is to renovate and/or rebuild an existing community so that our total investment is generally below replacement cost and the community is well positioned in the market to achieve attractive returns on our capital. We have dedicated redevelopment teams and procedures that are intended to control both the cost and risks of redevelopment. Our redevelopment teams, which include redevelopment, construction and property management personnel, monitor redevelopment progress. We believe we achieve significant cost savings by undertaking the redevelopment primarily through an occupied turn strategy, in which we continue to operate the community as we install improvements, working to minimize any impact on our current residents.

Throughout this report, the term "redevelopment" is used to refer to the entire redevelopment cycle, including planning and procurement of architectural and engineering designs, budgeting and actual renovation work. The actual renovation work is referred to as "reconstruction," which is only one element of the redevelopment cycle.

Disposition Strategy. We sell assets that no longer meet our long-term strategy or when market conditions are favorable, and we redeploy the proceeds from those sales to develop, redevelop and acquire communities and to rebalance our portfolio across or within geographic regions. This also allows us to realize a portion of the value created through our investments and provides additional liquidity. We are then able to redeploy the net proceeds from our dispositions in lieu of raising that amount of capital externally. When we decide to sell a community, we generally solicit competing bids from unrelated parties for these individual assets and consider the sales price of each proposal.

As part of the Archstone Acquisition, we acquired 14 assets that had previously been contributed by third parties on a tax-deferred basis to an Archstone partnership in which the third parties received ownership interests. To protect the tax-deferred nature of the contribution, the third parties are entitled to cash payments if we trigger tax obligations to the third parties by selling, or repaying secured financing on, the contributed assets. As of December 31, 2015, the aggregate amount of the tax protection payments that would be triggered by the sale of all 14 contributed assets is estimated to be approximately \$41,700,000.

Acquisition Strategy. Our core competencies in development and redevelopment discussed above allow us to be selective in the acquisitions we target. Acquisitions allow us to achieve rapid penetration into markets in which we desire an increased presence.

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Acquisitions (and dispositions) also help us achieve our desired product mix or rebalance our portfolio. Portfolio growth also allows for fixed general and administrative costs to be a smaller percentage of overall community Net Operating Income ("NOI").

While we have achieved growth in the past through the establishment of discretionary real estate investments funds, which placed certain limitations on our ability to acquire new communities during their investments periods, we are not presently pursuing the formation of a new discretionary real estate investment fund, preferring at this time to maintain flexibility in shaping our portfolio of wholly-owned assets through acquisitions and dispositions.

Property Management Strategy. We seek to increase operating income through innovative, proactive property management that will result in higher revenue from communities while constraining operating expenses. Our principal strategies to maximize revenue include:

- focusing on resident satisfaction;
- staggering lease terms such that lease expirations are better matched to traffic patterns;
- balancing high occupancy with premium pricing and increasing rents as market conditions permit; and
- employing revenue management software to optimize the pricing and term of leases.

Constraining growth in operating expenses is another way in which we seek to increase earnings growth. Growth in our portfolio and the resulting increase in revenue allows for fixed operating costs to be spread over a larger volume of revenue, thereby increasing operating margins. We constrain growth in operating expenses in a variety of ways, which include, but are not limited to, the following:

- we use purchase order controls, acquiring goods and services from pre-approved vendors;
- we use national negotiated contracts and also purchase supplies in bulk where possible;
- we bid third-party contracts on a volume basis;
- we strive to retain residents through high levels of service in order to eliminate the cost of preparing an apartment home for a new resident and to reduce marketing and vacant apartment utility costs;
- we perform turnover work in-house or hire third parties, generally considering the most cost effective approach as well as expertise needed to perform the work;
- we undertake preventive maintenance regularly to maximize resident safety and satisfaction, as well as to maximize property and equipment life;
- we have established a customer care center, centralizing and improving the efficiency and consistency in the application of Company policies for many of the administrative tasks associated with owning and operating apartment communities; and
- we aggressively pursue real estate tax appeals.

On-site property management teams receive bonuses based largely upon the revenue, expense and NOI produced at their respective communities. We use and continuously seek ways to improve technology applications to help manage our communities, believing that the accurate collection of financial and resident data will enable us to maximize revenue and control costs through careful leasing decisions, maintenance decisions and financial management.

We generally manage the operation and leasing activity of our communities directly (although we may use a wholly-owned subsidiary) both for ourselves and the joint ventures and partnerships of which we are a member or a partner. From time to time we may engage a third party to manage leasing and/or maintenance activity at one or more of our communities.

From time to time we also pursue or arrange ancillary services for our residents to provide additional revenue sources or increase resident satisfaction. As a REIT, we generally cannot provide direct services to our residents that are not customarily provided by a landlord, nor can we directly share in the income of a third party that provides such services. However, we can provide such non-customary services to residents or share in the revenue from such services if we do so through a "taxable REIT subsidiary," which is a subsidiary that is treated as a "C corporation" subject to federal income taxes. See "Tax Matters" below.

Financing Strategy. We maintain a capital structure that provides financial flexibility to ensure we can select cost effective capital market options that are well matched to our business risks. We estimate that our short-term liquidity needs will be met from cash on hand, borrowings under our \$1,500,000,000 revolving variable rate unsecured credit facility (the "Credit Facility"), sales of current operating communities and/or issuance of additional debt or equity securities. A determination to engage in an equity or

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debt offering depends on a variety of factors such as general market and economic conditions, our short and long-term liquidity needs, the relative costs of debt and equity capital and growth opportunities. A summary of debt and equity activity for the last three years is reflected on our Consolidated Statement of Cash Flows of the Consolidated Financial Statements set forth in Item 8 of this report.

We have entered into, and may continue in the future to enter into, joint ventures (including limited liability companies or partnerships) through which we would own an indirect economic interest of less than 100% of the community or communities owned directly by such joint ventures. Our decision to either hold an apartment community in fee simple or to have an indirect interest in the community through a joint venture is based on a variety of factors and considerations, including: (i) the economic and tax terms required by a seller of land or of a community; (ii) our desire to diversify our portfolio of communities by market, submarket and product type; (iii) our desire at times to preserve our capital resources to maintain liquidity or balance sheet strength; and (iv) our projection, in some circumstances, that we will achieve higher returns on our invested capital or reduce our risk if a joint venture vehicle is used. Investments in joint ventures are not limited to a specified percentage of our assets. Each joint venture agreement is individually negotiated, and our ability to operate and/or dispose of a community in our sole discretion may be limited to varying degrees depending on the terms of the joint venture agreement.

In addition, from time to time, we may offer shares of our equity securities, debt securities or options to purchase stock in exchange for property. We may also acquire properties in exchange for properties we currently own.

Other Strategies and Activities. While we emphasize equity real estate investments in rental apartment communities, we have the ability to invest in other types of real estate, mortgages (including participating or convertible mortgages), securities of other REITs or real estate operating companies, or securities of technology companies that relate to our real estate operations or of companies that provide services to us or our residents, in each case consistent with our qualification as a REIT. In addition, we own and lease retail space at our communities when either (i) the highest and best use of the space is for retail (e.g., street level in an urban area); (ii) we believe the retail space will enhance the attractiveness of the community to residents or; (iii) some component of retail space is required to obtain entitlements to build apartment homes. As of December 31, 2015, we had a total of 660,605 square feet of rentable retail space, excluding retail space within communities currently under construction. Gross rental revenue provided by leased retail space in 2015 was \$18,528,000 (1.0% of total revenue). We may also develop a property in conjunction with another real estate company that will own and operate the retail or for-sale residential components of a mixed-use building or project that we help develop. If we secure a development right and believe that its best use, in whole or in part, is to develop the real estate with the intent to sell rather than hold the asset, we may, through a taxable REIT subsidiary, develop real estate for sale. Any investment in securities of other entities, and any development of real estate for sale, is subject to the percentage of ownership limitations, gross income tests, and other limitations that must be observed for REIT qualification.

We have not engaged in trading, underwriting or agency distribution or sale of securities of other issuers and do not intend to do so. At all times we intend to make investments in a manner so as to qualify as a REIT unless, because of circumstances or changes to the Internal Revenue Code of 1986, as amended (the "Code") (or the Treasury Regulations thereunder), our Board of Directors determines that it is no longer in our best interest to qualify as a REIT.

Tax Matters

We filed an election with our 1994 federal income tax return to be taxed as a REIT under the Code and intend to maintain our qualification as a REIT in the future. As a qualified REIT, with limited exceptions, such as those described under "Property Management Strategy" above, we will not be taxed under federal and certain state income tax laws at the corporate level on our taxable net income to the extent taxable net income is distributed to our stockholders. We expect to make sufficient distributions to avoid income tax at the corporate level. While we believe that we are organized and qualified as a REIT and we intend to operate in a manner that will allow us to continue to qualify as a REIT, there can be no assurance that we will be successful in this regard. Qualification as a REIT involves the application of highly technical and complex provisions of the Code for which there are limited judicial and administrative interpretations and involves the determination of a variety of factual matters and circumstances not entirely within our control.

Competition

We face competition from other real estate investors, including insurance companies, pension and investment funds, partnerships and investment companies and other REITs, to acquire and develop apartment communities and acquire land for future development. As an owner and operator of apartment communities, we also face competition for prospective residents from other operators whose communities may be perceived to offer a better location or better amenities or whose rent may be perceived as a better value given the quality, location and amenities that the resident seeks. We also compete against condominiums and single-family homes that are for sale or rent. Although we often compete against large, sophisticated developers and operators for development opportunities and for prospective residents, real estate developers and operators of any size can provide effective competition for both real estate assets and potential residents.

Environmental and Related Matters

As a current or prior owner, operator and developer of real estate, we are subject to various federal, state and local environmental laws, regulations and ordinances and also could be liable to third parties resulting from environmental contamination or noncompliance at our communities. For some development communities we undertake extensive environmental remediation to prepare the site for construction, which could be a significant portion of our total construction cost. Environmental remediation efforts could expose us to possible liabilities for accidents or improper handling of contaminated materials during construction. These and other risks related to environmental matters are described in more detail in Item 1A. "Risk Factors."

We believe that more government regulation of energy use, along with a greater focus on environmental protection, may, over time, have a significant impact on urban growth patterns. If changes in zoning to encourage greater density and proximity to mass transit do occur, such changes could benefit multifamily housing and those companies with a competency in high-density development. However, there can be no assurance as to whether or when such changes in regulations or zoning will occur or, if they do occur, whether the multifamily industry or the Company will benefit from such changes.

Other Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may call the SEC at 1-202-551-8090 for further information on the operation of the Public Reference Room. Our SEC filings are also available to the public from the SEC's website at www.sec.gov.

We maintain a website at www.avalonbay.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to the Securities Exchange Act of 1934 are available free of charge in the "Investor Relations" section of our website as soon as reasonably practicable after the reports are filed with or furnished to the SEC. In addition, the charters of our Board's Nominating and Corporate Governance Committee, Audit Committee and Compensation Committee, as well as our Director Independence Standards, Corporate Governance Guidelines, Code of Conduct, Policy Regarding Shareholder Rights Agreements, Policy Regarding Shareholder Approval of Future Severance Agreements, Executive Stock Ownership Guidelines, Policy on Political Contributions and Government Relations, and Policy on Recoupment of Incentive Compensation, are available free of charge in that section of our website or by writing to AvalonBay Communities, Inc., Ballston Tower, Suite 800, 671 N. Glebe Rd., Arlington, Virginia 22203, Attention: Chief Financial Officer. To the extent required by the rules of the SEC and the NYSE, we will disclose amendments and waivers relating to these documents in the same place on our website.

We were incorporated under the laws of the State of California in 1978. In 1995, we reincorporated in the State of Maryland and have been focused on the ownership and operation of apartment communities since that time. As of January 31, 2016, we had 2,981 employees.

ITEM 1A. RISK FACTORS

Our operations involve various risks that could have adverse consequences, including those described below. This Item 1A. includes forward-looking statements. You should refer to our discussion of the qualifications and limitations on forward-looking statements in this Form 10-K.

Development, redevelopment and construction risks could affect our profitability.

We intend to continue to develop and redevelop apartment home communities. These activities can include long planning and entitlement timelines and can involve complex and costly activities, including significant environmental remediation or construction work in high-density urban areas. These activities may be exposed to the following risks:

- we may abandon opportunities that we have already begun to explore for a number of reasons, including changes in local market conditions or increases in construction or financing costs, and, as a result, we may fail to recover expenses already incurred in exploring those opportunities;
- occupancy rates and rents at a community may fail to meet our original expectations for a number of reasons, including changes in market and economic conditions beyond our control and the development by competitors of competing communities;
- we may be unable to obtain, or experience delays in obtaining, necessary zoning, occupancy, or other required governmental or third party permits and authorizations, which could result in increased costs or the delay or abandonment of opportunities;
- we may incur costs that exceed our original estimates due to increased material, labor or other costs;
- we may be unable to complete construction and lease-up of a community on schedule, resulting in increased construction and financing costs and a decrease in expected rental revenues;
- we may be unable to obtain financing with favorable terms, or at all, for the proposed development of a community, which may cause us to delay or abandon an opportunity;
- we may incur liabilities to third parties during the development process, for example, in connection with managing existing improvements on the site prior to tenant terminations and demolition (such as commercial space) or in connection with providing services to third parties (such as the construction of shared infrastructure or other improvements); and
- we may incur liability if our communities are not constructed and operated in compliance with the accessibility provisions of the Americans with Disabilities Acts, the Fair Housing Act or other federal, state or local requirements. Noncompliance could result in imposition of fines, an award of damages to private litigants, and a requirement that we undertake structural modifications to remedy the noncompliance.

We estimate construction costs based on market conditions at the time we prepare our budgets, and our projections include changes that we anticipate but cannot predict with certainty. Construction costs may increase, particularly for labor and certain materials and, for some of our Development Communities and Development Rights (as defined below), the total construction costs may be higher than the original budget. Total capitalized cost includes all capitalized costs incurred and projected to be incurred to develop or redevelop a community, determined in accordance with GAAP, including:

- land and/or property acquisition costs;
- fees paid to secure air rights and/or tax abatements;
- construction or reconstruction costs;
- costs of environmental remediation;
- real estate taxes;
- capitalized interest and insurance;
- loan fees;
- permits;
- professional fees;

- allocated development or redevelopment overhead; and
- other regulatory fees.

Costs to redevelop communities that have been acquired have, in some cases, exceeded our original estimates and similar increases in costs may be experienced in the future. We cannot assure you that market rents in effect at the time new development or redevelopment communities complete lease-up will be sufficient to fully offset the effects of any increased construction or reconstruction costs.

Unfavorable changes in market and economic conditions could adversely affect occupancy, rental rates, operating expenses, and the overall market value of our assets, including joint ventures and investments in the Funds.

Local conditions in our markets significantly affect occupancy, rental rates and the operating performance of our communities. The risks that may adversely affect conditions in those markets include the following:

- corporate restructurings and/or layoffs, industry slowdowns and other factors that adversely affect the local economy;
- an oversupply of, or a reduced demand for, apartment homes;
- a decline in household formation or employment or lack of employment growth;
- the inability or unwillingness of residents to pay rent increases;
- rent control or rent stabilization laws, or other laws regulating housing, that could prevent us from raising rents to offset increases in operating costs; and
- economic conditions that could cause an increase in our operating expenses, such as increases in property taxes, utilities, compensation of on-site associates and routine maintenance.

Changes in applicable laws, or noncompliance with applicable laws, could adversely affect our operations or expose us to liability.

We must develop, construct and operate our communities in compliance with numerous federal, state and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include zoning laws, building codes, landlord tenant laws and other laws generally applicable to business operations. Noncompliance with laws could expose us to liability.

Lower revenue growth or significant unanticipated expenditures may result from our need to comply with changes in (i) laws imposing remediation requirements and the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions, (ii) rent control or rent stabilization laws or other residential landlord/tenant laws, or (iii) other governmental rules and regulations or enforcement policies affecting the development, use and operation of our communities, including changes to building codes and fire and life-safety codes.

Short-term leases expose us to the effects of declining market rents.

Substantially all of our apartment leases are for a term of one year or less. Because these leases generally permit the residents to leave at the end of the lease term without penalty, our rental revenues are impacted by declines in market rents more quickly than if our leases were for longer terms.

Competition could limit our ability to lease apartment homes or increase or maintain rents.

Our apartment communities compete with other housing alternatives to attract residents, including other rental apartments, condominiums and single-family homes that are available for rent, as well as new and existing condominiums and single-family homes for sale. Competitive residential housing in a particular area could adversely affect our ability to lease apartment homes and to increase or maintain rental rates.

Attractive investment opportunities may not be available, which could adversely affect our profitability.

We expect that other real estate investors, including insurance companies, pension funds, other REITs and other well-capitalized investors, will compete with us to acquire existing properties and to develop new properties. This competition could increase prices for properties of the type we would likely pursue and adversely affect our profitability.

Capital and credit market conditions may adversely affect our access to various sources of capital and/or the cost of capital, which could impact our business activities, dividends, earnings, and common stock price, among other things.

In periods when the capital and credit markets experience significant volatility, the amounts, sources and cost of capital available to us may be adversely affected. We primarily use external financing to fund construction and to refinance indebtedness as it matures. If sufficient sources of external financing are not available to us on cost effective terms, we could be forced to limit our development and redevelopment activity and/or take other actions to fund our business activities and repayment of debt, such as selling assets, reducing our cash dividend or paying out less than 100% of our taxable income. To the extent that we are able and/or choose to access capital at a higher cost than we have experienced in recent years (reflected in higher interest rates for debt financing or a lower stock price for equity financing) our earnings per share and cash flows could be adversely affected. In addition, the price of our common stock may fluctuate significantly and/or decline in a high interest rate or volatile economic environment. We believe that the lenders under our Credit Facility will fulfill their lending obligations thereunder, but if economic conditions deteriorate, there can be no assurance that the ability of those lenders to fulfill their obligations would not be adversely impacted.

Insufficient cash flow could affect our debt financing and create refinancing risk.

We are subject to the risks associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest. In this regard, we note that in order for us to continue to qualify as a REIT, we are required to annually distribute dividends generally equal to at least 90% of our REIT taxable income, computed without regard to the dividends paid deduction and excluding any net capital gain. This requirement limits the amount of our cash flow available to meet required principal and interest payments. The principal outstanding balance on a portion of our debt will not be fully amortized prior to its maturity. Although we may be able to repay our debt by using our cash flows, we cannot assure you that we will have sufficient cash flows available to make all required principal payments. Therefore, we may need to refinance at least a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that a refinancing will not be done on as favorable terms; either of these outcomes could have a material adverse effect on our financial condition and results of operations.

Rising interest rates could increase interest costs and could affect the market price of our common stock.

We currently have, and may in the future incur, contractual variable interest rate debt. In addition, we regularly seek access to both fixed and variable rate debt financing to repay maturing debt and to finance our development and redevelopment activity. Accordingly, if interest rates increase, our interest costs will also rise, unless we have made arrangements that hedge the risk of rising interest rates. In addition, an increase in market interest rates may lead purchasers of our common stock to demand a greater annual dividend yield, which could adversely affect the market price of our common stock.

Bond financing and zoning compliance requirements could limit our income, restrict the use of communities and cause favorable financing to become unavailable.

We have financed some of our apartment communities with obligations issued by local government agencies because the interest paid to the holders of this debt is generally exempt from federal income taxes and, therefore, the interest rate is generally more favorable to us. These obligations are commonly referred to as "tax-exempt bonds" and generally must be secured by mortgages on our communities. As a condition to obtaining tax-exempt financing, or on occasion as a condition to obtaining favorable zoning in some jurisdictions, we will commit to make some of the apartments in a community available to households whose income does not exceed certain thresholds (e.g., 50% or 80% of area median income), or who meet other qualifying tests. As of December 31, 2015, approximately 6.0% of our apartment homes at current operating communities were under income limitations such as these. These commitments, which may run without expiration or may expire after a period of time (such as 15 or 20 years) may limit our ability to raise rents and, in consequence, can also adversely affect the value of the communities subject to these restrictions.

In addition, some of our tax-exempt bond financing documents require us to obtain a guarantee from a financial institution of payment of the principal of, and interest on, the bonds. The guarantee may take the form of a letter of credit, surety bond, guarantee agreement or other additional collateral. If the financial institution defaults in its guarantee obligations, or if we are unable to renew the applicable guarantee or otherwise post satisfactory collateral, a default will occur under the applicable tax-exempt bonds and the community could be foreclosed upon if we do not redeem the bonds.

Risks related to indebtedness.

We have a Credit Facility with a syndicate of commercial banks. Our organizational documents do not limit the amount or percentage of indebtedness that may be incurred. Accordingly, subject to compliance with outstanding debt covenants, we could incur more debt, resulting in an increased risk of default on our obligations and an increase in debt service requirements that could adversely affect our financial condition and results of operations.

The mortgages on those of our properties that are subject to secured debt, our Credit Facility and the indenture under which a substantial portion of our debt was issued contain customary restrictions, requirements and other limitations, as well as certain financial and operating covenants including maintenance of certain financial ratios. Maintaining compliance with these restrictions could limit our flexibility. A default in these requirements, if uncured, could result in a requirement that we repay indebtedness, which could severely affect our liquidity and increase our financing costs. Refer to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion.

The mortgages on those of our properties subject to secured debt generally include provisions which stipulate a prepayment penalty or payment that we will be obligated to pay in the event that we elect to repay the mortgage note prior to the earlier of (i) the stated maturity of the note, or (ii) the date at which the mortgage note is prepayable without such penalty or payment. If we elect to repay some or all of the outstanding principal balance for our mortgage notes, we may incur prepayment penalties or payments under these provisions which could adversely affect our results of operations.

Failure to maintain our current credit ratings could adversely affect our cost of funds, related margins, liquidity and access to capital markets.

There are two major debt rating agencies that routinely evaluate and rate our debt. Their ratings are based on a number of factors, which include their assessment of our financial strength, liquidity, capital structure, asset quality, amount of real estate under development, and sustainability of cash flow and earnings, among other factors. If market conditions change, we may not be able to maintain our current credit ratings, which could adversely affect our cost of funds and related margins, liquidity and access to capital markets.

Debt financing may not be available and equity issuances could be dilutive to our stockholders.

Our ability to execute our business strategy depends on our access to an appropriate blend of debt and equity financing. Debt financing may not be available in sufficient amounts or on favorable terms. If we issue additional equity securities, the interests of existing stockholders could be diluted.

Failure to generate sufficient revenue or other liquidity needs could limit cash flow available for distributions to stockholders.

A decrease in rental revenue, or liquidity needs such as the repayment of indebtedness or funding of our development activities, could have an adverse effect on our ability to pay distributions to our stockholders. Significant expenditures associated with each community such as debt service payments, if any, real estate taxes, insurance and maintenance costs are generally not reduced when circumstances cause a reduction in income from a community.

The form, timing and/or amount of dividend distributions in future periods may vary and be impacted by economic and other considerations.

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

We may choose to pay dividends in our own stock, in which case stockholders may be required to pay tax in excess of the cash they receive.

We may distribute taxable dividends that are payable in part in our stock, as we did in the fourth quarter of 2008. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of the cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, the trading price of our stock would experience downward pressure if a significant number of our stockholders sell shares of our stock in order to pay taxes owed on dividends.

Difficulty of selling apartment communities could limit liquidity and financial flexibility.

Federal tax laws may limit our ability to earn a gain on the sale of a community (unless we own it through a subsidiary which will incur a taxable gain upon sale) if we are found to have held, acquired or developed the community primarily with the intent to resell the community, and this limitation may affect our ability to sell communities without adversely affecting returns to our stockholders. In addition, real estate in our markets can at times be difficult to sell quickly at prices we find acceptable. These potential difficulties in selling real estate in our markets may limit our ability to change or reduce the apartment communities in our portfolio promptly in response to changes in economic or other conditions.

Acquisitions may not yield anticipated results.

Our business strategy includes acquiring as well as developing communities. Our acquisition activities and their success may be exposed to the following risks:

- an acquired property may fail to perform as we expected in analyzing our investment; and
- our estimate of the costs of repositioning or redeveloping an acquired property may prove inaccurate.

Failure to succeed in new markets, or with new brands and community formats, or in activities other than the development, ownership and operation of residential rental communities may have adverse consequences.

We may from time to time commence development activity or make acquisitions outside of our existing market areas if appropriate opportunities arise. Our historical experience in our existing markets in developing, owning and operating rental communities does not ensure that we will be able to operate successfully in new markets, should we choose to enter them. We may be exposed to a variety of risks if we choose to enter new markets, including an inability to accurately evaluate local apartment market conditions; an inability to obtain land for development or to identify appropriate acquisition opportunities; an inability to hire and retain key personnel; and lack of familiarity with local governmental and permitting procedures.

Although we are primarily in the multifamily business, we also own and lease ancillary retail space when a retail component represents the best use of the space, as is often the case with large urban in-fill developments. We also may engage or have an interest in for-sale activity. We may be unsuccessful in owning and leasing retail space at our communities or in developing real estate with the intent to sell, which could have an adverse effect on our results of operations.

Land we hold with no current intent to develop may be subject to future impairment charges.

We own parcels of land that we do not currently intend to develop. As discussed in Item 2. "Communities—Other Land and Real Estate Assets," in the event that the fair market value of a parcel changes such that we determine that the carrying basis of the parcel reflected in our financial statements is greater than the parcel's then current fair value, less costs to dispose, we would be subject to an impairment charge, which would reduce our net income.

We are exposed to various risks from our real estate activity through joint ventures.

Instead of acquiring or developing apartment communities directly, at times we invest as a partner or a co-venturer. Joint venture investments (including investments through partnerships or limited liability companies) involve risks, including the possibility that our partner might become insolvent or otherwise refuse to make capital contributions when due; that we may be responsible to our partner for indemnifiable losses; that our partner might at any time have business goals that are inconsistent with ours; and that our partner may be in a position to take action or withhold consent contrary to our instructions or requests. Frequently, we and our partner may each have the right to trigger a buy-sell arrangement that could cause us to sell our interest, or acquire our partner's interest, at a time when we otherwise would not have initiated such a transaction.

We are exposed to risks associated with investment in and management of discretionary real estate investment funds.

We formed Fund II, in which we have an equity interest of 31.3%, and as part of the Archstone Acquisition we acquired equity interests in the U.S. Fund and the AC JV of 28.6% and 20.0%, respectively, which, through wholly-owned subsidiaries, we manage as the general partner and managing member. The investment periods for Fund II and the U.S. Fund are over. The Funds present risks, including the following:

- our subsidiaries that are the general partners of the Funds are generally liable, under partnership law, for the debts and obligations of the respective Funds, subject to certain exculpation and indemnification rights pursuant to the terms of the partnership agreement of the Funds;
- investors in the Funds holding a majority of the partnership interests may remove us as the general partner without cause, in the case of Fund II, subject to our right to receive compensation for an additional period of management fees after such removal and our right to acquire one of the properties then held by such Funds;

- while we have broad discretion to manage the Funds, the investors or an advisory committee comprised of representatives of the investors must approve certain matters, and as a result we may be unable to cause the Funds to implement certain decisions that we consider beneficial; and
- we may be liable and/or our status as a REIT may be jeopardized if either the Funds, or the REIT entities associated with the Funds and/or the U.S. Fund and/or AC JV, fail to comply with various tax or other regulatory matters.

The governance provisions of our joint ventures with Equity Residential could adversely affect our flexibility in dealing with such joint venture assets and liabilities.

In connection with the Archstone Acquisition, we created joint ventures with Equity Residential that manage certain of the acquired assets and liabilities. These structures involve participation in the ventures by Equity Residential whose interests and rights may not be the same as ours. Joint ownership of an investment in real estate involves risks not associated with direct ownership of real estate, including the risk that Equity Residential may at any time have economic or other business interests or goals which become inconsistent with our business interests or goals, including inconsistent goals relating to the sale of properties held in the joint ventures or the timing of the termination and liquidation of the joint ventures. Under the form for the joint venture arrangements, neither we nor Equity Residential expect to individually have the sole power to control the ventures, and an impasse could occur, which could adversely affect the applicable joint venture and decrease potential returns to us and our investors.

We rely on information technology in our operations, and any breach, interruption or security failure of that technology could have a negative impact on our business, results of operations, financial condition and/or reputation.

Information security risks have generally increased in recent years due to the rise in new technologies and the increased sophistication and activities of perpetrators of cyber attacks.

We collect and hold personally identifiable information of our residents and prospective residents in connection with our leasing and property management activities, and we collect and hold personally identifiable information of our associates in connection with their employment. In addition, we engage third party service providers that may have access to such personally identifiable information in connection with providing necessary information technology and security and other business services to us.

We address potential breaches or disclosure of this confidential personally identifiable information by implementing a variety of security measures intended to protect the confidentiality and security of this information including (among others) engaging reputable, recognized firms to help us design and maintain our information technology and data security systems, including testing and verification of their proper and secure operations on a periodic basis. We also maintain cyber risk insurance to cover certain risks arising out of data and network breaches.

However, there can be no assurance that we will be able to prevent unauthorized access to this information. Any failure in or breach of our operational or information security systems, or those of our third party service providers, as a result of cyber attacks or information security breaches could result in a wide range of potentially serious harm to our business operations and financial prospects, including (among others) disruption of our business and operations, disclosure or misuse of confidential or proprietary information (including personal information of our residents and/or associates), damage to our reputation, and/or potentially significant legal and/or financial liabilities and penalties.

We are exposed to risks that are either uninsurable, not economically insurable or in excess of our insurance coverage, including risks from natural disasters such as earthquakes and severe weather.

Earthquake risk. As further described in Item 2. "Communities—Insurance and Risk of Uninsured Losses," many of our West Coast communities are located in the general vicinity of active earthquake faults. We cannot assure you that an earthquake would not cause damage or losses greater than insured levels. In the event of a loss in excess of insured limits, we could lose our capital invested in the affected community, as well as anticipated future revenue from that community. We would also continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. Any such loss could materially and adversely affect our business and our financial condition and results of operations.

Insurance coverage for earthquakes can be costly and in limited supply. As a result, we may experience shortages in desired coverage levels if market conditions are such that insurance is not available or the cost of insurance makes it, in management's view, economically impractical.

Severe or inclement weather risk. Particularly in New England and the Metro New York/New Jersey area, we are exposed to risks associated with inclement or severe weather, including hurricanes, severe winter storms and coastal flooding. Severe or inclement weather may result in increased costs, such as losses and costs resulting from repair of water and wind damage, removal of snow and ice, and, in the case of our development communities, delays in construction that result in increased construction costs and delays in realizing rental revenues from a community. In addition, severe or inclement weather could increase the need for maintenance of our communities.

Where we have a geographic concentration of exposures, a single catastrophe that affects a region, such as an earthquake that affects the West Coast or a hurricane or severe winter storm that affects the Mid-Atlantic, Metro New York/New Jersey or New England regions, may have a significant negative effect on our financial condition and results of operations.

Terrorism risk. We have significant investments in large metropolitan markets, such as the Metro New York/New Jersey and Washington, D.C. markets, that have in the past been or may in the future be the target of actual or threatened terrorist attacks. Future terrorist attacks in these markets could directly or indirectly damage our communities, both physically and financially, or cause losses that exceed our insurance coverage that could have a material adverse effect on our business, financial condition and results of operations.

A significant uninsured property or liability loss could have a material adverse effect on our financial condition and results of operations.

In addition to the earthquake insurance discussed above, we carry commercial general liability insurance, property insurance and terrorism insurance with respect to our communities on terms we consider commercially reasonable. There are, however, certain types of losses (such as losses arising from acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in management's view, economically impractical. If an uninsured property loss or a property loss in excess of insured limits were to occur, we could lose our capital invested in a community, as well as the anticipated future revenues from such community. We would also continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. If an uninsured liability to a third party were to occur, we would incur the cost of defense and settlement with, or court ordered damages to, that third party. A significant uninsured property or liability loss could materially and adversely affect our business and our financial condition and results of operations.

We may incur costs due to environmental contamination or non-compliance.

Under various federal, state and local environmental and public health laws, regulations and ordinances, we may be required, regardless of knowledge or responsibility, to investigate and remediate the effects of hazardous or toxic substances or petroleum product releases at our properties (including in some cases natural substances such as methane and radon gas) and may be held liable under these laws or common law to a governmental entity or to third parties for property, personal injury or natural resources damages and for investigation and remediation costs incurred as a result of the contamination. These damages and costs may be substantial and may exceed any insurance coverage we have for such events. The presence of these substances, or the failure to properly remediate the contamination, may adversely affect our ability to borrow against, develop, sell or rent the affected property. In addition, some environmental laws create or allow a government agency to impose a lien on the contaminated site in favor of the government for damages and costs it incurs as a result of the contamination.

The development, construction and operation of our communities are subject to regulations and permitting under various federal, state and local laws, regulations and ordinances, which regulate matters including wetlands protection, storm water runoff and wastewater discharge. These laws and regulations may impose restrictions on the manner in which our communities may be developed, and noncompliance with these laws and regulations may subject us to fines and penalties.

Certain federal, state and local laws, regulations and ordinances govern the removal, encapsulation or disturbance of asbestos containing materials ("ACMs") when such materials are in poor condition or in the event of renovation or demolition of a building. These laws and the common law may impose liability for release of ACMs and may allow third parties to seek recovery from owners or operators of real properties for personal injury associated with exposure to ACMs. We are not aware that any ACMs were used in the construction of the communities we developed. ACMs were, however, used in the construction of a number of the communities that we acquired. We implement an operations and maintenance program at each of the communities at which ACMs are detected.

We are aware that some of our communities have lead paint and have implemented an operations and maintenance program at each of those communities.

Environmental agencies and third parties may assert claims for remediation or personal injury based on the alleged actual or potential intrusion into buildings of chemical vapors from soils or groundwater underlying or in the vicinity of those buildings or on nearby properties.

All of our stabilized operating communities, and all of the communities that we are currently developing, have been subjected to at least a Phase I or similar environmental assessment, which generally does not involve invasive techniques such as soil or groundwater sampling. These assessments, together with subsurface assessments conducted on some properties, have not revealed, and we are not otherwise aware of, any environmental conditions that we believe would have a material adverse effect on our business, assets, financial condition or results of operations. In connection with our ownership, operation and development of communities, from time to time we undertake substantial remedial action in response to the presence of subsurface or other

contaminants, including contaminants in soil, groundwater and soil vapor beneath or affecting our buildings. In some cases, an indemnity exists upon which we may be able to rely if environmental liability arises from the contamination or remediation costs exceed estimates. There can be no assurance, however, that all necessary remediation actions have been or will be undertaken at our properties or that we will be indemnified, in full or at all, in the event that environmental liability arises.

Mold growth may occur when excessive moisture accumulates in buildings or on building materials, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Although the occurrence of mold at multifamily and other structures, and the need to remediate such mold, is not a new phenomenon, there has been increased awareness in recent years that certain molds may in some instances lead to adverse health effects, including allergic or other reactions. To help limit mold growth, we educate residents about the importance of adequate ventilation and request or require that they notify us when they see mold or excessive moisture. We have established procedures for promptly addressing and remediating mold or excessive moisture from apartment homes when we become aware of its presence regardless of whether we or the resident believe a health risk is presented. However, we cannot provide assurance that mold or excessive moisture will be detected and remediated in a timely manner. If a significant mold problem arises at one of our communities, we could be required to undertake a costly remediation program to contain or remove the mold from the affected community and could be exposed to other liabilities that may exceed any applicable insurance coverage.

Additionally, we have occasionally been involved in developing, managing, leasing and operating various properties for third parties. Consequently, we may be considered to have been an operator of such properties and, therefore, potentially liable for removal or remediation costs or other potential costs which relate to the release or presence of hazardous or toxic substances or petroleum products at such properties.

We cannot assure you that:

- the environmental assessments described above have identified all potential environmental liabilities;
- no prior owner created any material environmental condition not known to us or the consultants who prepared the assessments;
- no environmental liabilities have developed since the environmental assessments were prepared;
- the condition of land or operations in the vicinity of our communities, such as the presence of underground storage tanks, will not affect the environmental condition of our communities;
- future uses or conditions, including, without limitation, changes in applicable environmental laws and regulations, will not result in the imposition of environmental liability; and
- no environmental liabilities will arise at communities that we have sold for which we may have liability.

Our success depends on key personnel whose continued service is not guaranteed.

Our success depends in part on our ability to attract and retain the services of executive officers and other personnel. Our executive officers make important capital allocation decisions or recommendations to our Board of Directors from among the opportunities identified by our regional offices. There is substantial competition for qualified personnel in the real estate industry, and the loss of several of our key personnel could adversely affect the Company.

Failure to qualify as a REIT would cause us to be taxed as a corporation, which would significantly reduce funds available for distribution to stockholders.

If we fail to qualify as a REIT for federal income tax purposes, we will be subject to federal income tax on our taxable income at regular corporate rates (subject to any applicable alternative minimum tax). In addition, unless we are entitled to relief under applicable statutory provisions, we would be ineligible to make an election for treatment as a REIT for the four taxable years following the year in which we lose our qualification. The additional tax liability resulting from the failure to qualify as a REIT would significantly reduce or eliminate the amount of funds available for distribution to our stockholders. Furthermore, we would no longer be required to make distributions to our stockholders. Thus, our failure to qualify as a REIT could also impair our ability to expand our business and raise capital, and would adversely affect the value of our common stock.

We believe that we are organized and qualified as a REIT, and we intend to operate in a manner that will allow us to continue to qualify as a REIT. However, we cannot assure you that we are qualified as a REIT, or that we will remain qualified in the future. This is because qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code for which there are only limited judicial and administrative interpretations and involves the determination of a variety of factual matters and circumstances not entirely within our control. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. In addition,

future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for federal income tax purposes or the federal income tax consequences of this qualification.

Even if we qualify as a REIT, we will be subject to certain federal, state and local taxes on our income and property and on taxable income that we do not distribute to our shareholders. In addition, we may through our taxable REIT subsidiaries hold certain assets and engage in certain activities that a REIT could not engage in directly. We also use taxable REIT subsidiaries to hold certain assets that we believe would be subject to the 100% prohibited transaction tax if sold at a gain outside of a taxable REIT subsidiary. Our taxable REIT subsidiaries are subject to U.S. tax as regular corporations. The Archstone Acquisition increased the amount of assets held through our taxable REIT subsidiaries.

The ability of our stockholders to control our policies and effect a change of control of our company is limited by certain provisions of our charter and bylaws and by Maryland law.

There are provisions in our charter and bylaws that may discourage a third party from making a proposal to acquire us, even if some of our stockholders might consider the proposal to be in their best interests. These provisions include the following:

Our charter authorizes our Board of Directors to issue up to 50,000,000 shares of preferred stock without stockholder approval and to establish the preferences and rights, including voting rights, of any series of preferred stock issued. The Board of Directors may issue preferred stock without stockholder approval, which could allow the Board to issue one or more classes or series of preferred stock that could discourage or delay a tender offer or a change in control.

To maintain our qualification as a REIT for federal income tax purposes, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by or for five or fewer individuals at any time during the last half of any taxable year. To maintain this qualification, and/or to address other concerns about concentrations of ownership of our stock, our charter generally prohibits ownership (directly, indirectly by virtue of the attribution provisions of the Code, or beneficially as defined in Section 13 of the Securities Exchange Act) by any single stockholder of more than 9.8% of the issued and outstanding shares of any class or series of our stock. In general, under our charter, pension plans and mutual funds may directly and beneficially own up to 15% of the outstanding shares of any class or series of stock. Under our charter, our Board of Directors may in its sole discretion waive or modify the ownership limit for one or more persons, but is not required to do so even if such waiver would not affect our qualification as a REIT. These ownership limits may prevent or delay a change in control and, as a result, could adversely affect our stockholders' ability to realize a premium for their shares of common stock.

As a Maryland corporation, we are subject to the provisions of the Maryland General Corporation Law. Maryland law imposes restrictions on some business combinations and requires compliance with statutory procedures before some mergers and acquisitions may occur, which may delay or prevent offers to acquire us or increase the difficulty of completing any offers, even if they are in our stockholders' best interests. In addition, other provisions of the Maryland General Corporation Law permit the Board of Directors to make elections and to take actions without stockholder approval (such as classifying our Board such that the entire Board is not up for re-election annually) that, if made or taken, could have the effect of discouraging or delaying a change in control.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. COMMUNITIES

Our real estate investments consist primarily of current operating apartment communities, communities in various stages of development ("Development Communities") and Development Rights (as defined below). Our current operating communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities, Redevelopment Communities and Unconsolidated Communities. While we generally establish the classification of communities on an annual basis, we intend to update the classification of communities during the calendar year to the extent that our plans with regard to the disposition or redevelopment of a community change during the year.

The following is a description of each category:

Current Communities are categorized as Established, Other Stabilized, Lease-Up, Redevelopment, or Unconsolidated according to the following attributes:

- *Established Communities (also known as Same Store Communities)* are consolidated communities where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had stabilized occupancy as of the beginning of the prior year. The Established Communities for the year ended December 31, 2015 are communities that are consolidated for financial reporting purposes, had stabilized occupancy as of January 1, 2014, are not conducting or planning to conduct substantial redevelopment activities, and are not held for sale or planned for disposition within the current year period. A community is considered to have stabilized occupancy at the earlier of (i) attainment of 95% physical occupancy or (ii) the one-year anniversary of completion of development or redevelopment.
- *Other Stabilized Communities* includes all other completed communities that we own and that are consolidated for financial reporting purposes, and that have stabilized occupancy, as defined above. Other Stabilized Communities do not include communities that are conducting or planning to conduct substantial redevelopment activities within the current year.
- *Lease-Up Communities* are communities where construction has been complete for less than one year and where physical occupancy has not reached 95%.
- *Redevelopment Communities* are communities where substantial redevelopment is in progress or is planned to begin during the current year. Redevelopment is considered substantial when capital invested during the reconstruction effort is expected to exceed the lesser of \$5,000,000 or 10% of the community's pre-redevelopment basis and is expected to have a material impact on the operations of the community, including occupancy levels and future rental rates.
- *Unconsolidated Communities* are communities that we have an indirect ownership interest in through our investment interest in an unconsolidated joint venture, and that have stabilized occupancy, as defined above.

Development Communities are communities that are under construction and for which a certificate or certificates of occupancy for the entire community have not been received. These communities may be partially complete and operating.

Development Rights are development opportunities in the early phase of the development process where we either have an option to acquire land or enter into a leasehold interest, where we are the buyer under a long-term conditional contract to purchase land, where we control the land through a ground lease or own land to develop a new community, or where we are the designated developer in a public-private partnership. We capitalize related pre-development costs incurred in pursuit of new developments for which we currently believe future development is probable.

We currently lease our corporate headquarters located in Arlington, Virginia, as well as our other regional and administrative offices under operating leases.

As of December 31, 2015, communities that we owned or held a direct or indirect interest in were classified as follows:

	Number of communities	Number of apartment homes
Current Communities		
Established Communities:		
New England	33	7,277
Metro NY/NJ	34	11,355
Mid-Atlantic	26	8,789
Pacific Northwest	14	3,444
Northern California	30	9,201
Southern California	40	11,068
Total Established	177	51,134
Other Stabilized Communities:		
New England	10	2,477
Metro NY/NJ	6	1,404
Mid-Atlantic	3	970
Pacific Northwest	1	283
Northern California	6	1,201
Southern California	7	3,313
Non-Core	3	1,014
Total Other Stabilized	36	10,662
Lease-Up Communities	17	4,844
Redevelopment Communities	9	2,795
Unconsolidated Communities	20	6,149
Total Current Communities	259	75,584
Development Communities	26	8,112
Total Communities	285	83,696
Development Rights	32	9,634

Our holdings under each of the above categories are discussed on the following pages.

We generally establish the composition of our Established Communities portfolio annually. Determined as of January 1 of each of the respective years, the Established Communities portfolios for the years ended December 31, 2015, 2014 and 2013 were as follows:

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	Number of communities
Established Communities as of December 31, 2012	103
Communities added	19
Communities removed (1):	—
Redevelopment Communities	(5)
Disposed Communities	(2)
Established Communities as of December 31, 2013	115
Communities added	67
Communities removed (1):	—
Redevelopment Communities	(8)
Disposed Communities	(2)
Established Communities as of December 31, 2014	172
Communities added	13
Communities removed (1):	—
Redevelopment Communities	(4)
Disposed Communities	(3)
Other Stabilized (2)	(1)
Established Communities as of December 31, 2015	177

(1)The Company removes a community from its Established Communities portfolio for the upcoming year (and then generally maintains that designation) if the Company believes that planned activity for a community for the upcoming year will result in that community's expected operations not being comparable to the prior year period. The Company believes that a community's expected operations will not be comparable to the prior year period when it intends either (i) to undertake a significant capital renovation of the community, such that the Company would consider the community to be classified as a Redevelopment Community; or (ii) to dispose of a community through a sale or other disposition transaction.

(2)Avalon at Edgewater was moved from the Established Communities portfolio to the Other Stabilized portfolio as a result of the fire that occurred in January 2015.

Current Communities

Our Current Communities include garden-style apartment communities consisting of multi-story buildings in landscaped settings, as well as mid and high rise apartment communities in urban settings. As of January 31, 2016, our Current Communities consisted of 140 garden-style (of which 18 are mixed communities and include town homes), 23 high-rise and 94 mid-rise apartment communities.

Our communities generally offer a variety of quality amenities and features, which may include:

- fully-equipped kitchens;
- lofts and vaulted ceilings;
- walk-in closets;
- patios/decks; and
- modern appliances.

Other features at various communities may include:

- swimming pools;
- fitness centers;
- tennis courts; and
- wi-fi lounges.

As described in Item 1. "Business," we operate under three core brands *Avalon*, *AVA* and *Eaves by Avalon*. Our core "*Avalon*" brand focuses on upscale apartment living and high end amenities and services. "*AVA*" targets customers in high energy, transit-served urban neighborhoods and generally feature smaller apartments, many of which are designed for roommate living with an

emphasis on modern design and a technology focus. "Eaves by Avalon" is targeted to the cost conscious, "value" segment in suburban areas. We believe that these brands allow us to further penetrate our existing markets by targeting our market by consumer preference and attitude as well as by location and price.

We also have an extensive and ongoing maintenance program to continually maintain and enhance our communities and apartment homes. The aesthetic appeal of our communities and a service-oriented property management team, focused on the specific needs of residents, enhances market appeal to discriminating residents. We believe our mission of *Creating a Better Way To Live* helps us achieve higher rental rates and occupancy levels while minimizing resident turnover and operating expenses.

Our Current Communities, excluding indirect interests associated with the Residual JV, are located in the following geographic markets:

	Number of communities at		Number of apartment homes at		Percentage of total apartment homes at	
	1/31/2015	1/31/2016	1/31/2015	1/31/2016	1/31/2015	1/31/2016
New England	50	53	11,444	12,528	15.5%	16.6%
Boston, MA	36	39	8,555	9,639	11.6%	12.8%
Fairfield-New Haven, CT	14	14	2,889	2,889	3.9%	3.8%
Metro NY/NJ	47	49	15,018	14,843	20.2%	19.7%
New York City, NY	10	12	3,582	4,292	4.8%	5.7%
New York Suburban	19	17	5,554	4,949	7.5%	6.6%
New Jersey	18	20	5,882	5,602	7.9%	7.4%
Mid-Atlantic	37	36	13,308	13,308	18.0%	17.6%
Washington Metro/Baltimore, MD	37	36	13,308	13,308	18.0%	17.6%
Pacific Northwest	16	17	3,858	4,225	5.2%	5.6%
Seattle, WA	16	17	3,858	4,225	5.2%	5.6%
Northern California	41	41	11,974	12,158	16.2%	16.0%
San Jose, CA	14	14	4,903	5,158	6.6%	6.8%
Oakland-East Bay, CA	12	11	3,591	3,338	4.9%	4.4%
San Francisco, CA	15	16	3,480	3,662	4.7%	4.8%
Southern California	57	58	17,132	17,473	23.2%	23.2%
Los Angeles, CA	35	36	10,575	10,855	14.4%	14.5%
Orange County, CA	12	12	3,425	3,715	4.6%	4.9%
San Diego, CA	10	10	3,132	2,903	4.2%	3.8%
Non-Core	4	3	1,266	1,014	1.7%	1.3%
	<u>252</u>	<u>257</u>	<u>74,000</u>	<u>75,549</u>	<u>100.0%</u>	<u>100.0%</u>

We manage and operate substantially all of our Current Communities. During the year ended December 31, 2015, we completed construction of 4,170 apartment homes in 13 communities and sold seven communities containing an aggregate of 2,311 apartment homes. The average age of our Current Communities, on a weighted average basis according to number of apartment homes, is 19.1 years. When adjusted to reflect redevelopment activity, as if redevelopment were a new construction completion date, the weighted average age of our Current Communities is 13.2 years.

Of the Current Communities, as of January 31, 2016, we owned (directly or through wholly-owned subsidiaries):

- a full fee simple, or absolute, ownership interest in 236 operating communities, 16 of which are on land subject to land leases, four of which are dual-branded communities with each pair of dual-branded communities being governed by a single land lease. The leases expire in October 2026, November 2028, May 2041, July 2046, December 2061, September 2065, November 2067, December 2086, April 2095, May 2105, September 2105, April 2106, November 2106 and March 2142;

- a general partnership interest and an indirect limited partnership interest in Fund II, the U.S. Fund and the AC JV. Subsidiaries of Fund II own a fee simple interest in six operating communities, subsidiaries of the U.S. Fund own a fee simple interest in eight operating communities, of which one is subject to a land lease, and subsidiaries of the AC JV own a fee simple interest in three operating communities;
- a general partnership interest in one partnership structured as a "DownREIT," as described more fully below, that owns one community; and
- a membership interest in three limited liability companies, that each hold a fee simple interest in an operating community.

For some communities, a land lease is used to support tax advantaged structures that ultimately allow us to purchase the land upon lease expiration. We have options to purchase the underlying land for certain of the land leases for which we have an absolute ownership interest that expire in October 2026, November 2028, May 2041, July 2046, December 2086 and April 2095.

We also hold, directly or through wholly-owned subsidiaries, the full fee simple ownership interest in 25 of the 26 Development Communities. We are developing one Development Community with a private development partner and we will own the multifamily rental portion of the development.

In our partnership structured as a DownREIT, one of our wholly-owned subsidiaries is the general partner, and there are limited partners whose interest in the partnership is represented by units of limited partnership interest. Limited partners are entitled to receive an initial distribution before any distribution is made to the general partner. Under the partnership agreement for the DownREIT, the distributions per unit paid to the holders of units of limited partnership interests are equal to our current common stock dividend amount. The holders of units of limited partnership interest have the right to present all or some of their units for redemption for a cash amount as determined by the partnership agreement and based on the fair value of our common stock. In lieu of a cash redemption by the partnership, we may elect to acquire any unit presented for redemption for one share of our common stock or for such cash amount. As of January 31, 2016, there were 7,500 DownREIT partnership units outstanding. The DownREIT partnership is consolidated for financial reporting purposes.

Profile of Current, Development and Unconsolidated Communities (1)

	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Year of completion/acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/15	Average economic occupancy		Average rental rate		Financial reporting cost (3)
							2015	2014	\$ per Apt (2)	\$ per Sq. Ft.	
ESTABLISHED COMMUNITIES											
NEW ENGLAND											
Boston, MA											
Avalon at Lexington	Lexington, MA	198	230,956	1994	1,166	94.9%	94.7%	93.8%	\$ 2,304	\$ 1.98	\$ 24,038
Eaves Quincy	Quincy, MA	245	224,538	1986/1995	916	94.7%	95.4%	94.6%	1,756	1.92	26,099
Avalon Essex	Peabody, MA	154	198,478	2000	1,289	94.8%	97.0%	95.9%	2,018	1.57	23,515
Avalon Oaks West	Wilmington, MA	120	133,376	2002	1,111	94.2%	95.3%	95.8%	1,693	1.52	17,602
Avalon Orchards	Marlborough, MA	156	175,832	2002	1,127	95.5%	96.5%	95.3%	1,759	1.56	23,175
Avalon at Newton Highlands (4)	Newton, MA	294	341,285	2003	1,161	94.9%	95.1%	96.4%	2,757	2.38	60,354
Avalon at The Pinehills	Plymouth, MA	192	255,231	2004	1,329	93.2%	95.5%	95.3%	2,248	1.69	37,594
Eaves Peabody	Peabody, MA	286	250,624	1962/2004	876	97.9%	97.5%	95.8%	1,631	1.86	35,970
Avalon at Bedford Center	Bedford, MA	139	159,914	2006	1,150	95.0%	96.3%	97.4%	2,215	1.93	25,276
Avalon at Chestnut Hill	Chestnut Hill, MA	204	270,956	2007	1,328	96.6%	96.3%	97.2%	3,202	2.41	62,560
Avalon Shrewsbury	Shrewsbury, MA	251	272,861	2007	1,087	95.6%	96.3%	94.4%	1,660	1.53	36,968
Avalon at Lexington Hills	Lexington, MA	387	484,402	2008	1,252	95.3%	95.1%	95.9%	2,547	2.04	89,481
Avalon Acton	Acton, MA	380	375,074	2008	987	95.5%	95.4%	95.0%	1,688	1.71	64,377
Avalon at Hingham Shipyard	Hingham, MA	235	290,951	2009	1,238	91.0%	94.4%	94.1%	2,646	2.14	54,664
Avalon Sharon	Sharon, MA	156	175,389	2008	1,124	95.5%	95.6%	94.9%	2,036	1.81	30,626
Avalon Northborough	Northborough, MA	382	454,033	2009	1,189	97.1%	96.1%	94.2%	1,877	1.58	60,690
Avalon Blue Hills	Randolph, MA	276	269,990	2009	978	94.9%	95.3%	95.3%	1,647	1.68	46,444
Avalon Cohasset	Cohasset, MA	220	293,272	2012	1,333	93.2%	95.2%	93.0%	2,230	1.67	55,073
Avalon Andover	Andover, MA	115	132,918	2012	1,156	96.5%	95.2%	92.8%	1,999	1.73	26,183
Avalon Prudential Center II	Boston, MA	266	243,315	1968/1998	915	94.7%	96.2%	95.0%	3,508	3.84	84,182
Avalon Prudential Center I	Boston, MA	243	242,410	1968/1998	998	97.1%	96.0%	95.4%	3,731	3.74	71,412
Eaves North Quincy	Quincy, MA	224	157,908	1977/2013	705	95.5%	94.5%	96.3%	1,884	2.67	54,154
Avalon at Center Place (5)	Providence, RI	225	222,477	1991/1997	989	93.2%	96.2%	95.2%	2,799	2.83	37,379
Fairfield - New Haven, CT											
Eaves Stamford	Stamford, CT	238	222,165	1991	933	94.9%	95.8%	94.3%	2,256	2.42	42,747
Avalon Wilton I	Wilton, CT	102	158,259	1997	1,552	94.1%	94.5%	96.0%	3,466	2.23	22,621
Avalon New Canaan	New Canaan, CT	104	132,080	2002	1,270	94.2%	94.9%	92.8%	3,318	2.61	29,524
AVA Stamford	Stamford, CT	306	315,380	2002/2002	1,031	96.7%	95.1%	95.5%	2,418	2.35	75,152
Avalon Danbury	Danbury, CT	234	235,320	2005	1,006	96.6%	96.4%	96.4%	1,755	1.74	36,368
Avalon Darien	Darien, CT	189	242,675	2004	1,284	95.2%	96.1%	94.7%	2,968	2.31	43,579
Avalon Milford I	Milford, CT	246	217,077	2004	882	95.9%	95.8%	95.5%	1,624	1.84	32,459
Avalon Norwalk	Norwalk, CT	311	310,629	2011	999	96.5%	96.7%	96.3%	2,143	2.15	74,670
Avalon Huntington	Shelton, CT	99	139,925	2008	1,413	95.9%	97.2%	96.7%	2,371	1.68	25,443
Avalon Wilton II	Wilton, CT	100	128,716	2011	1,287	91.0%	96.5%	96.6%	2,497	1.94	30,367

	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Year of completion/acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/15	Average economic occupancy		Average rental rate		Financial reporting cost (3)
							2015	2014	\$ per Apt (2)	\$ per Sq. Ft.	
METRO NY/NJ											
New York City, NY											
Avalon Riverview I (5)	Long Island City, NY	372	333,165	2002	896	96.0%	96.1%	97.6%	3,827	4.27	100,788
Avalon Bowery Place	New York, NY	206	152,725	2006	741	93.2%	96.2%	96.9%	5,477	7.39	95,967
Avalon Riverview North (5)	Long Island City, NY	602	477,665	2008	793	95.2%	95.7%	97.2%	3,607	4.55	169,005
Avalon Bowery Place II	New York, NY	90	73,596	2007	818	100.0%	96.2%	96.9%	5,142	6.29	59,603
Avalon Morningside Park (5)	New York, NY	295	245,320	2009	832	96.3%	95.5%	96.5%	3,859	4.64	115,270
Avalon Fort Greene	Brooklyn, NY	631	498,651	2010	790	95.7%	96.1%	97.0%	3,405	4.31	300,700
Avalon Midtown West	New York, NY	550	393,480	1998/2013	715	95.3%	95.5%	95.2%	4,029	5.63	347,282
Avalon Clinton North	New York, NY	339	222,862	2008/2013	657	95.9%	94.6%	94.0%	3,379	5.14	197,190
Avalon Clinton South	New York, NY	288	196,798	2007/2013	683	94.8%	93.7%	94.3%	3,450	5.05	166,510
New York - Suburban											
Avalon Commons	Smithtown, NY	312	377,318	1997	1,209	95.8%	96.2%	96.5%	2,467	2.04	38,775
Eaves Nanuet	Nanuet, NY	504	608,842	1998	1,208	96.4%	95.9%	96.9%	2,391	1.98	58,459
Avalon Willow	Mamaroneck, NY	227	216,289	2000	953	95.6%	94.4%	95.6%	2,605	2.73	48,725
Avalon Court	Melville, NY	494	596,874	1997	1,208	94.1%	95.4%	96.3%	2,865	2.37	62,395
The Avalon	Bronxville, NY	110	118,952	1999	1,081	92.7%	92.3%	93.6%	4,677	4.33	39,216
Avalon at Glen Cove (5)	Glen Cove, NY	256	261,425	2004	1,021	94.1%	95.6%	96.2%	2,734	2.68	69,303
Avalon Pines	Coram, NY	450	545,989	2005	1,213	95.3%	96.1%	96.9%	2,301	1.90	72,577
Avalon Glen Cove North (5)	Glen Cove, NY	111	100,754	2007	908	95.5%	94.9%	96.1%	2,517	2.77	40,277
Avalon White Plains	White Plains, NY	407	372,406	2009	915	94.8%	95.0%	95.6%	3,141	3.43	152,954
Avalon Rockville Centre	Rockville Centre, NY	349	349,048	2012	1,000	98.6%	96.1%	96.4%	3,100	3.10	111,029
Avalon Green II	Elmsford, NY	444	533,544	2012	1,202	91.0%	94.8%	94.8%	2,804	2.33	105,326
Avalon Garden City	Garden City, NY	204	288,443	2013	1,414	93.6%	95.5%	97.2%	3,902	2.76	67,577
Avalon Westbury	Westbury, NY	396	401,496	2006/2013	1,014	96.0%	95.9%	96.5%	2,776	2.74	123,283
New Jersey											
Avalon Cove	Jersey City, NJ	504	575,393	1997	1,142	95.2%	96.8%	96.5%	3,630	3.18	112,301
Eaves Lawrenceville (6)	Lawrenceville, NJ	632	707,592	1994	1,120	94.6%	95.4%	95.3%	1,639	1.46	82,880
Avalon Princeton Junction	West Windsor, NJ	512	486,069	1988/1993	949	94.3%	95.5%	95.9%	1,771	1.87	48,894
Avalon at Florham Park	Florham Park, NJ	270	330,410	2001	1,224	96.7%	95.1%	96.0%	2,886	2.36	44,105
Avalon at Freehold	Freehold, NJ	296	317,356	2002	1,072	94.2%	96.0%	95.8%	1,959	1.83	35,683
Avalon Run East	Lawrenceville, NJ	312	341,320	2005	1,094	93.9%	95.7%	96.0%	2,006	1.83	53,239
Avalon at Tinton Falls	Tinton Falls, NJ	216	237,747	2008	1,101	93.1%	95.4%	95.7%	1,984	1.80	41,504
Avalon at West Long Branch	West Long Branch, NJ	180	193,511	2011	1,075	93.9%	95.2%	95.9%	2,071	1.93	25,717
Avalon North Bergen	North Bergen, NJ	164	146,170	2012	891	93.9%	96.1%	97.5%	2,406	2.70	40,900
Avalon at Wesmont Station	Wood-Ridge, NJ	266	242,637	2012	912	94.0%	96.1%	96.7%	2,096	2.30	57,017
Avalon Hackensack at Riverside (5)	Hackensack, NJ	226	228,393	2013	1,011	95.1%	96.9%	96.8%	2,655	2.63	44,625

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	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Year of completion/acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/15	Average economic occupancy		Average rental rate		Financial reporting cost (3)
							2015	2014	\$ per Apt (2)	\$ per Sq. Ft.	
Avalon at Wesmont Station II	Wood-Ridge, NJ	140	146,799	2013	1,049	97.9%	94.9%	97.2%	2,110	2.01	23,365

MID-ATLANTIC

Washington Metro/Baltimore, MD

Avalon at Foxhall	Washington, DC	308	297,700	1982/1994	967	95.8%	94.4%	92.4%	2,799	2.90	47,018
Avalon at Gallery Place	Washington, DC	203	184,157	2003	907	97.5%	96.9%	95.7%	2,916	3.21	50,452
AVA H Street	Washington, DC	138	95,594	2013	693	94.9%	94.4%	95.5%	2,215	3.20	32,707
Avalon The Albemarle	Washington, DC	228	255,002	1966/2013	1,118	93.0%	94.5%	95.6%	2,641	2.36	82,207
Eaves Tunlaw Gardens	Washington, DC	166	113,512	1944/2013	684	97.6%	95.7%	96.8%	1,749	2.56	41,432
The Statesman	Washington, DC	281	190,420	1961/2013	678	94.0%	95.3%	94.0%	2,027	2.99	77,207
Eaves Glover Park	Washington, DC	120	104,162	1953/2013	868	93.3%	95.6%	95.2%	2,274	2.62	38,258
AVA Van Ness	Washington, DC	269	225,592	1978/2013	839	94.0%	95.8%	94.3%	2,118	2.53	85,237
Avalon First & M	Washington, DC	469	410,812	2012/2013	876	93.8%	95.4%	93.1%	2,806	3.20	200,315
Avalon at Fairway Hills (6)	Columbia, MD	720	724,027	1987/1996	1,006	95.7%	95.4%	95.4%	1,545	1.54	59,127
Eaves Washingtonian Center I	North Potomac, MD	192	191,280	1996	996	92.7%	96.1%	96.9%	1,549	1.55	15,191
Eaves Washingtonian Center II	North Potomac, MD	96	99,386	1998	1,035	96.9%	96.8%	95.7%	1,724	1.67	8,505
Eaves Columbia Town Center	Columbia, MD	392	395,860	1986/1993	1,010	40.8%	95.7%	96.5%	1,552	1.54	55,950
Avalon at Grosvenor Station	Bethesda, MD	497	476,687	2004	959	95.0%	96.2%	95.4%	1,948	2.03	84,301
Avalon at Traville	Rockville, MD	520	573,717	2004	1,103	92.1%	94.9%	96.2%	1,925	1.74	72,519
Avalon Russett	Laurel, MD	238	274,663	1999/2013	1,154	97.5%	96.4%	96.6%	1,849	1.60	60,537
Eaves Fair Lakes	Fairfax, VA	420	355,228	1989/1996	846	95.5%	96.0%	96.7%	1,606	1.90	38,848
AVA Ballston	Arlington, VA	344	294,271	1990	855	93.9%	94.8%	94.4%	2,175	2.54	52,585
Eaves Fairfax City	Fairfax, VA	141	148,282	1988/1997	1,052	97.2%	95.0%	96.4%	1,873	1.78	16,449
Avalon Park Crest	Tysons Corner, VA	354	288,231	2013	814	96.3%	97.3%	96.3%	2,054	2.52	77,112
Eaves Fairfax Towers	Falls Church, VA	415	336,051	1978/2011	810	96.6%	96.3%	96.4%	1,775	2.19	94,495
Avalon Ballston Place	Arlington, VA	383	333,225	2001/2013	870	94.5%	94.8%	94.9%	2,447	2.81	166,042
Eaves Tysons Corner	Vienna, VA	217	209,940	1980/2013	967	98.2%	96.6%	96.4%	1,820	1.88	64,031
Avalon Ballston Square	Arlington, VA	714	626,170	1992/2013	877	95.9%	96.1%	96.0%	2,335	2.66	299,649
Avalon Courthouse Place	Arlington, VA	564	478,896	1999/2013	849	95.4%	94.5%	94.6%	2,379	2.80	243,450
Avalon Reston Landing	Reston, VA	400	398,192	2000/2013	995	95.5%	95.8%	96.4%	1,826	1.83	114,199

PACIFIC NORTHWEST

Seattle, WA

Avalon Redmond Place	Redmond, WA	222	211,450	1991/1997	952	95.5%	95.4%	95.8%	1,824	1.91	33,173
Avalon at Bear Creek	Redmond, WA	264	288,250	1998/1998	1,092	95.8%	95.5%	95.1%	1,837	1.68	38,022
Avalon Bellevue	Bellevue, WA	201	165,504	2001	823	91.5%	95.7%	94.9%	1,998	2.43	32,509
Avalon RockMeadow	Bothell, WA	206	243,958	2000/2000	1,184	95.6%	94.4%	95.4%	1,634	1.38	26,756
Avalon ParcSquare	Redmond, WA	124	127,251	2000/2000	1,026	94.4%	93.8%	94.8%	1,986	1.93	21,598
Avalon Brandemoor	Lynnwood, WA	424	453,602	2001/2001	1,070	95.3%	94.5%	94.8%	1,478	1.38	47,098
AVA Belltown	Seattle, WA	100	82,418	2001	824	97.0%	94.0%	95.5%	2,185	2.65	19,265

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							2015	2014	\$ per Apt (2)	\$ per Sq. Ft.	
Avalon Meydenbauer	Bellevue, WA	368	331,945	2008	902	95.9%	96.2%	96.3%	2,091	2.32	91,099
Avalon Towers Bellevue (5)	Bellevue, WA	397	331,366	2011	835	95.7%	95.2%	95.4%	2,492	2.99	123,845
AVA Queen Anne	Seattle, WA	203	164,644	2012	811	97.5%	95.1%	95.4%	2,201	2.71	54,046
Avalon Brandemoor II	Lynnwood, WA	82	93,320	2011	1,138	96.3%	95.3%	94.2%	1,673	1.47	13,998
AVA Ballard	Seattle, WA	265	190,043	2013	717	94.3%	94.7%	96.2%	2,013	2.81	64,304
Eaves Redmond Campus	Redmond, WA	422	429,190	1991/2013	1,017	96.7%	95.0%	94.4%	1,963	1.93	116,270
Archstone Redmond Lakeview	Redmond, WA	166	141,000	1987/2013	849	97.0%	95.3%	95.9%	1,658	1.95	39,057

NORTHERN CALIFORNIA

San Jose, CA											
Avalon Campbell	Campbell, CA	348	326,796	1995	939	96.0%	95.5%	95.3%	2,530	2.69	73,094
Eaves San Jose	San Jose, CA	440	387,420	1985/1996	881	80.0%	95.2%	96.4%	2,369	2.69	84,835
Avalon on the Alameda	San Jose, CA	305	299,762	1999	983	94.7%	94.5%	96.0%	2,823	2.87	58,204
Avalon Mountain View (12)	Mountain View, CA	248	211,525	1986	853	95.2%	95.5%	96.3%	3,036	3.56	59,108
Avalon at Cahill Park	San Jose, CA	218	218,177	2002	1,001	97.2%	95.4%	96.2%	2,862	2.86	53,849
Avalon Towers on the Peninsula	Mountain View, CA	211	218,392	2002	1,035	98.1%	96.5%	96.8%	3,848	3.72	66,814
Avalon Willow Glen	San Jose, CA	412	382,147	2002/2013	928	94.9%	95.7%	95.2%	2,520	2.72	132,113
Eaves West Valley	San Jose, CA	789	504,813	1970/2013	640	94.2%	95.7%	96.6%	1,924	3.01	211,920
Eaves Mountain View at Middlefield	Mountain View, CA	402	261,600	1969/2013	651	92.5%	95.3%	96.1%	2,481	3.81	138,200

Oakland - East Bay, CA

Avalon Fremont	Fremont, CA	308	316,052	1992/1994	1,026	96.4%	95.9%	96.9%	2,497	2.43	59,415
Eaves Pleasanton	Pleasanton, CA	456	366,062	1988/1994	803	94.9%	95.1%	96.2%	2,210	2.75	79,583
Eaves Union City	Union City, CA	208	150,225	1973/1996	722	96.2%	95.6%	96.4%	1,975	2.73	23,987
Eaves Fremont	Fremont, CA	235	191,935	1985/1994	817	97.4%	95.5%	96.1%	2,317	2.84	42,895
Avalon Union City	Union City, CA	439	429,800	2009	979	96.8%	95.1%	96.4%	2,234	2.28	119,467
Avalon Walnut Creek (5)	Walnut Creek, CA	418	410,218	2010	981	94.3%	95.2%	96.3%	2,721	2.77	148,243
Eaves Walnut Creek	Walnut Creek, CA	510	380,542	1987/2013	746	95.5%	95.5%	96.3%	1,922	2.58	124,327
Avalon Walnut Ridge II	Walnut Creek, CA	360	251,901	1989/2013	700	95.3%	95.4%	96.5%	2,017	2.88	87,617

San Francisco, CA

Eaves Daly City	Daly City, CA	195	141,411	1972/1997	725	95.9%	96.3%	96.9%	2,384	3.29	32,631
AVA Nob Hill	San Francisco, CA	185	108,962	1990/1995	589	97.8%	95.2%	95.7%	2,885	4.90	33,904
Eaves San Rafael	San Rafael, CA	254	221,780	1973/1996	873	96.0%	96.5%	97.1%	2,339	2.68	47,263
Eaves Foster City	Foster City, CA	288	222,364	1973/1994	772	96.2%	95.4%	96.5%	2,510	3.25	50,504
Eaves Pacifica	Pacifica, CA	220	186,800	1971/1995	849	93.6%	96.3%	97.6%	2,295	2.70	33,648
Avalon Sunset Towers	San Francisco, CA	243	171,836	1961/1996	707	93.4%	93.7%	95.4%	2,772	3.92	39,916
Eaves Diamond Heights	San Francisco, CA	154	123,047	1972/1994	799	98.7%	96.1%	96.7%	2,640	3.30	29,700
Avalon at Mission Bay North	San Francisco, CA	250	241,788	2003	967	94.8%	95.1%	96.6%	4,407	4.56	95,336
Avalon at Mission Bay III	San Francisco, CA	260	261,169	2009	1,004	93.1%	95.2%	96.2%	4,445	4.43	147,918

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							2015	2014	\$ per Apt (2)	\$ per Sq. Ft.	
Avalon Ocean Avenue	San Francisco, CA	173	161,083	2012	931	97.7%	95.4%	96.1%	3,542	3.80	58,186
Avalon San Bruno	San Bruno, CA	300	267,171	2004/2013	891	96.7%	95.5%	96.1%	2,701	3.03	112,492
Avalon San Bruno II	San Bruno, CA	185	156,583	2007/2013	846	95.7%	95.2%	96.6%	2,667	3.15	70,390
Avalon San Bruno III	San Bruno, CA	187	232,147	2010/2013	1,241	95.7%	95.3%	96.1%	3,740	3.01	98,625
SOUTHERN CALIFORNIA											
Los Angeles, CA											
Avalon Woodland Hills	Woodland Hills, CA	663	594,396	1989/1997	897	96.8%	95.6%	96.4%	1,960	2.19	111,554
Eaves Warner Center	Woodland Hills, CA	227	191,443	1979/1998	843	95.6%	96.2%	96.8%	1,846	2.19	29,476
Avalon at Glendale (5)	Glendale, CA	223	241,714	2003	1,084	96.8%	96.8%	97.1%	2,633	2.43	43,883
Avalon Burbank	Burbank, CA	400	360,587	1988/2002	901	96.3%	96.5%	96.8%	2,540	2.82	94,859
Avalon Camarillo	Camarillo, CA	249	233,282	2006	937	96.0%	96.6%	96.8%	1,893	2.02	49,145
Avalon Wilshire	Los Angeles, CA	123	125,093	2007	1,017	95.9%	95.6%	96.9%	3,117	3.07	47,699
Avalon Encino	Encino, CA	131	131,220	2008	1,002	99.2%	97.2%	96.9%	2,888	2.88	62,438
Avalon Warner Place	Canoga Park, CA	210	186,402	2008	888	98.1%	96.0%	96.8%	1,927	2.17	52,992
Eaves Phillips Ranch	Pomona, CA	501	498,036	1989/2011	994	95.4%	95.7%	96.2%	1,682	1.69	51,965
Eaves San Dimas	San Dimas, CA	102	94,200	1978/2011	924	97.1%	96.2%	97.2%	1,520	1.65	10,772
Eaves San Dimas Canyon	San Dimas, CA	156	144,669	1981/2011	927	92.9%	94.9%	96.6%	1,634	1.76	15,703
Eaves Cerritos	Artesia, CA	151	106,961	1973/2012	708	98.0%	96.8%	97.3%	1,652	2.33	30,930
Avalon Playa Vista	Los Angeles, CA	309	283,183	2006/2012	916	96.4%	96.0%	96.3%	2,341	2.55	105,068
Avalon Simi Valley	Simi Valley, CA	500	430,218	2007/2013	860	97.2%	95.5%	96.0%	1,820	2.12	119,945
Avalon Studio City II	Studio City, CA	101	83,936	1991/2013	831	92.1%	95.2%	94.9%	2,116	2.55	28,802
Avalon Studio City III	Studio City, CA	276	263,512	2002/2013	955	94.5%	94.3%	93.7%	2,490	2.61	97,541
Avalon Calabasas	Calabasas, CA	600	506,547	1988/2013	844	97.0%	95.6%	95.9%	1,911	2.26	158,823
Avalon Oak Creek	Agoura Hills, CA	336	364,176	2004/2013	1,084	96.1%	96.2%	96.3%	2,426	2.24	128,513
Avalon Del Mar Station	Pasadena, CA	347	338,390	2006/2013	975	94.8%	95.3%	95.6%	2,409	2.47	130,479
Eaves Old Town Pasadena	Pasadena, CA	96	66,420	1972/2013	692	96.9%	96.2%	96.9%	1,931	2.79	25,857
Eaves Thousand Oaks	Thousand Oaks, CA	154	134,388	1992/2013	873	97.4%	95.9%	96.9%	2,063	2.36	36,314
Eaves Los Feliz	Los Angeles, CA	263	201,830	1989/2013	767	96.2%	97.3%	95.6%	1,926	2.51	66,034
Eaves Woodland Hills	Woodland Hills, CA	883	578,668	1971/2013	655	95.5%	96.5%	97.0%	1,506	2.30	168,938
Avalon Thousand Oaks Plaza	Thousand Oaks, CA	148	140,464	2002/2013	949	95.3%	96.1%	95.8%	2,121	2.23	37,264
Orange County, CA											
AVA Newport	Costa Mesa, CA	145	122,415	1956/1996	844	96.6%	95.3%	93.3%	2,155	2.55	15,590
Eaves Mission Viejo	Mission Viejo, CA	166	124,550	1984/1996	750	96.4%	95.7%	96.1%	1,545	2.06	15,240
Eaves South Coast	Costa Mesa, CA	258	207,672	1973/1996	805	96.9%	96.2%	95.8%	1,805	2.24	33,667
Eaves Santa Margarita	Rancho Santa Margarita, CA	301	229,593	1990/1997	763	96.0%	95.9%	95.3%	1,684	2.21	31,945
Eaves Huntington Beach	Huntington Beach, CA	304	268,000	1971/1997	882	94.7%	95.8%	95.9%	1,837	2.08	34,272
Avalon Anaheim Stadium	Anaheim, CA	251	302,480	2009	1,205	93.6%	95.4%	95.7%	2,486	2.06	97,736
Avalon Irvine	Irvine, CA	279	243,157	2010	872	94.9%	95.1%	95.9%	2,016	2.31	77,503

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							2015	2014	\$ per Apt (2)	\$ per Sq. Ft.	
Avalon Irvine II	Irvine, CA	179	160,844	2013	899	94.4%	94.6%	94.6%	2,155	2.40	45,264
Eaves Lake Forest	Lake Forest, CA	225	215,319	1975/2011	957	94.2%	95.1%	94.8%	1,730	1.81	28,464
Eaves Seal Beach	Seal Beach, CA	549	388,254	1971/2013	707	95.2%	95.9%	95.8%	1,977	2.80	151,537
San Diego, CA											
Eaves Mission Ridge	San Diego, CA	200	207,700	1960/1997	1,039	97.0%	95.4%	96.0%	1,970	1.90	24,991
AVA Cortez Hill (5)	San Diego, CA	299	230,395	1973/1998	771	94.6%	95.4%	95.6%	1,878	2.44	46,399
Avalon Fashion Valley	San Diego, CA	161	183,802	2008	1,142	94.4%	95.2%	95.3%	2,309	2.02	64,998
Eaves San Marcos	San Marcos, CA	184	161,352	1988/2011	877	94.5%	95.5%	96.6%	1,775	2.02	17,644
Eaves Rancho Penasquitos	San Diego, CA	250	191,256	1986/2011	765	95.2%	95.1%	95.4%	1,692	2.21	35,862
Eaves La Mesa	La Mesa, CA	168	139,428	1989/2013	830	95.2%	95.6%	95.5%	1,698	2.05	39,326
OTHER STABILIZED											
Eaves Dublin (7)	Dublin, CA	204	179,004	1989/1997	877	93.1%	95.6%	96.0%	2,272	2.59	37,228
AVA Burbank (7)	Burbank, CA	748	530,160	1961/1997	709	94.9%	96.2%	96.0%	1,890	2.67	98,752
AVA Pacific Beach (7)	San Diego, CA	564	402,285	1969/1997	713	94.1%	93.8%	95.7%	1,840	2.58	90,609
Eaves Creekside (7)	Mountain View, CA	296	216,076	1962/1997	730	96.6%	95.6%	95.2%	2,581	3.54	54,119
AVA Pasadena (7)	Pasadena, CA	84	70,648	1973/2012	841	94.0%	95.8%	94.1%	2,288	2.72	25,461
AVA 55 Ninth (8)	San Francisco, CA	273	236,907	2014	868	93.4%	95.5%	56.3%	3,831	4.41	118,613
Avalon Morrison Park (8)	San Jose, CA	250	277,710	2014	1,111	97.6%	96.0%	66.8%	3,040	2.74	78,364
Avalon San Dimas (8)	San Dimas, CA	156	159,937	2014	1,025	94.9%	96.8%	47.7%	1,835	1.79	39,849
Avalon Mission Oaks (9)	Camarillo, CA	160	157,120	2014	982	96.3%	95.8%	100.0%	1,967	2.00	47,029
Toluca Hills Apartments by Avalon (11)	Los Angeles, CA	1,151	797,851	1973/2013	693	N/A	N/A	N/A	N/A	N/A	257,877
Avalon Berkeley (8)	Berkeley, CA	94	78,858	2014	839	94.7%	95.6%	66.3%	2,773	3.31	32,930
Eaves West Valley II	San Jose, CA	84	71,136	2013	847	94.0%	95.4%	93.1%	2,674	3.16	18,412
Avalon Studio City (7)	Studio City, CA	450	331,324	1987/2013	736	94.6%	96.3%	96.5%	1,950	2.65	113,210
Eaves Trumbull	Trumbull, CT	340	379,382	1997	1,116	96.8%	96.2%	95.6%	1,815	1.63	39,528
Avalon Shelton III	Shelton, CT	250	249,190	2013	997	94.4%	96.0%	94.5%	1,864	1.87	48,018
Avalon East Norwalk	Norwalk, CT	240	223,698	2013	932	95.0%	97.0%	94.5%	2,075	2.23	46,641
Avalon at Stratford (8)	Stratford, CT	130	148,136	2014	1,140	93.0%	96.1%	48.6%	1,810	1.59	29,673
Avalon Oaks	Wilmington, MA	204	229,932	1999	1,127	93.6%	94.5%	92.4%	1,771	1.57	24,696
Avalon Natick	Natick, MA	407	362,702	2013	891	95.6%	96.0%	96.5%	2,081	2.33	80,490
Avalon at Assembly Row (5)(8)	Somerville, MA	195	181,910	2015	933	97.9%	97.1%	44.7%	2,679	2.87	55,936
Eaves Burlington (7)	Burlington, MA	203	198,230	1988/2012	977	95.6%	96.7%	95.9%	1,718	1.76	45,426
Avalon Canton at Blue Hills (8)	Canton, MA	196	235,465	2014	1,201	94.9%	95.5%	58.8%	1,954	1.63	40,557
Avalon Burlington	Burlington, MA	312	315,515	1989/2013	1,011	94.2%	95.5%	93.2%	1,886	1.87	88,841
Avalon at Edgewater (10)	Edgewater, NJ	168	175,562	2002	1,045	94.6%	92.9%	96.4%	2,342	2.24	40,434
Avalon Somerset	Somerset, NJ	384	390,365	2013	1,017	95.6%	95.3%	95.5%	2,043	2.01	76,584
Avalon Bloomingdale (8)	Bloomingdale, NJ	174	176,542	2014	1,015	98.3%	95.2%	90.8%	2,114	2.08	30,806
Avalon Green (7)	Elmsford, NY	105	113,538	1995	1,081	91.4%	94.1%	95.2%	2,631	2.43	19,296

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							2015	2014	\$ per Apt (2)	\$ per Sq. Ft.	
AVA High Line (5)(8)	New York, NY	405	271,324	2015	670	94.8%	96.2%	59.9%	2,991	4.46	155,989
Avalon Ossining (8)	Ossining, NY	168	184,137	2014	1,096	96.4%	95.3%	61.5%	2,540	2.32	36,687
Archstone Lexington	Flower Mound, TX	222	218,309	2000/2013	983	91.9%	94.3%	95.9%	1,427	1.45	32,349
Archstone Toscano (8)	Houston, TX	474	460,983	2014	973	92.8%	95.2%	72.1%	1,710	1.76	87,972
Memorial Heights Villages (8)	Houston, TX	318	305,262	2014	960	83.2%	88.0%	35.4%	1,762	1.84	52,543
Avalon Tysons Corner (7)	Tysons Corner, VA	558	613,426	1996	1,099	93.4%	95.5%	94.4%	2,105	1.91	69,733
Avalon Arlington North (8)	Arlington, VA	228	268,499	2014	1,178	94.7%	95.8%	55.3%	2,919	2.48	80,677
Oakwood Arlington (11)	Arlington, VA	184	154,376	1987/2013	839	N/A	N/A	N/A	N/A	N/A	59,551
AVA University District (8)	Seattle, WA	283	201,389	2014	712	89.7%	91.1%	67.3%	2,262	3.18	73,660
LEASE-UP											
Avalon Exeter (5)(8)	Boston, MA	187	200,641	2014	1,073	94.6%	91.4%	28.0%	5,531	5.15	126,504
AVA Somerville (5)(8)	Somerville, MA	250	200,207	2015	801	96.8%	82.1%	7.9%	2,436	3.04	71,712
AVA Theater District (8)	Boston, MA	398	324,982	2015	817	56.9%	22.2%	N/A	3,851	4.72	177,181
Avalon Marlborough (8)	Marlborough, MA	350	417,647	2015	1,193	82.2%	43.8%	N/A	2,054	1.72	74,391
Avalon Framingham (8)	Framingham, MA	180	211,095	2015	1,173	62.0%	34.5%	N/A	2,259	1.93	43,307
Avalon Huntington Station (8)	Huntington Station, NY	303	364,602	2014	1,203	95.4%	97.2%	40.9%	2,489	2.07	80,498
Avalon Wharton (8)	Wharton, NJ	247	245,531	2015	994	97.6%	84.5%	18.3%	2,008	2.02	50,777
Avalon Bloomfield Station (8)	Bloomfield, NJ	224	211,102	2015	942	98.2%	45.8%	N/A	2,384	2.53	50,592
Avalon Roseland (8)	Roseland, NJ	136	192,530	2015	1,416	93.3%	61.5%	N/A	2,940	2.08	45,769
Avalon West Chelsea (5)(8)	New York, NY	305	226,556	2015	743	96.4%	91.3%	26.7%	3,837	5.17	119,361
Avalon Mosaic (8)	Fairfax, VA	531	458,198	2014	863	92.8%	94.2%	52.0%	2,050	2.38	109,211
Avalon Alderwood I (8)	Lynnwood, WA	367	352,238	2015	960	93.2%	90.3%	30.1%	1,629	1.70	67,717
Avalon Dublin Station (8)	Dublin, CA	253	247,430	2014	978	95.7%	91.1%	63.8%	2,576	2.63	78,674
Avalon Hayes Valley (8)	San Francisco, CA	182	135,082	2015	742	97.2%	58.4%	N/A	4,353	5.87	92,394
Avalon Vista (8)	Vista, CA	221	222,814	2015	1,008	92.2%	50.2%	N/A	2,005	1.99	55,347
Avalon Baker Ranch (8)	Lake Forest, CA	430	425,497	2015	990	96.7%	54.5%	5.7%	2,251	2.27	129,106
AVA Little Tokyo (8)	Los Angeles, CA	280	285,220	2015	1,019	93.9%	83.6%	18.9%	2,751	2.70	108,426
REDEVELOPMENT											
Avalon Silicon Valley (7)	Sunnyvale, CA	710	653,929	1998	921	95.6%	94.8%	96.0%	2,795	3.03	131,449
Avalon Santa Monica on Main (7)	Santa Monica, CA	133	122,460	2007/2013	921	89.9%	93.8%	95.9%	4,341	4.71	103,770
Avalon La Jolla Colony (7)	San Diego, CA	180	137,036	1987/2013	761	92.7%	95.2%	96.6%	1,849	2.43	48,141
Avalon Walnut Ridge I (7)	Walnut Creek, CA	106	80,942	2000/2013	764	94.3%	95.9%	96.9%	2,181	2.86	32,259
Avalon Pasadena (7)	Pasadena, CA	120	102,516	2004/2013	854	94.1%	96.2%	96.1%	2,537	2.97	44,517
AVA Back Bay (7)	Boston, MA	271	246,830	1968/1998	911	95.8%	94.1%	93.2%	3,510	3.85	85,080
Avalon Bear Hill (7)	Waltham, MA	324	391,394	1999/2013	1,208	90.3%	93.5%	94.2%	2,631	2.18	142,358
Avalon Towers (7)	Long Beach, NY	109	124,611	1990/1995	1,143	91.7%	93.5%	96.5%	4,000	3.50	35,218
Avalon at Arlington Square (7)	Arlington, VA	842	896,262	2001	1,064	94.5%	93.5%	95.3%	2,098	1.97	130,407

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	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Year of completion/acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/15	Average economic occupancy		Average rental rate		Financial reporting cost (3)
							2015	2014	\$ per Apt (2)	\$ per Sq. Ft.	
DEVELOPMENT											
Avalon Glendora (8)	Glendora, CA	280	266,226	N/A	951	53.0%	20.4%	N/A	N/A	N/A	82,068
Avalon Irvine III (8)	Irvine, CA	156	151,363	N/A	970	N/A	1.6%	N/A	N/A	N/A	52,308
Avalon Dublin Station II (8)	Dublin, CA	252	243,809	N/A	967	8.8%	4.3%	N/A	N/A	N/A	80,745
Avalon West Hollywood (8)	West Hollywood, CA	294	290,701	N/A	989	N/A	N/A	N/A	N/A	N/A	93,676
Avalon Chino Hills (8)	Chino Hills, CA	331	327,890	N/A	991	N/A	N/A	N/A	N/A	N/A	24,639
Avalon Dogpatch (8)	San Francisco, CA	326	262,927	N/A	807	N/A	N/A	N/A	N/A	N/A	62,306
Avalon Huntington Beach (8)	Huntington Beach, CA	378	322,073	N/A	852	N/A	N/A	N/A	N/A	N/A	88,629
AVA NoMa (8)	Washington, DC	438	367,192	N/A	838	N/A	N/A	N/A	N/A	N/A	47,794
Avalon North Station (8)	Boston, MA	503	403,610	N/A	802	N/A	N/A	N/A	N/A	N/A	142,911
Avalon Quincy (8)	Quincy, MA	395	371,688	N/A	941	N/A	N/A	N/A	N/A	N/A	34,498
AVA Wheaton (8)	Wheaton, MD	319	267,096	N/A	837	N/A	N/A	N/A	N/A	N/A	18,295
Avalon Hunt Valley (8)	Hunt Valley, MD	332	319,791	N/A	963	N/A	N/A	N/A	N/A	N/A	29,230
Avalon Laurel (8)	Laurel, MD	344	374,145	N/A	1,088	N/A	N/A	N/A	N/A	N/A	31,008
Avalon Princeton (8)	Princeton, NJ	280	287,078	N/A	1,025	N/A	N/A	N/A	N/A	N/A	50,071
Avalon Union (8)	Union, NJ	202	230,418	N/A	1,141	12.4%	5.7%	N/A	N/A	N/A	39,461
Avalon Maplewood (8)	Maplewood, NJ	235	209,560	N/A	892	N/A	N/A	N/A	N/A	N/A	19,180
Avalon Willoughby Square/AVA DoBro (8)	Brooklyn, NY	826	606,671	N/A	734	6.9%	6.3%	N/A	N/A	N/A	408,947
Avalon Green III (8)	Elmsford, NY	68	77,722	N/A	1,143	22.1%	14.2%	N/A	N/A	N/A	21,149
Avalon Great Neck (8)	Great Neck, NY	191	202,873	N/A	1,062	N/A	N/A	N/A	N/A	N/A	26,237
Avalon Sheepshead Bay (8)	Brooklyn, NY	180	149,824	N/A	832	N/A	N/A	N/A	N/A	N/A	20,394
Avalon Rockville Centre II (8)	Rockville Centre, NY	165	148,268	N/A	899	N/A	N/A	N/A	N/A	N/A	11,302
Avalon Falls Church (8)	Falls Church, VA	384	396,536	N/A	1,033	66.5%	31.0%	N/A	N/A	N/A	104,478
AVA Capitol Hill (8)	Seattle, WA	249	175,286	N/A	704	18.1%	6.5%	N/A	N/A	N/A	79,080
Avalon Esterra Park (8)	Redmond, WA	482	440,848	N/A	915	N/A	N/A	N/A	N/A	N/A	84,428
Avalon Alderwood II (8)	Redmond, WA	124	119,904	N/A	967	N/A	N/A	N/A	N/A	N/A	14,264
Avalon Newcastle I (8)	Newcastle, WA	378	388,082	N/A	1,027	N/A	N/A	N/A	N/A	N/A	27,140
UNCONSOLIDATED COMMUNITIES											
Avalon at Mission Bay North II (12)	San Francisco, CA	313	291,655	2006	932	96.2%	95.6%	96.1%	4,214	4.52	N/A
Eaves Tustin (13)	Tustin, CA	628	511,992	1972/2010	815	96.3%	96.1%	96.3%	1,646	2.02	N/A
Eaves Rancho San Diego (13)(16)	El Cajon, CA	676	587,500	1986/2011	869	93.0%	95.6%	95.9%	1,638	1.88	N/A
Briarwood Apartments (13)	Owings Mills, MD	348	340,868	1999/2010	980	96.5%	96.0%	96.6%	1,365	1.39	N/A
Eaves Gaithersburg (13)	Gaithersburg, MD	684	658,816	1974/2010	963	95.9%	95.9%	96.4%	1,396	1.45	N/A
Eaves Rockville (13)	Rockville, MD	210	403,912	1970/2011	1,923	96.7%	97.7%	96.6%	2,234	1.16	N/A
Avalon Watchung (13)	Watchung, NJ	334	336,586	2003/2012	1,008	94.6%	95.5%	96.2%	2,092	2.08	N/A
Avalon North Point (14)	Cambridge, MA	426	383,537	2008/2013	900	95.5%	95.8%	92.0%	3,345	3.72	N/A
Avalon Station 250 (15)	Dedham, MA	285	305,862	2011/2013	1,073	90.9%	94.7%	94.7%	2,206	2.06	N/A
Avalon North Point Lofts (8)(14)	Cambridge, MA	103	46,506	2014	452	95.1%	95.7%	33.9%	2,037	4.51	N/A
Avalon Kips Bay (15)(16)	New York, NY	209	152,865	1998/2013	731	95.7%	96.0%	95.4%	4,837	6.61	N/A

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	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Year of completion/acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/15	Average economic occupancy		Average rental rate		Financial reporting cost (3)
							2015	2014	\$ per Apt (2)	\$ per Sq. Ft.	
Brandywine (12)	Washington, DC	305	308,050	1954/2013	1,010	N/A	95.8%	92.4%	2,419	2.39	N/A
Avalon Woodland Park (14)	Herdon, VA	392	393,112	2000/2013	1,003	96.9%	95.7%	95.6%	1,703	1.70	N/A
Avalon Grosvenor Tower (15)	North Bethesda, MD	237	230,439	1987/2013	972	96.6%	95.9%	94.6%	2,038	2.10	N/A
Eaves Sunnyvale (15)	Sunnyvale, CA	192	204,060	1991/2013	1,063	95.3%	95.8%	96.7%	2,986	2.81	N/A
Archstone Boca Town Center (15)(16)	Boca Raton, FL	252	268,200	1988/2013	1,064	96.8%	97.0%	94.5%	1,645	1.55	N/A
Avalon Kirkland at Carillon (15)	Kirkland, WA	131	176,160	1990/2013	1,345	92.2%	94.1%	94.4%	2,630	1.96	N/A
Avalon Studio 4041 (15)	Studio City, CA	149	120,354	2009/2013	808	90.6%	94.7%	96.0%	2,366	2.93	N/A
Avalon Marina Bay (5)(15)	Marina del Rey, CA	205	177,945	1968/2013	868	95.1%	95.4%	80.3%	3,070	3.54	N/A
Avalon Venice on Rose (15)	Venice, CA	70	84,508	2012/2013	1,207	92.9%	93.7%	95.6%	5,005	4.15	N/A

1. We own a fee simple interest in the communities listed, excepted as noted below.
2. Represents the average per occupied apartment home.
3. Dollars in thousands. Costs are presented in accordance with GAAP. For current Development Communities, cost represents total costs incurred through December 31, 2015 without reduction for depreciation. Financial reporting costs are excluded for unconsolidated communities, see Note 5, "Investments in Real Estate Entities."
4. We own a general partnership interest in a partnership structured as a DownREIT that owns this community.
5. Community is located on land subject to a land lease.
6. We own a general partnership interest in a partnership that owns a fee simple interest in this community.
7. Community was under redevelopment during 2015 and/or 2014, which could result in lower average economic occupancy and average rental rate per square foot for the year.
8. Community was under construction or completed development during 2015 and/or 2014, which could result in lower average economic occupancy and average rental rate per square foot for the year.
9. Community was purchased during 2014, which could result in lower average economic occupancy and average rental rate per square foot for the year.
10. Does not include the 240 apartment homes which were destroyed as a result of the fire at Avalon at Edgewater in January 2015. The financial reporting cost includes the basis for the land parcel which held the apartment homes which were destroyed, and is net of the recognized impairment to write-off the net book value of the fixed assets destroyed by the fire.
11. During 2015, the community was master leased to a third party manager.
12. We own a membership interest in a limited liability company that holds a fee simple interest in this community.
13. We own a 31.3% combined general partnership and indirect limited partner equity interest in this community.
14. We own a 20.0% combined general partnership and indirect limited partner equity interest in this community.
15. We own a 28.6% combined general partnership and indirect limited partner equity interest in this community.
16. The venture sold this community in 2016.

Development Communities

As of December 31, 2015, we had 26 Development Communities under construction. We expect these Development Communities, when completed, to add a total of 8,112 apartment homes to our portfolio for a total capitalized cost, including land acquisition costs, of approximately \$2,884,800,000. We cannot assure you that we will meet our schedule for construction completion or that we will meet our budgeted costs, either individually, or in the aggregate. You should carefully review Item 1A. "Risk Factors" for a discussion of the risks associated with development activity and our discussion under Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" (including the factors identified under "Forward-Looking Statements") for further discussion of development activity.

The following table presents a summary of the Development Communities. We hold a direct or indirect fee simple ownership interest in these communities, unless otherwise noted in the table.

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		Number of apartment homes	Projected total capitalized cost (1) (\$ millions)	Construction start	Initial projected occupancy (2)	Estimated completion	Estimated stabilization (3)
1.	Avalon Falls Church <i>Falls Church, VA</i>	384	\$ 109.8	Q1 2014	Q1 2015	Q1 2016	Q3 2016
2.	Avalon Glendora <i>Glendora, CA</i>	280	82.5	Q4 2013	Q2 2015	Q1 2016	Q3 2016
3.	Avalon Green III <i>Elmsford, NY</i>	68	22.1	Q4 2014	Q3 2015	Q1 2016	Q3 2016
4.	Avalon Willoughby Square/AVA DoBro <i>Brooklyn, NY</i>	826	444.9	Q3 2013	Q4 2015	Q4 2016	Q3 2017
5.	AVA Capitol Hill <i>Seattle, WA</i>	249	81.4	Q1 2014	Q4 2015	Q2 2016	Q4 2016
6.	Avalon Dublin Station II <i>Dublin, CA</i>	252	83.7	Q2 2014	Q4 2015	Q3 2016	Q4 2016
7.	Avalon Union <i>Union, NJ</i>	202	50.7	Q4 2014	Q4 2015	Q2 2016	Q4 2016
8.	Avalon Irvine III <i>Irvine, CA</i>	156	55.0	Q2 2014	Q1 2016	Q2 2016	Q4 2016
9.	Avalon Huntington Beach <i>Huntington Beach, CA</i>	378	120.3	Q2 2014	Q1 2016	Q2 2017	Q4 2017
10.	Avalon West Hollywood <i>West Hollywood, CA</i>	294	151.7	Q2 2014	Q4 2016	Q3 2017	Q2 2018
11.	Avalon Esterra Park <i>Redmond, WA</i>	482	137.8	Q3 2014	Q1 2016	Q2 2017	Q4 2017
12.	Avalon North Station <i>Boston, MA</i>	503	257.9	Q3 2014	Q4 2016	Q4 2017	Q2 2018
13.	Avalon Princeton <i>Princeton, NJ</i>	280	95.5	Q4 2014	Q3 2016	Q2 2017	Q4 2017
14.	Avalon Alderwood II <i>Lynnwood, WA</i>	124	26.1	Q1 2015	Q2 2016	Q3 2016	Q4 2016
15.	Avalon Hunt Valley <i>Hunt Valley, MD</i>	332	74.0	Q1 2015	Q3 2016	Q2 2017	Q4 2017
16.	Avalon Laurel <i>Laurel, MD</i>	344	72.4	Q2 2015	Q1 2016	Q1 2017	Q3 2017
17.	Avalon Quincy <i>Quincy, MA</i>	395	95.3	Q2 2015	Q3 2016	Q2 2017	Q4 2017
18.	Avalon Great Neck <i>Great Neck, NY</i>	191	78.9	Q2 2015	Q1 2017	Q2 2017	Q4 2017
19.	AVA NoMa <i>Washington, D.C.</i>	438	148.3	Q2 2015	Q2 2017	Q1 2018	Q3 2018
20.	Avalon Newcastle I <i>Newcastle, WA</i>	378	110.1	Q3 2015	Q4 2016	Q4 2017	Q2 2018
21.	Avalon Chino Hills <i>Chino Hills, CA</i>	331	96.9	Q3 2015	Q1 2017	Q4 2017	Q2 2018
22.	Avalon Sheepshead Bay (4) <i>Brooklyn, NY</i>	180	86.4	Q3 2015	Q3 2017	Q4 2017	Q2 2018
23.	Avalon Maplewood <i>Maplewood, NJ</i>	235	66.3	Q4 2015	Q3 2017	Q1 2018	Q3 2018
24.	Avalon Rockville Centre II <i>Rockville Centre, NY</i>	165	57.8	Q4 2015	Q3 2017	Q4 2017	Q2 2018
25.	AVA Wheaton <i>Wheaton, MD</i>	319	75.6	Q4 2015	Q2 2017	Q1 2018	Q3 2018
26.	Avalon Dogpatch <i>San Francisco, CA</i>	326	203.4	Q4 2015	Q4 2017	Q3 2018	Q1 2019
	Total	8,112	\$ 2,884.8				

(1) Projected total capitalized cost includes all capitalized costs projected to be or actually incurred to develop the respective Development Community, determined in accordance with GAAP, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees. Projected total capitalized cost for communities identified as having joint venture ownership, either during construction or upon construction completion, represents the total projected joint venture contribution amount.

(2) Future initial occupancy dates are estimates. There can be no assurance that we will pursue to completion any or all of these proposed developments.

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- (3) Stabilized operations is defined as the earlier of (i) attainment of 95% or greater physical occupancy or (ii) the one-year anniversary of completion of development.
- (4) We are developing this project with a private development partner. We will own the rental portion of the development on floors 3 through 19 and the partner will own the for-sale condominium portion on floors 20 through 30 of the development. The information above represents only our portion of the project. We are providing a construction loan to the development partner, expected to be \$48,800,000 which together with the partner's contributed equity is expected to fund the condominium portion of the project. A more detailed description of Avalon Sheepshead Bay can be found in Note 5, "Investments in Real Estate Entities," of the Consolidated Financial Statements set forth in Item 8 of this report.

During the year ended December 31, 2015, the Company completed the development of the following communities:

		Number of apartment homes	Total capitalized cost (1) (\$ millions)	Approximate rentable area (sq. ft.)	Total capitalized cost per sq. ft.	Quarter of completion
1.	Avalon West Chelsea/AVA High Line (2) (3) <i>New York, NY</i>	710	\$ 271.9	497,880	\$ 546	Q1 2015
2.	Avalon Alderwood I <i>Lynnwood, WA</i>	367	67.8	352,238	\$ 192	Q1 2015
3.	AVA Little Tokyo (2) <i>Los Angeles, CA</i>	280	112.4	285,220	\$ 394	Q1 2015
4.	Avalon Assembly Row/AVA Somerville (3) <i>Somerville, MA</i>	445	129.0	382,117	\$ 338	Q2 2015
5.	Avalon Wharton <i>Wharton, NJ</i>	247	51.1	245,531	\$ 208	Q2 2015
6.	Avalon Hayes Valley <i>San Francisco, CA</i>	182	95.4	135,082	\$ 706	Q2 2015
7.	Avalon Vista <i>Vista, CA</i>	221	56.7	222,814	\$ 254	Q3 2015
8.	Avalon Roseland <i>Roseland, NJ</i>	136	46.3	192,641	\$ 240	Q3 2015
9.	Avalon Baker Ranch <i>Lake Forest, CA</i>	430	130.2	425,497	\$ 306	Q4 2015
10.	Avalon Marlborough <i>Marlborough, MA</i>	350	75.6	417,647	\$ 181	Q4 2015
11.	AVA Theater District <i>Boston, MA</i>	398	181.4	324,982	\$ 558	Q4 2015
12.	Avalon Bloomfield Station <i>Bloomfield, NJ</i>	224	51.0	211,156	\$ 242	Q4 2015
13.	Avalon Framingham <i>Framingham, MA</i>	180	43.9	211,095	\$ 208	Q4 2015
	Total	4,170	\$ 1,312.7			

- (1) Total capitalized cost is as of December 31, 2015. The Company generally anticipates incurring additional costs associated with these communities that are customary for new developments.
- (2) Development contains at least 10,000 square feet of retail space.
- (3) Upon completion of construction we considered each phase of these dual-branded developments as separate operating communities, both of which we own subject to a single land lease.

Redevelopment Communities

As of December 31, 2015, there were nine communities under redevelopment. We expect the total capitalized cost to redevelop these communities to be \$122,000,000, excluding costs incurred prior to redevelopment. We have found that the cost to redevelop an existing apartment community is more difficult to budget and estimate than the cost to develop a new community. Accordingly, we expect that actual costs may vary from our budget by a wider range than for a new development community. We cannot assure you that we will meet our schedule for reconstruction completion or for attaining restabilized operations, or that we will meet our budgeted costs, either individually or in the aggregate. We anticipate maintaining or increasing our current level of redevelopment activity related to communities in our current operating portfolio. You should carefully review Item 1A. "Risk Factors" for a discussion of the risks associated with redevelopment activity.

The following presents a summary of these Redevelopment Communities:

	Number of apartment homes	Projected total capitalized cost (1) (\$ millions)	Reconstruction start	Estimated reconstruction completion	Estimated restabilized operations (2)
1. Avalon Towers <i>Long Beach, NY</i>	109	\$ 10.2	Q4 2014	Q2 2016	Q4 2016
2. Avalon at Arlington Square <i>Arlington, VA</i>	842	21.3	Q4 2014	Q1 2016	Q3 2017
3. Avalon Bear Hill <i>Waltham, MA</i>	324	21.4	Q2 2015	Q3 2016	Q1 2017
4. Avalon Santa Monica on Main <i>Santa Monica, CA</i>	133	10.0	Q4 2014	Q1 2016	Q3 2016
5. Avalon Silicon Valley <i>Sunnyvale, CA</i>	710	29.9	Q4 2014	Q1 2017	Q3 2017
6. AVA Back Bay <i>Boston, MA</i>	271	8.8	Q3 2015	Q1 2017	Q3 2017
7. Avalon La Jolla Colony <i>San Diego, CA</i>	180	10.2	Q3 2015	Q3 2016	Q1 2017
8. Avalon Walnut Ridge I <i>Walnut Creek, CA</i>	106	5.0	Q3 2015	Q2 2016	Q4 2016
9. Avalon Pasadena <i>Pasadena, CA</i>	120	5.2	Q4 2015	Q3 2016	Q1 2017
Total	2,795	\$ 122.0			

(1) Projected total capitalized cost does not include capitalized costs incurred prior to redevelopment.

(2) Restabilized operations is defined as the earlier of (i) attainment of 95% or greater physical occupancy or (ii) the one-year anniversary of completion of redevelopment.

Development Rights

At December 31, 2015, we had \$484,377,000 in acquisition and related capitalized costs for direct interests in land parcels we own, and \$37,577,000 in capitalized costs (including legal fees, design fees and related overhead costs) related to Development Rights for which we control the land parcel, typically through a conditional agreement or option to purchase or lease the land. Collectively, the land held for development and associated costs for deferred development rights relate to 32 Development Rights for which we expect to develop new apartment communities in the future. The cumulative capitalized costs for land held for development as of December 31, 2015 includes \$442,016,000 in original land acquisition costs. The original land acquisition cost per home, after consideration of planned sales of associated outparcels and other real estate, ranged from \$16,000 per home in Massachusetts to \$326,000 per home in New York. The Development Rights range from those beginning design and architectural planning to those that have completed site plans and drawings and can begin construction almost immediately. We estimate that the successful completion of all of these communities would ultimately add approximately 9,634 apartment homes to our portfolio. Substantially all of these apartment homes will offer features like those offered by the communities we currently own.

For 24 Development Rights, we control the land through a conditional agreement or option to purchase or lease the parcel. While we generally prefer to hold Development Rights through conditional agreements or options to acquire land, for the eight remaining Development Rights we either currently own the land, have an ownership interest in a joint venture that owns the land or have executed a long term land lease for the parcel of land on which a community would be built if we proceeded with development.

The properties comprising the Development Rights are in different stages of the due diligence and regulatory approval process. The decisions as to which of the Development Rights to invest in, if any, or to continue to pursue once an investment in a Development Right is made, are business judgments that we make after we perform financial, demographic and other analyses. In the event that we do not proceed with a Development Right, we generally would not recover any of the capitalized costs incurred in the pursuit of those communities, unless we were to recover amounts in connection with the sale of land; however, we cannot guarantee a recovery. Pre-development costs incurred in the pursuit of Development Rights, for which future development is not yet considered probable, are expensed as incurred. In addition, if the status of a Development Right changes, making future development no longer probable, any capitalized pre-development costs are charged to expense. During 2015, we incurred a charge of approximately \$3,016,000 for development pursuits that were not yet probable of future development at the time incurred, or for pursuits that we determined would not likely be developed.

You should carefully review Item 1A. "Risk Factors," for a discussion of the risks associated with Development Rights.

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The following presents a summary of these Development Rights:

Market	Number of rights	Estimated number of homes	Projected total capitalized cost (\$ millions) (1)
New England	7	1,759	\$ 575
Metro NY/NJ	12	3,673	1,295
Mid-Atlantic	4	1,305	352
Pacific Northwest	4	1,224	374
Northern California	4	978	481
Southern California	1	695	341
Total	32	9,634	\$ 3,418

(1) Projected total capitalized cost includes all capitalized costs incurred to date (if any) and projected to be incurred to develop the respective community, determined in accordance with GAAP, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees.

Land Acquisitions

We select land for development and follow established procedures that we believe minimize both the cost and the risks of development. During 2015 we acquired direct and indirect interests in land parcels for eight Development Rights, as shown in the table below, for an aggregate investment of approximately \$480,550,000. For six of the eight parcels, construction has either started or is expected to start within the next 12 months.

	Estimated number of apartment homes	Projected total capitalized cost (1) (\$ millions)	Date acquired
1. Avalon Newcastle I <i>Newcastle, WA</i>	378	\$ 110.1	January 2015
2. Avalon Newcastle II <i>Newcastle, WA</i>	272	73.7	January 2015
3. Avalon Columbus Circle <i>New York, NY</i>	262	335.4	January 2015
4. Avalon Dogpatch <i>San Francisco, CA</i>	326	203.4	February 2015
5. Avalon Quincy <i>Quincy, MA</i>	395	95.3	March 2015
6. Avalon Maplewood <i>Maplewood, NJ</i>	235	66.3	May 2015
7. AVA Hollywood <i>Los Angeles, CA</i>	695	340.7	July 2015
8. Avalon Sudbury West (2) <i>Sudbury, MA</i>	250	81.8	December 2015
Total	2,813	\$ 1,306.7	

(1) Projected total capitalized cost includes all capitalized costs incurred to date (if any) and projected to be incurred to develop the respective community, determined in accordance with GAAP, including land and related acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees, net of projected proceeds for any planned sales of associated outparcels and other real estate.

(2) We acquired an indirect interest in this land parcel through an unconsolidated joint venture.

Other Land and Real Estate Assets

We own land parcels with a carrying value of approximately \$28,968,000, which we do not currently plan to develop. These parcels consist primarily of ancillary parcels acquired in connection with Development Rights that we had not planned to develop. We currently believe on the filing date of this report there is no need to record a charge for impairment for these parcels. However, we may be subject to the recognition of further charges for impairment in the event that there are indicators of such impairment and we determine that the carrying value of the assets is greater than the current fair value, less costs to dispose.

Disposition Activity

We sell assets when they do not meet our long-term investment strategy or when capital and real estate markets allow us to realize a portion of the value created over the past business cycle and generally redeploy the proceeds from those sales to develop, redevelop and acquire communities. Pending such redeployment, we will generally use the proceeds from the sale of these communities to reduce amounts outstanding under our Credit Facility or retain the cash proceeds on our balance sheet until it is redeployed into acquisition, development or redevelopment activity. On occasion, we will set aside the proceeds from the sale of communities into a cash escrow account to facilitate a tax deferred, like-kind exchange transaction. From January 1, 2015 to January 31, 2016, we sold our interest in three wholly-owned communities, containing 851 apartment homes. The aggregate gross sales price for these assets was \$265,500,000.

Insurance and Risk of Uninsured Losses

We carry commercial general liability insurance and property insurance with respect to all of our communities. These policies, and other insurance policies we carry, have policy specifications, insured and self-insured limits and deductibles that we consider commercially reasonable. There are, however, certain types of losses (such as losses arising from acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in management's view, economically impractical. You should carefully review the discussion under Item 1A. "Risk Factors" of this Form 10-K for a discussion of risks associated with an uninsured property or liability loss.

Many of our West Coast communities are located in the general vicinity of active earthquake faults. Many of our communities are near, and thus susceptible to, the major fault lines in California, including the San Andreas Fault and the Hayward Fault. We cannot assure you that an earthquake would not cause damage or losses greater than insured levels. We have in place with respect to communities located in California and Washington, for any single occurrence and in the aggregate, \$150,000,000 of coverage. Earthquake coverage outside of California and Washington is subject to a \$175,000,000 limit for each occurrence and in the aggregate. In California the deductible for each occurrence is five percent of the insured value of each damaged building with a maximum of \$25,000,000 per loss. Our earthquake insurance outside of California provides for a \$100,000 deductible per occurrence except that the next \$350,000 of loss per occurrence outside California will be treated as an additional self-insured retention until the total incurred self-insured retention exceeds \$1,500,000. We self-insure a portion of our property insurance which includes the earthquake risks.

Through a wholly-owned captive insurance company, the Company is responsible for 12% of the losses for its property insurance coverage in excess of any applicable deductible up to the first \$50,000,000 of loss, with amounts beyond that covered by third-party insurance.

Just as with office buildings, transportation systems and government buildings, there have been reports that apartment communities could become targets of terrorism. In December 2007, Congress passed the Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA") which is designed to make terrorism insurance available through a federal back-stop program. Congress reauthorized TRIPRA in January 2015 for six years. We have also purchased insurance for property damage due to terrorism up to \$400,000,000 including insurance for certain terrorist acts, not covered under TRIPRA, such as domestic-based terrorism. This insurance, often referred to as "non-certified" terrorism insurance, is subject to deductibles, limits and exclusions. Our general liability policy provides terrorism coverage through TRIPRA (subject to deductibles and insured limits) for liability to third parties that result from terrorist acts at our communities.

An additional consideration for insurance coverage and potential uninsured losses is mold growth. Mold growth may occur when excessive moisture accumulates in buildings or on building materials, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. If a significant mold problem arises at one of our communities, we could be required to undertake a costly remediation program to contain or remove the mold from the affected community and could be exposed to other liabilities. For further discussion of the risks and the Company's related prevention and remediation activities, please refer to the discussion under Item 1A. "Risk Factors - We may incur costs due to environmental contamination or non-compliance" elsewhere in this report. We cannot provide assurance that we will have coverage under our existing policies for property damage or liability to third parties arising as a result of exposure to mold or a claim of exposure to mold at one of our communities.

We also carry crime policies (also commonly referred to as a fidelity policy or employee dishonesty policy) that protect the Company, up to \$30,000,000 per occurrence, from employee theft of money, securities or property. This amount may not be sufficient to cover losses that may be in excess of the policy limits.

Edgewater Casualty Gain

In January 2015, a fire occurred at the Company's Avalon at Edgewater apartment community located in Edgewater, New Jersey ("Edgewater"). Edgewater consisted of two residential buildings. One building, containing 240 apartment homes, was destroyed. The second building, containing 168 apartment homes, suffered minimal damage and has been repaired. In January 2016, the Company reached a final settlement with its property and casualty insurers regarding the property damage and lost income related to the Edgewater fire, resulting in aggregate insurance recoveries for these aspects of this matter, after self-insurance and deductibles, of \$73,008,000. The Company received \$44,000,000 of these recoveries in 2015 and expects to receive the remaining \$29,008,000 during the three months ending March 31, 2016, which will be recognized as casualty gain and business interruption insurance recovery.

To date, a number of lawsuits on behalf of former residents have been filed against us, including four purported class actions. Having incurred applicable deductibles, the Company currently believes that all of its remaining liability to third parties will be substantially covered by its insurance policies. However, the Company can give no assurances in this regard and continues to evaluate this matter.

ITEM 3. LEGAL PROCEEDINGS

As discussed immediately above, in January 2015, a fire occurred at the Company's Avalon at Edgewater apartment community in Edgewater, NJ.

The Company believes that the fire was caused by sparks from a torch used during repairs being performed by a Company employee who was not a licensed plumber. The Company has since revised its maintenance policies to require that non-flame tools be used for plumbing repairs where possible or, where not possible inside the building envelope, that a qualified third party vendor perform the work in accordance with AvalonBay policies.

The Company is aware that third parties incurred significant property damage and are claiming other losses, such as relocation costs, as a result of the fire. The Company has established protocols for processing claims and has encouraged any party who sustained a loss to contact the Company's insurance carrier to file a claim. Through the date of this Form 10-K, of the 229 occupied apartments destroyed in the fire, the residents of approximately 76 units have settled claims with our insurer, and claims from an additional 44 units are being evaluated by our insurer.

To date, four putative class action lawsuits have been filed against the Company on behalf of Avalon at Edgewater residents and others who may have been harmed by the fire. The court has consolidated these actions in the United States District Court for the District of New Jersey. In addition, 18 lawsuits representing approximately 145 individual plaintiffs have been filed in the Superior Court of New Jersey Bergen County - Law Division. These cases have been consolidated by the court. The Company believes that it has meritorious defenses to the extent of damages claimed. Having incurred applicable deductibles, the Company currently believes that all of its remaining liability to third parties will be substantially covered by its insurance policies. However, the Company can give no assurances in this regard and continues to evaluate this matter.

The Company is involved in various other claims and/or administrative proceedings unrelated to the Edgewater fire that arise in the ordinary course of its business. While no assurances can be given, the Company does not currently believe that any of these other outstanding litigation matters, individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NYSE under the ticker symbol AVB. The following table sets forth the quarterly high and low sales prices per share of our common stock for the years 2015 and 2014, as reported by the NYSE. On January 29, 2016 there were 524 holders of record of an aggregate of 137,002,607 shares of our outstanding common stock. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one record holder.

	2015			2014		
	Sales Price		Dividends declared	Sales Price		Dividends declared
	High	Low		High	Low	
Quarter ended March 31	\$ 181.69	\$ 163.81	\$ 1.25	\$ 132.17	\$ 114.16	\$ 1.16
Quarter ended June 30	\$ 176.43	\$ 158.72	\$ 1.25	\$ 144.51	\$ 130.04	\$ 1.16
Quarter ended September 30	\$ 180.24	\$ 158.97	\$ 1.25	\$ 157.16	\$ 139.27	\$ 1.16
Quarter ended December 31	\$ 186.89	\$ 168.83	\$ 1.25	\$ 170.14	\$ 141.00	\$ 1.16

At present, we expect to continue our policy of paying regular quarterly cash dividends. However, the form, timing and/or amount of dividend distributions will be declared at the discretion of the Board of Directors and will depend on actual cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and other factors as the Board of Directors may consider relevant. The Board of Directors may modify our dividend policy from time to time.

In February 2016, we announced that our Board of Directors declared a dividend on our common stock for the first quarter of 2016 of \$1.35 per share, a 8.0% increase over the previous quarterly dividend per share of \$1.25. The dividend will be payable on April 15, 2016 to all common stockholders of record as of March 31, 2016.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased(1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Dollar Amount that May Yet be Purchased Under the Plans or Programs (in thousands) (2)
October 1 - October 31, 2015	92	\$ 182.85	—	\$ 200,000
November 1 - November 30, 2015	4,266	\$ 180.91	—	\$ 200,000
December 1 - December 31, 2015	932	\$ 181.52	—	\$ 200,000

- (1) Reflects shares surrendered to the Company in connection with exercise of stock options as payment of exercise price, as well as for taxes associated with the vesting of restricted share grants.
- (2) As disclosed in our Form 10-Q for the quarter ended March 31, 2008, represents amounts outstanding under the Company's \$500,000,000 Stock Repurchase Program. There is no scheduled expiration date to this program.

Information regarding securities authorized for issuance under equity compensation plans is included in the section entitled "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in this Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

The following table provides historical consolidated financial, operating and other data for the Company. You should read the table with our Consolidated Financial Statements and the Notes included in this report (dollars in thousands, except per share information).

	For the year ended				
	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
Revenue:					
Rental and other income	\$ 1,846,081	\$ 1,674,011	\$ 1,451,419	\$ 990,370	\$ 890,431
Management, development and other fees	9,947	11,050	11,502	10,257	9,656
Total revenue	<u>1,856,028</u>	<u>1,685,061</u>	<u>1,462,921</u>	<u>1,000,627</u>	<u>900,087</u>
Expenses:					
Operating expenses, excluding property taxes	448,747	410,672	352,245	259,350	246,872
Property taxes	193,499	178,634	158,774	97,555	88,964
Interest expense, net	175,615	180,618	172,402	136,920	167,814
(Gain) loss on extinguishment of debt, net	(26,736)	412	14,921	1,179	1,940
Loss on interest rate contract	—	—	51,000	—	—
Depreciation expense	477,923	442,682	560,215	243,680	226,728
General and administrative expense	42,396	41,425	39,573	34,101	29,371
Expensed acquisition, development and other pursuit costs, net of recoveries	6,822	(3,717)	45,050	11,350	2,967
Casualty (gain) loss and impairment loss, net	(10,542)	—	—	1,449	14,052
Total expenses	<u>1,307,724</u>	<u>1,250,726</u>	<u>1,394,180</u>	<u>785,584</u>	<u>778,708</u>
Equity in income (loss) of unconsolidated entities	70,018	148,766	(11,154)	20,914	5,120
Gain on sale of real estate	9,647	490	240	280	13,716
Gain on sale of communities	115,625	84,925	—	—	—
Gain on acquisition of unconsolidated entity	—	—	—	14,194	—
Income from continuing operations before taxes	743,594	668,516	57,827	250,431	140,215
Income tax expense	1,861	9,368	—	—	—
Income from continuing operations	741,733	659,148	57,827	250,431	140,215
Discontinued operations:					
Income from discontinued operations	—	310	16,713	26,820	20,065
Gain on sale of discontinued operations	—	37,869	278,231	146,311	281,090
Total discontinued operations	—	<u>38,179</u>	<u>294,944</u>	<u>173,131</u>	<u>301,155</u>
Net income	741,733	697,327	352,771	423,562	441,370
Net loss (income) attributable to noncontrolling interests	305	(13,760)	370	307	252
Net income attributable to common stockholders	<u>\$ 742,038</u>	<u>\$ 683,567</u>	<u>\$ 353,141</u>	<u>\$ 423,869</u>	<u>\$ 441,622</u>
Per Common Share and Share Information:					
Earnings per common share—basic:					
Income from continuing operations attributable to common stockholders (net of dividends attributable to preferred stock)	\$ 5.54	\$ 4.93	\$ 0.46	\$ 2.57	\$ 1.55
Discontinued operations attributable to common stockholders	—	0.29	2.32	1.77	3.34
Net income attributable to common stockholders	<u>\$ 5.54</u>	<u>\$ 5.22</u>	<u>\$ 2.78</u>	<u>\$ 4.34</u>	<u>\$ 4.89</u>
Weighted average shares outstanding—basic (1)	133,565,711	130,586,718	126,855,754	97,416,401	89,922,465
Earnings per common share—diluted:					
Income from continuing operations attributable to common stockholders (net of dividends attributable to preferred stock)	\$ 5.51	\$ 4.92	\$ 0.46	\$ 2.55	\$ 1.55
Discontinued operations attributable to common stockholders	—	0.29	2.32	1.77	3.32
Net income attributable to common stockholders	<u>\$ 5.51</u>	<u>\$ 5.21</u>	<u>\$ 2.78</u>	<u>\$ 4.32</u>	<u>\$ 4.87</u>
Weighted average shares outstanding—diluted	134,593,177	131,237,502	127,265,903	98,025,152	90,777,462
Cash dividends declared	\$ 5.00	\$ 4.64	\$ 4.28	\$ 3.88	\$ 3.57

(1) Amounts do not include unvested restricted shares included in the calculation of Earnings per Share. Please refer to Note 1, "Organization and Basis of Presentation—Earnings per Common Share," of the Consolidated Financial Statements set forth in Item 8 of this report for a discussion of the calculation of Earnings per Share.

	For the year ended				
	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
Other Information:					
Net income attributable to common stockholders	\$ 742,038	\$ 683,567	\$ 353,141	\$ 423,869	\$ 441,622
Depreciation—continuing operations	477,923	442,682	560,215	243,680	226,728
Depreciation—discontinued operations	—	—	13,500	16,414	23,541
Interest expense, net—continuing operations (1)	148,879	181,030	238,323	138,099	169,754
Interest expense, net—discontinued operations (1)	—	—	—	735	8,688
Income tax expense	1,861	9,368	—	—	—
EBITDA (2)	<u>\$ 1,370,701</u>	<u>\$ 1,316,647</u>	<u>\$ 1,165,179</u>	<u>\$ 822,797</u>	<u>\$ 870,333</u>
Funds from Operations (3)	\$ 1,083,085	\$ 951,035	\$ 642,814	\$ 521,047	\$ 414,482
Core Funds from Operations (3)	\$ 1,016,035	\$ 890,081	\$ 792,888	\$ 532,490	\$ 420,763
Number of Current Communities (4)	259	251	244	180	181
Number of apartment homes	75,584	73,963	72,811	52,792	53,294
Balance Sheet Information:					
Real estate, before accumulated depreciation	\$ 19,268,099	\$ 17,849,316	\$ 16,800,321	\$ 10,071,342	\$ 9,288,496
Total assets (5)	\$ 16,931,305	\$ 16,140,578	\$ 15,292,922	\$ 11,128,662	\$ 8,453,547
Notes payable and unsecured credit facilities, net	\$ 6,456,948	\$ 6,489,707	\$ 6,110,083	\$ 3,819,617	\$ 3,603,454
Cash Flow Information:					
Net cash flows provided by operating activities	\$ 1,056,754	\$ 886,641	\$ 724,315	\$ 540,819	\$ 429,354
Net cash flows used in investing activities	\$ (1,199,517)	\$ (816,760)	\$ (1,181,174)	\$ (623,386)	\$ (443,141)
Net cash flows (used in) provided by financing activities	\$ 33,810	\$ 158,224	\$ (1,995,404)	\$ 2,199,332	\$ 326,233

(1) Interest expense, net includes any gain or loss incurred from the extinguishment of debt.

(2) EBITDA is defined as net income before interest income and expense, income taxes, depreciation and amortization from both continuing and discontinued operations. Under this definition, EBITDA includes gains on sale of assets and gain on sale of partnership interests. Management generally considers EBITDA to be an appropriate supplemental measure to net income of our operating performance because it helps investors to understand our ability to incur and service debt and to make capital expenditures. EBITDA should not be considered as an alternative to net income (as determined in accordance with GAAP), as an indicator of our operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Our calculation of EBITDA may not be comparable to EBITDA as calculated by other companies.

(3) Refer to "Reconciliation of Non-GAAP Financial Measures" below.

(4) Current Communities consist of all communities other than those which are still under construction and for which a certificate or certificates of occupancy for the entire community have not been received.

(5) Amounts for 2011 through 2014 reflect the retrospective adjustment of the presentation of deferred financing costs discussed in Note 1, "Change in Accounting Principle."

Reconciliation of Non-GAAP Financial Measures

We generally consider Funds from Operations, or "FFO," and FFO adjusted for non-core items, or "Core FFO," as defined below, to be appropriate supplemental measures of our operating and financial performance. By excluding gains or losses related to dispositions of previously depreciated property and excluding real estate depreciation, which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates, FFO can help one compare the operating performance of a real estate company between periods or as compared to different companies. By further adjusting for items that are not considered part of our core business operations, Core FFO allows one to compare the core operating performance of the Company year over year. We believe that in order to understand our operating results, FFO and Core FFO should be examined with net income as presented in the Consolidated Statements of Comprehensive Income included elsewhere in this report.

Consistent with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts® ("NAREIT"), we calculate FFO as net income or loss computed in accordance with GAAP, adjusted for:

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- gains or losses on sales of previously depreciated operating communities;
- cumulative effect of change in accounting principle;
- impairment write-downs of depreciable real estate assets;
- write-downs of investments in affiliates due to a decrease in the value of depreciable real estate assets held by those affiliates;
- depreciation of real estate assets; and
- adjustments for unconsolidated partnerships and joint ventures.

We calculate Core FFO as FFO, adjusted for:

- joint venture gains, costs, and promoted interests;
- casualty (gain) loss and impairment loss, net;
- early extinguishment of consolidated borrowings;
- acquisition costs and abandoned pursuits;
- business interruption insurance proceeds and legal settlements;
- severance related costs; and
- other non-core items.

FFO and Core FFO do not represent net income in accordance with GAAP, and therefore should not be considered an alternative to net income, which remains the primary measure, as an indication of our performance. In addition, FFO and Core FFO as calculated by other REITs may not be comparable to our calculations of FFO and Core FFO.

FFO and Core FFO also do not represent cash generated from operating activities in accordance with GAAP, and therefore should not be considered an alternative to net cash flows from operating activities, as determined by GAAP, as a measure of liquidity. Additionally, it is not necessarily indicative of cash available to fund cash needs. A presentation of GAAP based cash flow metrics is provided in "Cash Flow Information" in the table on the previous page.

The following is a reconciliation of net income to FFO and to Core FFO (dollars in thousands, except per share data).

	For the year ended				
	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
Net income attributable to common stockholders	\$ 742,038	\$ 683,567	\$ 353,141	\$ 423,869	\$ 441,622
Depreciation—real estate assets, including discontinued operations and joint venture adjustments	486,019	449,769	582,325	265,627	256,986
Distributions to noncontrolling interests, including discontinued operations	38	35	32	28	27
Gain on sale of unconsolidated entities holding previously depreciated real estate assets	(33,580)	(73,674)	(14,453)	(7,972)	(3,063)
Gain on sale of previously depreciated real estate assets (1)	(115,625)	(108,662)	(278,231)	(146,311)	(281,090)
Gain on acquisition of unconsolidated real estate entity	—	—	—	(14,194)	—
Impairment due to casualty loss	4,195	—	—	—	—
FFO attributable to common stockholders	<u>\$ 1,083,085</u>	<u>\$ 951,035</u>	<u>\$ 642,814</u>	<u>\$ 521,047</u>	<u>\$ 414,482</u>
Weighted average shares outstanding—diluted	134,593,177	131,237,502	127,265,903	98,025,152	90,777,462
FFO per common share—diluted	\$ 8.05	\$ 7.25	\$ 5.05	\$ 5.32	\$ 4.57
FFO attributable to common stockholders	\$ 1,083,085	\$ 951,035	\$ 642,814	\$ 521,047	\$ 414,482
Joint venture (gains) and costs (2)	(9,059)	(5,194)	35,554	(940)	1,493
Casualty (gain) loss and impairment loss, net (3)	(16,247)	(2,494)	(299)	3,321	14,052
Lost NOI from casualty losses (4)	7,862	—	—	—	—
Early extinguishment of consolidated borrowings	(26,736)	412	14,921	2,070	5,820
Gain on sale of real estate	(9,647)	(490)	(240)	(280)	(13,716)
Joint venture promote (5)	(21,969)	(58,128)	—	(4,055)	—
Income taxes (6)	1,103	9,243	—	—	—
Loss on interest rate protection agreement	—	—	51,000	—	—
Development pursuits and other write-offs (7)	1,838	2,564	1,506	—	—
Acquisition costs (8)	3,806	(7,682)	44,052	9,965	1,010
Severance related costs	1,999	815	3,580	587	100
Legal settlements	—	—	—	775	—
Interest income on escrow	—	—	—	—	(2,478)
Core FFO attributable to common stockholders	<u>\$ 1,016,035</u>	<u>\$ 890,081</u>	<u>\$ 792,888</u>	<u>\$ 532,490</u>	<u>\$ 420,763</u>
Core FFO per common share—diluted	7.55	6.78	6.23	5.43	4.64

- (1) Amount for 2014 excludes a gain of \$14,132, representing our joint venture partners' portion of the gain on sale from a Fund I community which we consolidated for financial reporting purposes.
- (2) Amounts for 2014 and 2015 are primarily composed of the Company's proportionate share of gains and operating results for joint ventures formed with Equity Residential as part of the Archstone Acquisition. Amount for 2013 includes Archstone Acquisition related costs.
- (3) Amount for 2015 is primarily composed of property damage and business interruption insurance proceeds, partially offset by costs from the fire at Edgewater. Amounts for 2013 and 2014 are composed of business interruption insurance proceeds. Amount for 2012 includes losses incurred related to Superstorm Sandy, and the write-off of certain costs related to a commercial tenant. Amount for 2011 relates to the impairment of unimproved land parcels.
- (4) Amount for 2015 primarily relates to lost NOI resulting from the fire at Edgewater.
- (5) Amount for 2015 is primarily composed of amounts received related to the modification of the joint venture agreement for the entity that owns Avalon at Mission Bay North II to eliminate our promoted interest in future distributions. Amount for 2014 relates to our promoted interests from the sale of Avalon Chrystie Place, and the amount for 2012 relates to our promoted interests from the acquisition of our joint venture partner's interest in Avalon Del Rey.
- (6) Amounts for 2015 and 2014 are composed of income taxes on income that was earned in taxable REIT subsidiaries and that is not considered to be a component of primary operations.
- (7) Composed of the write-off of capitalized pursuit costs for Development Rights as well as the write-off of certain retail tenant improvements at an operating community in 2014.
- (8) Amount for 2014 is primarily composed of receipts related to communities acquired as part of the Archstone Acquisition for periods prior to the Company's ownership, which are primarily comprised of property tax and mortgage insurance refunds. Amounts for 2012 and 2013 primarily consist of costs related to the Archstone Acquisition.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help provide an understanding of our business, financial condition and results of operations. This MD&A should be read in conjunction with our Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included elsewhere in this report. This report, including the following MD&A, contains forward-looking statements regarding future events or trends that should be read in conjunction with the factors described under "Forward-Looking Statements" included in this report. Actual results or developments could differ materially from those projected in such statements as a result of the factors described under "Forward-Looking Statements" as well as the risk factors described in Item 1A. "Risk Factors" of this report.

Capitalized terms used without definition have the meanings provided elsewhere in this Form 10-K.

Executive Overview

Business Description

We develop, redevelop, acquire, own and operate multifamily apartment communities primarily in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Pacific Northwest, and Northern and Southern California. We focus on leading metropolitan areas that we believe are characterized by growing employment in high wage sectors of the economy, lower housing affordability and a diverse and vibrant quality of life. We believe these market characteristics offer the opportunity for superior risk-adjusted returns on apartment community investment relative to other markets. We seek to create long-term shareholder value by accessing capital on cost effective terms; deploying that capital to develop, redevelop and acquire apartment communities in our selected markets; operating apartment communities; and selling communities when they no longer meet our long-term investment strategy or when pricing is attractive.

Our strategic vision is to be the leading apartment company in select US markets, providing a range of distinctive living experiences that customers value. We pursue this vision by targeting what we believe are the best markets and submarkets, leveraging our strategic capabilities in market research and consumer insight and being disciplined in our capital allocation and balance sheet management. Our communities are predominately upscale and generally command among the highest rents in their markets. However, we also pursue the ownership and operation of apartment communities that target a variety of customer segments and price points, consistent with our goal of offering a broad range of products and services. We regularly evaluate the allocation of our investments by the amount of invested capital and by product type within our individual markets.

Financial Highlights

For the year ended December 31, 2015, net income attributable to common stockholders was \$742,038,000, an increase of \$58,471,000, or 8.6%, over the prior year. The increase is primarily attributable to an increase in NOI from newly developed and existing operating communities, and gains from net insurance recoveries and the extinguishment of debt, partially offset by a decrease in equity in income of unconsolidated real estate entities

For the year ended December 31, 2015, Established Communities NOI increased by \$53,656,000, or 5.8%, over the prior year. The increase was driven by an increase in rental revenue of 5.0%, partially offset by an increase in operating expenses of 3.0% over 2014.

During 2015, we raised approximately \$1,823,743,000 of gross capital through the issuance of unsecured notes, settlement of the forward equity contract to sell 4,500,000 shares of common stock at a weighted average sales price of \$146.54 per share, borrowing the final \$50,000,000 available under the Term Loan and asset sales, exclusive of proceeds from the disposition of joint ventures. The funds raised from asset sales consist of the proceeds from the sale of three communities, two undeveloped land parcels and air rights, for gross sales proceeds of \$289,320,000. We believe that our current capital structure will continue to provide financial flexibility to access capital on attractive terms.

We believe our development activity will continue to create long-term value. During 2015, we completed the development of 13 communities for an aggregate total capitalized cost of \$1,312,700,000. We also started the development of 13 communities, which are expected to be completed for an estimated total capitalized cost of \$1,191,500,000. In addition, during 2015 we completed the redevelopment of four communities for a total investment of \$59,600,000, excluding costs incurred prior to the redevelopment.

We believe that our balance sheet strength, as measured by our current level of indebtedness, our current ability to service interest and other fixed charges, and our current moderate use of financial encumbrances (such as secured financing) provide us with adequate access to liquidity from the capital markets. We expect to be able to meet our reasonably foreseeable liquidity needs, as they arise, through a combination of one or more of the following sources: existing cash on hand; operating cash flows; borrowings under our Credit Facility; secured debt; the issuance of corporate securities (which could include unsecured debt, preferred equity and/or common equity); the sale of apartment communities; or through the formation of joint ventures. See the discussion under *Liquidity and Capital Resources*.

During the year ended December 31, 2015, we sold three communities, containing an aggregate of 851 apartment homes for an aggregate gross sales price of \$265,500,000 and an aggregate gain in accordance with GAAP of \$115,625,000. We also sold two undeveloped land parcels and air rights, representing the right to increase density for future residential development, for \$23,820,000, resulting in a gain in accordance with GAAP of \$9,647,000.

Communities Overview

As of December 31, 2015 we owned or held a direct or indirect ownership interest in 285 apartment communities containing 83,696 apartment homes in 11 states and the District of Columbia, of which 26 communities were under construction and nine communities were under reconstruction. Of these communities, 20 were owned by entities that were not consolidated for financial reporting purposes, including six owned by subsidiaries of Fund II and nine owned by the U.S. Fund. In addition, we owned a direct or indirect ownership interest in Development Rights to develop an additional 32 wholly-owned communities that, if developed as expected, will contain an estimated 9,634 apartment homes.

Our real estate investments consist primarily of current operating apartment communities, Development Communities and Development Rights. Our current operating communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities and Redevelopment Communities.

Established Communities are generally operating communities that are consolidated for financial reporting purposes and were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, which allows the performance of these communities to be compared between years. Other Stabilized Communities are generally all other consolidated operating communities that have stabilized occupancy and operating expenses during the current year, but had not achieved stabilization as of the beginning of the prior year. Lease-Up Communities consist of communities where construction is complete but stabilization has not been achieved. Redevelopment Communities consist of communities where substantial redevelopment is in progress or is planned to begin during the current year. A more detailed description of our reportable segments and other related operating information can be found in Note 8, "Segment Reporting," of our Consolidated Financial Statements.

Although each of these categories is important to our business, we generally evaluate overall operating, industry and market trends based on the operating results of Established Communities, for which a detailed discussion can be found in "Results of Operations" as part of our discussion of overall operating results. We evaluate our current and future cash needs and future operating potential based on acquisition, disposition, development, redevelopment and financing activities within Other Stabilized, Redevelopment and Development Communities. Discussions related to current and future cash needs and financing activities can be found in "Liquidity and Capital Resources."

NOI of our current operating communities is one of the financial measures that we use to evaluate community performance. NOI is affected by the demand and supply dynamics within our markets, our rental rates and occupancy levels and our ability to control operating costs. Our overall financial performance is also impacted by the general availability and cost of capital and the performance of newly developed, redeveloped and acquired apartment communities.

Results of Operations

Our year-over-year operating performance is primarily affected by both overall and individual geographic market conditions and apartment fundamentals and is reflected in changes in NOI of our Established Communities; NOI derived from acquisitions and development completions; the loss of NOI related to disposed communities; and capital market and financing activity. A comparison of our operating results for 2015, 2014 and 2013 follows (dollars in thousands):

	2015	2014	\$ Change	% Change	2014	2013	\$ Change	% Change
Revenue:								
Rental and other income	\$ 1,846,081	\$ 1,674,011	\$ 172,070	10.3 %	\$ 1,674,011	\$ 1,451,419	\$ 222,592	15.3 %
Management, development and other fees	9,947	11,050	\$ (1,103)	(10.0)%	11,050	11,502	(452)	(3.9)%
Total revenue	1,856,028	1,685,061	170,967	10.1 %	1,685,061	1,462,921	222,140	15.2 %
Expenses:								
Direct property operating expenses, excluding property taxes	377,317	345,846	31,471	9.1 %	345,846	295,150	50,696	17.2 %
Property taxes	193,499	178,634	14,865	8.3 %	178,634	158,774	19,860	12.5 %
Total community operating expenses	570,816	524,480	46,336	8.8 %	524,480	453,924	70,556	15.5 %
Corporate-level property management and other indirect operating expenses	67,060	60,341	6,719	11.1 %	60,341	53,105	7,236	13.6 %
Investments and investment management expense	4,370	4,485	(115)	(2.6)%	4,485	3,990	495	12.4 %
Expensed acquisition, development and other pursuit costs, net of recoveries	6,822	(3,717)	10,539	N/A (1)	(3,717)	45,050	(48,767)	N/A (1)
Interest expense, net	175,615	180,618	(5,003)	(2.8)%	180,618	172,402	8,216	4.8 %
(Gain) loss on extinguishment of debt, net	(26,736)	412	(27,148)	N/A (1)	412	14,921	(14,509)	(97.2)%
Loss on interest rate contract	—	—	—	— %	—	51,000	(51,000)	(100.0)%
Depreciation expense	477,923	442,682	35,241	8.0 %	442,682	560,215	(117,533)	(21.0)%
General and administrative expense	42,396	41,425	971	2.3 %	41,425	39,573	1,852	4.7 %
Casualty (gain) loss and impairment loss, net	(10,542)	—	(10,542)	100.0 %	—	—	—	— %
Total other expenses	736,908	726,246	10,662	1.5 %	726,246	940,256	(214,010)	(22.8)%
Equity in income (loss) of unconsolidated entities	70,018	148,766	(78,748)	(52.9)%	148,766	(11,154)	159,920	N/A (1)
Gain on sale of real estate	9,647	490	9,157	1,868.8 %	490	240	250	104.2 %
Gain on sale of communities	115,625	84,925	30,700	36.1 %	84,925	—	84,925	100.0 %
Income from continuing operations before taxes	743,594	668,516	75,078	11.2 %	668,516	57,827	610,689	1,056.1 %
Income tax expense	1,861	9,368	(7,507)	(80.1)%	9,368	—	9,368	100.0 %
Income from continuing operations	741,733	659,148	82,585	12.5 %	659,148	57,827	601,321	1,039.9 %
Discontinued operations:								
Income from discontinued operations	—	310	(310)	(100.0)%	310	16,713	(16,403)	(98.1)%
Gain on sale of discontinued operations	—	37,869	(37,869)	(100.0)%	37,869	278,231	(240,362)	(86.4)%
Total discontinued operations	—	38,179	(38,179)	(100.0)%	38,179	294,944	(256,765)	(87.1)%
Net income	741,733	697,327	44,406	6.4 %	697,327	352,771	344,556	97.7 %
Net loss (income) attributable to noncontrolling interests	305	(13,760)	14,065	N/A (1)	(13,760)	370	(14,130)	N/A (1)
Net income attributable to common stockholders	\$ 742,038	\$ 683,567	\$ 58,471	8.6 %	\$ 683,567	\$ 353,141	\$ 330,426	93.6 %

(1) Percent change is not meaningful.

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Net income attributable to common stockholders increased \$58,471,000, or 8.6%, to \$742,038,000 in 2015 primarily due to an increase in NOI from newly developed and existing operating communities, and gains from net insurance recoveries and the extinguishment of debt, partially offset by a decrease in equity in income of unconsolidated real estate entities. Net income attributable to common stockholders increased \$330,426,000, or 93.6%, in 2014 from 2013 primarily due to an increase in income from unconsolidated real estate entities resulting from the gains on sales of communities in various ventures, including the Company's promoted interests, increased NOI from newly developed and acquired communities, losses on an interest rate contract in the prior year not present in 2014, a decrease in expensed acquisition costs related to the Archstone Acquisition and a decrease in depreciation expense related to in-place leases acquired as part of the Archstone Acquisition.

NOI is considered by management to be an important and appropriate supplemental performance measure to net income because it helps both investors and management to understand the core operations of a community or communities prior to the allocation of any corporate-level or financing-related costs. NOI reflects the operating performance of a community and allows for an easy comparison of the operating performance of individual assets or groups of assets. In addition, because prospective buyers of real estate have different financing and overhead structures, with varying marginal impacts to overhead as a result of acquiring real estate, NOI is considered by many in the real estate industry to be a useful measure for determining the value of a real estate asset or group of assets. We define NOI as total property revenue less direct property operating expenses, including property taxes, and excluding corporate-level income (including management, development and other fees), corporate-level property management and other indirect operating expenses, investments and investment management expenses, expensed acquisition, development and other pursuit costs, net interest expense, gain (loss) on extinguishment of debt, loss on interest rate contract, general and administrative expense, joint venture income (loss), depreciation expense, corporate income tax expense, casualty (gain) loss and impairment loss, net, gain on sale of real estate assets, gain on sale of discontinued operations, income from discontinued operations and net operating income from real estate assets sold or held for sale, not classified as discontinued operations.

NOI does not represent cash generated from operating activities in accordance with GAAP. Therefore, NOI should not be considered an alternative to net income as an indication of our performance. NOI should also not be considered an alternative to net cash flow from operating activities, as determined by GAAP, as a measure of liquidity, nor is NOI indicative of cash available to fund cash needs. Reconciliations of NOI for the years ended December 31, 2015, 2014 and 2013 to net income for each year are as follows (dollars in thousands):

	For the year ended		
	12/31/15	12/31/14	12/31/13
Net income	\$ 741,733	\$ 697,327	\$ 352,771
Indirect operating expenses, net of corporate income	56,973	49,055	41,554
Investments and investment management expense	4,370	4,485	3,990
Expensed acquisition, development and other pursuit costs, net of recoveries	6,822	(3,717)	45,050
Interest expense, net (1)	175,615	180,618	172,402
(Gain) loss on extinguishment of debt, net	(26,736)	412	14,921
Loss on interest rate contract	—	—	51,000
General and administrative expense	42,396	41,425	39,573
Equity in (income) loss of unconsolidated real estate entities	(70,018)	(148,766)	11,154
Depreciation expense (1)	477,923	442,682	560,215
Income tax expense	1,861	9,368	—
Casualty (gain) loss and impairment loss, net	(10,542)	—	—
Gain on sale of real estate assets	(125,272)	(85,415)	(240)
Gain on sale of discontinued operations	—	(37,869)	(278,231)
Income from discontinued operations	—	(310)	(16,713)
Net operating income from real estate assets sold or held for sale, not classified as discontinued operations	(10,920)	(27,357)	(31,388)
Net operating income	<u>\$ 1,264,205</u>	<u>\$ 1,121,938</u>	<u>\$ 966,058</u>

(1) Includes amounts associated with assets sold or held for sale, not classified as discontinued operations.

The NOI increases for both 2015 and 2014, as compared to the prior year, consist of changes in the following categories (dollars in thousands):

	Full Year	
	2015	2014
Established Communities	\$ 53,656	\$ 22,728
Other Stabilized Communities	28,129	74,322
Development and Redevelopment Communities	60,482	58,830
Total	\$ 142,267	\$ 155,880

The increase in our Established Communities' NOI in 2015 and 2014 is due to increased rental rates, partially offset by decreased economic occupancy and increased operating expenses.

Rental and other income increased in both 2015 and 2014 compared to the prior years due to additional rental income generated from newly developed and existing operating communities and an increase in rental rates at our Established Communities.

Overall Portfolio—The weighted average number of occupied apartment homes for consolidated communities increased to 64,211 apartment homes for 2015, as compared to 61,686 homes for 2014 and 57,240 homes for 2013. The weighted average monthly revenue per occupied apartment home increased to \$2,388 for 2015 as compared to \$2,254 in 2014 and \$2,171 in 2013.

Established Communities—Rental revenue increased \$66,136,000, or 5.0%, to \$1,382,895,000 for 2015 from \$1,316,759,000 in the prior year. The increase is due to an increase in average rental rates of 5.3% to \$2,358 per apartment home, partially offset by a decrease in economic occupancy of 0.3% to 95.6%. Rental revenue increased \$36,096,000, or 3.9%, for 2014, as compared to the prior year. Economic occupancy takes into account the fact that apartment homes of different sizes and locations within a community have different economic impacts on a community's gross revenue. Economic occupancy is defined as gross potential revenue less vacancy loss, as a percentage of gross potential revenue. Gross potential revenue is determined by valuing occupied homes at leased rates and vacant homes at market rents.

We experienced increases in rental revenue for all of our Established Communities' regions in 2015 as compared to the prior year, as discussed in more detail below.

The Metro New York/New Jersey region accounted for approximately 27.6% of the Established Community rental revenue for 2015 and experienced a rental revenue increase of 3.4% for 2015 over the prior year. Average rental rates increased 4.0% to \$2,928 per apartment home, and were partially offset by a 0.6% decrease in economic occupancy to 95.6% for 2015 as compared to 2014. While New York City is absorbing a larger pipeline of new apartment deliveries, suburban markets surrounding the city are more insulated from this new competition, and we expect to see continued growth over the prior year in the Metro New York/New Jersey region in 2016.

The Northern California region accounted for approximately 19.8% of the Established Community rental revenue for 2015 and experienced a rental revenue increase of 9.5% for 2015 over the prior year. Average rental rates increased 10.4% to \$2,593 per apartment home, and were partially offset by a 0.9% decrease in economic occupancy to 95.4% for 2015 as compared to 2014. Although we project job growth to moderate and new apartment deliveries to remain elevated, we expect the Northern California region will continue to produce strong revenue growth in 2016.

The Southern California region accounted for approximately 18.2% of the Established Community rental revenue for 2015 and experienced a rental revenue increase of 6.3% for 2015 over the prior year. Average rental rates increased 6.5% to \$1,984 per apartment home, and were partially offset by a 0.2% decrease in economic occupancy to 95.8% for 2015 as compared to 2014. Southern California has seen steady job growth and limited new apartment supply, which we expect will continue to support favorable operating results during 2016.

The Mid-Atlantic region accounted for approximately 15.1% of the Established Community rental revenue for 2015 and experienced a rental revenue increase of 0.8% for 2015 over the prior year. Average rental rates increased 0.5% to \$2,070 per apartment home, and economic occupancy increased 0.3% to 95.6% for 2015 as compared to 2014. Although new apartment supply will remain elevated, accelerating job growth is expected to support continued modest growth in 2016.

The New England region accounted for approximately 13.8% of the Established Community rental revenue for 2015 and experienced a rental revenue increase of 4.5% for 2015 over the prior year. Average rental rates increased 4.1% to \$2,283 per apartment home, and economic occupancy increased 0.4% to 95.7% for 2015 as compared to 2014. Stable job growth in the Boston metro area is expected to support healthy apartment demand in 2016. The Fairfield market continues to experience moderate economic growth due to the area's greater exposure to the financial services sector, which has experienced slower job growth during this recovery than other industries.

The Pacific Northwest region accounted for approximately 5.5% of the Established Community rental revenue for 2015 and experienced a rental revenue increase of 7.1% for 2015 over the prior year. Average rental rates increased 7.3% to \$1,945 per apartment home, and were partially offset by a 0.2% decrease in economic occupancy to 95.1% for 2015 as compared to 2014. We believe that healthy rental revenue growth will continue in 2016, although it may be tempered by the delivery of new apartment homes.

Management, development and other fees decreased \$1,103,000 or 10.0%, and \$452,000, or 3.9%, in 2015 and 2014, respectively, as compared to the prior years. The decrease in 2015 was primarily due to lower property and asset management fees earned as a result of dispositions from Fund I and Fund II, partially offset by an increase in disposition fees in 2015 related to the sale of communities owned within the Residual JV. The decrease in 2014 was primarily due to lower property and asset management fees earned as a result of dispositions from Fund I and Fund II, partially offset by increased property and asset management fees related to the Archstone Acquisition for related private real estate investment management funds (the U.S. Fund and the AC JV).

Direct property operating expenses, excluding property taxes increased \$31,471,000, or 9.1%, and \$50,696,000, or 17.2%, in 2015 and 2014, respectively, as compared to the prior years. The increases in 2015 and 2014 were primarily due to the addition of newly developed and acquired apartment communities. The increase in 2015 was also due to snow removal and other costs related to the severe winter storms in our Northeast markets during the first quarter of 2015.

For Established Communities, direct property operating expenses, excluding property taxes, increased \$8,207,000, or 3.1%, and \$7,475,000, or 4.0%, in 2015 and 2014, respectively, as compared to the prior years. The increase in 2015 was primarily due to increased repairs and maintenance costs, payroll and benefit costs, and insurance costs, as well as snow removal and other costs related to the severe winter storms in our Northeast markets during the first quarter of 2015. The increase in 2014 was primarily due to increased repairs and maintenance, utilities and payroll costs.

Property taxes increased \$14,865,000, or 8.3%, and \$19,860,000, or 12.5%, in 2015 and 2014, respectively, as compared to the prior years. The increases in 2015 and 2014 were primarily due to the addition of newly developed apartment communities, coupled with increased tax rates and assessments across our portfolio. The increase in 2015 was also due to successful appeals and reductions of supplemental taxes in the prior year in excess of the current year. The increase in 2014 was partially offset by reductions in expected supplemental billings related to communities acquired as part of the Archstone Acquisition.

For Established Communities, property taxes increased \$3,829,000, or 2.8%, and \$6,206,000, or 6.7%, in 2015 and 2014, respectively, as compared to the prior years. The increase in 2015 was primarily due to successful appeals and reductions of supplemental taxes in the prior year period in excess of the current year, related primarily to the Company's West Coast markets. The increase in 2014 was primarily due to higher rates and assessments, as well as refunds received in the prior year in excess of the current year period. For communities in California, property tax changes are determined by the change in the California Consumer Price Index, with increases limited by law (Proposition 13). Massachusetts also has laws in place to limit property tax increases. We evaluate property tax increases internally and also engage third-party consultants to assist in our evaluations. We appeal property tax increases when appropriate.

Corporate-level property management and other indirect operating expenses increased \$6,719,000, or 11.1%, and \$7,236,000, or 13.6%, in 2015 and 2014, respectively, as compared to the prior years. The increases in 2015 and 2014 were primarily due to an increase in compensation related costs including certain employee separation costs. The increase in 2014 was also due to increased activities related to re-branding and corporate initiatives, and was also impacted as the first full year of operations following the Archstone Acquisition.

Investments and investment management costs decreased \$115,000, or 2.6%, in 2015 and increased by \$495,000, or 12.4%, in 2014 as compared to the prior years. The decrease in 2015 was primarily due to a decline in our investment fund management activity, partially offset by an increase in compensation costs. The increase in 2014 was primarily due to an increase in compensation costs, partially offset by a decline in our investment fund management activity.

Expensed acquisition, development and other pursuit costs, net of recoveries primarily reflect the costs incurred related to our asset investment activity, abandoned pursuit costs, which include costs incurred for development pursuits not yet considered probable for development, as well as the abandonment of Development Rights, acquisition pursuits and disposition pursuits, offset by any recoveries associated with acquisitions for periods prior to our ownership. These costs can be volatile, particularly in periods of increased acquisition activity, periods of economic downturn or when there is limited access to capital, and the costs may vary significantly from period to period. These costs increased \$10,539,000 in 2015 and decreased \$48,767,000 in 2014, as compared to the prior years. The increase in 2015 was primarily due to receipts in 2014 related to communities acquired as part of the Archstone Acquisition for periods prior to the Company's ownership, which are primarily comprised of property tax and mortgage insurance refunds, as well as increased costs associated with the acquisition of real estate and abandonment of pursuits, as compared to the prior year. The decrease in 2014 as compared to the prior year was due to the Archstone Acquisition in 2013, as well as

receipts in 2014 related to communities acquired as part of the Archstone Acquisition for periods prior to the Company's ownership discussed above.

Interest expense, net decreased \$5,003,000, or 2.8%, and increased \$8,216,000, or 4.8%, in 2015 and 2014, respectively, as compared to the prior years. This category includes interest costs offset by capitalized interest pertaining to development and redevelopment activity, amortization of premium/discount on debt, and interest income. The decrease in 2015 was primarily due to the repayment of secured indebtedness in 2015 and increased capitalized interest as a result of our increased development activity, partially offset by an increase in the aggregate principal amount of unsecured debt outstanding resulting from the issuance of \$875,000,000 principal amount of indebtedness during the year. The increase in 2014 was primarily due to increased unsecured debt outstanding, partially offset by an increase in capitalized interest related to our increased development activity.

(Gain) loss on the extinguishment of debt, net reflects prepayment penalties, the write-off of unamortized deferred financing costs and premiums from our debt repurchase and retirement activity, or payments to acquire our outstanding debt at amounts above or below the carrying basis of the debt acquired, excluding costs related to debt secured by assets sold or held for sale. The gain of \$26,736,000 for 2015 was primarily due to the write-off of unamortized mark to market adjustments, net of unamortized deferred financing costs and any applicable related prepayment penalties associated with the early repayment of certain debt assumed as part of the Archstone Acquisition.

Loss on interest rate contract reflects the loss recorded by the Company related to the forward interest rate protection agreement that matured in May 2013. Based on changes in the Company's capital markets outlook in 2013, the Company did not issue the anticipated debt for which the interest rate protection agreement was transacted.

Depreciation expense increased \$35,241,000, or 8.0%, in 2015 and decreased \$117,533,000, or 21.0%, in 2014, as compared to the prior years. The increase in 2015 was primarily due to the addition of newly developed apartment communities. The decrease in 2014 was primarily due to the impact of amortization for lease intangibles in 2013 not present in 2014, from communities acquired as part of the Archstone Acquisition.

General and administrative expense ("G&A") increased \$971,000, or 2.3%, and \$1,852,000, or 4.7%, in 2015 and 2014, respectively, as compared to the prior years. The increase in 2015 was primarily due to legal settlement proceeds received in 2014 not present in the current year, partially offset by a decrease in compensation expense, including severance, in 2015 as compared to the prior year. The increase in 2014 was primarily due to an increase in compensation expense, partially offset by legal recoveries in 2014 not present in the prior year.

Casualty (gain) loss and impairment loss, net for 2015 consists of Edgewater insurance proceeds received, partially offset by (i) incident and demolition expenses and the write-off of the net book value of the fixed assets destroyed in the fire at Edgewater, (ii) property and casualty damages incurred across several communities in our Northeast markets related to severe winter storms, and (iii) an impairment charge recognized for a parcel of land sold during 2015.

Equity in income (loss) of unconsolidated entities decreased by \$78,748,000 in 2015 and increased \$159,920,000 in 2014, as compared to the prior years. The decrease in 2015 and increase in 2014 were primarily due to both gains on, and our promoted interests from, the sale of communities in various ventures, including Avalon Chrystie Place, in 2014 in excess of gains on dispositions in 2015. The decrease in 2015 was partially offset by amounts received related to the modification of the joint venture agreement for the entity that owns Avalon at Mission Bay North II to eliminate our promoted interest in future distributions, as well as the settlement of outstanding legal claims and net gains on the sales of communities in various ventures. The increase in 2014 was also due to expensed transaction costs associated with the Archstone Acquisition that were incurred in 2013 through the unconsolidated joint venture entities owned with Equity Residential that were not present in 2014.

Gain on sale of real estate increased in 2015 and 2014 as compared to the prior years. The increase in 2015 was a result of the gain on sale of air rights, representing the right to increase density for future residential development, and two undeveloped land parcels. The increase in 2014 was due to changes in volume and associated gains on the sale of land parcels.

Gain on sale of communities increased in 2015 and 2014 as compared to the prior years. The amount of gain realized in a given period depends on many factors, including the number of communities sold, the size and carrying value of the communities sold and the market conditions in the local area. Prior to our adoption of ASU 2014-08 as of January 1, 2014, gain on sale of communities was presented in gain on sale of discontinued operations.

Income tax expense decreased by \$7,507,000 in 2015 and increased by \$9,368,000 in 2014, as compared to the prior years. The decrease in 2015 and increase in 2014 were both primarily due to 2014 federal income tax expense amounts related to dispositions of the Company's direct and indirect interests in certain real estate assets acquired in the Archstone Acquisition, which were owned through a taxable REIT subsidiary.

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Income from discontinued operations represents the net income generated by real estate sold and qualifying as discontinued operations during the period from January 1, 2013 through December 31, 2015. Income from discontinued operations decreased in 2015 and 2014, as compared to the prior years due to the change in accounting guidance for discontinued operations as discussed above.

Gain on sale of discontinued operations decreased in 2015 and 2014, as compared to the prior years. After our adoption of ASU 2014-08 as of January 1, 2014, gain on sale of communities is presented separately from gain on sale of discontinued operations.

Net loss (income) attributable to noncontrolling interests resulted in an allocation of loss of \$305,000 in 2015, an allocation of income of \$13,760,000 in 2014 and an allocation of loss of \$370,000 in 2013, respectively. The amount for 2014 includes our joint venture partners' 84.8% interest in the gain on the sale of a Fund I community that was consolidated for financial reporting purposes, in the amount of \$14,132,000.

Liquidity and Capital Resources

We employ a disciplined approach to our liquidity and capital management. When we source capital, we take into account both our view of the most cost effective alternative then available and our desire to maintain a balance sheet that provides us with flexibility. Our principal short-term liquidity needs are to fund:

- development and redevelopment activity in which we are currently engaged;
- the minimum dividend payments on our common stock required to maintain our REIT qualification under the Code;
- debt service and principal payments either at maturity or opportunistically before maturity; and
- normal recurring operating and corporate overhead expenses.

Factors affecting our liquidity and capital resources are our cash flows from operations, financing activities and investing activities (including dispositions) as well as general economic and market conditions. Operating cash flow has historically been determined by: (i) the number of apartment homes currently owned, (ii) rental rates, (iii) occupancy levels and (iv) operating expenses with respect to apartment homes. The timing and type of capital markets activity in which we engage, as well as our plans for development, redevelopment, acquisition and disposition activity, are affected by changes in the capital markets environment, such as changes in interest rates or the availability of cost-effective capital. We regularly review our liquidity needs, the adequacy of cash flows from operations and other expected liquidity sources to meet these needs.

We had unrestricted cash and cash equivalents of \$400,507,000 at December 31, 2015, a decrease of \$108,953,000 from \$509,460,000 at December 31, 2014. The following discussion relates to changes in cash due to operating, investing and financing activities, which are presented in our Consolidated Statements of Cash Flows included elsewhere in this report.

Operating Activities—Net cash provided by operating activities increased to \$1,056,754,000 in 2015 from \$886,641,000 in 2014. The increase was driven primarily by increased NOI from existing and newly developed communities and the timing of payments of corporate obligations.

Investing Activities—Net cash used in investing activities of \$1,199,517,000 in 2015 is related to investments in assets primarily through development and redevelopment, partially offset by proceeds received for dispositions and distributions from unconsolidated joint ventures. In 2015, we invested \$1,625,191,000 in the following areas:

- we invested approximately \$1,569,326,000 in the development and redevelopment of communities including \$475,150,000 for the acquisition of direct interests in land for development; and
- we had capital expenditures of 55,865,000 for our operating communities and non-real estate assets.

These amounts are partially offset by:

- proceeds from dispositions of \$282,163,000;
- insurance recoveries for property damage claims related to Edgewater of \$44,142,000; and
- net distributions from unconsolidated joint ventures in the amount of \$102,599,000.

Financing Activities—Net cash provided by financing activities totaled \$33,810,000 in 2015. The net cash used/provided is primarily due to:

- proceeds from the issuance of unsecured notes in the aggregate principal amount of \$823,088,000;

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- issuance of common stock in the amount of \$690,184,000, including \$659,423,000 from the settlement of the Forward, and
- borrowing the final \$50,000,000 available under the \$300,000,000 variable rate unsecured term loan (the "Term Loan").

These amounts are partially offset by:

- repayment of secured notes in the amount of \$850,963,000;
- payment of cash dividends in the amount of \$655,248,000; and
- redemption of preferred interest obligation in the amount of \$14,410,000.

Variable Rate Unsecured Credit Facility

As of December 31, 2015, we had a \$1,300,000,000 revolving variable rate unsecured credit facility with a syndicate of banks (the "Credit Facility") which was scheduled to mature in April 2017.

In January 2016, we extended the maturity of the Credit Facility from April 2017 to April 2020, and amended other provisions in the Credit Facility. In addition, pursuant to an option available under the terms of the Credit Facility, with the approval of the syndicate of lenders, we increased the aggregate facility size from \$1,300,000,000 to \$1,500,000,000 (the "Credit Facility Increase"). We may further extend the term for up to nine months, provided we are not in default and upon payment of a \$1,500,000 extension fee. In connection with the Credit Facility Increase, the applicable margin over reference rates used to determine the applicable interest rates on our borrowings from time to time decreased. The Credit Facility bears interest at varying levels based on the London Interbank Offered Rate ("LIBOR"), rating levels achieved on our unsecured notes and on a maturity schedule selected by us. The current stated pricing is LIBOR plus 0.825% per annum (1.25% at January 31, 2016 assuming a one month borrowing rate). The stated spread over LIBOR can vary from LIBOR plus 0.80% to LIBOR plus 1.55% based on our credit ratings. In addition, a competitive bid option is available for borrowings up to 65% of the Credit Facility amount, which allows banks that are part the lender consortium to bid to make loans at a rate that is lower than the stated rate if market conditions allow. In connection with the Credit Facility Increase, the annual facility fee was also amended to lower the fee to 0.125% from 0.15%, approximately \$1,875,000 annually based on the \$1,500,000,000 facility size and based on our current credit rating).

We did not have any borrowings outstanding under the Credit Facility and had \$50,299,000 outstanding in letters of credit that reduced our borrowing capacity as of January 31, 2016.

Financial Covenants

We are subject to financial and other covenants contained in the Credit Facility, the Term Loan and the indenture under which our unsecured notes were issued. The principal financial covenants include the following:

- limitations on the amount of total and secured debt in relation to our overall capital structure;
- limitations on the amount of our unsecured debt relative to the undepreciated basis of real estate assets that are not encumbered by property-specific financing; and
- minimum levels of debt service coverage.

We were in compliance with these covenants at December 31, 2015.

In addition, our secured borrowings may include yield maintenance, defeasance, or prepayment penalty provisions, which would result in us incurring an additional charge in the event of a full or partial prepayment of outstanding principal before the scheduled maturity. These provisions in our secured borrowings are generally consistent with other similar types of debt instruments issued during the same time period in which our borrowings were secured.

Continuous Equity Offering Program

In August 2012, we commenced a third continuous equity program ("CEP III"), under which were authorized by our Board of Directors to sell up to \$750,000,000 of shares of our common stock from time to time during a 36-month period. CEP III expired in August 2015, and we had no sales under the program during the year ended December 31, 2015.

In December 2015, we commenced a fourth continuous equity program ("CEP IV") under which we may sell up to \$1,000,000,000 of our common stock from time to time. Actual sales will depend on a variety of factors to be determined, including market conditions, the trading price of our common stock and determinations of the appropriate sources of funding. In conjunction with CEP IV, we engaged sales agents who will receive compensation of up to 2.0% of the gross sales price for shares sold. CEP IV

also allows us to enter into forward sale agreements up to \$1,000,000,000 in aggregate sales price of our common stock. We will physically settle each forward sale agreement on one or more dates prior to the maturity date of that particular forward sale agreement, in which case we will expect to receive aggregate net cash proceeds at settlement equal to the number of shares underlying the particular forward agreement multiplied by the relevant forward sale price. However, we may also elect to cash settle or net share settle a forward sale agreement. In connection with each forward sale agreement, we will pay the relevant forward seller, in the form of a reduced initial forward sale price, commission of up to 2.0% of the sales prices of all borrowed shares of common stock sold. As of December 31, 2015, we had no sales under the program and had not entered into any forward sale agreements. As of January 31, 2016, we had \$1,000,000,000 of shares remaining authorized for issuance under this program.

Forward Equity Contract

On September 9, 2014, based on a market closing price of \$155.83 per share on that date, we entered into a forward contract to sell 4,500,000 shares of common stock for an initial forward price of \$151.74 per share, net of offering fees and discounts (the "Forward"). The sales price and proceeds achieved were determined on the dates of settlement, with adjustments during the term of the contract for the Company's dividends as well as for a daily interest factor that varied with changes in the Fed Funds rate. During the year ended December 31, 2015, we issued 4,500,000 shares of common stock at a weighted average sales price of \$146.54 per share, for net proceeds of \$659,423,000, in settlement of the Forward.

Forward Interest Rate Swap Agreements

During 2015, we entered into \$600,000,000 of forward interest rate swap agreements to reduce the impact of variability in interest rates on a portion of our expected debt issuance activity in 2016 and 2017. At maturity of the agreements, we expect to cash settle the contracts and either pay or receive cash for the then current fair value. Assuming that we issue the debt as expected, the impact from settling these positions will then be recognized over the life of the issued debt as a yield adjustment. During January and February 2016, we entered into \$450,000,000 additional forward interest rate swap agreements to reduce the impact of variability of interest rates on an incremental portion of expected debt activity in 2016 and 2017.

Future Financing and Capital Needs—Debt Maturities

One of our principal long-term liquidity needs is the repayment of long-term debt at maturity. For both our unsecured and secured notes, a portion of the principal of these notes may be repaid prior to maturity. Early retirement of our unsecured or secured notes could result in gains or losses on extinguishment. If we do not have funds on hand sufficient to repay our indebtedness as it becomes due, it will be necessary for us to refinance or otherwise provide liquidity to satisfy the debt at maturity. This refinancing may be accomplished by uncollateralized private or public debt offerings, equity issuances, additional debt financing that is secured by mortgages on individual communities or groups of communities or borrowings under our Credit Facility or Term Loan. Although we believe we will have the capacity to meet our currently anticipated liquidity needs, we cannot assure you that additional debt financing or debt or equity offerings will be available or, if available, that they will be on terms we consider satisfactory.

The following debt activity occurred during 2015:

- In January 2015, in conjunction with the disposition of Avalon on Stamford Harbor, another operating community, AVA Belltown, was substituted as collateral for the disposed community's outstanding fixed rate secured mortgage loan.
- In March 2015, we borrowed the final \$50,000,000 available under the Term Loan, maturing in March 2021.
- In April 2015, we repaid an aggregate of \$481,582,000 principal amount of secured indebtedness, which includes eight fixed rate mortgage loans secured by eight wholly-owned operating communities, at par. The indebtedness had an aggregate effective interest rate of 3.12%, and a stated maturity date of November 2015. We incurred a gain on the early debt extinguishment of \$8,724,000, representing the excess of the write-off of unamortized premium from the debt assumed in the Archstone Acquisition.
- In May 2015, we issued \$525,000,000 principal amount of unsecured notes in a public offering under our existing shelf registration statement for net proceeds of approximately \$520,653,000. The notes mature in June 2025 and were issued at a 3.45% coupon interest rate.
- In June 2015, we repaid a \$15,778,000 fixed rate secured mortgage note with an effective interest rate of 7.50% at par in advance of its February 2041 maturity date, recognizing a charge of \$455,000 for a prepayment penalty and write-off of unamortized deferred financing costs.

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- In June 2015, we repaid a \$7,805,000 fixed rate secured mortgage note with an effective interest rate of 7.84% at par and without penalty in advance of its May 2027 maturity date, recognizing a charge of \$263,000 for the write-off of unamortized deferred financing costs.
- In June 2015, we repaid the \$74,531,000 fixed rate secured mortgage note secured by Edgewater, with an effective interest rate of 5.95% at par and without penalty in advance of its May 2019 maturity date, recognizing a charge of \$259,000 for the write-off of unamortized deferred financing costs.
- In July 2015, we repaid a \$140,346,000 fixed rate secured mortgage note with an effective interest rate of 5.56% in advance of its May 2053 maturity date, resulting in a recognized gain of \$18,987,000, consisting of the write off of unamortized premium net of unamortized deferred financing costs of \$30,215,000, partially offset by a prepayment penalty of \$11,228,000.
- In November 2015, we issued \$300,000,000 principal amount of unsecured notes in a public offering under our existing shelf registration statement for net proceeds of approximately \$297,072,000. The notes mature in November 2025 and were issued at a 3.5% coupon interest rate.
- In December 2015, we repaid a \$46,938,000 fixed rate secured mortgage note with an effective interest rate of 6.23%, at par, pursuant to its scheduled maturity date.
- In December 2015, we repaid a \$56,492,000 fixed rate secured mortgage note with an effective interest rate of 6.13%, at par, pursuant to its scheduled maturity date.

The following table details our consolidated debt maturities for the next five years, excluding our Credit Facility and amounts outstanding related to communities classified as held for sale, for debt outstanding at December 31, 2015 (dollars in thousands) as compared to the amounts of debt outstanding as of at December 31, 2014. We are not directly or indirectly (as borrower or guarantor) obligated in any material respect to pay principal or interest on the indebtedness of any unconsolidated entities in which we have an equity or other interest.

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Community	All-In interest rate (1)	Principal maturity date	Balance Outstanding (2)		2016	2017	2018	2019	2020	Thereafter
			12/31/2014	12/31/2015						
Tax-exempt bonds										
<i>Fixed rate</i>										
Eaves Washingtonian Center I	7.84%	May-2027 (3)	\$ 8,011	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Avalon Oaks	7.50%	Feb-2041 (3)	15,887	—	—	—	—	—	—	—
Avalon Oaks West	7.54%	Apr-2043	15,847	15,649	211	225	241	257	275	14,440
Avalon at Chestnut Hill	6.16%	Oct-2047	39,545	39,088	482	509	536	566	596	36,399
Avalon Westbury	4.13%	Nov-2036 (4)	62,200	62,200	—	—	—	—	—	62,200
			141,490	116,937	693	734	777	823	871	113,039
<i>Variable rate (5)</i>										
Avalon at Mountain View	0.77%	Feb-2017 (6)	18,100	17,700	—	17,700	—	—	—	—
Eaves Mission Viejo	1.20%	Jun-2025 (6)	7,635	7,635	—	—	—	—	—	7,635
AVA Nob Hill	1.11%	Jun-2025 (6)	20,800	20,800	—	—	—	—	—	20,800
Avalon Campbell	1.43%	Jun-2025 (6)	38,800	38,800	—	—	—	—	—	38,800
Eaves Pacifica	1.45%	Jun-2025 (6)	17,600	17,600	—	—	—	—	—	17,600
Avalon Bowery Place	2.78%	Nov-2037 (6)	93,800	93,800	—	—	—	—	—	93,800
Avalon Acton	1.48%	Jul-2040 (6)	45,000	45,000	—	—	—	—	—	45,000
Avalon Walnut Creek	1.39%	Mar-2046 (4)	116,000	116,000	—	—	—	—	—	116,000
Avalon Walnut Creek	1.39%	Mar-2046 (4)	10,000	10,000	—	—	—	—	—	10,000
Avalon Morningside Park	1.32%	May-2046 (4)	100,000	100,000	—	—	—	—	—	100,000
Avalon Clinton North	1.70%	Nov-2038 (6)	147,000	147,000	—	—	—	—	—	147,000
Avalon Clinton South	1.70%	Nov-2038 (6)	121,500	121,500	—	—	—	—	—	121,500
Avalon Midtown West	1.61%	May-2029 (6)	100,500	100,500	—	—	—	—	—	100,500
Avalon San Bruno	1.59%	Dec-2037 (6)	64,450	64,450	—	—	—	—	—	64,450
Avalon Calabasas	1.67%	Apr-2028 (6)	44,410	44,410	—	—	—	—	—	44,410
			945,595	945,195	—	17,700	—	—	—	927,495
Conventional loans										
<i>Fixed rate</i>										
\$250 Million unsecured notes	5.89%	Sep-2016	250,000	250,000	250,000	—	—	—	—	—
\$250 Million unsecured notes	5.82%	Mar-2017	250,000	250,000	—	250,000	—	—	—	—
\$250 Million unsecured notes	6.19%	Mar-2020	250,000	250,000	—	—	—	—	250,000	—
\$250 Million unsecured notes	4.04%	Jan-2021	250,000	250,000	—	—	—	—	—	250,000
\$450 Million unsecured notes	4.30%	Sep-2022	450,000	450,000	—	—	—	—	—	450,000
\$250 Million unsecured notes	3.00%	Mar-2023	250,000	250,000	—	—	—	—	—	250,000
\$400 Million unsecured notes	3.78%	Oct-2020	400,000	400,000	—	—	—	—	400,000	—
\$350 Million unsecured notes	4.30%	Dec-2023	350,000	350,000	—	—	—	—	—	350,000
\$300 Million unsecured notes	3.66%	Nov-2024	300,000	300,000	—	—	—	—	—	300,000
\$525 Million unsecured notes	3.55%	Jun-2025	—	525,000	—	—	—	—	—	525,000
\$300 Million unsecured notes	3.62%	Nov-2025	—	300,000	—	—	—	—	—	300,000
Avalon Orchards	7.79%	Jul-2033	17,091	16,621	503	539	577	619	663	13,720
Avalon Darien	6.23%	Dec-2015 (7)	47,700	—	—	—	—	—	—	—
AVA Stamford	6.13%	Dec-2015 (7)	57,423	—	—	—	—	—	—	—
Avalon Walnut Creek	4.34%	Jul-2066	3,042	3,289	—	—	—	—	—	3,289
Avalon Shrewsbury	5.92%	May-2019	20,174	19,867	323	346	367	18,831	—	—
Eaves Trumbull	5.93%	May-2019 (8)	39,452	38,852	631	676	717	36,828	—	—
AVA Belltown	6.00%	May-2019 (9)	62,724	61,769	1,003	1,075	1,140	58,551	—	—
Avalon at Freehold	5.95%	May-2019	34,973	34,441	559	599	636	32,647	—	—
Avalon Run East	5.95%	May-2019	37,475	36,904	599	642	681	34,982	—	—
Eaves Nanuet	6.07%	May-2019	63,242	62,279	1,011	1,083	1,150	59,035	—	—
Avalon at Edgewater	5.95%	May-2019 (3)	75,012	—	—	—	—	—	—	—
Avalon at Foxhall	6.06%	May-2019	56,341	55,484	901	965	1,024	52,594	—	—
Avalon at Gallery Place	6.06%	May-2019	43,776	43,110	700	750	796	40,864	—	—
Avalon at Traville	5.91%	May-2019	74,186	73,057	1,186	1,271	1,348	69,252	—	—
Avalon Bellevue	5.92%	May-2019	25,491	25,103	408	437	463	23,795	—	—
Avalon on the Alameda	5.91%	May-2019	51,539	50,754	824	883	937	48,110	—	—
Avalon at Mission Bay North	5.90%	May-2019	69,955	68,890	1,118	1,198	1,272	65,302	—	—

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AVA Pasadena	4.06%	Jun-2018		11,683	11,489	202	213	11,074	—	—	—
Eaves Seal Beach	3.12%	Nov-2015	(10)	85,122	—	—	—	—	—	—	—
Toluca Hills Apartments by Avalon	3.12%	Nov-2015	(10)	165,561	—	—	—	—	—	—	—
Eaves Mountain View at Middlefield	3.12%	Nov-2015	(10)	71,496	—	—	—	—	—	—	—
Eaves Tunlaw Gardens	3.12%	Nov-2015	(10)	28,494	—	—	—	—	—	—	—
Eaves Glover Park	3.12%	Nov-2015	(10)	23,569	—	—	—	—	—	—	—
Oakwood Arlington	3.12%	Nov-2015	(10)	42,185	—	—	—	—	—	—	—
Eaves North Quincy	3.12%	Nov-2015	(10)	36,761	—	—	—	—	—	—	—
Avalon Thousand Oaks Plaza	3.12%	Nov-2015	(10)	28,394	—	—	—	—	—	—	—
Avalon La Jolla Colony	3.36%	Nov-2017		27,176	27,176	—	27,176	—	—	—	—
Eaves Old Town Pasadena	3.36%	Nov-2017		15,669	15,669	—	15,669	—	—	—	—
Eaves Thousand Oaks	3.36%	Nov-2017		27,411	27,411	—	27,411	—	—	—	—
Avalon Walnut Ridge I	3.36%	Nov-2017		20,754	20,754	—	20,754	—	—	—	—
Eaves Los Feliz	3.36%	Nov-2017		43,258	43,258	—	43,258	—	—	—	—
Avalon Oak Creek	3.36%	Nov-2017		85,288	85,288	—	85,288	—	—	—	—
Avalon Del Mar Station	3.36%	Nov-2017		76,471	76,471	—	76,471	—	—	—	—
Avalon Courthouse Place	3.36%	Nov-2017		140,332	140,332	—	140,332	—	—	—	—
Avalon Pasadena	3.36%	Nov-2017		28,079	28,079	—	28,079	—	—	—	—
Eaves West Valley	3.36%	Nov-2017		75,092	75,092	—	75,092	—	—	—	—
Eaves West Valley II	3.36%	Nov-2017		7,995	7,995	—	7,995	—	—	—	—
Eaves Woodland Hills	3.36%	Nov-2017		104,694	104,694	—	104,694	—	—	—	—
Avalon Russett	3.36%	Nov-2017		39,972	39,972	—	39,972	—	—	—	—
Avalon First & M	5.56%	May-2053	(11)	140,964	—	—	—	—	—	—	—
Avalon San Bruno II	3.85%	Apr-2021		30,968	30,514	475	506	534	564	591	27,844
Avalon Westbury	4.13%	Nov-2036	(4)	20,145	18,975	1,231	1,293	1,358	1,426	1,499	12,168
Archstone Lexington	3.32%	Mar-2016		16,525	16,255	16,255	—	—	—	—	—
Avalon San Bruno III	4.87%	Jun-2020		56,210	55,650	1,147	1,188	1,226	1,264	50,825	—
Avalon Andover	3.29%	Apr-2018		14,505	14,179	336	346	13,497	—	—	—
Avalon Natick	3.14%	Apr-2019		14,818	14,499	329	339	349	13,482	—	—
				<u>5,009,187</u>	<u>5,019,172</u>	<u>279,741</u>	<u>956,540</u>	<u>39,146</u>	<u>558,146</u>	<u>703,578</u>	<u>2,482,021</u>
<i>Variable rate (5)</i>											
Avalon Walnut Creek	1.73%	Mar-2046	(4)	8,500	8,500	—	—	—	—	—	8,500
Avalon Calabasas	2.41%	Aug-2018	(6)	55,827	54,756	1,152	1,225	52,379	—	—	—
Avalon Natick	2.69%	Apr-2019	(6)	37,539	36,731	833	858	884	34,156	—	—
Term Loan	1.99%	Mar-2021		250,000	300,000	—	—	—	—	—	300,000
				<u>351,866</u>	<u>399,987</u>	<u>1,985</u>	<u>2,083</u>	<u>53,263</u>	<u>34,156</u>	<u>—</u>	<u>308,500</u>
Total indebtedness - excluding Credit Facility				<u>\$ 6,448,138</u>	<u>\$ 6,481,291</u>	<u>\$ 282,419</u>	<u>\$ 977,057</u>	<u>\$ 93,186</u>	<u>\$ 593,125</u>	<u>\$ 704,449</u>	<u>\$ 3,831,055</u>

- (1) Includes credit enhancement fees, facility fees, trustees' fees, the impact of interest rate hedges, offering costs, mark to market amortization and other fees.
- (2) Balances outstanding represent total amounts due at maturity, and exclude deferred financing costs, debt discount and basis adjustments associated with the hedged unsecured note of \$29,326 and \$24,467 as of December 31, 2015 and 2014, respectively, and premium associated with secured notes, net of deferred financing costs, of \$4,983 and \$66,036 as of December 31, 2015 and 2014, respectively, as reflected on our Consolidated Balance Sheets included elsewhere in this report.
- (3) In June 2015, we repaid this borrowing in advance of its maturity date.
- (4) Maturity date reflects the contractual maturity of the underlying bond. There is also an associated earlier credit enhancement maturity date.
- (5) Variable rates are given as of December 31, 2015.
- (6) Financed by variable rate debt, but interest rate is capped through an interest rate protection agreement.
- (7) Borrowing was repaid at par in accordance with its scheduled maturity.
- (8) In January 2016, another community, Avalon at Stratford, was substituted as collateral for the outstanding borrowing.
- (9) In conjunction with the disposition of Avalon on Stamford Harbor in January 2015, this community was substituted as collateral for the outstanding borrowing.

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(10) In April 2015, we repaid this borrowing at par in advance of its maturity date.

(11) In July 2015, we elected to repay this borrowing in advance of its maturity date, incurring a prepayment penalty of \$11,228,000.

Future Financing and Capital Needs—Portfolio and Capital Markets Activity

In 2016, we expect to meet our liquidity needs from a variety of internal and external sources, including (i) real estate dispositions, (ii) cash balances on hand as well as cash generated from our operating activities, (iii) borrowing capacity under our Credit Facility and (iv) secured and unsecured debt financings. Additional sources of liquidity in 2016 may include the issuance of common and preferred equity. Our ability to obtain additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the real estate industry, our credit ratings and credit capacity, as well as the perception of lenders regarding our long or short-term financial prospects.

Before beginning new construction or reconstruction activity, including activity related to communities owned by unconsolidated joint ventures, we intend to plan adequate financing to complete these undertakings, although we cannot assure you that we will be able to obtain such financing. In the event that financing cannot be obtained, we may have to abandon Development Rights, write off associated pre-development costs that were capitalized and/or forego reconstruction activity. In such instances, we will not realize the increased revenues and earnings that we expected from such Development Rights or reconstruction activity and significant losses could be incurred.

From time to time we use joint ventures to hold or develop individual real estate assets. We generally employ joint ventures primarily to mitigate asset concentration or market risk and secondarily as a source of liquidity. We may also use joint ventures related to mixed-use land development opportunities where our partners bring development and operational expertise to the venture. Each joint venture or partnership agreement has been individually negotiated, and our ability to operate and/or dispose of a community in our sole discretion may be limited to varying degrees depending on the terms of the joint venture or partnership agreement. We cannot assure you that we will achieve our objectives through joint ventures.

In evaluating our allocation of capital within our markets, we sell assets that do not meet our long-term investment criteria or when capital and real estate markets allow us to realize a portion of the value created over the past business cycle and redeploy the proceeds from those sales to develop and redevelop communities. Because the proceeds from the sale of communities may not be immediately redeployed into revenue generating assets that we develop, redevelop or acquire, the immediate effect of a sale of a community for a gain is to increase net income, but reduce future total revenues, total expenses and NOI until such time as the proceeds have been redeployed into revenue generating assets. We believe that the temporary absence of future cash flows from communities sold will not have a material impact on our ability to fund future liquidity and capital resource needs.

Unconsolidated Real Estate Investments and Off-Balance Sheet Arrangements

Unconsolidated Investments

The Funds were established to engage in real estate acquisition programs through discretionary investment funds. We believe this investment format provides the following attributes: (i) third-party joint venture equity as an additional source of financing to expand and diversify our portfolio; (ii) additional sources of income in the form of property management and asset management fees and, potentially, incentive distributions if the performance of the Funds exceeds certain thresholds; and (iii) additional visibility into the transactions occurring in multifamily assets that helps us with other investment decisions related to our wholly-owned portfolio.

Fund I had nine institutional investors, including us. One of our wholly-owned subsidiaries was the general partner of Fund I and had a 15.2% combined general partner and limited partner equity interest. Fund I was our principal vehicle for acquiring apartment communities from its formation in March 2005 through the close of its investment period in March 2008. Fund I disposed of the last of its communities in 2014, and was dissolved in April 2015.

Fund II has six institutional investors, including us. One of our wholly-owned subsidiaries is the general partner of Fund II and, excluding costs incurred in excess of our equity in the underlying net assets of Fund II, we have an equity investment of \$50,443,000 (net of distributions), representing a 31.3% combined general partner and limited partner equity interest. Fund II served as the exclusive vehicle for acquiring apartment communities from its formation in 2008 through the close of its investment period in August 2011. Fund II has a term that expires in August 2020, assuming the exercise of two, one-year extension options.

During the year ended December 31, 2015, Fund II sold four communities containing an aggregate of 1,460 apartment homes for an aggregate sales price of \$300,100,000. Our share of the total gain in accordance with GAAP was \$29,726,000. In conjunction with the disposition of these communities, Fund II repaid \$69,036,000 of related secured indebtedness in advance of the scheduled maturity dates, which resulted in charges for a prepayment penalty and write off of deferred financing costs, of which our portion was approximately \$1,400,000.

In 2016, Fund II sold Eaves Rancho San Diego, located in El Cajon, CA, containing 676 apartment homes for \$158,000,000.

The U.S. Fund has six institutional investors, including us. We are the general partner of the U.S. Fund and, excluding costs incurred in excess of our equity in the underlying net assets of the U.S. Fund, we have an equity investment of \$68,683,000 (net of distributions), representing a 28.6% combined equity interest. The U.S. Fund was formed in July 2011 and is fully invested. The U.S. Fund has a term that expires in July 2023, assuming the exercise of two, one-year extension options. We acquired our interest in the U.S. Fund as part of the Archstone Acquisition. In December 2015, a subsidiary of the U.S. Fund obtained a \$51,300,000 variable rate, interest only, mortgage note maturing in December 2020, which is secured by Avalon Marina Bay, which has been converted to an effective fixed rate borrowing with an interest rate swap.

In 2016, the U.S. Fund sold Archstone Boca Town Center, located in Boca Raton, FL, containing 252 apartment homes for \$56,300,000, and Avalon Kips Bay, located in New York, NY, containing 209 apartment homes for \$173,000,000.

The AC JV has four institutional investors, including us. Excluding costs incurred in excess of our equity in the underlying net assets of the AC JV, we have an equity investment of \$52,148,000 (net of distributions), representing a 20.0% equity interest. The AC JV was formed in 2011.

During 2015, we received \$20,680,000 from the joint venture partner associated with MVP I, LLC, the entity that owns Avalon at Mission Bay North II, upon agreement with the partner to modify the joint venture agreement to eliminate our promoted interest from associated distributions for future return calculations. Prospectively, earnings and distributions will be based on our 25.0% equity interest in the venture.

During 2015, SWIB, the joint venture for which we have an 8.0% indirect interest in through the Residual JV, sold the final four communities containing 1,410 apartment homes, for an aggregate sales price of \$283,700,000. Our proportionate share of the gain in accordance with GAAP for the four dispositions was \$3,853,000. In conjunction with the disposition of these communities, SWIB repaid \$148,866,000 of related indebtedness on its credit facility in advance of the scheduled maturity dates. In addition, during 2015, we recognized equity in income of unconsolidated real estate entities of \$10,601,000 associated with the settlement of outstanding legal claims against third parties and land sales in the Residual JV.

As of December 31, 2015, we had investments in the following unconsolidated real estate accounted for under the equity method of accounting. Refer to Note 5, "Investments in Real Estate Entities," of the Consolidated Financial Statements located elsewhere in this report, which includes information on the aggregate assets, liabilities and equity, as well as operating results, and our proportionate share of their operating results. For ventures holding operating apartment communities as of December 31, 2015, detail of the real estate and associated funding underlying our unconsolidated investments is presented in the following table (dollars in thousands).

Unconsolidated Real Estate Investments	Company Ownership Percentage	# of Apartment Homes	Total Capitalized Cost (1)	Debt (2)			
				Principal Amount	Type	Interest Rate (3)	Maturity Date
Fund II							
1. Briarwood Apartments - Owings Mills, MD		348	\$ 45,936	\$ 25,808	Fixed	3.64%	Nov 2017
2. Eaves Gaithersburg - Gaithersburg, MD (4)		684	102,847	63,200	Fixed	5.42%	Jan 2018
3. Eaves Tustin - Tustin, CA		628	101,353	59,100	Fixed	3.81%	Oct 2017
4. Eaves Rockville - Rockville, MD		210	51,721	29,653	Fixed	4.26%	Aug 2019
5. Eaves Rancho San Diego - El Cajon, CA (5)		676	127,939	68,349	Fixed	3.45%	Nov 2018
6. Avalon Watchung - Watchung, NJ		334	66,650	40,433	Fixed	3.37%	Apr 2019
Total Fund II	31.3%	2,880	\$ 496,446	\$ 286,543		4.05%	
U.S. Fund							
1. Eaves Sunnyvale—Sunnyvale, CA (4)		192	\$ 67,115	\$ 33,351	Fixed	5.33%	Nov 2019
2. Avalon Studio 4041—Studio City, CA		149	56,843	30,101	Fixed	3.34%	Nov 2022
3. Avalon Marina Bay—Marina del Rey, CA (6)		205	77,146	51,300	Fixed	1.56%	Dec 2020
4. Avalon Venice on Rose—Venice, CA		70	57,207	30,462	Fixed	3.28%	Jun 2020
5. Archstone Boca Town Center—Boca Raton, FL (7)		252	46,311	27,367	Fixed/Variable	3.57%	Feb 2019
6. Avalon Station 250—Dedham, MA		285	95,667	58,647	Fixed	3.73%	Sep 2022
7. Avalon Grosvenor Tower—Bethesda, MD		237	79,670	45,454	Fixed	3.74%	Sep 2022
8. Avalon Kips Bay—New York, NY (8)		209	134,569	67,589	Fixed	4.25%	Jan 2019
9. Avalon Kirkland at Carillon—Kirkland, WA		131	53,138	29,592	Fixed	3.75%	Feb 2019
Total U.S. Fund	28.6%	1,730	\$ 667,666	\$ 373,863		3.59%	
AC JV							
1. Avalon North Point—Cambridge, MA (9)		426	\$ 186,785	\$ 111,653	Fixed	6.00%	Aug 2021
2. Avalon Woodland Park—Herndon, VA (9)		392	85,467	50,647	Fixed	6.00%	Aug 2021
3. Avalon North Points Lofts — Cambridge, MA		103	26,839	—	N/A	N/A	N/A
Total AC JV	20.0%	921	\$ 299,091	\$ 162,300		6.00%	
Other Operating Joint Ventures							
1. MVP I, LLC (10)	25.0%	313	\$ 124,457	\$ 103,000	Fixed	3.24%	Jul 2025
2. Brandywine Apartments of Maryland, LLC	28.7%	305	18,443	23,835	Fixed	3.40%	Jun 2028
Total Other Joint Ventures		618	\$ 142,900	\$ 126,835		3.27%	
Total Unconsolidated Investments		6,149	\$ 1,606,103	\$ 949,541		4.10%	

(1) Represents total capitalized cost as of December 31, 2015.

(2) We have not guaranteed the debt of unconsolidated investees and bear no responsibility for the repayment.

(3) Represents weighted average rate on outstanding debt as of December 31, 2015.

(4) Borrowing on this community is comprised of two mortgage loans.

(5) In February 2016, this community was sold for a sales price of \$158,000, a portion of which was used to repay the outstanding indebtedness.

(6) In December 2015, Avalon Marina Bay obtained a \$51,300 variable rate loan with a maturity date of December 2020, which has been converted to an effective fixed rate borrowing with an interest rate swap.

(7) In January 2016 this community was sold for a sales price of \$56,300, a portion of which was used to repay the outstanding indebtedness.

(8) In February 2016, this community was sold for a sales price of \$173,000, a portion of which was used to repay the outstanding indebtedness.

(9) Borrowing is comprised of four mortgage loans made by the equity investors in the venture in proportion to their equity interests.

(10) In June 2015, MVP I, LLC obtained a \$103,000 fixed rate loan, with a maturity date of July 2025, and used the proceeds and cash on hand to repay its existing \$105,000, variable rate loan which was scheduled to mature in December 2015, at par.

Off-Balance Sheet Arrangements

In addition to our investment interests in consolidated and unconsolidated real estate entities, we have certain off-balance sheet arrangements with the entities in which we invest. Additional discussion of these entities can be found in Note 5, "Investments in Real Estate Entities," of our Consolidated Financial Statements located elsewhere in this report.

We have not guaranteed the debt of our unconsolidated real estate entities, as referenced in the table above, nor do we have any obligation to fund this debt should the unconsolidated real estate entities be unable to do so. In the future, in the event the unconsolidated real estate entities were unable to meet their obligations under a loan, we cannot predict at this time whether we would provide any voluntary support, or take any other action, as any such action would depend on a variety of factors, including the amount of support required and the possibility that such support could enhance the return of the unconsolidated real estate entities and/or our returns by providing time for performance to improve.

With respect to Fund II, each individual mortgage loan was made to a special purpose, single asset subsidiary of Fund II. Each mortgage loan provides that it is the obligation of the respective subsidiary only, except under exceptional circumstances (such as fraud or misapplication of funds) in which case Fund II could also have obligations with respect to the mortgage loan. In no event do the mortgage loans provide for recourse against investors in Fund II, including against us or our wholly-owned subsidiaries that invest in Fund II. A default by Fund II or a Fund II subsidiary on any loan to it would not constitute a default under any of our loans or any loans of our other non-Fund subsidiaries or affiliates. If Fund II or a subsidiary of Fund II were unable to meet its obligations under a loan, the value of our investment in Fund II would likely decline. If a Fund II subsidiary or Fund II were unable to meet its obligations under a loan, we and/or the other investors might evaluate whether it was in our respective interests to voluntarily support Fund II through additional equity contributions and/or take other actions to avoid a default under a loan or the consequences of a default (such as foreclosure of a Fund II asset).

In addition, as part of the formation of Fund II, we provided to one of the limited partners a guarantee. The guarantee provided that if, upon final liquidation of Fund II, the total amount of all distributions to that partner during the life of Fund II (whether from operating cash flow or property sales) did not equal a minimum of the total capital contributions made by that partner, then we would pay the partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the partner. During the year ended December 31, 2015, the limited partner transferred its investment interest to an unrelated third party. The guarantee was not transferred with the investment interest, so we have no further obligation under the guarantee.

There are no other material lines of credit, side agreements, financial guarantees or any other derivative financial instruments related to or between our unconsolidated real estate entities and us. In evaluating our capital structure and overall leverage, management takes into consideration our proportionate share of the indebtedness of unconsolidated entities in which we have an interest.

Contractual Obligations

Scheduled contractual obligations required for the next five years and thereafter are as follows as of December 31, 2015 (dollars in thousands):

	Payments due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Debt Obligations	\$ 6,481,291	\$ 282,419	\$ 1,070,243	\$ 1,297,574	\$ 3,831,055
Interest on Debt Obligations	1,420,913	241,423	390,254	261,225	528,011
Capital Lease Obligations (1) (2)	69,785	2,098	19,931	2,136	45,620
Operating Lease Obligations (1)	1,245,596	21,056	41,436	39,569	1,143,535
	<u>\$ 9,217,585</u>	<u>\$ 546,996</u>	<u>\$ 1,521,864</u>	<u>\$ 1,600,504</u>	<u>\$ 5,548,221</u>

(1) Includes land leases expiring between October 2026 and March 2142. Amounts do not include any adjustment for purchase options available under the land leases.

(2) Aggregate capital lease payments include \$29,069 in interest costs.

Inflation and Deflation

Substantially all of our apartment leases are for a term of one year or less. In an inflationary environment, this may allow us to realize increased rents upon renewal of existing leases or the beginning of new leases. Short-term leases generally minimize our risk from the adverse effects of inflation, although these leases generally permit residents to leave at the end of the lease term and therefore expose us to the effects of a decline in market rents. Similarly, in a deflationary rent environment, we may be exposed to declining rents more quickly under these shorter-term leases.

Federal Income Tax Law Changes and Updates

The following discussion updates the disclosures under “Federal Income Tax Considerations and Consequences of Your Investment” in the prospectus dated February 19, 2015 contained in our Registration Statement on Form S-3 filed with the SEC on February 19, 2015.

The discussion in the last sentence under “Federal Income Tax Considerations and Consequences of Your Investment-Other U.S. Federal Income Tax Withholding and Reporting Requirements” on page 61 is replaced with the following sentence: “Withholding under this legislation will apply after December 31, 2018 with respect to the gross proceeds of a disposition of property that can produce U.S. source interest or dividends and currently applies with respect to other withholdable payments.”

The discussion under “Federal Income Tax Considerations and Consequences of Your Investment-Taxation of AvalonBay as a REIT-Ownership of Partnership Interests by a REIT” on page 47 is supplemented by inserting the paragraph below at the end of that subsection:

Under the Code, a partnership that is not treated as a corporation under the publicly traded partnership rules generally is not subject to U.S. federal income tax; instead, each partner is allocated its distributive share of the partnership’s items of income, gain, loss, deduction and credit and is required to take such items into account in determining the partner’s income. However, a recent law change enacted under the Bipartisan Budget Act of 2015, effective for taxable years beginning after December 31, 2017, requires the partnership to pay the hypothetical increase in partner-level taxes (including interest and penalties) resulting from an adjustment of partnership tax items on audit or in other tax proceedings, unless the partnership elects an alternative method under which the taxes resulting from the adjustment (and interest and penalties) are assessed at the partner level. Many uncertainties remain as to the application of these rules, including the application of the alternative method to partners that are REITs, and the impact they will have on us. However, it is possible, that partnerships in which we invest may be subject to U.S. federal income tax, interest and penalties in the event of a U.S. federal income tax audit as a result of these law changes.

Recent legislation modifies several of the REIT rules discussed in the prospectus. The “Protecting Americans from Tax Hikes Act of 2015” (the “Act”) was enacted on December 18, 2015 and contains several provisions pertaining to REIT qualification and taxation. Some of these implicate certain tax-related disclosure contained in the prospectus and are briefly summarized below:

- For taxable years beginning after December 31, 2015, the Act expands the exclusion of certain hedging income from the REIT gross income tests to include income from hedges of previously acquired hedges that a REIT entered to manage risk associated with liabilities or property that have been extinguished or disposed.
- For taxable years beginning before January 1, 2018, no more than 25% of the value of our assets may consist of stock or securities of one or more taxable REIT subsidiaries. For taxable years beginning after December 31, 2017, the Act reduces this limit to 20%. At this time, the securities we own in our taxable REIT subsidiaries do not, in the aggregate, exceed 20% of the total value of our assets.
- For taxable years beginning after December 31, 2015, for purposes of the REIT asset tests, the Act provides that debt instruments issued by publicly offered REITs will constitute “real estate assets.” However, unless such a debt instrument is secured by a mortgage or otherwise would have qualified as a real estate asset under prior law, (i) interest income and gain from such a debt instrument is not qualifying income for purposes of the 75% gross income test and (ii) all such debt instruments may represent no more than 25% of the value of our total assets.
- For taxable years beginning after December 31, 2015, certain obligations secured by a mortgage on both real property and personal property will be treated as a qualifying real estate asset and give rise to qualifying income for purposes of the 75% gross income test if the fair market value of such personal property does not exceed 15% of the total fair market value of all such property.
- A 100% excise tax is imposed on “redetermined TRS service income,” which is income of a taxable REIT subsidiary attributable to services provided to, or on behalf of its associated REIT and which would otherwise be increased on distribution, apportionment, or allocation under Section 482 of the Code.

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- For distributions made in taxable years beginning after December 31, 2014, the preferential dividend rules no longer to apply to us.
- Additional exceptions to the rules under the Foreign Investment in Real Property Act (“FIRPTA”) were introduced for non-U.S. persons that constitute “qualified shareholders” (within the meaning of Section 897(k)(3) of the Code) or “qualified foreign pension funds” (within the meaning of Section 897(l)(2) of the Code).
- After February 16, 2016, the FIRPTA withholding rate under Section 1445 of the Code for dispositions of U.S. real property interests is increased from 10% to 15%.
- The Act increases from 5% to 10% the maximum stock ownership of the REIT that a non-U.S. shareholder may hold to avail itself of the FIRPTA exception for shares regularly traded on an established securities market.
- For assets we acquired from a C corporation in a carry-over basis transaction, the Act permanently reduces the recognition period during which we could be subject to corporate tax on any built-in gains recognized on the sale of such assets from 10 years to 5 years.

Forward-Looking Statements

This Form 10-K contains "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by our use of the words "believe," "expect," "anticipate," "intend," "estimate," "assume," "project," "plan," "may," "shall," "will" and other similar expressions in this Form 10-K, that predict or indicate future events and trends and that do not report historical matters. These statements include, among other things, statements regarding our intent, belief or expectations with respect to:

- our potential development, redevelopment, acquisition or disposition of communities;
- the timing and cost of completion of apartment communities under construction, reconstruction, development or redevelopment;
- the timing of lease-up, occupancy and stabilization of apartment communities;
- the pursuit of land on which we are considering future development;
- the anticipated operating performance of our communities;
- cost, yield, revenue, NOI and earnings estimates;
- our declaration or payment of distributions;
- our joint venture and discretionary fund activities;
- our policies regarding investments, indebtedness, acquisitions, dispositions, financings and other matters;
- our qualification as a REIT under the Internal Revenue Code;
- the real estate markets in Northern and Southern California and markets in selected states in the Mid-Atlantic, New England, Metro New York/New Jersey and Pacific Northwest regions of the United States and in general;
- the availability of debt and equity financing;
- interest rates;
- general economic conditions including the potential impacts from current economic conditions;
- trends affecting our financial condition or results of operations; and
- the impact of legal proceedings relating to the Edgewater fire and related matters.

We cannot assure the future results or outcome of the matters described in these statements; rather, these statements merely reflect our current expectations of the approximate outcomes of the matters discussed. We do not undertake a duty to update these forward-looking statements, and therefore they may not represent our estimates and assumptions after the date of this report. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to differ materially from the anticipated future results, performance or achievements expressed or implied by these forward-looking

statements. You should carefully review the discussion under Item 1A. "Risk Factors" in this report for further discussion of risks associated with forward-looking statements.

Some of the factors that could cause our actual results, performance or achievements to differ materially from those expressed or implied by these forward-looking statements include, but are not limited to, the following:

- our expectations and assumptions as of the date of this filing regarding the outcome of investigations and/or legal proceedings resulting from the Edgewater fire, as well as the ultimate cost and timing of replacing the Edgewater building and achieving stabilized occupancy in the event the Company chooses to rebuild this community, are subject to change and could materially affect our current expectations regarding the impact of the fire on our business, financial condition and results of operations;
- we may fail to secure development opportunities due to an inability to reach agreements with third parties to obtain land at attractive prices or to obtain desired zoning and other local approvals;
- we may abandon or defer development opportunities for a number of reasons, including changes in local market conditions which make development less desirable, increases in costs of development, increases in the cost of capital or lack of capital availability, resulting in losses;
- construction costs of a community may exceed our original estimates;
- we may not complete construction and lease-up of communities under development or redevelopment on schedule, resulting in increased interest costs and construction costs and a decrease in our expected rental revenues;
- occupancy rates and market rents may be adversely affected by competition and local economic and market conditions which are beyond our control;
- financing may not be available on favorable terms or at all, and our cash flows from operations and access to cost effective capital may be insufficient for the development of our pipeline which could limit our pursuit of opportunities;
- our cash flows may be insufficient to meet required payments of principal and interest, and we may be unable to refinance existing indebtedness or the terms of such refinancing may not be as favorable as the terms of existing indebtedness;
- we may be unsuccessful in our management of Fund II, the U.S. Fund, the AC JV or the REIT vehicles that are used with each respective joint venture; and
- we may be unsuccessful in managing changes in our portfolio composition.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, or different assumptions were made, it is possible that different accounting policies would have been applied, resulting in different financial results or a different presentation of our financial statements. Below is a discussion of the accounting policies that we consider critical to an understanding of our financial condition and operating results that may require complex or significant judgment in their application or require estimates about matters which are inherently uncertain. A discussion of our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 1, "Organization and Basis of Presentation," of our Consolidated Financial Statements.

Principles of Consolidation

We may enter into various joint venture agreements with unrelated third parties to hold or develop real estate assets. We must determine for each of these ventures whether to consolidate the entity or account for our investment under the equity or cost basis of accounting.

We determine whether to consolidate certain entities based on our rights and obligations under the joint venture agreements, applying the applicable accounting guidance. For investment interests that we do not consolidate, we evaluate the guidance to determine the accounting framework to apply. The application of the rules in evaluating the accounting treatment for each joint venture is complex and requires substantial management judgment. Therefore, we believe the decision to choose an appropriate accounting framework is a critical accounting estimate.

If we were to consolidate the joint ventures that we accounted for using the equity method, excluding the Residual JV, at December 31, 2015, our assets would have increased by \$1,232,958,000 and our liabilities would have increased by \$967,676,000.

We would be required to consolidate those joint ventures currently not consolidated for financial reporting purposes if the facts and circumstances changed, including but not limited to the following reasons, none of which are currently expected to occur:

- For entities not considered to be variable interest entities, the nature of the entity changed such that it would be considered a variable interest entity and we were considered the primary beneficiary.
- For entities in which we do not hold a controlling voting and/or variable interest, the contractual arrangement changed resulting in our investment interest being either a controlling voting and/or variable interest.

We evaluate our accounting for investments on a regular basis including when a significant change in the design of an entity occurs.

Cost Capitalization

We capitalize costs during the development of assets. Capitalization begins when we determine that development of a future asset is probable and continues until the asset, or a portion of the asset, is delivered and is ready for its intended use. For redevelopment efforts, we capitalize costs either (i) in advance of taking apartment homes out of service when significant renovation of the common area has begun and continue until the redevelopment is completed, or (ii) when an apartment home is taken out of service for redevelopment and continue until the redevelopment is completed and the apartment home is available for a new resident. Rental income and operating expenses incurred during the initial lease-up or post-redevelopment lease-up period are fully recognized in earnings as they accrue. We defer external costs associated with originating new leases, recognizing the impact of these costs in earnings over the term of the lease.

During the development and redevelopment efforts we capitalize all direct costs and indirect costs which have been incurred as a result of the development and redevelopment activities. These costs include interest and related loan fees, property taxes as well as other direct and indirect costs. Interest is capitalized for any project-specific financing, as well as for general corporate financing to the extent of our aggregate investment in the projects. Indirect project costs, which include personnel and office and administrative costs that are clearly associated with our development and redevelopment efforts, are also capitalized. Capitalized indirect costs associated with our development and redevelopment activities are comprised primarily of compensation related costs for associates dedicated to our development and redevelopment efforts and total \$43,943,000, \$37,433,000 and \$38,128,000 for 2015, 2014 and 2013, respectively. The estimation of the direct and indirect costs to capitalize as part of our development and redevelopment activities requires judgment and, as such, we believe cost capitalization to be a critical accounting estimate.

There may be a change in our operating expenses in the event that there are changes in accounting guidance governing capitalization or changes to our levels of development or redevelopment activity. If changes in the accounting guidance limit our ability to capitalize costs or if we reduce our development and redevelopment activities without a corresponding decrease in indirect project costs, there may be an increase in our operating expenses. For example, if in 2015 our development activities decreased by 10%, and there were no corresponding decrease in our indirect project costs, our costs charged to expense would have increased by \$4,394,000.

We capitalize pre-development costs incurred in pursuit of Development Rights. These costs include legal fees, design fees and related overhead costs. Future development of these pursuits is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and availability of capital. Pre-development costs incurred for pursuits for which future development is not yet considered probable are expensed as incurred. In addition, if the status of a Development Right changes, making future development no longer probable, any capitalized pre-development costs are written off with a charge to expense.

Due to the subjectivity in determining whether a pursuit will result in the development of an apartment community, and therefore should be capitalized, the accounting for pursuit costs is a critical accounting estimate. If we had determined that 10% of our capitalized pursuit costs were associated with Development Rights that were no longer probable of occurring, net income for the year ended December 31, 2015 would have decreased by \$3,758,000.

Abandoned Pursuit Costs & Asset Impairment

We evaluate our real estate and other long-lived assets for impairment when potential indicators of impairment exist. If events or circumstances indicate that the carrying amount of a property may not be recoverable, we assess its recoverability by comparing the carrying amount of the property to its estimated undiscounted future cash flows. If the carrying amount exceeds the aggregate undiscounted future cash flows, we recognize an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property. We assess land held for development for impairment if our intent changes with respect to the development of the land. We evaluate our unconsolidated investments for impairment, considering both the carrying value of the investment, estimated to be the expected proceeds that it would receive if the entity were dissolved and the net assets were liquidated, as well as our proportionate share of any impairment of assets held by unconsolidated investments.

We expense costs related to abandoned pursuits, which include the abandonment of Development Rights and disposition pursuits. These costs can vary greatly, and the costs incurred in any given period may be significantly different in future years.

Our focus on value creation through real estate development presents an impairment risk in the event of a future deterioration of the real estate and/or capital markets or a decision by us to reduce or cease development. We cannot predict the occurrence of future events that may cause an impairment assessment to be performed, or the likelihood of any future impairment charges, if any. You should also review Item 1A. "Risk Factors" in this Form 10-K.

REIT Status

We are a Maryland corporation that has elected to be treated, for federal income tax purposes, as a REIT. We elected to be taxed as a REIT under the Internal Revenue Code for the year ended December 31, 1994 and have not revoked such election. A corporate REIT is a legal entity which holds real estate interests and must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to stockholders. As a REIT, we generally will not be subject to corporate level federal income tax on taxable income if we distribute 100% of our taxable income to our stockholders over time periods allowed under the Code. If we fail to qualify as a REIT in any taxable year, we will be subject to federal and state income taxes at regular corporate rates (subject to any applicable alternative minimum tax) and may not be able to elect to qualify as a REIT for four subsequent taxable years. For example, if we failed to qualify as a REIT in 2015, our net income would have decreased by approximately \$298,299,000.

Our qualification as a REIT requires management to exercise significant judgment and consideration with respect to operational matters and accounting treatment. Therefore, we believe our REIT status is a critical accounting estimate.

Acquisition of Investments in Real Estate

We account for acquisitions of investments in real estate in accordance with the authoritative guidance for the initial measurement, which requires the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree to be recognized at fair value. Typical assets and liabilities acquired include land, building, furniture, fixtures and equipment and identified intangible assets and liabilities, consisting of the value of above-below market leases and in-place leases. In making estimates of fair values for purposes of allocating purchase price, we utilize various sources, including our own analysis of recently acquired and existing comparable properties in our portfolio and other market data.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks from our financial instruments primarily from changes in market interest rates. We do not have exposure to any other significant market risk. We monitor interest rate risk as an integral part of our overall risk management, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on our results of operations. Our operating results are affected by changes in interest rates, primarily in short-term LIBOR and the SIFMA index as a result of borrowings under our Credit Facility and outstanding bonds and unsecured notes with variable interest rates. In addition, the fair value of our fixed rate unsecured and secured notes are impacted by changes in market interest rates. The effect of interest rate fluctuations on our results of operations historically has been small relative to other factors affecting operating results, such as rental rates and occupancy.

We currently use interest rate protection agreements (consisting of interest rate swap and interest rate cap agreements) for our risk management objectives, as well as for compliance with the requirements of certain lenders, and not for trading or speculative purposes. During 2015, we entered into \$600,000,000 of forward interest rate swap agreements to reduce the impact of variability in interest rates on a portion of the Company's expected debt issuance activity in 2016 and 2017. Through the date of this Form 10-K we entered into an additional \$450,000,000 of forward interest rate swap agreements also to reduce the impact of variability in interest rates on a portion of the Company's expected debt issuance activity in 2016 and 2017. In addition, we have interest rate caps that serve to effectively limit the amount of interest rate expense we would incur on a floating rate borrowing. Further discussion of the financial instruments impacted and our exposure is presented below.

As of December 31, 2015 and 2014, we had \$1,345,182,000 and \$1,297,461,000, respectively, in variable rate debt outstanding, with no amounts outstanding under our Credit Facility. If interest rates on the variable rate debt had been 100 basis points higher throughout 2015 and 2014, our annual interest costs would have increased by approximately \$14,492,000 and \$13,035,000, respectively, based on balances outstanding during the applicable years.

Because the counterparties providing the interest rate cap and swap agreements are major financial institutions which have an A or better credit rating by the Standard & Poor's Ratings Group and the current valuation of the position is a net liability for us, we do not believe there is exposure at this time to a default by a counterparty provider.

In addition, changes in interest rates affect the fair value of our fixed rate debt, computed using quoted market prices for our unsecured notes or a discounted cash flow model for our secured notes, considering our current market yields, which impacts the fair value of our aggregate indebtedness. Debt securities and notes payable (including amounts outstanding under our Credit Facility) with an aggregate carrying value of \$6,481,291,000 at December 31, 2015 had an estimated aggregate fair value of \$6,368,758,000 at December 31, 2015. Contractual fixed rate debt represented \$5,304,633,000 of the fair value at December 31, 2015. If interest rates had been 100 basis points higher as of December 31, 2015, the fair value of this fixed rate debt would have decreased by approximately \$368,234,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The response to this Item 8 is included as a separate section of this Annual Report on Form 10-K.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

- (a) Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. We continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.
- (b) Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our

Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2015 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2015.

Our internal control over financial reporting as of December 31, 2015 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

- (c) Changes in Internal Control Over Financial Reporting. There was no change in our internal control over financial reporting that occurred during the fourth quarter of the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 pertaining to directors and executive officers of the Company and the Company's Code of Conduct is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders scheduled to be held on May 19, 2016.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 pertaining to executive compensation is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders scheduled to be held on May 19, 2016.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 pertaining to security ownership of management and certain beneficial owners of the Company's common stock is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders scheduled to be held on May 19, 2016, to the extent not set forth below.

The Company maintains the 2009 Stock Option and Incentive Plan (the "2009 Plan") and the 1996 Non-Qualified Employee Stock Purchase Plan (the "ESPP"), pursuant to which common stock or other equity awards may be issued or granted to eligible persons.

The following table gives information about equity awards under the 2009 Plan, the Company's prior 1994 Stock Option and Incentive Plan (the "1994 Plan") under which awards were previously made, and the ESPP as of December 31, 2015:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1)	862,359 (2)	\$ 117.48 (3)	1,364,678
Equity compensation plans not approved by security holders (4)	—	N/A	704,160
Total	862,359	\$ 117.48 (3)	2,068,838

(1) Consists of the 2009 Plan and the 1994 Plan.

(2) Includes 54,454 deferred units granted under the 2009 Plan and the 1994 Plan, which, subject to vesting requirements, will convert in the future to common stock on a one-for-one basis. Also includes the maximum number of shares that may be issued upon settlement of outstanding Performance Awards awarded to officers and maturing on December 31, 2015, 2016 and 2017. Does not include 246,231 shares of restricted stock that are outstanding and that are already reflected in the Company's outstanding shares.

(3) Excludes performance awards and deferred units granted under the 2009 Plan and the 1994 Plan, which, subject to vesting requirements, will convert in the future to common stock on a one-for-one basis.

(4) Consists of the ESPP.

The ESPP, which was adopted by the Board of Directors on October 29, 1996, has not been approved by our shareholders. A further description of the ESPP appears in Note 9, "Stock-Based Compensation Plans," of our Consolidated Financial Statements included in this report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 pertaining to certain relationships and related transactions is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders to be held on May 19, 2016.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 pertaining to the fees paid to and services provided by the Company's principal accountant is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders to be held on May 19, 2016.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

15(a)(1) *Financial Statements*

Index to Financial Statements

Consolidated Financial Statements and Financial Statement Schedule:

[Reports of Independent Registered Public Accounting Firm](#) [F-1](#)

[Consolidated Balance Sheets as of December 31, 2015 and 2014](#) [F-3](#)

[Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014 and 2013](#) [F-4](#)

[Consolidated Statements of Equity for the years ended December 31, 2015, 2014 and 2013](#) [F-5](#)

[Consolidated Statements of Cash Flows for the years ended December 31, 2015, 2014 and 2013](#) [F-6](#)

[Notes to Consolidated Financial Statements](#) [F-9](#)

15(a)(2) *Financial Statement Schedule*

[Schedule III—Real Estate and Accumulated Depreciation](#) [F-39](#)

All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

15(a)(3) *Exhibits*

[The exhibits listed on the accompanying Index to Exhibits are filed as a part of this report.](#)

INDEX TO EXHIBITS

3(i).1	—	Articles of Amendment and Restatement of Articles of Incorporation of the Company, dated as of June 4, 1998. (Incorporated by reference to Exhibit 3(i) to Form 10-K of the Company filed March 1, 2007.)
3(i).2	—	Articles of Amendment, dated as of October 2, 1998. (Incorporated by reference to Exhibit 3(i).2 to Form 10-K of the Company filed March 1, 2007.)
3(i).3	—	Articles of Amendment, dated as of May 22, 2013. (Incorporated by reference to Exhibit 3(i).3 to Form 8-K of the Company filed on May 22, 2013.)
3(ii).1	—	Amended and Restated Bylaws of the Company, as adopted by the Board of Directors on November 12, 2015. (Filed herewith.)
4.1	—	Indenture for Senior Debt Securities, dated as of January 16, 1998, between the Company and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
4.2	—	First Supplemental Indenture, dated as of January 20, 1998, between the Company and State Street Bank and Trust Company as Trustee. (Incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
4.3	—	Second Supplemental Indenture, dated as of July 7, 1998, between the Company and State Street Bank and Trust Company as Trustee. (Incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
4.4	—	Amended and Restated Third Supplemental Indenture, dated as of July 10, 2000 between the Company and State Street Bank and Trust Company as Trustee. (Incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
4.5	—	Fourth Supplemental Indenture, dated as of September 18, 2006, between the Company and U.S. Bank National Association as Trustee. (Incorporated by reference to Exhibit 4.5 to Registration Statement on Form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
4.6	—	Fifth Supplemental Indenture, dated as of November 21, 2014, between the Company and the Bank of New York Mellon, as Trustee. (Incorporated by reference to Exhibit 4.1 to Form 8-K of the Company filed on November 21, 2014.)
4.7	—	Dividend Reinvestment and Stock Purchase Plan of the Company. (Incorporated by reference to Exhibit 8.1 to Registration Statement on Form S-3 of the Company (File No. 333-87063), filed September 14, 1999.)
4.8	—	Amendment to the Company's Dividend Reinvestment and Stock Purchase Plan filed on December 17, 1999. (Incorporated by reference to the Prospectus Supplement filed pursuant to Rule 424(b)(2) of the Securities Act of 1933 on December 17, 1999.)
4.9	—	Amendment to the Company's Dividend Reinvestment and Stock Purchase Plan filed on March 26, 2004. (Incorporated by reference to the Prospectus Supplement filed pursuant to Rule 424(b)(3) of the Securities Act of 1933 on March 26, 2004.)
4.10	—	Amendment to the Company's Dividend Reinvestment and Stock Purchase Plan filed on May 15, 2006. (Incorporated by reference to the Prospectus Supplement filed pursuant to Rule 424(b)(3) of the Securities Act of 1933 on May 15, 2006.)
10.1	—	Master Cross-Collateralization Agreement, dated as of April 24, 2009, between Deutsche Bank Berkshire Mortgage, Inc., parties identified on Exhibit A-Schedule 1 attached thereto, and Shady Grove Financing, LLC. (Incorporated by reference to Exhibit 10.2 to Form 10-Q of the Company filed August 10, 2009.)
10.2	—	Master Substitution Agreement, dated April 23, 2009, between Deutsche Bank Berkshire Mortgage, Inc., AvalonBay Trville, LLC and the entities identified on Schedule B attached thereto. (Incorporated by reference to Exhibit 10.3 to Form 10-Q of the Company filed August 10, 2009.)

10.3	—	Form of Multifamily Note, dated April 24, 2009. (Used in connection with the properties identified on Exhibit B to the Master Cross-Collateralization Agreement dated April 24, 2009.) (Incorporated by reference to Exhibit 10.4 to Form 10-Q of the Company filed August 10, 2009.)
10.4	—	Form of Guaranty, dated April 24, 2009. (Used in connection with the properties identified on Exhibit B to the Master Cross-Collateralization Agreement dated April 24, 2009.) (Incorporated by reference to Exhibit 10.5 to Form 10-Q of the Company filed August 10, 2009.)
10.5+	—	Endorsement Split Dollar Agreements and Amendments thereto with Messrs. Naughton and Horey. (Incorporated by reference to Exhibit 10.8 to Form 10-K of the Company filed February 23, 2011.)
10.6+	—	Form of Amendment to Endorsement Split Dollar Agreement with Messrs. Naughton and Horey. (Incorporated by reference to Exhibit 10.4 to Form 10-K of the Company filed March 2, 2009.)
10.7+	—	Employment Agreement between the Company and Timothy J. Naughton, dated as of December 16, 2011. (Expired December 31, 2015.) (Incorporated by reference to Exhibit 10.1 to Form 8-K of the Company filed December 21, 2011.)
10.8+	—	Employment Agreement between the Company and Leo S. Horey dated as of December 16, 2011. (Expired December 31, 2015.) (Incorporated by reference to Exhibit 10.3 to Form 8-K of the Company filed December 21, 2011.)
10.9+	—	AvalonBay Communities, Inc. Amended and Restated 2009 Stock Option and Incentive Plan. (Incorporated by reference to Exhibit 99.1 to Form 8-K of the Company filed February 16, 2016.)
10.10+	—	Form of Incentive Stock Option Agreement (2009 Stock Option and Incentive Plan). (Incorporated by reference to Exhibit 10.1 to Registration Statement on Form S-8 of the Company filed May 22, 2009.)
10.11+	—	Form of Non-Qualified Stock Option Agreement (2009 Stock Option and Incentive Plan). (Incorporated by reference to Exhibit 10.2 to Registration Statement on Form S-8 of the Company filed May 22, 2009.)
10.12+	—	Form of Stock Grant and Restricted Stock Agreement (2009 Stock Option and Incentive Plan). (Incorporated by reference to Exhibit 10.3 to Registration Statement on Form S-8 of the Company filed May 22, 2009.)
10.13+	—	Form of Stock Grant and Restricted Stock Agreement adopted February 11, 2016 (2009 Stock Option and Incentive Plan). (Incorporated by reference to Exhibit 99.3 to Form 8-K of the Company filed February 16, 2016.)
10.14+	—	Form of Director Restricted Stock Agreement (2009 Stock Option and Incentive Plan). (Incorporated by reference to Exhibit 10.4 to Registration Statement on Form S-8 of the Company filed May 22, 2009.)
10.15+	—	Form of Director Restricted Unit Agreement (2009 Stock Option and Incentive Plan). (Incorporated by reference to Exhibit 10.5 to Registration Statement on Form S-8 of the Company filed May 22, 2009.)
10.16+	—	Form of Indemnity Agreement between the Company and its Directors. (Incorporated by reference to Exhibit 10.19 to Form 10-K of the Company filed February 19, 2015.)
10.17+	—	The Company's Officer Severance Plan, as amended and restated on February 11, 2016. (Incorporated by reference to Exhibit 99.2 to Form 8-K of the Company filed February 16, 2016.)

10.18+	—	AvalonBay Communities, Inc. 1994 Stock Incentive Plan, as amended and restated in full on December 8, 2004. (Incorporated by reference to Exhibit 10.21 to Form 10-K of the Company filed March 2, 2009.)
10.19+	—	Amendment dated February 9, 2006, to the AvalonBay Communities, Inc. 1994 Stock Incentive Plan, as amended and restated on December 8, 2004. (Incorporated by reference to Exhibit 10.23 to Form 10-K of the Company filed February 22, 2013.)
10.20+	—	Amendment, dated December 6, 2006, to the AvalonBay Communities, Inc. 1994 Stock Incentive Plan, as amended and restated on December 8, 2004. (Incorporated by reference to Exhibit 10.24 to Form 10-K of the Company filed February 22, 2013.)
10.21+	—	Amendment, dated September 20, 2007, to the AvalonBay Communities, Inc. 1994 Stock Incentive Plan, as amended and restated on December 8, 2004. (Incorporated by reference to Exhibit 10.25 to Form 10-K of the Company filed February 22, 2013.)
10.22+	—	Form of AvalonBay Communities, Inc. Non-Qualified Stock Option Agreement (1994 Stock Incentive Plan, as Amended and Restated). (Incorporated by reference to Exhibit 10.26 to Form 10-K of the Company filed February 22, 2013.)
10.23+	—	Form of AvalonBay Communities, Inc. Incentive Stock Option Agreement (1994 Stock Incentive Plan, as Amended and Restated.) (Incorporated by reference to Exhibit 10.27 to Form 10-K of the Company filed February 22, 2013.)
10.24+	—	Form of AvalonBay Communities, Inc. Employee Stock Grant and Restricted Stock Agreement (1994 Stock Incentive Plan, as Amended and Restated.) (Incorporated by reference to Exhibit 10.33 to Form 10-K of the Company filed March 2, 2009.)
10.25+	—	Form of AvalonBay Communities, Inc. Director Restricted Unit Agreement (1994 Stock Incentive Plan, as Amended and Restated). (Incorporated by reference to Exhibit 10.29 to Form 10-K of the Company filed February 22, 2013.)
10.26+	—	Form of AvalonBay Communities, Inc. Director Restricted Stock Agreement (1994 Stock Incentive Plan, as Amended and Restated). (Incorporated by reference to Exhibit 10.30 to Form 10-K of the Company filed February 22, 2013.)
10.27	—	Third Amended and Restated Revolving Loan Agreement, dated as of September 29, 2011, with Bank of America, N.A., as administrative agent, swing lender, issuing bank and a bank, JPMorgan Chase Bank, N.A., as a bank and as syndication agent, Deutsche Bank Trust Company Americas, Morgan Stanley Bank and Wells Fargo Bank, N.A., each as a bank and as documentation agent, Barclays Bank PLC as a bank and as co-documentation agent, UBS Securities LLC as a co-documentation agent, The Bank of New York Mellon, BBVA Compass Bank, PNC Bank, National Association, and Suntrust Bank, each as a bank and as a managing agent, Branch Banking and Trust Company, Bank of Tokyo Mitsubishi UFJ, Ltd., and Citizens Bank, each as a bank and as a co-agent, and the other bank parties signatory thereto (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed November 7, 2011.)
10.28	—	Amendment No. 1 to Third Amended and Restated Revolving Loan Agreement, dated as of December 20, 2012, among the Company, as Borrower, the banks signatory thereto, each as a Bank, and Bank of America, N.A., as Administrative Agent. (Incorporated by reference to Exhibit 10.1 to Form 8-K of the Company, filed December 21, 2012.)
10.29+	—	Rules and Procedures for Non-Employee Directors' Deferred Compensation Program, as adopted on November 20, 2006, as amended on December 11, 2008, February 10, 2010 and November 10, 2010. (Incorporated by reference to Exhibit 10.49 to Form 10-K of the Company filed February 23, 2011.)
10.30+	—	Amended and Restated AvalonBay Communities, Inc. Deferred Compensation Plan, effective as of January 1, 2011. (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed August 6, 2010.)
10.31+	—	Retirement Agreement between the Company and Thomas J. Sargeant dated as of May 20, 2014. (Incorporated by reference to Exhibit 10.36 to Form 10-K on the Company filed February 19, 2015.)

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10.32+	—	Form of AvalonBay Communities, Inc. Award Terms of Performance-Based Restricted Stock Units. (Incorporated by reference to Exhibit 10.1 to Form 10-Q filed May 10, 2013.)
10.33+	—	Form of AvalonBay Communities, Inc. Award Terms of Performance-Based Restricted Stock Units (Incorporated by reference to Exhibit 10.1 to Form 10-Q filed May 4, 2015.)
10.34+	—	Form of AvalonBay Communities, Inc. Award Terms of Performance-Based Restricted Stock Units, approved February 11, 2016. (Incorporated by reference to Exhibit 99.4 to Form 8-K of the Company filed February 16, 2016.)
10.35	—	Archstone Residual JV, LLC Limited Liability Company Agreement. (Incorporated by reference to Exhibit 10.3 to Form 8-K of the Company filed March 5, 2013.)
10.36	—	Archstone Parallel Residual JV, LLC Limited Liability Company Agreement. (Incorporated by reference to Exhibit 10.4 to Form 8-K of the Company filed March 5, 2013.)
10.37	—	Archstone Parallel Residual JV 2, LLC Limited Liability Company Agreement. (Incorporated by reference to Exhibit 10.5 to Form 8-K of the Company filed March 5, 2013.)
10.38	—	Legacy Holdings JV, LLC Limited Liability Company Agreement. (Incorporated by reference to Exhibit 10.6 to Form 8-K of the Company filed March 5, 2013.)
10.39	—	Master Credit Facility Agreement, dated February 27, 2013, by and among Federal National Mortgage Association and the parties named therein. (Incorporated by reference to Exhibit 10.7 to Form 8-K of the Company filed March 5, 2013.)
10.40	---	Term Loan Agreement, dated March 31, 2014, among the Company, as Borrower, Wells Fargo Bank, National Association, as Administrative Agent and a bank, PNC Bank, National Association, as Syndication Agent and a bank, and a syndicate of other financial institutions, serving as banks. (Incorporated by reference to Exhibit 10.1 to Form 8-K of the Company filed April 2, 2014.)
12.1	—	Statements re: Computation of Ratios. (Filed herewith.)
21.1	—	Schedule of Subsidiaries of the Company. (Filed herewith.)
23.1	—	Consent of Ernst & Young LLP. (Filed herewith.)
31.1	—	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer). (Filed herewith.)
31.2	—	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer). (Filed herewith.)
32	—	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer and Chief Financial Officer). (Furnished herewith.)
101	—	XBRL (Extensible Business Reporting Language). The following materials from AvalonBay Communities, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL: (i) consolidated balance sheets, (ii) consolidated statements of operations, (iii) consolidated statements of cash flows, (iv) consolidated changes in stockholders' equity, and (v) notes to consolidated financial statements.

+ Management contract or compensatory plan or arrangement required to be filed or incorporated by reference as an exhibit to this Form 10-K pursuant to Item 15(a)(3) of Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

AvalonBay Communities, Inc.

Date: February 25, 2016 By: /s/ TIMOTHY J. NAUGHTON
Timothy J. Naughton, Director, Chairman, Chief Executive Officer and President (Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: February 25, 2016 By: /s/ TIMOTHY J. NAUGHTON
Timothy J. Naughton, Director, Chairman, Chief Executive Officer and President (Principal Executive Officer)

Date: February 25, 2016 By: /s/ KEVIN P. O'SHEA
Kevin P. O'Shea, Chief Financial Officer
(Principal Financial Officer)

Date: February 25, 2016 By: /s/ KERI A. SHEA
Keri A. Shea, Senior Vice President—Finance & Treasurer
(Principal Accounting Officer)

Date: February 25, 2016 By: /s/ GLYN F. AEPPEL
Glyn F. Aepfel, Director

Date: February 25, 2016 By: /s/ TERRY S. BROWN
Terry S. Brown, Director

Date: February 25, 2016 By: /s/ ALAN B. BUCKELEW
Alan B. Buckelew, Director

Date: February 25, 2016 By: /s/ RONALD L. HAVNER, JR.
Ronald L. Havner, Jr., Director

Date: February 25, 2016 By: /s/ JOHN J. HEALY, JR.
John J. Healy, Jr., Director

Date: February 25, 2016 By: /s/ LANCE R. PRIMIS
Lance R. Primis, Director

Date: February 25, 2016 By: /s/ PETER S. RUMMELL
Peter S. Rummell, Director

Date: February 25, 2016 By: /s/ H. JAY SARLES
H. Jay Sarles, Director

Date: February 25, 2016 By: /s/ W. EDWARD WALTER
W. Edward Walter, Director

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of AvalonBay Communities, Inc.:

We have audited the accompanying consolidated balance sheets of AvalonBay Communities, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AvalonBay Communities, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method for reporting discontinued operations effective January 1, 2014.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), AvalonBay Communities, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 25, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 25, 2016

**Report of Independent Registered Public Accounting Firm on
Internal Control Over Financial Reporting**

The Board of Directors and Stockholders of AvalonBay Communities, Inc.:

We have audited AvalonBay Communities, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). AvalonBay Communities, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting in Item 9A. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, AvalonBay Communities, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AvalonBay Communities, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015 of AvalonBay Communities, Inc. and our report dated February 25, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 25, 2016

AVALONBAY COMMUNITIES, INC.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	12/31/15	12/31/14
ASSETS		
Real estate:		
Land and improvements	\$ 3,636,761	\$ 3,413,641
Buildings and improvements	13,056,292	12,191,883
Furniture, fixtures and equipment	458,224	400,720
	17,151,277	16,006,244
Less accumulated depreciation	(3,303,751)	(2,847,058)
Net operating real estate	13,847,526	13,159,186
Construction in progress, including land	1,592,917	1,417,107
Land held for development	484,377	180,516
Operating real estate assets held for sale, net	17,489	178,931
Total real estate, net	15,942,309	14,935,740
Cash and cash equivalents	400,507	509,460
Cash in escrow	104,821	95,625
Resident security deposits	30,077	29,617
Investments in unconsolidated real estate entities	216,919	298,315
Deferred development costs	37,577	67,029
Prepaid expenses and other assets	199,095	204,792
Total assets	\$ 16,931,305	\$ 16,140,578
LIABILITIES AND EQUITY		
Unsecured notes, net	\$ 3,845,674	\$ 2,975,533
Variable rate unsecured credit facility	—	—
Mortgage notes payable, net	2,611,274	3,514,174
Dividends payable	171,257	153,207
Construction payables	98,802	101,916
Accrued expenses and other liabilities	260,005	244,117
Accrued interest payable	40,085	41,635
Resident security deposits	53,132	48,826
Liabilities related to real estate assets held for sale	553	2,000
Total liabilities	7,080,782	7,081,408
Commitments and contingencies		
Redeemable noncontrolling interests	9,997	12,765
Equity:		
Preferred stock, \$0.01 par value; \$25 liquidation preference; 50,000,000 shares authorized at December 31, 2015 and 2014; zero shares issued and outstanding at December 31, 2015 and 2014	—	—
Common stock, \$0.01 par value; 280,000,000 shares authorized at December 31, 2015 and 2014; 137,002,031 and 132,050,382 shares issued and outstanding at December 31, 2015 and 2014, respectively	1,370	1,320
Additional paid-in capital	10,068,532	9,354,685
Accumulated earnings less dividends	(197,989)	(267,085)
Accumulated other comprehensive loss	(31,387)	(42,515)
Total equity	9,840,526	9,046,405
Total liabilities and equity	\$ 16,931,305	\$ 16,140,578

See accompanying notes to Consolidated Financial Statements.

AVALONBAY COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands, except per share data)

	For the year ended		
	12/31/15	12/31/14	12/31/13
Revenue:			
Rental and other income	\$ 1,846,081	\$ 1,674,011	\$ 1,451,419
Management, development and other fees	9,947	11,050	11,502
Total revenue	<u>1,856,028</u>	<u>1,685,061</u>	<u>1,462,921</u>
Expenses:			
Operating expenses, excluding property taxes	448,747	410,672	352,245
Property taxes	193,499	178,634	158,774
Interest expense, net	175,615	180,618	172,402
(Gain) loss on extinguishment of debt, net	(26,736)	412	14,921
Loss on interest rate contract	—	—	51,000
Depreciation expense	477,923	442,682	560,215
General and administrative expense	42,396	41,425	39,573
Expensed acquisition, development and other pursuit costs, net of recoveries	6,822	(3,717)	45,050
Casualty (gain) loss and impairment loss, net	(10,542)	—	—
Total expenses	<u>1,307,724</u>	<u>1,250,726</u>	<u>1,394,180</u>
Equity in income (loss) of unconsolidated entities	70,018	148,766	(11,154)
Gain on sale of real estate	9,647	490	240
Gain on sale of communities	115,625	84,925	—
Income from continuing operations before taxes	743,594	668,516	57,827
Income tax expense	1,861	9,368	—
Income from continuing operations	<u>741,733</u>	<u>659,148</u>	<u>57,827</u>
Discontinued operations:			
Income from discontinued operations	—	310	16,713
Gain on sale of discontinued operations	—	37,869	278,231
Total discontinued operations	<u>—</u>	<u>38,179</u>	<u>294,944</u>
Net income	741,733	697,327	352,771
Net loss (income) attributable to noncontrolling interests	305	(13,760)	370
Net income attributable to common stockholders	<u>\$ 742,038</u>	<u>\$ 683,567</u>	<u>\$ 353,141</u>
Other comprehensive income:			
Unrealized gain (loss) on cash flow hedges	5,354	(121)	—
Cash flow hedge losses reclassified to earnings	5,774	6,237	59,376
Comprehensive income	<u>\$ 753,166</u>	<u>\$ 689,683</u>	<u>\$ 412,517</u>
Earnings per common share—basic:			
Income from continuing operations attributable to common stockholders	\$ 5.54	\$ 4.93	\$ 0.46
Discontinued operations attributable to common stockholders	—	0.29	2.32
Net income attributable to common stockholders	<u>\$ 5.54</u>	<u>\$ 5.22</u>	<u>\$ 2.78</u>
Earnings per common share—diluted:			
Income from continuing operations attributable to common stockholders	\$ 5.51	\$ 4.92	\$ 0.46
Discontinued operations attributable to common stockholders	—	0.29	2.32
Net income attributable to common stockholders	<u>\$ 5.51</u>	<u>\$ 5.21</u>	<u>\$ 2.78</u>

See accompanying notes to Consolidated Financial Statements.

AVALONBAY COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(Dollars in thousands)

	Shares issued		Preferred stock	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total AvalonBay stockholders' equity	Noncontrolling interests	Total equity
	Preferred stock	Common stock								
Balance at December 31, 2012	—	114,403,472	\$ —	\$ 1,144	\$ 7,086,407	\$ (142,329)	\$ (108,007)	\$ 6,837,215	\$ 3,578	\$ 6,840,793
Net income attributable to common stockholders	—	—	—	—	—	353,141	—	353,141	—	353,141
Cash flow hedge losses reclassified to earnings	—	—	—	—	—	—	59,376	59,376	—	59,376
Change in redemption value of redeemable noncontrolling interest	—	—	—	—	—	(1,246)	—	(1,246)	—	(1,246)
Noncontrolling interest consolidation and income allocation	—	—	—	—	1,515	—	—	1,515	17	1,532
Dividends declared to common stockholders	—	—	—	—	—	(553,829)	—	(553,829)	—	(553,829)
Issuance of common stock, net of withholdings	—	15,013,223	—	150	1,873,792	(991)	—	1,872,951	—	1,872,951
Amortization of deferred compensation	—	—	—	—	27,009	—	—	27,009	—	27,009
Balance at December 31, 2013	—	129,416,695	—	1,294	8,988,723	(345,254)	(48,631)	8,596,132	3,595	8,599,727
Net income attributable to common stockholders	—	—	—	—	—	683,567	—	683,567	—	683,567
Unrealized loss on cash flow hedges	—	—	—	—	—	—	(121)	(121)	—	(121)
Cash flow hedge losses reclassified to earnings	—	—	—	—	—	—	6,237	6,237	—	6,237
Change in redemption value of noncontrolling interest	—	—	—	—	—	3,709	—	3,709	—	3,709
Noncontrolling interests income allocation	—	—	—	—	—	—	—	—	14,221	14,221
Noncontrolling interests derecognition	—	—	—	—	—	—	—	—	(17,816)	(17,816)
Dividends declared to common stockholders	—	—	—	—	—	(608,709)	—	(608,709)	—	(608,709)
Issuance of common stock, net of withholdings	—	2,633,687	—	26	339,186	(398)	—	338,814	—	338,814
Amortization of deferred compensation	—	—	—	—	26,776	—	—	26,776	—	26,776
Balance at December 31, 2014	—	132,050,382	—	1,320	9,354,685	(267,085)	(42,515)	9,046,405	—	9,046,405
Net income attributable to common stockholders	—	—	—	—	—	742,038	—	742,038	—	742,038
Unrealized gain on cash flow hedges	—	—	—	—	—	—	5,354	5,354	—	5,354
Cash flow hedge losses reclassified to earnings	—	—	—	—	—	—	5,774	5,774	—	5,774
Change in redemption value and acquisition of noncontrolling interest	—	—	—	—	(1,088)	2,053	—	965	—	965
Dividends declared to common stockholders	—	—	—	—	—	(673,670)	—	(673,670)	—	(673,670)
Issuance of common stock, net of withholdings	—	4,951,649	—	50	688,677	(1,325)	—	687,402	—	687,402
Amortization of deferred compensation	—	—	—	—	26,258	—	—	26,258	—	26,258
Balance at December 31, 2015	—	137,002,031	\$ —	\$ 1,370	\$ 10,068,532	\$ (197,989)	\$ (31,387)	\$ 9,840,526	\$ —	\$ 9,840,526

See accompanying notes to Consolidated Financial Statements.

AVALONBAY COMMUNITIES, INC
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	For the year ended		
	12/31/15	12/31/14	12/31/13
Cash flows from operating activities:			
Net income	\$ 741,733	\$ 697,327	\$ 352,771
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation expense	477,923	442,682	560,215
Depreciation expense from discontinued operations	—	—	13,500
Amortization of deferred financing costs	6,871	6,383	6,803
Amortization of debt premium	(24,261)	(34,961)	(29,750)
(Gain) loss on extinguishment of debt, net	(26,736)	412	14,921
Amortization of stock-based compensation	15,321	13,927	15,160
Equity in loss of, and return on, unconsolidated entities and noncontrolling interests, net of eliminations	12,225	4,906	33,125
Casualty (gain) loss and impairment loss, net	(17,303)	—	—
Abandonment of development pursuits	—	1,455	—
Cash flow hedge losses reclassified to earnings	5,774	6,237	59,376
Gain on sale of real estate assets	(158,852)	(255,300)	(278,471)
(Increase) decrease in cash in operating escrows	(11,837)	55	(28,960)
Decrease (increase) in resident security deposits, prepaid expenses and other assets	12,783	(3,441)	(5,372)
Increase in accrued expenses, other liabilities and accrued interest payable	23,113	6,959	10,997
Net cash provided by operating activities	<u>1,056,754</u>	<u>886,641</u>	<u>724,315</u>
Cash flows from investing activities:			
Development/redevelopment of real estate assets including land acquisitions and deferred development costs	(1,569,326)	(1,241,832)	(1,285,715)
Acquisition of real estate assets, including partnership interest	—	(47,000)	(839,469)
Capital expenditures - existing real estate assets	(48,170)	(46,902)	(24,415)
Capital expenditures - non-real estate assets	(7,695)	(5,923)	(2,200)
Proceeds from sale of real estate, net of selling costs	282,163	297,466	919,682
Insurance recoveries for property damage claims	44,142	—	—
Mortgage note receivable payment	—	21,748	—
(Decrease) increase in payables for construction	(3,230)	7,400	34,779
Distributions from unconsolidated real estate entities	109,181	203,945	42,955
Investments in unconsolidated real estate entities	(6,582)	(5,662)	(26,791)
Net cash used in investing activities	<u>(1,199,517)</u>	<u>(816,760)</u>	<u>(1,181,174)</u>
Cash flows from financing activities:			
Issuance of common stock, net	690,184	346,134	4,703
Dividends paid	(655,248)	(593,643)	(526,050)
Issuance of mortgage notes payable	—	53,000	84,928
Repayments of mortgage notes payable, including prepayment penalties	(850,963)	(32,859)	(2,110,347)
Settlement of interest rate contract	—	—	(51,000)
Issuance of unsecured notes	873,088	550,000	750,000
Repayment of unsecured notes	—	(150,000)	(100,000)
Payment of deferred financing costs	(7,343)	(7,820)	(10,100)
Redemption of noncontrolling interest and units for cash by minority partners	(1,088)	—	(1,965)
Distributions to DownREIT partnership unitholders	(38)	(26)	(32)
Distributions to joint venture and profit-sharing partners	(372)	(262)	(317)
Redemption of preferred interest obligation	(14,410)	(6,300)	(35,224)
Net cash provided by (used in) financing activities	<u>33,810</u>	<u>158,224</u>	<u>(1,995,404)</u>
Net (decrease) increase in cash and cash equivalents	(108,953)	228,105	(2,452,263)
Cash and cash equivalents, beginning of year	509,460	281,355	2,733,618
Cash and cash equivalents, end of year	<u>\$ 400,507</u>	<u>\$ 509,460</u>	<u>\$ 281,355</u>
Cash paid during the year for interest, net of amount capitalized	<u>\$ 188,782</u>	<u>\$ 191,966</u>	<u>\$ 179,325</u>

See accompanying notes to Consolidated Financial Statements.



Supplemental disclosures of non-cash investing and financing activities:

During the year ended December 31, 2015:

- As described in Note 4, "Equity," 157,779 shares of common stock were issued as part of the Company's stock based compensation plans, of which 95,826 shares related to the conversion of performance awards to restricted shares, and the remaining 61,953 shares valued at \$10,720,000 were issued in connection with new stock grants; 46,589 shares valued at \$3,552,000 at the grant date, were issued in conjunction with the conversion of deferred stock awards; 2,142 shares valued at \$372,000 were issued through the Company's dividend reinvestment plan; 45,090 shares valued at \$5,979,000 were withheld to satisfy employees' tax withholding and other liabilities; and 1,529 restricted shares as well as performance awards with an aggregate value of \$726,000 previously issued in connection with employee compensation were canceled upon forfeiture.
- Common stock dividends declared but not paid totaled \$171,257,000.
- The Company recorded a decrease of \$2,053,000 in redeemable noncontrolling interest with a corresponding increase to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units. For further discussion of the nature and valuation of these items, see Note 11, "Fair Value."
- The Company recorded an increase in prepaid expenses and other assets and a corresponding gain to other comprehensive income of \$5,354,000, and reclassified \$5,774,000 of cash flow hedge losses from other comprehensive income to interest expense, net, to record the impact of the Company's derivative and hedge accounting activity.
- As discussed in Note 1, "Organization and Basis of Presentation, Casualty Gains and Losses," the Company recognized a charge of \$26,039,000 to write off the net book value of the fixed assets destroyed by the Edgewater fire and winter storm damage.
- The Company recognized a capital lease associated with a parking garage adjacent to a Development Community, recording a capital lease obligation of \$3,299,000 in accrued expenses and other liabilities, with a corresponding asset to buildings and improvements.

During the year ended December 31, 2014:

- The Company issued 115,163 shares of common stock were issued as part of the Company's stock based compensation plan, of which 16,209 shares related to the conversion of performance awards to restricted shares, and the remaining 98,954 shares valued at \$12,799,000 were issued in connection with new stock grants; 2,434 shares valued at \$335,000 were issued through the Company's dividend reinvestment plan; 55,523 shares valued at \$4,746,000 were withheld to satisfy employees' tax withholding and other liabilities; and 7,970 restricted shares as well as performance awards with an aggregate value of \$2,938,000 previously issued in connection with employee compensation were canceled upon forfeiture.
- Common dividends declared but not paid totaled \$153,207,000.
- The Company recorded a decrease of \$3,709,000 in redeemable noncontrolling interest with a corresponding increase to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units. For further discussion of the nature and valuation of these items, see Note 11, "Fair Value."
- The Company recorded a decrease in prepaid expenses and other assets and a corresponding loss to other comprehensive income of \$121,000, and reclassified \$6,237,000 of deferred cash flow hedge losses from other comprehensive income to interest expense, net, to record the impact of the Company's derivative and hedge accounting activity.
- The Company derecognized \$17,816,000 in noncontrolling interest in conjunction with the deconsolidation of a Fund I subsidiary.

During the year ended December 31, 2013:

- The Company issued 14,889,706 shares of common stock valued at \$1,875,210,000 as partial consideration for the Archstone Acquisition (as defined in this Form 10-K); 123,977 shares of common stock valued at \$16,019,000 were issued in connection with stock grants; 2,002 shares valued at \$269,000 were issued through the Company's dividend reinvestment plan; 48,310 shares valued at \$6,127,000 were withheld to satisfy employees' tax withholding and other liabilities; and 7,653 shares and certain options valued at \$1,105,000 previously issued in connection with employee

compensation were canceled upon forfeiture. In addition, the Company granted 215,230 options for common stock at a value of \$5,768,000.

- The Company reclassified \$5,892,000 of deferred cash flow hedge losses from other comprehensive income to interest expense, net, and \$53,484,000 to loss on interest rate contract, to record the impact of the Company's derivative and hedge accounting activity.
- Common stock dividends declared but not paid totaled \$138,476,000.
- The Company recorded \$13,262,000 in redeemable noncontrolling interests associated with consolidated joint ventures acquired as part of the Archstone Acquisition. The Company also recorded an increase of \$1,246,000 in redeemable noncontrolling interest with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units.
- The Company assumed secured indebtedness with a principal amount of \$3,512,202,000 in conjunction with the Archstone Acquisition. The Company also assumed an obligation related to outstanding preferred interests of approximately \$67,500,000, included in accrued expenses and other liabilities.

See accompanying notes to Consolidated Financial Statements.

AVALONBAY COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Basis of Presentation and Significant Accounting Policies

Organization

AvalonBay Communities, Inc. (the “Company,” which term, unless the context otherwise requires, refers to AvalonBay Communities, Inc. together with its subsidiaries), is a Maryland corporation that has elected to be treated as a real estate investment trust (“REIT”) for federal income tax purposes under the Internal Revenue Code of 1986 (the “Code”). The Company focuses on the development, redevelopment, acquisition, ownership and operation of multifamily communities primarily in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Pacific Northwest, and Northern and Southern California.

At December 31, 2015, the Company owned or held a direct or indirect ownership interest in 259 operating apartment communities containing 75,584 apartment homes in 11 states and the District of Columbia, of which nine communities containing 2,795 apartment homes were under reconstruction. In addition, the Company owned or held a direct or indirect ownership interest in 26 communities under construction that are expected to contain an aggregate of 8,112 apartment homes when completed. The Company also owned or held a direct or indirect ownership interest in land or rights to land in which the Company expects to develop an additional 32 communities that, if developed as expected, will contain an estimated 9,634 apartment homes.

Capitalized terms used without definition have meanings provided elsewhere in this Form 10-K.

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, certain joint venture partnerships, subsidiary partnerships structured as DownREITs and any variable interest entities that qualify for consolidation. All significant intercompany balances and transactions have been eliminated in consolidation.

As of December 31, 2015, the Company has adopted ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis. See discussion under “Recently Issued and Adopted Accounting Standards” for further details.

The Company accounts for joint venture entities and subsidiary partnerships in accordance with the consolidation guidance. The Company evaluates the partnership of each joint venture entity and determines first whether to follow the variable interest (“VIE”) or the voting interest (“VOE”) model. Once the appropriate consolidation model is identified, the Company then evaluates whether it should consolidate the venture. Under the VIE model, the Company consolidates an investment when it has control to direct the activities of the venture and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Under the VOE model, the Company consolidates an investment when 1) it controls the investment through ownership of a majority voting interest if the investment is not a limited partnership or 2) it controls the investment through its ability to remove the other partners in the investment, at its discretion, when the investment is a limited partnership.

The Company generally uses the equity method of accounting for its investment in joint ventures, under all other potential scenarios, including where the Company holds a noncontrolling limited partner interest in a joint venture. Any investment in excess of the Company's cost basis at acquisition or formation of an equity method venture, will be recorded as a component of the Company's investment in the joint venture and recognized over the life of the underlying fixed assets of the venture as a reduction to its equity in income (loss) from the venture. Investments in which the Company has little or no influence are accounted for using the cost method.

Revenue and Gain Recognition

Rental income related to leases is recognized on an accrual basis when due from residents as required by the accounting guidance applicable to leases, which provides guidance on classification and recognition. In accordance with the Company's standard lease terms, rental payments are generally due on a monthly basis. Any cash concessions given at the inception of the lease are amortized over the approximate life of the lease, which is generally one year. The Company records a charge to income for outstanding receivables greater than 90 days past due as a component of operating expenses, excluding property taxes on the accompanying Consolidated Statements of Comprehensive Income.

The Company accounts for the sale of real estate assets and any related gain recognition in accordance with the accounting guidance applicable to sales of real estate, which establishes standards for recognition of profit on all real estate sales transactions, other than retail land sales. The Company recognizes the sale, and associated gain or loss from the disposition, provided that the earnings process is complete and the Company does not have significant continuing involvement.

Real Estate

Operating real estate assets are stated at cost and consist of land and improvements, buildings and improvements, furniture, fixtures and equipment, and other costs incurred during their development, redevelopment and acquisition. Significant expenditures which improve or extend the life of an asset are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Improvements and upgrades are generally capitalized only if the item exceeds \$15,000, extends the useful life of the asset and is not related to making an apartment home ready for the next resident. Purchases of personal property, such as computers and furniture, are generally capitalized only if the item is a new addition and exceeds \$2,500. The Company generally expenses purchases of personal property made for replacement purposes.

Project costs related to the development, construction and redevelopment of real estate projects (including interest and related loan fees, property taxes and other direct costs) are capitalized as a cost of the project. Indirect project costs that relate to several projects are capitalized and allocated to the projects to which they relate. Indirect costs not clearly related to development, construction and redevelopment activity are expensed as incurred. For development, capitalization (i) begins when the Company has determined that development of the future asset is probable, (ii) can be suspended if there is no current development activity underway, but future development is still probable and (iii) ends when the asset, or a portion of an asset, is delivered and is ready for its intended use, or the Company's intended use changes such that capitalization is no longer appropriate. For redevelopment efforts, the Company capitalizes costs either (i) in advance of taking homes out of service when significant renovation of the common area has begun until the redevelopment is completed, or (ii) when an apartment home is taken out of service for redevelopment until the redevelopment is completed and the apartment home is available for a new resident. Rental income and operating costs incurred during the initial lease-up or post-redevelopment lease-up period are recognized in earnings as incurred. The Company defers external costs associated with originating new leases, recognizing the impact of these costs in earnings over the term of the lease.

The Company has previously acquired as a Development Right three land parcels partially improved with office buildings, industrial space and other commercial and residential ventures occupied by unrelated third parties. As of December 31, 2015, the Company is actively pursuing development of these parcels. The Company expenses all costs incurred related to acquisitions of land parcels improved with commercial and/or residential ventures occupied by unrelated third parties. For land parcels for which the Company intends to pursue development, the Company will manage the current improvements until such time as all tenant obligations have been satisfied or eliminated through negotiation, and construction of new apartment communities is ready to begin. Revenue from incidental operations received from the current improvements on these land parcels in excess of any incremental costs are being recorded as a reduction of total capitalized costs of the Development Right and not as part of net income.

In connection with the acquisition of an operating community, the Company identifies and records each asset acquired and liability assumed in such transaction at its estimated fair value at the date of acquisition. The purchase price allocations to tangible assets, such as land and improvements, buildings and improvements, and furniture, fixtures and equipment, and the in-place lease intangible assets, are reflected in real estate assets and depreciated over their estimated useful lives. Any purchase price allocation to intangible assets, other than in-place lease intangibles, is included in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets and amortized over the term of the acquired intangible asset. The Company expenses all costs incurred related to acquisitions of operating communities. The Company values land based on a market approach, looking to recent sales of similar properties, adjusting for differences due to location, the state of entitlement as well as the shape and size of the parcel. Improvements to land are valued using a replacement cost approach and consider the structures and amenities included for the communities. The approach applies industry standard replacement costs adjusted for geographic specific considerations, and reduced by estimated depreciation. The value for furniture, fixtures and equipment is also determined based on a replacement cost approach, considering costs for both items in the apartment homes as well as common areas and is adjusted for estimated depreciation. The fair value of buildings acquired is estimated using the replacement cost approach, assuming the buildings were vacant at acquisition. The replacement cost approach considers the composition of structures acquired, adjusted for an estimate of depreciation. The estimate of depreciation is made considering industry standard information and depreciation curves for the identified asset classes. The value of the acquired lease-related intangibles considers the estimated cost of leasing the apartment homes as if the acquired building(s) were vacant, as well as the value of the current leases relative to market-rate leases. The in-place lease value is determined using an average total lease-up time, the number of apartment homes and net revenues generated during the lease-up time. The lease-up period for an apartment community is assumed to be 12 months to achieve stabilized occupancy. Net revenues use market rent considering actual leasing and industry rental rate data. The value of current leases relative to a market-rate lease is based on market rents obtained for market comparables, and considered a market derived discount rate. Given the significance of unobservable inputs used in the value of real estate assets acquired, the Company classifies them as Level 3 prices in the fair value hierarchy.

Depreciation is calculated on buildings and improvements using the straight-line method over their estimated useful lives, which range from seven to 30 years. Furniture, fixtures and equipment are generally depreciated using the straight-line method over their estimated useful lives, which range from three years (primarily computer-related equipment) to seven years.

[Table of Contents](#)*Income Taxes*

As of December 31, 2015 and 2014, the Company did not have any unrecognized tax benefits. The Company does not believe that there will be any material changes in its unrecognized tax positions over the next 12 months. The Company is subject to examination by the respective taxing authorities for the tax years 2012 through 2014.

The Company elected to be taxed as a REIT under the Code for its tax year ended December 31, 1994 and has not revoked such election. A corporate REIT is a legal entity which holds real estate interests and can deduct from its federally taxable income qualifying dividends it pays if it meets a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to stockholders. Therefore, as a REIT the Company generally will not be subject to corporate level federal income tax on taxable income if it distributes 100% of its taxable income over the time period allowed under the Code to its stockholders. The states in which the Company operates have similar tax provisions which recognize the Company as a REIT for state income tax purposes. Management believes that all such conditions for the exemption from income taxes on ordinary income have been or will be met for the periods presented. Accordingly, no provision for federal and state income taxes has been made. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. The Company did not incur any charges or receive refunds of excise taxes related to the years ended December 31, 2015, 2014 and 2013. In addition, taxable income from non-REIT activities performed through taxable REIT subsidiaries ("TRS") is subject to federal, state and local income taxes. The Company incurred income tax expense of \$1,861,000 and \$9,368,000 in 2015 and 2014, respectively, associated primarily with disposition activities transacted through a TRS. No taxes were incurred during 2013.

The following reconciles net income attributable to common stockholders to taxable net income for the years ended December 31, 2015, 2014 and 2013 (dollars in thousands):

	2015 Estimate	2014 Actual	2013 Actual
Net income attributable to common stockholders	\$ 742,038	\$ 683,567	\$ 353,141
GAAP gain on sale of communities (in excess of) less than tax gain	(43,873)	22,127	29,388
Depreciation/amortization timing differences on real estate	(3,105)	(10,735)	180,293
Deductible acquisition costs	—	—	(26,427)
Amortization of debt/mark to market interest	(64,676)	(38,202)	(31,965)
Tax compensation expense less than (in excess of) GAAP	(5,696)	(5,252)	12,886
Casualty (gain) loss and impairment loss, net	(10,542)	—	—
Other adjustments	(38,553)	14,323	1,018
Taxable net income	<u>\$ 575,593</u>	<u>\$ 665,828</u>	<u>\$ 518,334</u>

The following summarizes the tax components of the Company's common dividends declared for the years ended December 31, 2015, 2014 and 2013 (unaudited):

	2015	2014	2013
Ordinary income	83%	62%	42%
20% capital gain	12%	29%	40%
Unrecaptured §1250 gain	5%	9%	18%

Deferred Financing Costs

Deferred financing costs include fees and other expenditures necessary to obtain debt financing and are amortized on a straight-line basis, which approximates the effective interest method, over the shorter of the term of the loan or the related credit enhancement facility, if applicable. Unamortized financing costs are charged to earnings when debt is retired before the maturity date. Accumulated amortization of deferred financing costs related to unsecured notes was \$11,995,000 and \$8,833,000 as of December 31, 2015 and 2014, respectively, and related to mortgage notes payable was \$12,315,000 and \$12,255,000 as of December 31, 2015 and 2014, respectively. In accordance with the new debt issuance costs guidance, deferred financing costs, except for costs associated with line-of-credit arrangements, are presented as a direct deduction from the related debt liability. See "Change in Accounting Principle" for discussion. Accumulated amortization of deferred financing costs related to the Company's Credit Facility was \$4,967,000 and \$3,356,000 as of December 31, 2015 and 2014, respectively, and was included in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets.

[Table of Contents](#)*Cash, Cash Equivalents and Cash in Escrow*

Cash and cash equivalents include all cash and liquid investments with an original maturity of three months or less from the date acquired. Cash in escrow includes principal reserve funds that are restricted for the repayment of specified secured financing. The majority of the Company's cash, cash equivalents and cash in escrow are held at major commercial banks.

Comprehensive Income

Comprehensive income, as reflected on the Consolidated Statements of Comprehensive Income, is defined as all changes in equity during each period except for those resulting from investments by or distributions to shareholders. Accumulated other comprehensive loss, as reflected on the Consolidated Statements of Equity, reflects the effective portion of the cumulative changes in the fair value of derivatives in qualifying cash flow hedge relationships.

Earnings per Common Share

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted average number of shares outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common shareholders and, accordingly, are considered participating securities that are included in the two-class method of computing basic earnings per share ("EPS"). Both the unvested restricted shares and other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis. The Company's earnings per common share are determined as follows (dollars in thousands, except per share data):

	For the year ended		
	12/31/15	12/31/14	12/31/13
Basic and diluted shares outstanding			
Weighted average common shares—basic	133,565,711	130,586,718	126,855,754
Weighted average DownREIT units outstanding	7,500	7,500	7,500
Effect of dilutive securities	1,019,966	643,284	402,649
Weighted average common shares—diluted	<u>134,593,177</u>	<u>131,237,502</u>	<u>127,265,903</u>
Calculation of Earnings per Share—basic			
Net income attributable to common stockholders	\$ 742,038	\$ 683,567	\$ 353,141
Net income allocated to unvested restricted shares	(1,774)	(1,523)	(563)
Net income attributable to common stockholders, adjusted	<u>\$ 740,264</u>	<u>\$ 682,044</u>	<u>\$ 352,578</u>
Weighted average common shares—basic	<u>133,565,711</u>	<u>130,586,718</u>	<u>126,855,754</u>
Earnings per common share—basic	<u>\$ 5.54</u>	<u>\$ 5.22</u>	<u>\$ 2.78</u>
Calculation of Earnings per Share—diluted			
Net income attributable to common stockholders	\$ 742,038	\$ 683,567	\$ 353,141
Add: noncontrolling interests of DownREIT unitholders in consolidated partnerships, including discontinued operations	38	35	32
Adjusted net income attributable to common stockholders	<u>\$ 742,076</u>	<u>\$ 683,602</u>	<u>\$ 353,173</u>
Weighted average common shares—diluted	<u>134,593,177</u>	<u>131,237,502</u>	<u>127,265,903</u>
Earnings per common share—diluted	<u>\$ 5.51</u>	<u>\$ 5.21</u>	<u>\$ 2.78</u>
Dividends per common share	<u>\$ 5.00</u>	<u>\$ 4.64</u>	<u>\$ 4.28</u>

Certain options to purchase shares of common stock in the amount of 605,899 were outstanding as of December 31, 2013, but were not included in the computation of diluted earnings per share because such options were anti-dilutive for the period. All options to purchase shares of common stock outstanding as of December 31, 2015 and 2014 are included in the computation of diluted earnings per share.

The Company is required to estimate the forfeiture of stock options and recognize compensation cost net of the estimated forfeitures. The estimated forfeitures included in compensation cost are adjusted to reflect actual forfeitures at the end of the vesting period. The forfeiture rate at December 31, 2015 was 1.0% and is based on the average forfeiture activity over a period equal to the estimated life of the stock options. The application of estimated forfeitures did not materially impact compensation expense for the years ended December 31, 2015, 2014 and 2013.

Abandoned Pursuit Costs and Impairment of Long-Lived Assets

The Company capitalizes pre-development costs incurred in pursuit of new development opportunities for which the Company currently believes future development is probable ("Development Rights"). Future development of these Development Rights is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and the availability of capital. Initial pre-development costs incurred for pursuits for which future development is not yet considered probable are expensed as incurred. In addition, if the status of a Development Right changes, making future development by the Company no longer probable, any capitalized pre-development costs are written off with a charge to expense. The Company expensed costs related to the abandonment of Development Rights as well as costs incurred in pursuing the acquisition of assets or costs incurred pursuing the disposition of assets for which such acquisition and disposition activity did not occur, in the amounts of \$3,016,000, \$3,964,000 and \$998,000 during the years ended December 31, 2015, 2014 and 2013, respectively. These costs are included in expensed acquisition, development and other pursuit costs, net of recoveries on the accompanying Consolidated Statements of Comprehensive Income. Abandoned pursuit costs can vary greatly, and the costs incurred in any given period may be significantly different in future periods.

The Company evaluates its real estate and other long-lived assets for impairment when potential indicators of impairment exist. Such assets are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a property or long-lived asset may not be recoverable, the Company assesses its recoverability by comparing the carrying amount of the property or long-lived asset to its estimated undiscounted future cash flows. If the carrying amount exceeds the aggregate undiscounted future cash flows, the Company recognizes an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property or long-lived asset. Based on periodic tests of recoverability of long-lived assets, for the years ended December 31, 2015, 2014 and 2013, the Company did not recognize any impairment losses for wholly-owned operating real estate assets, and did not record any impairment losses other than those related to the impairment on land held for investment and casualty gains and losses from property damage in 2015 discussed below.

The Company assesses its portfolio of land held for both development and investment for impairment if the intent of the Company changes with respect to either the development of, or the expected holding period for, the land. The Company did not recognize any material impairment charges on its investment in land during the years ended December 31, 2015, 2014 and 2013.

The Company also evaluates its unconsolidated investments for other than temporary impairment, considering both the extent and amount by which the carrying value of the investment exceeds the fair value, and the Company's intent and ability to hold the investment to recover its carrying value. The Company also evaluates its proportionate share of any impairment of assets held by unconsolidated investments. There were no material other than temporary impairment losses recognized by any of the Company's investments in unconsolidated entities during the years ended December 31, 2015, 2014 or 2013.

Casualty Gains and Losses

The Company recorded a net casualty gain of \$15,538,000 associated with the fire at Edgewater for the year ended December 31, 2015, which is included in casualty (gain) loss and impairment loss, net, on the accompanying Consolidated Statements of Comprehensive Income. The net casualty gain is comprised of \$44,142,000 in third-party insurance proceeds received by the Company, which were partially offset by casualty charges of \$21,844,000 to write off the net book value of the building destroyed by the fire at Edgewater, and \$6,760,000 to record demolition and additional incident expenses. See Note 7, "Commitments and Contingencies, Legal Contingencies," for further discussion of the Edgewater fire.

During the year ended December 31, 2015, several of the Company's communities in its Northeast markets incurred property and casualty damages from severe winter storms experienced during this time. The Company has recorded an impairment due to a casualty loss of \$4,195,000 to recognize the damages from the storms, included in casualty (gain) loss and impairment loss, net on the accompanying Consolidated Statements of Comprehensive Income.

The Company did not incur a casualty loss in 2014 or 2013.

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A casualty loss may also result in lost operating income from one or more communities that is covered by the Company's business interruption insurance policies. The Company recognizes income for amounts received under its business interruption insurance policies as a component of rental and other income in the Consolidated Statements of Comprehensive Income. Revenue is recognized upon resolution of all contingencies related to the receipt, typically upon written confirmation by the insurer or receipt of the actual proceeds. The Company recognized \$1,509,000, \$2,494,000 and \$299,000 in income related business interruption insurance proceeds for the years ended December 31, 2015, 2014 and 2013, respectively.

Assets Held for Sale and Discontinued Operations

The Company presents the assets and liabilities of any communities which have been sold, or otherwise qualify as held for sale, separately in the Consolidated Balance Sheets. In addition, the results of operations for those assets that meet the definition of discontinued operations are presented as such in the Company's Consolidated Statements of Comprehensive Income. Held for sale and discontinued operations classifications are provided in both the current and prior periods presented. Real estate assets held for sale are measured at the lower of the carrying amount or the fair value less the cost to sell. Both the real estate assets and corresponding liabilities are presented separately in the accompanying Consolidated Balance Sheets. Subsequent to classification of an asset as held for sale, no further depreciation is recorded. Disposals representing a strategic shift in operations (e.g., a disposal of a major geographic area, a major line of business or a major equity method investment) will be presented as discontinued operations, and for those assets qualifying for classification as discontinued operations, the specific components of net income presented as discontinued operations include net operating income, depreciation expense and interest expense, net. For periods prior to the asset qualifying for discontinued operations, the Company reclassifies the results of operations to discontinued operations. In addition, the net gain or loss (including any impairment loss) on the eventual disposal of assets held for sale will be presented as discontinued operations when recognized. A change in presentation for held for sale or discontinued operations will not have any impact on the Company's financial condition or results of operations. The Company combines the operating, investing and financing portions of cash flows attributable to discontinued operations with the respective cash flows from continuing operations on the accompanying Consolidated Statements of Cash Flows. The Company had one operating community that qualified for held for sale presentation at December 31, 2015.

Redeemable Noncontrolling Interests

Redeemable noncontrolling interests are comprised of potential future obligations of the Company, which allow the investors holding the noncontrolling interest to require the Company to purchase their interest. The Company classifies obligations under the redeemable noncontrolling interests at fair value, with a corresponding offset for changes in the fair value recorded in accumulated earnings less dividends. Reductions in fair value are recorded only to the extent that the Company has previously recorded increases in fair value above the redeemable noncontrolling interest's initial basis. The redeemable noncontrolling interests are presented outside of permanent equity as settlement in shares of the Company's common stock, where permitted, may not be within the Company's control. The nature and valuation of the Company's redeemable noncontrolling interests are discussed further in Note 11, "Fair Value."

Derivative Instruments and Hedging Activities

The Company enters into interest rate swap and interest rate cap agreements (collectively, "Hedging Derivatives") for interest rate risk management purposes and in conjunction with certain variable rate secured debt to satisfy lender requirements. The Company does not enter into Hedging Derivative transactions for trading or other speculative purposes. The Company assesses the effectiveness of qualifying cash flow and fair value hedges, both at inception and on an on-going basis. Hedge ineffectiveness is reported as a component of general and administrative expenses. The fair values of Hedging Derivatives that are in an asset position are recorded in prepaid expenses and other assets. The fair value of Hedging Derivatives that are in a liability position are included in accrued expenses and other liabilities. Other than the \$51,000,000 loss on interest rate contract recorded during 2013, fair value changes for derivatives that are not in qualifying hedge relationships are reported as a component of interest expense, net. For the Hedging Derivative positions that the Company has determined qualify as effective cash flow hedges, the Company has recorded the effective portion of cumulative changes in the fair value of the Hedging Derivatives in other comprehensive income. Amounts recorded in other comprehensive income will be reclassified into earnings in the periods in which earnings are affected by the hedged cash flow. The effective portion of the change in fair value of the Hedging Derivatives that the Company has determined qualified as effective fair value hedges is reported as an adjustment to the carrying amount of the corresponding debt being hedged. See Note 11, "Fair Value," for further discussion of derivative financial instruments.

Noncontrolling Interests

Noncontrolling interests represent our joint venture partners' claims on consolidated investments where the Company owns less than a 100% interest. The Company records these interests at their initial fair value, adjusting the basis prospectively for the joint venture partners' share of the respective consolidated investments' results of operations and applicable changes in ownership.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to amounts in prior years' financial statements to conform to current year presentations as a result of changes in held for sale classification as described in Note 6, "Real Estate Disposition Activities."

Recently Issued and Adopted Accounting Standards

In February 2016, the FASB issued ASU 2016-02, Leases, amending the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard requires a modified retrospective transition approach for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. The guidance will be effective in the first quarter of 2019 and allows for early adoption. The Company is assessing whether the new standard will have a material effect on its financial position or results of operations.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs. The guidance requires debt issuance costs related to a recognized debt liability to be presented as a direct deduction from the carrying amount of that debt liability and only impacts financial statement presentation. In August 2015, the FASB issued ASU 2015-15, Interest-Imputation of Interest: Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements. The guidance codified the SEC staff's view on the presentation and subsequent measurement of debt issuance costs associated with line-of-credit arrangements consistent with prior practice as an asset. As of December 31, 2015, the Company has adopted the guidance retrospectively for all prior periods. See discussion under "Change in Accounting Principle."

In February 2015, the FASB issued ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis, which amends the criteria for determining variable interest entities ("VIEs"), amends the criteria for determining if a service provider possesses a variable interest in a VIE, and eliminates the presumption that a general partner should consolidate a limited partnership. The guidance is effective in the first quarter of 2016 and allows for early adoption. As of December 31, 2015, the Company has adopted the guidance, and there was no material effect on its financial position or results of operations.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which requires management to assess an entity's ability to continue as a going concern. The guidance is effective in the fourth quarter of 2016 and allows for early adoption. The Company is assessing whether the new standard will have a material effect on its financial position or results of operations.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, a revenue recognition standard that will result in companies recognizing revenue from contracts when control for the service or product that is the subject of the contract is transferred from the seller to the buyer. In August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers-Deferral of the Effective Date, which defers the effective date of the new revenue recognition standard until the first quarter of 2018. The Company is assessing whether the new standard will have a material effect on its financial position or results of operations.

In April 2014, the FASB issued ASU 2014-08, guidance updating the accounting and reporting for discontinued operations, under which only disposals representing a strategic shift in operations (e.g., a disposal of a major geographic area, a major line of business or a major equity method investment) will be presented as discontinued operations. The standard also requires expanded disclosures about dispositions that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations, as well as disposals of a significant part of an entity that does not qualify for discontinued operations reporting. The standard was effective in the first quarter of 2015 and the Company adopted the guidance as of January 1, 2014, as discussed in Note 7, "Real Estate Disposition Activities."

Change in Accounting Principle

As of December 31, 2015, the Company adopted the new debt issuance costs guidance issued in April 2015 and therefore has retrospectively adjusted the presentation of deferred financing costs on the Consolidated Balance Sheets for all prior periods. See discussion under "Recently Issued and Adopted Accounting Standards." The guidance requires debt issuance costs to be presented as a direct deduction from the related debt liability rather than as an asset, except for costs associated with line-of-credit arrangements. The prior period amounts that have been impacted by the new guidance and retrospectively adjusted include (i) deferred financing costs, net, (ii) unsecured notes, net, and (iii) mortgage notes payable, net, located on the Consolidated Balance

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Sheets. The following table presents the impact of the change in accounting principle to the condensed Consolidated Balance Sheet as of December 31, 2014:

	12/31/14 (as previously reported)	Impact of change in accounting principle	12/31/14 (as adjusted and currently reported)
ASSETS			
Total real estate, net	\$ 14,935,740	\$ —	\$ 14,935,740
Cash and cash equivalents	509,460	—	509,460
Cash in escrow	95,625	—	95,625
Resident security deposits	29,617	—	29,617
Investments in unconsolidated real estate entities	298,315	—	298,315
Deferred development costs	67,029	—	67,029
Prepaid expenses and other assets	240,937	(36,145)	204,792
Total assets	<u>\$ 16,176,723</u>	<u>\$ (36,145)</u>	<u>\$ 16,140,578</u>
LIABILITIES AND EQUITY			
Unsecured notes, net	\$ 2,993,265	\$ (17,732)	\$ 2,975,533
Variable rate unsecured credit facility	—	—	—
Mortgage notes payable, net	3,532,587	(18,413)	3,514,174
Other liabilities	591,701	—	591,701
Total liabilities	<u>7,117,553</u>	<u>(36,145)</u>	<u>7,081,408</u>
Redeemable noncontrolling interests	12,765	—	12,765
Total equity	<u>9,046,405</u>	<u>—</u>	<u>9,046,405</u>
Total liabilities and equity	<u>\$ 16,176,723</u>	<u>\$ (36,145)</u>	<u>\$ 16,140,578</u>

The impact of the change in accounting principle as of December 31, 2015 includes the change in presentation of deferred financing costs, net, of \$21,725,000 related to unsecured notes, net, and \$14,703,000 related to mortgage notes payable, net, as offsets to the related debt liability in the Consolidated Balance Sheets. Deferred financing costs, net, related to the Company's Credit Facility of \$2,148,000 is not individually significant and has been included in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets.

2. Interest Capitalized

The Company capitalizes interest during the development and redevelopment of real estate assets. Capitalized interest associated with the Company's development or redevelopment activities totaled \$79,834,000, \$69,961,000 and \$66,838,000 for years ended December 31, 2015, 2014 and 2013, respectively.

3. Mortgage Notes Payable, Unsecured Notes and Credit Facility

The Company's mortgage notes payable, unsecured notes, Term Loan and Credit Facility, both as defined below, as of December 31, 2015 and December 31, 2014 are summarized below. The following amounts and discussion do not include the mortgage notes related to the communities classified as held for sale, if any, as of December 31, 2015 and December 31, 2014, as shown in the Consolidated Balance Sheets (dollars in thousands) (see Note 6, "Real Estate Disposition Activities").

	12/31/15	12/31/14
Fixed rate unsecured notes (1)	\$ 3,575,000	\$ 2,750,000
Term Loan	300,000	250,000
Fixed rate mortgage notes payable—conventional and tax-exempt (2)	1,561,109	2,400,677
Variable rate mortgage notes payable—conventional and tax-exempt (2)	1,045,182	1,047,461
Total notes payable and unsecured notes	<u>6,481,291</u>	<u>6,448,138</u>
Credit Facility	—	—
Total mortgage notes payable, unsecured notes and Credit Facility	<u>\$ 6,481,291</u>	<u>\$ 6,448,138</u>

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- (1) Balances at December 31, 2015 and December 31, 2014 exclude \$7,601 and \$6,735, respectively, of debt discount, and \$21,725 and \$17,732, respectively, of deferred financing costs, as reflected in unsecured notes, net on the Company's Consolidated Balance Sheets.
- (2) Balances at December 31, 2015 and December 31, 2014 exclude \$19,686 and \$84,449, respectively, of debt premium, and \$14,703 and \$18,413, respectively, of deferred financing costs, as reflected in mortgage notes payable, net on the Company's Consolidated Balance Sheets.

The following debt activity occurred during the year ended December 31, 2015:

- In January 2015, in conjunction with the disposition of Avalon on Stamford Harbor, another operating community, AVA Belltown, was substituted as collateral for the disposed community's outstanding fixed rate secured mortgage loan.
- In March 2015, the Company borrowed the final \$50,000,000 available under the \$300,000,000 variable rate unsecured term loan (the "Term Loan"), maturing in March 2021.
- In April 2015, the Company repaid an aggregate of \$481,582,000 principal amount of secured indebtedness, which includes eight fixed rate mortgage loans secured by eight wholly-owned operating communities, at par. The indebtedness had an aggregate effective interest rate of 3.12%, and a stated maturity date of November 2015. The Company incurred a gain on the early debt extinguishment of \$8,724,000, representing the excess of the write-off of unamortized premium resulting from the debt assumed in the Archstone Acquisition.
- In May 2015, the Company issued \$525,000,000 principal amount of unsecured notes in a public offering under its existing shelf registration statement for net proceeds of approximately \$520,653,000. The notes mature in June 2025 and were issued at a 3.45% coupon interest rate.
- In June 2015, the Company repaid a \$15,778,000 fixed rate secured mortgage note with an effective interest rate of 7.50% at par in advance of its February 2041 maturity date, recognizing a charge of \$455,000 for a prepayment penalty and write-off of unamortized deferred financing costs.
- In June 2015, the Company repaid a \$7,805,000 fixed rate secured mortgage note with an effective interest rate of 7.84% at par and without penalty in advance of its May 2027 maturity date, recognizing a charge of \$263,000 for the write-off of unamortized deferred financing costs.
- In June 2015, the Company repaid the \$74,531,000 fixed rate secured mortgage note secured by Edgewater, with an effective interest rate of 5.95% at par and without penalty in advance of its May 2019 maturity date, recognizing a charge of \$259,000 for the write-off of unamortized deferred financing costs.
- In July 2015, the Company repaid a \$140,346,000 fixed rate secured mortgage note with an effective interest rate of 5.56% in advance of its May 2053 maturity date, resulting in a recognized gain of \$18,987,000, consisting of the write off of unamortized premium net of unamortized deferred financing costs of \$30,215,000, partially offset by a prepayment penalty of \$11,228,000.
- In November 2015, the Company issued \$300,000,000 principal amount of unsecured notes in a public offering under its existing shelf registration statement for net proceeds of approximately \$297,072,000. The notes mature in November 2025 and were issued at a 3.5% coupon interest rate.
- In December 2015, the Company repaid a \$46,938,000 fixed rate secured mortgage note with an effective interest rate of 6.23%, at par, pursuant to its scheduled maturity date.
- In December 2015, the Company repaid a \$56,492,000 fixed rate secured mortgage note with an effective interest rate of 6.13%, at par, pursuant to its scheduled maturity date.

At December 31, 2015, the Company had a \$1,300,000,000 revolving variable rate unsecured credit facility with a syndicate of banks (the "Credit Facility") which was scheduled to mature in April 2017. The annual facility fee was approximately \$1,950,000 based on the \$1,300,000,000 facility size and based on the Company's current credit rating. The Company increased the Credit Facility in January 2016, see Note 13, "Subsequent Events," for further discussion.

The Company had no borrowings outstanding under the Credit Facility and had \$43,049,000 and \$49,407,000 outstanding in letters of credit that reduced the borrowing capacity as of December 31, 2015 and December 31, 2014, respectively.

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In the aggregate, secured notes payable mature at various dates from March 2016 through July 2066, and are secured by certain apartment communities (with a net carrying value of \$3,253,350,000, excluding communities classified as held for sale, as of December 31, 2015).

As of December 31, 2015, the Company has guaranteed approximately \$234,500,000 of mortgage notes payable held by wholly-owned subsidiaries; all such mortgage notes payable are consolidated for financial reporting purposes. The weighted average interest rate of the Company's fixed rate mortgage notes payable (conventional and tax-exempt) was 4.6% and 4.5% at December 31, 2015 and December 31, 2014, respectively. The weighted average interest rate of the Company's variable rate mortgage notes payable (conventional and tax exempt), the Term Loan and its Credit Facility, including the effect of certain financing related fees, was 1.8% at both December 31, 2015 and December 31, 2014.

Scheduled payments and maturities of mortgage notes payable and unsecured notes outstanding at December 31, 2015 are as follows (dollars in thousands):

Year	Secured notes payments	Secured notes maturities	Unsecured notes maturities	Stated interest rate of unsecured notes
2016	\$ 16,164	\$ 16,255	\$ 250,000	5.750%
2017	17,166	709,891	250,000	5.700%
2018	16,236	76,950	—	—%
2019	4,696	588,429	—	—%
2020	3,624	50,825	250,000 400,000	6.100% 3.625%
2021	3,551	27,844	250,000 300,000	3.950% LIBOR + 1.450%
2022	3,795	—	450,000	2.950%
2023	4,040	—	350,000 250,000	4.200% 2.850%
2024	4,310	—	300,000	3.500%
2025	4,553	84,835	525,000 300,000	3.450% 3.500%
Thereafter	218,678	754,449	—	—%
	<u>\$ 296,813</u>	<u>\$ 2,309,478</u>	<u>\$ 3,875,000</u>	

The Company's unsecured notes are redeemable at the Company's option, in whole or in part, generally at a redemption price equal to the greater of (i) 100% of their principal amount or (ii) the sum of the present value of the remaining scheduled payments of principal and interest discounted at a rate equal to the yield on U.S. Treasury securities with a comparable maturity plus a spread between 25 and 45 basis points depending on the specific series of unsecured notes, plus accrued and unpaid interest to the redemption date. The indenture under which the Company's unsecured notes were issued and the Company's Credit Facility agreement contain limitations on the amount of debt the Company can incur or the amount of assets that can be used to secure other financing transactions, and other customary financial and other covenants, with which the Company was in compliance at December 31, 2015.

4. Equity

As of December 31, 2015 and 2014, the Company's charter had authorized for issuance a total of 280,000,000 shares of common stock and 50,000,000 shares of preferred stock.

During the year ended December 31, 2015, the Company:

- i. issued 281,091 shares of common stock in connection with stock options exercised;
- ii. issued 2,142 common shares through the Company's dividend reinvestment plan;
- iii. issued 157,779 common shares in connection with restricted stock grants and the conversion of performance awards to restricted shares;
- iv. issued 46,589 common shares in conjunction with the conversion of deferred stock awards;
- v. withheld 45,090 common shares to satisfy employees' tax withholding and other liabilities;
- vi. canceled 1,529 shares of restricted stock upon forfeiture;
- vii. issued 10,667 shares through the Employee Stock Purchase Plan; and
- viii. issued 4,500,000 shares of common stock in settlement of the Forward.

Any deferred compensation related to the Company's stock option and restricted stock grants during the year ended December 31, 2015 is not reflected on the Company's Consolidated Balance Sheet as of December 31, 2015, and will not be reflected until recognized as compensation cost.

In August 2012, the Company commenced a third continuous equity program ("CEP III"), under which the Company was authorized by its Board of Directors to sell up to \$750,000,000 of shares of its common stock from time to time during a 36-month period. CEP III expired in August 2015, and the Company had no sales under the program during the year ended December 31, 2015.

In December 2015, the Company commenced a fourth continuous equity program ("CEP IV") under which the Company may sell up to \$1,000,000,000 of its common stock from time to time. Actual sales will depend on a variety of factors to be determined by the Company, including market conditions, the trading price of the Company's common stock and determinations by the Company of the appropriate sources of funding for the Company. In conjunction with CEP IV, the Company engaged sales agents who will receive compensation of up to 2.0% of the gross sales price for shares sold. CEP IV also allows the Company to enter into forward sale agreements up to \$1,000,000,000 in aggregate sales price of its common stock. The Company will physically settle each forward sale agreement on one or more dates specified by the Company on or prior to the maturity date of that particular forward sale agreement, in which case the Company will expect to receive aggregate net cash proceeds at settlement equal to the number of shares underlying the particular forward agreement multiplied by the relevant forward sale price. However, the Company may also elect to cash settle or net share settle a forward sale agreement. In connection with each forward sale agreement, the Company will pay the relevant forward seller, in the form of a reduced initial forward sale price, commission of up to 2.0% of the sales prices of all borrowed shares of common stock sold. In 2015, the Company had no sales under the program and did not enter into any forward sale agreements.

On September 9, 2014, based on a market closing price of \$155.83 per share on that date, the Company entered into a forward contract to sell 4,500,000 shares of common stock for an initial forward price of \$151.74 per share, net of offering fees and discounts (the "Forward"). The sales price and proceeds achieved by the Company were determined on the dates of settlement, with adjustments during the term of the contract for the Company's dividends as well as for a daily interest factor that varied with changes in the Fed Funds rate. During the year ended December 31, 2015, the Company issued 4,500,000 shares of common stock at a weighted average sales price of \$146.54 per share, for net proceeds of \$659,423,000, in settlement of the Forward.

5. Investments in Real Estate Entities

Investments in Unconsolidated Real Estate Entities

The Company accounts for its investments in unconsolidated real estate entities under the equity method of accounting, as discussed in Note 1, "Organization and Basis of Presentation," under *Principles of Consolidation*. The significant accounting policies of the Company's unconsolidated real estate entities are consistent with those of the Company in all material respects.

As of December 31, 2015, the Company had investments in the following real estate entities:

- *AvalonBay Value Added Fund II, LP ("Fund II")*—In September 2008, the Company formed Fund II, a private, discretionary real estate investment vehicle which acquired and operates communities in the Company's markets. Fund II served as the exclusive vehicle through which the Company acquired investment interests in apartment communities, subject to certain exceptions, through the close of its investment period in August 2011. Fund II has six institutional investors, including the Company. One of the Company's wholly owned subsidiaries is the general partner of Fund II and at December 31, 2015, excluding costs incurred in excess of equity in the underlying net assets of Fund II, the Company has an equity investment of \$50,443,000 (net of distributions), representing a 31.3% combined general partner and limited partner equity interest.

During 2015, Fund II sold four communities:

- Eaves Plainsboro, located in Plainsboro, NJ, for \$117,000,000,
- Eaves Los Alisos, located in Lake Forest, CA, for \$39,500,000,
- Captain Parker Arms, located in Lexington, MA, for \$31,600,000, and
- Eaves Carlsbad, located in Carlsbad, CA, for \$112,000,000.

The Company's proportionate share of the gain in accordance with GAAP for the four dispositions was \$29,726,000.

In conjunction with the disposition of these communities, Fund II repaid \$69,036,000 of related secured indebtedness in advance of the scheduled maturity dates. This resulted in charges for prepayment penalties, of which the Company's portion was \$1,400,000 and was reported as a reduction of equity in income (loss) of unconsolidated entities on the accompanying Consolidated Statements of Comprehensive Income.

Subsidiaries of Fund II have seven loans secured by individual assets with aggregate amounts outstanding of \$286,543,000, with maturity dates that vary from October 2017 to August 2019. The mortgage loans are payable by the subsidiaries of Fund II from operating cash flow or disposition proceeds from the underlying real estate. The Company has not guaranteed repayment of this debt, nor does the Company have any obligation to fund this debt should Fund II be unable to do so.

In addition, as part of the formation of Fund II, the Company provided to one of the limited partners a guarantee. The guarantee provided that if, upon final liquidation of Fund II, the total amount of all distributions to that partner during the life of Fund II (whether from operating cash flow or property sales) did not equal a minimum of the total capital contributions made by that partner, then the Company would pay the partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the partner. During the year ended December 31, 2015, the limited partner transferred its investment interest to an unrelated third party. The guarantee was not transferred with the investment interest, so the Company has no further obligation under the guarantee.

- *Archstone Multifamily Partners AC LP (the "U.S. Fund")*—The U.S. Fund was formed in July 2011 and is fully invested. The U.S. Fund has a term that expires in July 2023, assuming the exercise of two, one-year extension options. The U.S. Fund has six institutional investors, including the Company. The Company is the general partner of the U.S. Fund and, at December 31, 2015 excluding costs incurred in excess of equity in the underlying net assets of the U.S. Fund, the Company has an equity investment of \$68,683,000 (net of distributions), representing a 28.6% combined general partner and limited partner equity interest. The Company acquired its interest in the U.S. Fund as part of the Archstone Acquisition.

Subsidiaries of the U.S. Fund have 10 loans secured by individual assets with aggregate amounts outstanding of \$373,863,000, with maturity dates that vary from January 2019 to November 2022. In December 2015, a subsidiary of the U.S. fund obtained a \$51,300,000 variable rate, interest only, mortgage note maturing in December 2020, which has been converted to an effective fixed rate borrowing with an interest rate swap. The mortgage loans are payable by the subsidiaries of the U.S. Fund with operating cash flow or disposition proceeds from the underlying real estate. The Company has not guaranteed the debt of the U.S. Fund, nor does the Company have any obligation to fund this debt should the U.S. Fund be unable to do so.

- *Multifamily Partners AC JV LP (the "AC JV")*—The AC JV is a joint venture that was formed in 2011 and has four institutional investors, including the Company. Excluding costs incurred in excess of equity in the underlying net assets of the AC JV, at December 31, 2015 the Company has an equity investment of \$52,148,000 (net of distributions), representing a 20.0% equity interest. The Company acquired its interest in the AC JV as part of the Archstone Acquisition.

The AC JV partnership agreement contains provisions that require the Company to provide a right of first offer ("ROFO") to the AC JV in connection with additional opportunities to acquire or develop additional interests in multifamily real estate assets within a specified geographic radius of the existing assets, generally one mile or less. The Company owns a land parcel for the development of 265 apartment homes, classified as a Development Right in Cambridge, MA, acquired as part of the Archstone Acquisition, that is subject to ROFO restrictions. The ROFO restriction expires in 2019.

As of December 31, 2015, subsidiaries of the AC JV have eight unsecured loans outstanding in the aggregate of \$162,300,000 which mature in August 2021, and which were made by the investors in the venture, including the Company, in proportion to the investors' respective equity ownership interest. The unsecured loans are payable by the subsidiaries of the AC JV with operating cash flow from the venture. The Company has not guaranteed the debt of the AC JV, nor does the Company have any obligation to fund this debt should the AC JV be unable to do so.

- *MVP I, LLC*—In December 2004, the Company entered into a joint venture agreement with an unrelated third-party for the development of Avalon at Mission Bay North II. Construction of Avalon at Mission Bay North II, a 313 apartment-home community located in San Francisco, California, was completed in December 2006. The Company holds a 25.0% equity interest in the venture. The Company is responsible for the day-to-day operations of the community and is the management agent subject to the terms of a management agreement.

During 2015, the Company received \$20,680,000 from the joint venture partner associated with MVP I, LLC, upon agreement with the partner to modify the joint venture agreement to eliminate the Company's promoted interest from associated distributions for future return calculations. Prospectively, earnings and distributions will be based on the Company's 25.0% equity interest in the venture. Before this modification to the joint venture agreement, the Company had the right to 45.0% of distributions after achievement of a threshold return, which was achieved in 2015, up to the date the joint venture agreement was modified, as well as in 2014 and 2013.

During 2015, MVP I, LLC obtained a \$103,000,000, 3.24% fixed rate loan, with a maturity date of July 2025, and used the proceeds and cash on hand to repay its existing \$105,000,000, variable rate loan which was scheduled to mature in December 2015, at par.

- *Brandywine Apartments of Maryland, LLC ("Brandywine")*—Brandywine owns a 305 apartment home community located in Washington, DC. The community is managed by a third party. Brandywine is comprised of five members who hold various interests in the joint venture. In conjunction with the Archstone Acquisition, the Company acquired a 26.1% equity interest in the venture, and subsequently purchased an additional 2.6% interest, and as of December 31, 2015, holds a 28.7% equity interest in the venture.

Brandywine has an outstanding \$23,835,000 fixed rate mortgage loan that is payable by the venture. The Company has not guaranteed the debt of Brandywine, nor does the Company have any obligation to fund this debt should Brandywine be unable to do so.

- *Residual JV*—Through subsidiaries, the Company and Equity Residential entered into three limited liability company agreements (collectively, the "Residual JV") through which the Company and Equity Residential acquired (i) certain assets of Archstone that the Company and Equity Residential have divested (to third parties or to the Company or Equity Residential) (the "Residual Assets"), and (ii) various liabilities of Archstone that the Company and Equity Residential agreed to assume in conjunction with the Archstone Acquisition (the "Residual Liabilities"). The Residual Assets included a 20.0% interest in Lake Mendota Investments, LLC and Subsidiaries ("SWIB"), a joint venture which disposed the last of its communities in 2015 as discussed below, as well as various licenses, insurance policies, contracts, office leases and other miscellaneous assets.

During 2015, SWIB sold its final four communities containing 1,410 apartment homes, for an aggregate sales price of \$283,700,000. The Company's proportionate share of the gain in accordance with GAAP for the four dispositions was \$3,853,000. In conjunction with the disposition of these communities, SWIB repaid \$148,866,000 of related indebtedness on its credit facility at par.

The Residual Liabilities include most existing or future litigation and claims related to Archstone's operations for periods before the close of the Archstone Acquisition, except for (i) claims that principally relate to the physical condition of the assets acquired directly by the Company or Equity Residential, which generally remain the sole responsibility of the Company or Equity Residential, as applicable, and (ii) certain tax and other litigation between Archstone and various equity holders

in Archstone related to periods before the close of the Archstone Acquisition, and claims which may arise due to changes in the capital structure of Archstone that occurred prior to closing, for which the seller has agreed to indemnify the Company and Equity Residential. The Company and Equity Residential jointly control the Residual JV and the Company holds a 40.0% economic interest in the Residual JV.

During 2015, the Company recognized equity in income of unconsolidated real estate entities of \$10,601,000 primarily associated with the settlement of outstanding legal claims against third parties, partially offset by losses on the sale of land from the Residual JV.

- During 2015, the Company entered into a joint venture agreement to purchase land and pursue entitlements and pre-development activity for a mixed-use development project in Sudbury, MA, including multifamily apartment homes, retail, senior housing and age-restricted housing. The Company has a 60.0% ownership interest in the venture. The venture is considered a variable interest entity, though the Company is not considered to be the primary beneficiary because the Company and its third party partner share control of the joint venture as approval from both parties is required for decisions about the pre-development and related activities to be performed by the venture. During 2015, the Company contributed \$5,688,000 to the venture for the Company's share of land acquisition and pre-development costs. The Company's investment in the joint venture is reported as a component of investments in unconsolidated real estate entities on the Consolidated Balance Sheets.

The following is a combined summary of the financial position of the entities accounted for using the equity method as of the dates presented, excluding amounts associated with the Residual JV (dollars in thousands):

	12/31/15	12/31/14
Assets:		
Real estate, net	\$ 1,392,833	\$ 1,617,627
Other assets (1)	57,044	68,693
Total assets	<u>\$ 1,449,877</u>	<u>\$ 1,686,320</u>
Liabilities and partners' capital:		
Mortgage notes payable and credit facility, net (1)	\$ 947,205	\$ 976,531
Other liabilities	20,471	23,130
Partners' capital	482,201	686,659
Total liabilities and partners' capital	<u>\$ 1,449,877</u>	<u>\$ 1,686,320</u>

(1)2014 amounts reflect certain reclassifications as a result of the retrospective adjustment of the presentation of deferred financing costs discussed in Note 1, "Change in Accounting Principle."

The following is a combined summary of the operating results of the entities accounted for using the equity method, for the years presented, excluding amounts associated with the Residual JV (dollars in thousands):

	For the year ended		
	12/31/15	12/31/14	12/31/13
Rental and other income	\$ 173,578	\$ 198,939	\$ 212,994
Operating and other expenses	(67,962)	(80,301)	(86,434)
Gain on sale of communities	98,899	333,221	96,152
Interest expense, net	(45,517)	(61,458)	(61,404)
Depreciation expense	(45,324)	(52,116)	(61,002)
Net income	<u>\$ 113,674</u>	<u>\$ 338,285</u>	<u>\$ 100,306</u>

In conjunction with the formation of AvalonBay Value Added Fund, L.P. ("Fund I") and Fund II, and the acquisition of the U.S. Fund, AC JV and Brandywine, the Company incurred costs in excess of its equity in the underlying net assets of the respective investments. These costs represent \$40,978,000 and \$43,709,000 at December 31, 2015 and 2014, respectively, of the respective investment balances. These amounts are being amortized over the lives of the underlying assets as a component of equity in income (loss) of unconsolidated entities on the accompanying Consolidated Statements of Comprehensive Income.

The following is a summary of the Company's equity in income (loss) of unconsolidated entities for the years presented (dollars in thousands):

	For the year ended		
	12/31/15	12/31/14	12/31/13
Fund I (1)	\$ 871	\$ 475	\$ 10,924
Fund II (2)	32,211	24,808	6,206
U.S. Fund	2,052	342	(661)
AC JV	511	1,579	2,569
CVP I, LLC (3)	1,812	113,127	5,783
MVP I, LLC (4)	22,453	1,651	1,137
Brandywine	(1,474)	828	661
Residual JV (5)	11,582	3,547	(38,332)
Arna Valley View LP (6)	—	2,406	—
Avalon Del Rey, LLC (7)	—	—	181
Juanita Village (6)	—	3	378
Total	<u>\$ 70,018</u>	<u>\$ 148,766</u>	<u>\$ (11,154)</u>

- (1) Equity in income for the years ended December 31, 2014 and 2013 includes the Company's proportionate share of the gain on the sale of Fund I assets of \$944 and \$11,484, respectively.
- (2) Equity in income for the years ended December 31, 2015, 2014 and 2013 includes the Company's proportionate share of the gain on the sale of Fund II assets of \$29,726, \$21,624, and \$2,790 respectively.
- (3) Equity in income for the years ended December 31, 2015, 2014 and 2013 includes \$1,289, \$61,218 and \$5,527, respectively, relating to the Company's recognition of its promoted interest. Amount for 2014 also includes \$50,478 related to the disposition of Avalon Chrystie Place.
- (4) Equity in income for the years ended December 31, 2015, 2014 and 2013 includes \$21,340, \$930 and \$516 relating to the Company's recognition of its promoted interest. For 2015, \$20,680 was from the joint venture partner upon agreement to modify the joint venture agreement to eliminate the Company's promoted interest from associated distribution for future return calculations. Prospectively, earnings and distributions will be based on the Company's 25.0% equity interest in the venture.
- (5) Equity in income (loss) from this entity for 2013 includes certain expensed Archstone Acquisition costs borne by the venture.
- (6) The Company's equity in income for this entity represents its residual profits from the sale of the community.
- (7) During 2012, the Company purchased its joint venture partner's interest in this venture.

Investments in Consolidated Real Estate Entities

On February 27, 2013, pursuant to an asset purchase agreement dated November 26, 2012, the Company, together with Equity Residential, acquired, directly or indirectly, all of the assets owned by Archstone Enterprise LP ("Archstone," which has since changed its name to Jupiter Enterprise LP), including all of the ownership interests in joint ventures and other entities owned by Archstone, and assumed Archstone's liabilities, both known and unknown, with certain limited exceptions. Under the terms of the purchase agreement, the Company acquired approximately 40.0% of Archstone's assets and liabilities and Equity Residential acquired approximately 60.0% of Archstone's assets and liabilities (the "Archstone Acquisition").

The Company expenses transaction costs associated with acquisition activity as they are incurred. To the extent the Company receives amounts related to acquired communities for periods prior to their acquisition, the Company reports these receipts, net with expensed acquisition costs. Expensed transaction costs associated with the acquisitions made by the Company in 2015 and 2013, including those for the Archstone Acquisition in 2013, totaled \$3,806,000 and \$44,052,000, respectively. These amounts are reported as a component of expensed acquisition, development and other pursuit costs on the accompanying Consolidated Statements of Comprehensive Income. In 2014, the Company received amounts related to communities acquired in the Archstone Acquisition, for periods prior to the Company's ownership, in excess of acquisition costs incurred, resulting in a net recovery of \$7,681,000. These amounts are primarily comprised of property tax and mortgage insurance refunds.

In conjunction with the development of Avalon Sheepshead Bay, the Company entered into a joint venture agreement to construct a mixed-use building that will contain rental apartments, for-sale residential condominium units and related common elements. The Company owns a 70.0% interest in the venture and will have all of the rights and obligations associated with the rental apartments, and the venture partner owns the remaining 30.0% interest and will have all of the rights and obligations associated with the for-sale condominium units. The Company is responsible for the development and construction of the structure, and is providing a loan to the venture partner for the venture partner's share of costs. As of December 31, 2015, the Company has a receivable from the venture partner in the amount of \$8,126,000, reported as a component of prepaid expenses and other assets on the Consolidated Balance Sheets. The loan provided to the venture partner will be repaid with the proceeds received from the sale of the residential condominium units. The venture is considered a variable interest entity, and the Company consolidates its interest in the rental apartments and common areas, and accounts for the for-sale component of the venture as an unconsolidated investment.

6. Real Estate Disposition Activities

During 2015, the Company sold three wholly-owned communities, containing an aggregate of 851 apartment homes for an aggregate gross sales price of \$265,500,000 and an aggregate gain in accordance with GAAP of \$115,625,000. In addition, during 2015, the Company sold two undeveloped land parcels and air rights, representing the right to increase density for future residential development, for \$23,820,000, resulting in a gain in accordance with GAAP of \$9,647,000.

Details regarding the real estate sales are summarized in the following table (dollars in thousands):

Community Name	Location	Period of sale	Apartment homes	Debt	Gross sales price	Net proceeds
Avalon on Stamford Harbor	Stamford, CT	Q115	323	\$ —	\$ 115,500	\$ 112,504
Other real estate dispositions (1)	New York Metro region	Q215	N/A	—	23,820	23,337
Avalon Lyndhurst	Lyndhurst, NJ	Q315	328	—	99,000	96,574
Avalon Charles Pond	Coram, NY	Q415	200	—	51,000	49,748
Total of 2015 asset sales			851	\$ —	\$ 289,320	\$ 282,163
Total of 2014 asset sales			1,337	\$ 16,341 (2)	\$ 304,250	\$ 281,125
Total of 2013 asset sales (3)			3,299	\$ —	\$ 932,880	\$ 919,442

(1) Includes two undeveloped land parcels and air rights, representing the right to increase density for future residential development.

(2) Amount includes \$10,427 principal amount secured by Oakwood Philadelphia and \$5,914 principal amount of secured borrowings repaid by the Company for eight other operating communities, the aggregate of which is included in determining net proceeds.

(3) Total of 2013 asset sales excludes the disposition of development rights located in Hingham, MA and Brooklyn, NY, for total net proceeds of \$1,313.

As of December 31, 2015, the Company had one community that qualified as held for sale. The assets of the community are primarily composed of land and related real estate improvements.

The results of operations for Avalon on Stamford Harbor, Avalon Lyndhurst and Avalon Charles Pond are included in income from continuing operations on the accompanying Consolidated Statements of Comprehensive Income.

The operations for any real estate assets sold from January 1, 2013 through December 31, 2015 and which were classified as held for sale and discontinued operations as of and for periods prior to December 31, 2013, and thus not subject to the new guidance for discontinued operations presentation and disclosure, as discussed in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies," have been presented as income from discontinued operations in the accompanying Consolidated Statements of Comprehensive Income.

The following is a summary of income from discontinued operations for the periods presented (dollars in thousands):

	For the year ended		
	12/31/15	12/31/14	12/31/13
Rental income	\$ —	\$ 579	\$ 42,874
Operating and other expenses	—	(269)	(12,661)
Interest expense, net	—	—	—
Loss on extinguishment of debt	—	—	—
Depreciation expense	—	—	(13,500)
Income (loss) from discontinued operations	\$ —	\$ 310	\$ 16,713

7. Commitments and Contingencies

Employment Agreements and Arrangements

The Company had employment agreements with two executive officers which expired on December 31, 2015, in accordance with their terms. The Company has not entered into any new employment agreements with executive officers.

The standard restricted stock and option agreements used by the Company in its compensation program provide that upon an employee's termination without cause or the employee's Retirement (as defined in the agreement), all outstanding stock options and restricted shares of stock held by the employee will vest, and the employee will have up to 12 months to exercise any options then held. Under the agreements, Retirement generally means a termination of employment and other business relationships, other than for cause, after attainment of age 50, provided that (i) the employee has worked for the Company for at least 10 years, (ii) the employee's age at Retirement plus years of employment with the Company equals at least 70, (iii) the employee provides at least six months written notice of his intent to retire, and (iv) the employee enters into a one year non-compete and employee non-solicitation agreement.

The Company also has an Officer Severance Program (the "Program"), which applies only in connection with a sale of the Company for the benefit of those officers of the Company who do not have employment agreements. Under the Program, in the event an officer who is not otherwise covered by a severance arrangement is terminated (other than for cause), or the officer chooses to terminate his or her employment for good reason (as defined), in either case within 18 months following a sale event (as defined) of the Company, such officer will generally receive a cash lump sum payment equal to a multiple of the officer's covered compensation (base salary plus annual cash bonus). The multiple is one times for vice presidents and senior vice presidents, and two times for executive vice presidents. The officer's restricted stock and options would also vest. Costs related to the Company's employment agreements and the Program are deferred and recognized over the requisite service period when considered by management to be probable and estimable.

Legal Contingencies

The Company accounts for recoveries from legal matters as a reduction in the legal and related costs incurred associated with the matter, with recoveries in excess of these costs reported as a gain or, where appropriate, a reduction in the basis of a community to which the suit related. During the year ended December 31, 2014, the Company received \$1,933,000 in legal recoveries. There were no material receipts during the years ended December 31, 2015 and 2013, excluding amounts for the Residual JV in 2015.

In January 2015, a fire occurred at the Company's Avalon at Edgewater apartment community located in Edgewater, New Jersey ("Edgewater"). Edgewater consisted of two residential buildings. One building, containing 240 apartment homes, was destroyed. The second building, containing 168 apartment homes, suffered minimal damage and has been repaired. See Note 13, "Subsequent Events," for discussion of the related insurance settlement.

The Company is aware that third parties incurred significant property damage and are claiming other losses, such as relocation costs, as a result of the fire. The Company has established protocols for processing claims and has encouraged any party who sustained a loss to contact the Company's insurance carrier to file a claim.

To date, four putative class action lawsuits have been filed against the Company on behalf of Avalon at Edgewater residents and others who may have been harmed by the fire. The court has consolidated these actions in the United States District Court for the District of New Jersey. In addition, 18 lawsuits representing approximately 145 individual plaintiffs have been filed in the Superior Court of New Jersey Bergen County - Law Division. These cases have been consolidated by the court. The Company believes that it has meritorious defenses to the extent of damages claimed. Having incurred applicable deductibles, the Company currently believes that all of its remaining liability to third parties will be substantially covered by its insurance policies. However, the Company can give no assurances in this regard and continues to evaluate this matter.

The Company is involved in various other claims and/or administrative proceedings unrelated to the Edgewater fire that arise in the ordinary course of its business. While no assurances can be given, the Company does not currently believe that any of these other outstanding litigation matters, individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

Lease Obligations

The Company owns 16 apartment communities and two commercial properties located on land subject to land leases expiring between October 2026 and March 2142. The leases for 13 apartment communities, of which two represent dual-branded communities with one underlying land lease, and the two commercial properties, are accounted for as operating leases recognizing rental expense on a straight-line basis over the lease term. These leases have varying escalation terms, and five of these leases have purchase options exercisable through 2095. The Company incurred costs of \$21,295,000, \$21,664,000 and \$17,996,000 in the years ended December 31, 2015, 2014 and 2013, respectively, related to operating leases. Three apartment communities are located on land subject to a land lease which are accounted for as capital leases, of which two represent dual-branded communities with one underlying capital land lease. In addition, the Company is party to a lease for a portion of the parking garage adjacent to a development community, accounted for as a capital lease. The Company has a total lease obligation of \$37,783,000 reported as a component of accrued expenses and other liabilities. Each of these land leases accounted for as capital leases have options for the Company to purchase the land at some point during the lease terms which expire in 2046 and 2086.

The following table details the future minimum lease payments under the Company's current leases (dollars in thousands):

	Payments due by period					
	2016	2017	2018	2019	2020	Thereafter
Operating Lease Obligations	\$ 21,056	\$ 20,629	\$ 20,807	\$ 20,894	\$ 18,675	\$ 1,143,535
Capital Lease Obligations (1) (2)	2,098	18,866	1,065	1,067	1,069	45,620
	<u>\$ 23,154</u>	<u>\$ 39,495</u>	<u>\$ 21,872</u>	<u>\$ 21,961</u>	<u>\$ 19,744</u>	<u>\$ 1,189,155</u>

- (1) Aggregate capital lease payments include \$29,069 in interest costs, with the timing of certain lease payments for capital land leases determined by completion of the construction of the associated apartment community.
- (2) Capital lease assets of \$39,019 and \$31,784 as of December 31, 2015 and 2014, respectively, are included as a component of land and improvements or building and improvements on the accompanying Consolidated Balance Sheets.

8. Segment Reporting

The Company's reportable operating segments include Established Communities, Other Stabilized Communities and Development/Redevelopment Communities. Annually as of January 1, the Company determines which of its communities fall into each of these categories and generally maintains that classification throughout the year for the purpose of reporting segment operations, unless disposition or redevelopment plans regarding a community change.

- Established Communities (also known as Same Store Communities) are consolidated communities where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year. The Established Communities for the year ended December 31, 2015, are communities that are consolidated for financial reporting purposes, had stabilized occupancy as of January 1, 2014, are not conducting or planning to conduct substantial redevelopment activities and are not held for sale or planned for disposition within the current year period. A community is considered to have stabilized occupancy at the earlier of (i) attainment of 95% physical occupancy or (ii) the one-year anniversary of completion of development or redevelopment.
- Other Stabilized Communities includes all other completed communities that have stabilized occupancy, as defined above. Other Stabilized Communities do not include communities that are conducting or planning to conduct substantial redevelopment activities within the current year.
- Development/Redevelopment Communities consists of communities that are under construction and have not received a certificate of occupancy for the entire community, and where substantial redevelopment is in progress or is planned to begin during the current year and communities under lease-up that had not reached stabilized occupancy, as defined above, as of January 1, 2015.

In addition, the Company owns land for future development and has other corporate assets that are not allocated to an operating segment.

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The Company's segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing each segment's performance. The Company's chief operating decision maker is comprised of several members of its executive management team who use net operating income ("NOI") as the primary financial measure for Established Communities and Other Stabilized Communities. NOI is defined by the Company as total property revenue less direct property operating expenses, including property taxes, and excluding corporate-level income (including management, development and other fees), corporate-level property management and other indirect operating expenses, investments and investment management expenses, expensed acquisition, development and other pursuit costs, net interest expense, gain (loss) on extinguishment of debt, loss on interest rate contract, general and administrative expense, joint venture income (loss), depreciation expense, corporate income tax expense, casualty (gain) loss and impairment loss, net, gain on sale of real estate assets, gain on sale of discontinued operations, income from discontinued operations and net operating income from real estate assets sold or held for sale, not classified as discontinued operations. Although the Company considers NOI a useful measure of a community's or communities' operating performance, NOI should not be considered an alternative to net income or net cash flow from operating activities, as determined in accordance with GAAP. NOI excludes a number of income and expense categories as detailed in the reconciliation of NOI to net income.

A reconciliation of NOI to net income for years ended December 31, 2015, 2014 and 2013 is as follows (dollars in thousands):

	For the year ended		
	12/31/15	12/31/14	12/31/13
Net income	\$ 741,733	\$ 697,327	\$ 352,771
Indirect operating expenses, net of corporate income	56,973	49,055	41,554
Investments and investment management expense	4,370	4,485	3,990
Expensed acquisition, development and other pursuit costs, net of recoveries	6,822	(3,717)	45,050
Interest expense, net (1)	175,615	180,618	172,402
(Gain) loss on extinguishment of debt, net	(26,736)	412	14,921
Loss on interest rate contract	—	—	51,000
General and administrative expense	42,396	41,425	39,573
Equity in (income) loss of unconsolidated entities	(70,018)	(148,766)	11,154
Depreciation expense (1)	477,923	442,682	560,215
Income tax expense	1,861	9,368	—
Casualty (gain) loss and impairment loss, net	(10,542)	—	—
Gain on sale of real estate assets	(125,272)	(85,415)	(240)
Gain on sale of discontinued operations	—	(37,869)	(278,231)
Income from discontinued operations	—	(310)	(16,713)
Net operating income from real estate assets sold or held for sale, not classified as discontinued operations	(10,920)	(27,357)	(31,388)
Net operating income	\$ 1,264,205	\$ 1,121,938	\$ 966,058

(1) Includes amounts associated with assets sold or held for sale, not classified as discontinued operations.

The following is a summary of NOI from real estate assets sold or held for sale, not classified as discontinued operations, for the periods presented (dollars in thousands):

	For the year ended		
	12/31/2015	12/31/2014	12/31/2013
Rental income from real estate assets sold or held for sale, not classified as discontinued operations	\$ 17,973	\$ 44,645	\$ 50,638
Operating expenses real estate assets sold or held for sale, not classified as discontinued operations	(7,053)	(17,288)	(19,250)
Net operating income from real estate assets sold or held for sale, not classified as discontinued operations	\$ 10,920	\$ 27,357	\$ 31,388

The primary performance measure for communities under development or redevelopment depends on the stage of completion. While under development, management monitors actual construction costs against budgeted costs as well as lease-up pace and rent levels compared to budget.

The following table provides details of the Company's segment information as of the dates specified (dollars in thousands). The segments are classified based on the individual community's status at the beginning of the given calendar year. Therefore, each year the composition of communities within each business segment is adjusted. Accordingly, the amounts between years are not directly comparable. Segment information for the years ended December 31, 2015, 2014 and 2013 have been adjusted for the real estate assets that were sold from January 1, 2013 through December 31, 2015, or otherwise qualify as held for sale and/or discontinued operations as of December 31, 2015, as described in Note 6, "Real Estate Disposition Activities."

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	Total revenue	NOI	% NOI change from prior year	Gross real estate (1)
For the year ended December 31, 2015				
Established				
New England	\$ 190,802	\$ 120,026	2.8 %	\$ 1,460,746
Metro NY/NJ	382,457	268,986	3.3 %	3,152,361
Mid-Atlantic	209,013	145,497	0.2 %	2,177,823
Pacific Northwest	76,589	54,751	8.2 %	721,040
Northern California	273,432	210,226	11.9 %	2,414,184
Southern California	252,530	173,919	9.4 %	2,465,432
Total Established (2)	1,384,823	973,405	5.8 %	12,391,586
Other Stabilized	221,063	145,170	N/A	2,040,269
Development / Redevelopment	222,222	145,630	N/A	4,238,967
Land Held for Future Development	N/A	N/A	N/A	484,377
Non-allocated (3)	9,947	N/A	N/A	73,372
Total	\$ 1,838,055	\$ 1,264,205	12.7 %	\$ 19,228,571
For the year ended December 31, 2014 (4)				
Established				
New England	\$ 172,153	\$ 109,745	0.8 %	\$ 1,333,854
Metro NY/NJ	305,496	215,239	3.1 %	2,251,697
Mid-Atlantic	98,590	69,498	(2.5)%	647,374
Pacific Northwest	54,230	37,637	7.0 %	500,247
Northern California	174,527	132,899	8.2 %	1,402,444
Southern California	139,841	95,626	5.2 %	1,225,328
Total Established (2)	944,837	660,644	3.6 %	7,360,944
Other Stabilized	497,677	343,415	N/A	6,057,783
Development / Redevelopment	186,852	117,879	N/A	3,972,180
Land Held for Future Development	N/A	N/A	N/A	180,516
Non-allocated (3)	11,050	N/A	N/A	32,444
Total	\$ 1,640,416	\$ 1,121,938	16.1 %	\$ 17,603,867
For the year ended December 31, 2013				
Established				
New England	\$ 152,800	\$ 99,484	2.4 %	\$ 1,189,040
Metro NY/NJ	236,920	164,827	4.6 %	1,793,902
Mid-Atlantic	100,548	71,851	0.1 %	633,598
Pacific Northwest	46,564	31,283	5.3 %	444,825
Northern California	141,038	106,745	11.7 %	1,233,851
Southern California	119,024	81,182	5.1 %	1,058,883
Total Established (2)	796,894	555,372	5.0 %	6,354,099
Other Stabilized	486,701	331,338	N/A	6,621,825
Development / Redevelopment	117,186	79,348	N/A	3,024,035
Land Held for Future Development	N/A	N/A	N/A	300,364
Non-allocated (3)	11,502	N/A	N/A	10,279
Total	\$ 1,412,283	\$ 966,058	47.2 %	\$ 16,310,602

(1) Does not include gross real estate assets held for sale of \$39,528, \$245,449 and \$489,720 as of December 31, 2015, 2014 and 2013, respectively.

(2) Gross real estate for the Company's Established Communities includes capitalized additions of approximately \$74,982, \$52,635 and \$33,553 in 2015, 2014 and 2013, respectively.

(3) Revenue represents third-party management, accounting, and developer fees and miscellaneous income which are not allocated to a reportable segment.

(4) Results for the year ended December 31, 2014 reflect the operating segments determined as of January 1, 2014, which include stabilized communities acquired as part of the Archstone Acquisition in the Other Stabilized segment.

9. Stock-Based Compensation Plans

The Company has a stock incentive plan, the 2009 Stock Option and Incentive Plan (the "2009 Plan"), which includes an authorization to issue shares of the Company's common stock, par value \$0.01 per share. At December 31, 2015, the Company has 1,364,678 shares remaining available to issue under the 2009 Plan, exclusive of shares that may be issued to satisfy currently outstanding awards such as stock options or performance awards. In addition, any awards that were outstanding under the Company's 1994 Stock Option and Incentive Plan (the "1994 Plan") on May 21, 2009, the date the Company adopted the 2009 Plan, that are subsequently forfeited, canceled, surrendered or terminated (other than by exercise) will become available for awards under the 2009 Plan. The 2009 Plan provides for various types of equity awards to associates, officers, non-employee directors and other key personnel of the Company and its subsidiaries. The types of awards that may be granted under the 2009 Plan include restricted stock, stock options that qualify as incentive stock options ("ISOs") under Section 422 of the Code, non-qualified stock options, stock appreciation rights and performance awards, among others. The 2009 Plan will expire on May 21, 2019.

Information with respect to stock options granted under the 2009 and 1994 Plans is as follows:

	2009 Plan shares	Weighted average exercise price per share	1994 Plan shares	Weighted average exercise price per share
Options Outstanding, December 31, 2012	307,554	\$ 112.67	719,830	\$ 105.40
Exercised	(19,949)	84.43	(24,292)	79.42
Granted	215,230	129.03	—	—
Forfeited	(1,267)	131.56	(4,012)	127.56
Options Outstanding, December 31, 2013	501,568	\$ 120.77	691,526	\$ 106.19
Exercised	(157,454)	116.40	(342,743)	99.03
Granted	—	—	—	—
Forfeited	(4,052)	131.05	(76,381)	142.66
Options Outstanding, December 31, 2014	340,062	\$ 122.67	272,402	\$ 104.96
Exercised	(90,884)	124.01	(190,207)	105.70
Granted	—	—	—	—
Forfeited	—	—	—	—
Options Outstanding, December 31, 2015	249,178	\$ 122.17	82,195	\$ 103.27
Options Exercisable:				
December 31, 2013	184,167	\$ 107.18	691,526	\$ 106.19
December 31, 2014	185,227	\$ 116.71	272,402	\$ 104.96
December 31, 2015	188,081	\$ 119.98	82,195	\$ 103.27

The following summarizes the exercise prices and contractual lives of options outstanding as of December 31, 2015:

2009 Plan Number of Options	Range—Exercise Price			Weighted Average Remaining Contractual Term (in years)
25,622	\$70.00	-	\$79.99	4.1
38,326	110.00	-	119.99	5.1
44,135	120.00	-	129.99	7.2
141,095	130.00	-	139.99	6.6
249,178				

1994 Plan Number of Options	Range—Exercise Price			Weighted Average Remaining Contractual Term (in years)
9,854	\$40.00	-	\$49.99	3.1
35,511	80.00	-	89.99	2.1
7,174	90.00	-	99.99	0.1
29,656	140.00	-	149.99	1.1
82,195				

Options outstanding under the 2009 and 1994 Plans at December 31, 2015 had an intrinsic value of \$15,438,000 and \$6,647,000, respectively. Options exercisable under the 2009 and 1994 Plans at December 31, 2015 had an intrinsic value of \$12,066,000 and \$6,647,000, respectively. Options exercisable under the 2009 and 1994 Plans had a weighted average contractual life of 6.3 years and 1.7 years, respectively. The intrinsic value of options exercised during 2015, 2014 and 2013 was \$18,080,000, \$20,028,000 and \$2,395,000, respectively.

The cost related to stock-based employee compensation for employee stock options included in the determination of net income is based on estimated forfeitures for the given year. Estimated forfeitures are adjusted to reflect actual forfeitures at the end of the vesting period. The following table summarizes the weighted average fair value of employee stock options for 2013 and the associated assumptions used to calculate the value. There were no stock options granted in 2015 and 2014.

	2013
Weighted average fair value per share	\$ 26.78
Life of options (in years)	5.0
Dividend yield	3.7%
Volatility	34.00%
Risk-free interest rate	0.91%

During 2013, the Company adopted a revised compensation framework under which share-based compensation will be granted, composed of annual restricted stock awards for which one third of the award will vest annually over a three year period, and multi-year long term incentive performance awards. Under the multi-year long term incentive component of the revised framework, the Company will grant a target number of performance awards, with the ultimate award determined by the total shareholder return of the Company's common stock and/or operating performance metrics, measured in each case over a measurement period of up to three years. The performance awards will be earned in the form of restricted stock, or upon election of the recipient, up to 25% in the form of stock options, for which one third of the award will vest annually over an additional three year period following the completion of the performance cycle.

In general, performance awards are forfeited if the employee's employment terminates for any reason prior to the measurement date. However, for performance awards with performance periods beginning on or after January 1, 2015, after the first year of the performance period, if the employee's employment terminates on account of death, disability, retirement, or termination without cause at a time when the employee meets the age and service requirements for retirement, the employee shall vest in a pro rata portion of the award (based on the employee's service time during the performance period), with such vested portion to be earned and converted into shares at the end of the performance period based on actual achievement under the performance award.

Information with respect to performance awards granted is as follows:

	Performance awards	Weighted average grant date fair value per award
Outstanding at December 31, 2012	—	\$ —
Granted (1)	191,008	70.00
Forfeited	(1,243)	70.00
Outstanding at December 31, 2013	189,765	\$ 70.00
Granted (2)	136,276	117.43
Change in awards based on performance (3)	(46,790)	74.37
Converted to restricted stock	(16,209)	74.37
Forfeited	(23,140)	76.22
Outstanding at December 31, 2014	239,902	\$ 95.20
Granted (4)	85,636	148.49
Change in awards based on performance (3)	14,697	78.50
Converted to restricted stock	(95,826)	78.50
Forfeited	(6,143)	110.34
Outstanding at December 31, 2015	238,266	\$ 119.65

- (1) The amount of restricted stock ultimately earned is based on the total shareholder return metrics related to the Company's common stock.
- (2) The amount of restricted stock ultimately earned is based on the total shareholder return metrics related to the Company's common stock for 60,391 performance awards and financial metrics related to operating performance and leverage metrics of the Company for 75,885 performance awards.
- (3) Represents the change in the number of performance awards converted to restricted stock shares based on performance achievement.
- (4) The amount of restricted stock ultimately earned is based on the total shareholder return metrics related to the Company's common stock for 55,162 performance awards and financial metrics related to operating performance and leverage metrics of the Company for 30,474 performance awards.

The Company used a Monte Carlo model to assess the compensation cost associated with the portion of the performance awards determined by using total shareholder return measures. The assumptions used are as follows:

	2015	2014	2013
Dividend yield	3.0%	3.6%	3.3%
Estimated volatility over the life of the plan (1)	12.0% - 17.3%	17.6% - 18.6%	17.0% - 21.0%
Risk free rate	0.07% - 1.09%	0.04% - 0.72%	0.09% - 0.46%
Estimated performance award value based on total shareholder return measure	\$139.18	\$103.20	\$70.00

- (1) Estimated volatility of the life of the plan is using 50% historical volatility and 50% implied volatility.

For the portion of the performance awards determined by using financial metrics, the estimated compensation cost was based on the baseline share value of \$166.23, \$128.97 and \$130.23, for the years ended December 31, 2015, 2014 and 2013, respectively, and the Company's estimate of corporate achievement for the financial metrics.

Information with respect to restricted stock granted is as follows:

	Restricted stock shares	Restricted stock shares weighted average grant date fair value per share	Restricted stock shares converted from performance awards
Outstanding at December 31, 2012	202,218	\$ 107.58	—
Granted	123,977	129.21	—
Vested	(141,673)	104.69	—
Forfeited	(2,439)	123.05	—
Outstanding at December 31, 2013	182,083	\$ 124.35	—
Granted	98,954	129.35	16,209
Vested	(93,963)	120.81	(5,073)
Forfeited	(7,767)	128.62	(203)
Outstanding at December 31, 2014	179,307	\$ 129.06	10,933
Granted	61,953	173.04	95,826
Vested	(91,847)	130.75	(8,412)
Forfeited	(1,529)	151.86	—
Outstanding at December 31, 2015	147,884	\$ 146.21	98,347

Total employee stock-based compensation cost recognized in income was \$14,703,000, \$13,314,000 and \$17,775,000 for the years ended December 31, 2015, 2014 and 2013, respectively, and total capitalized stock-based compensation cost was \$9,667,000, \$5,457,000 and \$8,379,000 for the years ended December 31, 2015, 2014 and 2013, respectively. At December 31, 2015, there was a total unrecognized compensation cost of \$99,000 for unvested stock options and \$21,096,000 for unvested restricted stock and performance awards, which does not include estimated forfeitures. The unrecognized compensation cost for unvested stock options and restricted stock and performance awards is expected to be recognized over a weighted average period of 0.1 and 3.6 years, respectively.

The Company estimates the forfeiture of stock options and recognizes compensation cost net of the estimated forfeitures. The estimated forfeitures included in compensation cost are adjusted to reflect actual forfeitures at the end of the vesting period. The forfeiture rate at December 31, 2015 was 1.0%. The application of estimated forfeitures did not materially impact compensation expense for the years ended December 31, 2015, 2014 and 2013.

Employee Stock Purchase Plan

In October 1996, the Company adopted the 1996 Non-Qualified Employee Stock Purchase Plan (as amended, the "ESPP"). Initially 1,000,000 shares of common stock were reserved for issuance under this plan. There are currently 704,160 shares remaining available for issuance under the ESPP. Full-time employees of the Company generally are eligible to participate in the ESPP if, as of the last day of the applicable election period, they have been employed by the Company for at least one month. All other employees of the Company are eligible to participate provided that, as of the applicable election period, they have been employed by the Company for 12 months. Under the ESPP, eligible employees are permitted to acquire shares of the Company's common stock through payroll deductions, subject to maximum purchase limitations. During 2013, the purchase period was a period of seven months beginning April 1 and ending October 30. The Company modified the ESPP beginning in 2014, establishing two purchase periods. The first purchase period begins January 1 and ends June 10, and the second purchase period begins July 1 and ends December 10. The purchase price for common stock purchased under the plan is 85% of the lesser of the fair market value of the Company's common stock on the first day of the applicable purchase period or the last day of the applicable purchase period. The offering dates, purchase dates and duration of purchase periods may be changed if the change is announced prior to the beginning of the affected date or purchase period. The Company issued 10,667, 9,848 and 9,260 shares and recognized compensation expense of \$321,000, \$407,000 and \$174,000 under the ESPP for the years ended December 31, 2015, 2014 and 2013, respectively. The Company accounts for transactions under the ESPP using the fair value method prescribed by accounting guidance applicable to entities that use employee share purchase plans.

10. Related Party Arrangements

Unconsolidated Entities

The Company manages unconsolidated real estate entities for which it receives asset management, property management, development and redevelopment fee revenue. From these entities, the Company earned fees of \$9,947,000, \$11,050,000 and \$11,502,000 in the years ended December 31, 2015, 2014 and 2013, respectively. These fees are recognized on an accrual basis when earned in accordance with the accounting guidance applicable to revenue recognition, and are included in management, development and other fees on the accompanying Consolidated Statements of Comprehensive Income. In addition, the Company has outstanding receivables associated with its management role of \$3,832,000 and \$6,868,000 as of December 31, 2015 and 2014, respectively.

Director Compensation

Directors of the Company who are also employees receive no additional compensation for their services as a director. Following each annual meeting of stockholders, non-employee directors receive (i) a number of shares of restricted stock (or deferred stock awards) having a value of \$130,000 and (ii) a cash payment of \$60,000, payable in quarterly installments of \$15,000. The number of shares of restricted stock (or deferred stock awards) is calculated based on the closing price on the day of the award. Non-employee directors may elect to receive all or a portion of cash payments in the form of a deferred stock award. In addition, beginning in May 2014, the Lead Independent Director receives an additional annual fee of \$25,000 payable in equal quarterly installments of \$6,250, and non-employee directors serving as the chairperson of the Audit, Compensation and Nominating Committees receive additional cash compensation of \$10,000 per year payable in quarterly installments of \$2,500.

The Company recorded non-employee director compensation expense relating to restricted stock grants and deferred stock awards in the amount of \$1,135,000, \$1,049,000 and \$992,000 for the years ended December 31, 2015, 2014 and 2013, respectively, as a component of general and administrative expense. Deferred compensation relating to these restricted stock grants and deferred stock awards to non-employee directors was \$488,000, \$452,000 and \$417,000 on December 31, 2015, 2014 and 2013, respectively. During the year ended December 31, 2015, the Company issued 46,589 shares in conjunction with the conversion of deferred stock awards.

11. Fair Value

Financial Instruments Carried at Fair Value

Derivative Financial Instruments

Currently, the Company uses interest rate swap and interest rate cap agreements to manage its interest rate risk. These instruments are carried at fair value in the Company's financial statements. In adjusting the fair value of its derivative contracts for the effect of counterparty nonperformance risk, the Company has considered the impact of its net position with a given counterparty, as well as any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. The Company minimizes its credit risk on these transactions by dealing with major, creditworthy financial institutions which have an A or better credit rating by the Standard & Poor's Ratings Group. As part of its on-going control procedures, the Company monitors the credit ratings of counterparties and the exposure of the Company to any single entity, thus reducing credit risk concentration. The Company believes the likelihood of realizing losses from counterparty nonperformance is remote. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, such as interest rate, term to maturity and volatility, the credit valuation adjustments associated with its derivatives use Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. As of December 31, 2015, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined it is not significant. As a result, the Company has determined that its derivative valuations are classified in Level 2 of the fair value hierarchy.

Hedge ineffectiveness did not have a material impact on earnings of the Company for 2015 or any prior period, and the Company does not anticipate that it will have a material effect in the future.

The following table summarizes the consolidated derivative positions at December 31, 2015 (dollars in thousands):

	Non-designated Hedges Interest Rate Caps	Cash Flow Hedges Interest Rate Caps	Cash Flow Hedges Interest Rate Swaps
Notional balance	\$ 725,832	\$ 36,731	\$ 600,000
Weighted average interest rate (1)	1.8%	2.7%	N/A
Weighted average swapped/capped interest rate	5.8%	5.9%	2.3%
Earliest maturity date	February 2016	April 2019	May 2016
Latest maturity date	June 2020	April 2019	November 2017

(1) For interest rate caps, represents the weighted average interest rate on the hedged debt.

Excluding derivatives executed to hedge secured debt on communities classified as held for sale, the Company had 10 derivatives designated as a cash flow hedge and 15 derivatives not designated as hedges at December 31, 2015. Fair value changes for derivatives not in qualifying hedge relationships for the years ended December 31, 2015 and 2014, were not material. Excluding the forward interest rate protection agreement discussed further below, fair value changes for derivatives not in qualifying hedge relationships for the year ended December 31, 2013 were not material. To adjust the Hedging Derivatives in qualifying cash flow hedges to their fair value and recognize the impact of hedge accounting, the Company recorded a decrease to accumulated other comprehensive loss of \$11,128,000, \$6,116,000 and \$5,892,000 during the years ended December 31, 2015, 2014 and 2013, respectively. During the year ended December 31, 2013, the Company reclassified \$59,376,000 of deferred losses from accumulated other comprehensive loss with \$51,000,000 recognized as loss on interest rate contract as discussed below, and the balance recorded as a component of interest expense, net. The Company anticipates reclassifying approximately \$5,493,000 of hedging losses from accumulated other comprehensive loss into earnings within the next 12 months to offset the variability of cash flows of the hedged item during this period. The Company did not have any derivatives designated as fair value hedges as of December 31, 2015 and 2014.

During 2015, the Company entered into \$600,000,000 of forward interest rate swap agreements to reduce the impact of variability in interest rates on a portion of the Company's expected debt issuance activity in 2016 and 2017. At maturity of the agreements, the Company expects to cash settle the contracts and either pay or receive cash for the then current fair value. Assuming that the Company issues the debt as expected, the impact from settling these positions will then be recognized over the life of the issued debt as a yield adjustment.

In 2013, the Company was party to a \$215,000,000 forward interest rate protection agreement, which was entered into in 2011 to reduce the impact of variability in interest rates on a portion of its expected debt issuance activity in 2013. The Company settled this position at its maturity in May 2013 with a payment to the counterparty of \$51,000,000, the fair value at the time of settlement. Based on changes in the Company's capital requirements for 2013, the Company deemed it was probable that it would not issue the anticipated debt for which the interest rate protection agreement was transacted. During the year ended December 31, 2013, the Company recognized a loss of \$51,000,000 for the forward interest rate protection agreement in loss on interest rate contract on the accompanying Consolidated Statements of Comprehensive Income.

Redeemable Noncontrolling Interests

The Company provided redemption options (the "Puts") that allow joint venture partners of the Company to require the Company to purchase their interests in the investment at a guaranteed minimum amount related to three ventures. The Puts are payable in cash. The Company determines the fair value of the Puts based on unobservable inputs considering the assumptions that market participants would make in pricing the obligations, applying a guaranteed rate of return to the joint venture partners' net capital contribution balances as of period end. Given the significance of the unobservable inputs, the valuations are classified in Level 3 of the fair value hierarchy.

The Company issued units of limited partnership interest in DownREITs which provide the DownREIT limited partners the ability to present all or some of their units for redemption for cash as determined by the partnership agreement. Under the DownREIT agreements, for each limited partnership unit, the limited partner is entitled to receive cash in the amount equal to the fair value of the Company's common stock on or about the date of redemption. In lieu of cash redemption, the Company may elect to exchange such units for an equal number of shares of the Company's common stock. The limited partnership units in the DownREITs are valued using the market price of the Company's common stock, a Level 1 price under the fair value hierarchy.

Financial Instruments Not Carried at Fair Value

Cash and Cash Equivalents

Cash and cash equivalent balances are held with various financial institutions, within principal protected accounts. The Company monitors credit ratings of these financial institutions and the concentration of cash and cash equivalent balances with any one financial institution and believes the likelihood of realizing material losses related to cash and cash equivalent balances is remote. Cash and cash equivalents are carried at their face amounts, which reasonably approximate their fair values and are Level 1 within the fair value hierarchy.

Other Financial Instruments

Rents receivable, accounts and construction payable and accrued expenses and other liabilities are carried at their face amounts, which reasonably approximate their fair values.

The Company values its unsecured notes using quoted market prices, a Level 1 price within the fair value hierarchy. The Company values its notes payable and outstanding amounts under the Credit Facility and Term Loan using a discounted cash flow analysis on the expected cash flows of each instrument. This analysis reflects the contractual terms of the instrument, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The process also considers credit valuation adjustments to appropriately reflect the Company's nonperformance risk. The Company has concluded that the value of its notes payable and amounts outstanding under its Credit Facility and Term Loan are Level 2 prices as the majority of the inputs used to value its positions fall within Level 2 of the fair value hierarchy.

Financial Instruments Measured/Disclosed at Fair Value on a Recurring Basis

The following table summarizes the classification between the three levels of the fair value hierarchy of the Company's financial instruments measured/disclosed at fair value on a recurring basis (dollars in thousands):

Description	Total Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non Designated Hedges				
Interest Rate Caps	\$ 26	\$ —	\$ 26	\$ —
Cash Flow Hedges				
Interest Rate Caps	5	—	5	—
Interest Rate Swaps	5,422	—	5,422	—
Put(s)	(8,181)	—	—	(8,181)
DownREIT units	(1,381)	(1,381)	—	—
Indebtedness				
Unsecured notes	(3,668,417)	(3,668,417)	—	—
Mortgage notes payable and unsecured term loan	(2,700,341)	—	(2,700,341)	—
Total	\$ (6,372,867)	\$ (3,669,798)	\$ (2,694,888)	\$ (8,181)
12/31/2014				
Non Designated Hedges				
Interest Rate Caps	\$ 50	\$ —	\$ 50	\$ —
Cash Flow Hedges				
Interest Rate Caps	58	—	58	—
Put(s)	(11,104)	—	—	(11,104)
DownREIT units	(1,226)	(1,226)	—	—
Indebtedness				
Unsecured notes	(2,874,147)	(2,874,147)	—	—
Mortgage notes payable and unsecured term loan	(3,683,875)	—	(3,683,875)	—
Total	\$ (6,570,244)	\$ (2,875,373)	\$ (3,683,767)	\$ (11,104)

12. Quarterly Financial Information

The following summary represents the unaudited quarterly results of operations for the years ended December 31, 2015 and 2014 (dollars in thousands, except per share amounts):

	For the three months ended (1)			
	3/31/15	6/30/15	9/30/15	12/31/15
Total revenue	\$ 442,367	\$ 457,459	\$ 475,360	\$ 480,840
Income from continuing operations	\$ 208,053	\$ 172,253	\$ 206,076	\$ 155,352
Total discontinued operations	\$ —	\$ —	\$ —	\$ —
Net income	\$ 208,053	\$ 172,253	\$ 206,076	\$ 155,352
Net income attributable to common stockholders	\$ 208,144	\$ 172,324	\$ 206,142	\$ 155,428
Net income per common share - basic	\$ 1.57	\$ 1.30	\$ 1.54	\$ 1.13
Net income per common share - diluted	\$ 1.56	\$ 1.29	\$ 1.53	\$ 1.13

	For the three months ended (1)			
	3/31/14	6/30/14	9/30/14	12/31/14
Total revenue	\$ 400,075	\$ 413,806	\$ 430,525	\$ 440,656
Income from continuing operations	\$ 103,420	\$ 172,197	\$ 241,001	\$ 142,530
Total discontinued operations	\$ 38,179	\$ —	\$ —	\$ —
Net income	\$ 141,599	\$ 172,197	\$ 241,001	\$ 142,530
Net income attributable to common stockholders	\$ 141,739	\$ 158,086	\$ 241,100	\$ 142,642
Net income per common share - basic	\$ 1.09	\$ 1.22	\$ 1.83	\$ 1.08
Net income per common share - diluted	\$ 1.09	\$ 1.21	\$ 1.83	\$ 1.08

(1) Amounts may not equal full year results due to rounding.

13. Subsequent Events

The Company has evaluated subsequent events through the date on which this Form 10-K was filed, the date on which these financial statements were issued, and identified the items below for discussion.

In January and February 2016:

The Company acquired two communities:

- Avalon Hoboken located in Hoboken, NJ, contains 217 apartment homes and was acquired for a purchase price of \$129,700,000. In conjunction with the acquisition, the Company assumed a fixed rate secured mortgage note with a principal balance of \$67,904,000 and an effective interest rate of 4.18% maturing in December 2020.
- Avalon Potomac Yard located in Alexandria, VA, contains 323 apartment homes and was acquired for a purchase price of \$108,250,000.

The Company entered into \$450,000,000 of forward interest rate swap agreements to reduce the impact of variability in interest rates on a portion of the Company's expected debt issuance activity in 2016 and 2017. At maturity of the agreements, the Company expects to cash settle the contracts and either pay or receive cash for the then current fair value. Assuming that the Company issues the debt as expected, the impact from settling these positions will then be recognized over the life of the issued debt as a yield adjustment.

The Company extended the maturity of the Credit Facility from April 2017 to April 2020, and amended other provisions in the Credit Facility. In addition, pursuant to an option available under the terms of the Company's Credit Facility, with the approval of the syndicate of lenders, the Company increased the aggregate facility size from \$1,300,000,000 to \$1,500,000,000 (the "Credit Facility Increase"). The Company may further extend the term for up to nine months, provided the Company is not in default and upon payment of a \$1,500,000 extension fee. In connection with the Credit Facility Increase, the applicable margin over reference rates used to determine the applicable interest rates on the Company's borrowings from time to time decreased. The Credit Facility bears interest at varying levels based on the London Interbank Offered Rate ("LIBOR"), rating levels achieved on the Company's unsecured notes and on a maturity schedule selected by the Company. The current stated pricing is LIBOR plus 0.825% per annum.

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The stated spread over LIBOR can vary from LIBOR plus 0.80% to LIBOR plus 1.55% based on the Company's credit ratings. In addition, a competitive bid option is available for borrowings up to 65% of the Credit Facility amount, which allows banks that are part the lender consortium to bid to make loans at a rate that is lower than the stated rate if market conditions allow. In connection with the Credit Facility Increase, the annual facility fee was also amended to lower the fee to 0.125% from 0.15%, approximately \$1,875,000 annually based on the \$1,500,000,000 facility size and based on the Company's current credit rating.

Avalon at Stratford was substituted as collateral for the outstanding fixed rate secured mortgage loan associated with Eaves Trumbull.

The U.S. Fund sold two communities:

- Archstone Boca Town Center, located in Boca Raton, FL, containing 252 apartment homes was sold for \$56,300,000.
- Avalon Kips Bay, located in New York, NY, containing 209 apartment homes was sold for \$173,000,000.

Fund II sold Eaves Rancho San Diego, located in El Cajon, CA, containing 676 apartment homes for \$158,000,000.

The Company reached a final settlement with its property and casualty insurers regarding the property damage and lost income related to the Edgewater fire, resulting in aggregate insurance recoveries for these aspects of this matter, after self-insurance and deductibles, of \$73,008,000. The Company received \$44,000,000 of these recoveries in 2015 and expects to receive the remaining \$29,008,000 during the three months ending March 31, 2016, which will be recognized as casualty gain and business interruption insurance recovery.

AVALONBAY COMMUNITIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2015
(Dollars in thousands)

Community	City and state	2015							2014	2015	Year of Completion/ Acquisition	
		Initial Cost			Costs Subsequent to Acquisition / Construction	Total Cost			Total Cost, Net of Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation		Encumbrances
		Land and improvements	Building / Construction in Progress & Improvements	Land and improvements		Building / Construction in Progress & Improvements	Total	Accumulated Depreciation				
ESTABLISHED COMMUNITIES												
NEW ENGLAND												
Boston, MA												
Avalon at Lexington	Lexington, MA	\$ 2,124	\$ 12,546	\$ 9,368	\$ 2,124	\$ 21,914	\$ 24,038	\$ 12,335	\$ 11,703	\$ 12,438	\$ —	1994
Eaves Quincy	Quincy, MA	1,743	14,662	9,694	1,743	24,356	26,099	12,650	13,449	13,883	—	1986/1995
Avalon Essex	Peabody, MA	5,184	16,258	2,073	5,184	18,331	23,515	10,039	13,476	14,036	—	2000
Avalon Oaks West	Wilmington, MA	3,318	13,333	951	3,318	14,284	17,602	6,915	10,687	11,155	15,649	2002
Avalon Orchards	Marlborough, MA	2,983	17,932	2,260	2,983	20,192	23,175	9,744	13,431	14,061	16,621	2002
Avalon at Newton Highlands	Newton, MA	11,039	45,531	3,784	11,039	49,315	60,354	21,314	39,040	40,699	—	2003
Avalon at The Pinehills	Plymouth, MA	6,876	30,401	317	6,876	30,718	37,594	8,915	28,679	29,624	—	2004
Eaves Peabody	Peabody, MA	4,645	18,937	12,388	4,645	31,325	35,970	10,860	25,110	25,925	—	1962/2004
Avalon at Bedford Center	Bedford, MA	4,258	20,535	483	4,258	21,018	25,276	7,355	17,921	18,513	—	2006
Avalon at Chestnut Hill	Chestnut Hill, MA	14,572	45,820	2,168	14,572	47,988	62,560	15,529	47,031	48,794	39,088	2007
Avalon Shrewsbury	Shrewsbury, MA	5,152	30,458	1,358	5,152	31,816	36,968	10,191	26,777	27,455	19,867	2007
Avalon at Lexington Hills	Lexington, MA	8,691	79,104	1,686	8,691	80,790	89,481	22,275	67,206	69,510	—	2008
Avalon Acton	Acton, MA	13,124	48,944	2,309	13,124	51,253	64,377	13,789	50,588	51,216	45,000	2008
Avalon at Hingham Shipyard	Hingham, MA	12,218	41,655	791	12,218	42,446	54,664	10,635	44,029	45,193	—	2009
Avalon Sharon	Sharon, MA	4,719	25,446	461	4,719	25,907	30,626	6,952	23,674	24,480	—	2008
Avalon Northborough	Northborough, MA	8,144	52,348	198	8,144	52,546	60,690	11,066	49,624	51,444	—	2009
Avalon Blue Hills	Randolph, MA	11,110	34,690	644	11,110	35,334	46,444	8,135	38,309	39,070	—	2009
Avalon Cohasset	Cohasset, MA	8,802	46,184	87	8,802	46,271	55,073	6,561	48,512	50,141	—	2012
Avalon Andover	Andover, MA	4,276	21,862	45	4,276	21,907	26,183	2,892	23,291	24,065	14,179	2012
Avalon Prudential Center II (1)	Boston, MA	8,776	35,496	39,910	8,776	75,406	84,182	27,376	56,806	50,955	—	1968/1998
Avalon Prudential Center I (1)	Boston, MA	8,002	32,370	31,040	8,002	63,410	71,412	24,589	46,823	37,373	—	1968/1998
Eaves North Quincy	Quincy, MA	11,940	39,400	2,814	11,940	42,214	54,154	6,253	47,901	49,047	—	1977/2013
Avalon at Center Place	Providence, RI	—	26,816	10,563	—	37,379	37,379	21,374	16,005	17,127	—	1991/1997
Total Boston, MA		\$ 161,696	\$ 750,728	\$ 135,392	\$ 161,696	\$ 886,120	\$ 1,047,816	\$ 287,744	\$ 760,072	\$ 766,204	\$ 150,404	
Fairfield-New Haven, CT												
Eaves Stamford	Stamford, CT	\$ 5,956	\$ 23,993	\$ 12,798	\$ 5,956	\$ 36,791	\$ 42,747	\$ 21,445	\$ 21,302	\$ 22,648	\$ —	1991
Avalon Wilton I	Wilton, CT	2,116	14,664	5,841	2,116	20,505	22,621	10,601	12,020	12,766	—	1997
Avalon New Canaan	New Canaan, CT	4,834	22,990	1,700	4,834	24,690	29,524	11,179	18,345	17,206	—	2002
AVA Stamford	Stamford, CT	13,819	56,499	4,834	13,819	61,333	75,152	27,600	47,552	49,851	—	2002/2002

AVALONBAY COMMUNITIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)
December 31, 2015
(Dollars in thousands)

Community	City and state	2015						2014	2015	Year of Completion/ Acquisition		
		Initial Cost			Total Cost			Total Cost, Net of Accumulated Depreciation	Encumbrances			
		Land and improvements	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land and improvements	Building / Construction in Progress & Improvements	Total	Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation			
Avalon Danbury	Danbury, CT	4,933	30,638	797	4,933	31,435	36,368	11,478	24,890	25,889	—	2005
Avalon Darien	Darien, CT	6,926	34,579	2,074	6,926	36,653	43,579	15,216	28,363	29,457	—	2004
Avalon Milford I	Milford, CT	8,746	22,699	1,014	8,746	23,713	32,459	9,357	23,102	23,677	—	2004
Avalon Norwalk	Norwalk, CT	11,320	62,910	440	11,320	63,350	74,670	11,606	63,064	64,883	—	2011
Avalon Huntington	Shelton, CT	5,277	20,029	137	5,277	20,166	25,443	5,132	20,311	21,000	—	2008
Avalon Wilton II	Wilton, CT	6,604	23,763	—	6,604	23,763	30,367	3,853	26,514	27,371	—	2011
Total Fairfield-New Haven, CT		\$ 70,531	\$ 312,764	\$ 29,635	\$ 70,531	\$ 342,399	\$ 412,930	\$ 127,467	\$ 285,463	\$ 294,748	\$ —	
TOTAL NEW ENGLAND		\$ 232,227	\$ 1,063,492	\$ 165,027	\$ 232,227	\$ 1,228,519	\$ 1,460,746	\$ 415,211	\$ 1,045,535	\$ 1,060,952	\$ 150,404	
METRO NY/NJ												
New York City, NY												
Avalon Riverview I (1)	Long Island City, NY	\$ —	\$ 94,061	\$ 6,647	\$ —	\$ 100,708	\$ 100,708	\$ 45,214	\$ 55,494	\$ 57,407	\$ —	2002
Avalon Bowery Place	New York, NY	18,575	75,009	2,383	18,575	77,392	95,967	24,711	71,256	73,529	93,800	2006
Avalon Riverview North	Long Island City, NY	—	166,099	2,906	—	169,005	169,005	47,953	121,052	125,242	—	2008
Avalon Bowery Place II	New York, NY	9,106	47,199	3,298	9,106	50,497	59,603	13,624	45,979	46,034	—	2007
Avalon Morningside Park	New York, NY	—	114,233	1,037	—	115,270	115,270	28,731	86,539	90,555	100,000	2009
Avalon Fort Greene	Brooklyn, NY	83,038	216,802	860	83,038	217,662	300,700	42,653	258,047	266,954	—	2010
Avalon Midtown West	New York, NY	154,730	180,253	12,299	154,730	192,552	347,282	29,236	318,046	323,993	100,500	1998/2013
Avalon Clinton North (1)	New York, NY	84,069	105,821	7,300	84,069	113,121	197,190	16,054	181,136	183,684	147,000	2008/2013
Avalon Clinton South	New York, NY	71,421	89,851	5,238	71,421	95,089	166,510	13,810	152,700	155,715	121,500	2007/2013
Total New York City, NY		\$ 420,939	\$ 1,089,328	\$ 41,968	\$ 420,939	\$ 1,131,296	\$ 1,552,235	\$ 261,986	\$ 1,290,249	\$ 1,323,113	\$ 562,800	
New York - Suburban												
Avalon Commons	Smithtown, NY	\$ 4,679	\$ 28,286	\$ 5,810	\$ 4,679	\$ 34,096	\$ 38,775	\$ 19,958	\$ 18,817	\$ 19,961	\$ —	1997
Eaves Nanuet	Nanuet, NY	8,428	45,660	4,371	8,428	50,031	58,459	30,225	28,234	29,666	62,279	1998
Avalon Willow	Mamaroneck, NY	6,207	40,791	1,727	6,207	42,518	48,725	23,346	25,379	26,575	—	2000
Avalon Court	Melville, NY	9,228	50,063	3,104	9,228	53,167	62,395	30,699	31,696	33,465	—	1997
The Avalon	Bronxville, NY	2,889	28,324	8,003	2,889	36,327	39,216	17,178	22,038	23,324	—	1999
Avalon at Glen Cove	Glen Cove, NY	7,871	59,969	1,463	7,871	61,432	69,303	24,106	45,197	46,967	—	2004
Avalon Pines	Coram, NY	8,700	62,931	946	8,700	63,877	72,577	22,979	49,598	51,424	—	2005
Avalon Glen Cove North	Glen Cove, NY	2,577	37,336	364	2,577	37,700	40,277	11,287	28,990	30,129	—	2007
Avalon White Plains	White Plains, NY	15,391	137,353	210	15,391	137,563	152,954	32,264	120,690	125,356	—	2009

AVALONBAY COMMUNITIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)
December 31, 2015
(Dollars in thousands)

Community	City and state	2015							2014	2015	Year of Completion/ Acquisition	
		Initial Cost			Total Cost				Total Cost, Net of Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation		Encumbrances
		Land and improvements	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land and improvements	Building / Construction in Progress & Improvements	Total	Accumulated Depreciation				
Avalon Rockville Centre	Rockville Centre, NY	32,212	78,807	10	32,212	78,817	111,029	11,305	99,724	102,539	—	2012
Avalon Green II	Elmsford, NY	27,765	77,561	—	27,765	77,561	105,326	10,116	95,210	97,995	—	2012
Avalon Garden City	Garden City, NY	18,205	49,372	—	18,205	49,372	67,577	5,802	61,775	63,578	—	2013
Avalon Westbury	Westbury, NY	69,620	43,781	9,882	69,620	53,663	123,283	10,584	112,699	112,091	81,175	2006/2013
Total New York - Suburban		\$ 213,772	\$ 740,234	\$ 35,890	\$ 213,772	\$ 776,124	\$ 989,896	\$ 249,849	\$ 740,047	\$ 763,070	\$ 143,454	
New Jersey												
Avalon Cove	Jersey City, NJ	8,760	82,422	21,119	8,760	103,541	112,301	57,650	54,651	58,185	—	1997
Eaves Lawrenceville (1)	Lawrenceville, NJ	14,650	60,486	7,744	14,650	68,230	82,880	26,489	56,391	56,757	—	1994
Avalon Princeton Junction	West Windsor, NJ	5,585	22,382	20,927	5,585	43,309	48,894	22,942	25,952	27,366	—	1988/1993
Avalon at Florham Park	Florham Park, NJ	6,647	34,906	2,552	6,647	37,458	44,105	19,437	24,668	25,723	—	2001
Avalon at Freehold	Freehold, NJ	4,119	30,514	1,050	4,119	31,564	35,683	15,051	20,632	21,574	34,441	2002
Avalon Run East	Lawrenceville, NJ	6,766	45,366	1,107	6,766	46,473	53,239	17,909	35,330	36,765	36,904	2005
Avalon at Tinton Falls	Tinton Falls, NJ	7,939	33,173	392	7,939	33,565	41,504	8,928	32,576	33,453	—	2008
Avalon at West Long Branch	West Long Branch, NJ	2,721	22,940	56	2,721	22,996	25,717	4,335	21,382	22,182	—	2011
Avalon North Bergen	North Bergen, NJ	8,984	30,997	919	8,984	31,916	40,900	4,000	36,900	37,694	—	2012
Avalon at Wesmont Station	Wood-Ridge, NJ	14,682	41,635	700	14,682	42,335	57,017	5,385	51,632	53,332	—	2012
Avalon Hackensack at Riverside	Hackensack, NJ	—	44,625	—	—	44,625	44,625	3,903	40,722	42,218	—	2013
Avalon at Wesmont Station II	Wood-Ridge, NJ	6,502	16,863	—	6,502	16,863	23,365	1,603	21,762	22,372	—	2013
Total New Jersey		\$ 87,355	\$ 466,309	\$ 56,566	\$ 87,355	\$ 522,875	\$ 610,230	\$ 187,632	\$ 422,598	\$ 437,621	\$ 71,345	
TOTAL Metro NY/NJ		\$ 722,066	\$ 2,295,871	\$ 134,424	\$ 722,066	\$ 2,430,295	\$ 3,152,361	\$ 699,467	\$ 2,452,894	\$ 2,523,804	\$ 777,599	
MID-ATLANTIC												
Washington Metro/Baltimore, MD												
Avalon at Foxhall	Washington, DC	\$ 6,848	\$ 27,614	\$ 12,556	\$ 6,848	\$ 40,170	\$ 47,018	\$ 26,355	\$ 20,663	\$ 21,183	\$ 55,484	1982/1994
Avalon at Gallery Place	Washington, DC	8,800	39,658	1,994	8,800	41,652	50,452	17,969	32,483	33,603	43,110	2003
AVA H Street	Washington, DC	7,425	25,282	—	7,425	25,282	32,707	2,755	29,952	30,925	—	2013
Avalon The Albemarle	Washington, DC	25,140	52,459	4,608	25,140	57,067	82,207	8,821	73,386	74,336	—	1966/2013
Eaves Tunlaw Gardens	Washington, DC	16,430	22,902	2,100	16,430	25,002	41,432	4,006	37,426	38,195	—	1944/2013
The Statesman	Washington, DC	38,140	35,352	3,715	38,140	39,067	77,207	7,149	70,058	71,130	—	1961/2013
Eaves Glover Park	Washington, DC	9,580	26,532	2,146	9,580	28,678	38,258	4,422	33,836	34,681	—	1953/2013
AVA Van Ness	Washington, DC	22,890	58,691	3,656	22,890	62,347	85,237	8,982	76,255	78,192	—	1978/2013

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		Initial Cost			Total Cost			Total Cost, Net of Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation		Encumbrances	
		Land and improvements	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land and improvements	Building / Construction in Progress & Improvements	Total					
Avalon First & M	Washington, DC	43,700	153,950	2,665	43,700	156,615	200,315	17,656	182,659	187,806	—	2012/2013
Avalon at Fairway Hills	Columbia, MD	8,603	34,432	16,092	8,603	50,524	59,127	30,110	29,017	30,674	—	1987/1996
Eaves Washingtonian Center I	North Potomac, MD	2,608	11,707	876	2,608	12,583	15,191	8,378	6,813	7,031	—	1996
Eaves Washingtonian Center II	North Potomac, MD	1,439	6,846	220	1,439	7,066	8,505	4,215	4,290	4,495	—	1998
Eaves Columbia Town Center	Columbia, MD	8,802	35,536	11,612	8,802	47,148	55,950	17,857	38,093	39,494	—	1986/1993
Avalon at Grosvenor Station	Bethesda, MD	29,159	53,001	2,141	29,159	55,142	84,301	23,018	61,283	63,142	—	2004
Avalon at Traville	Rockville, MD	14,365	55,398	2,756	14,365	58,154	72,519	23,257	49,262	49,241	73,057	2004
Avalon Russett	Laurel, MD	10,200	47,524	2,813	10,200	50,337	60,537	7,350	53,187	54,836	39,972	1999/2013
Eaves Fair Lakes	Fairfax, VA	6,096	24,400	8,352	6,096	32,752	38,848	18,921	19,927	20,965	—	1989/1996
AVA Ballston	Arlington, VA	7,291	29,177	16,117	7,291	45,294	52,585	25,962	26,623	28,291	—	1990
Eaves Fairfax City	Fairfax, VA	2,152	8,907	5,390	2,152	14,297	16,449	7,157	9,292	9,825	—	1988/1997
Avalon Park Crest	Tysons Corner, VA	13,554	63,527	31	13,554	63,558	77,112	7,227	69,885	72,195	—	2013
Eaves Fairfax Towers	Falls Church, VA	17,889	74,727	1,879	17,889	76,606	94,495	12,627	81,868	84,552	—	1978/2011
Avalon Ballston Place	Arlington, VA	38,490	123,645	3,907	38,490	127,552	166,042	15,895	150,147	154,371	—	2001/2013
Eaves Tysons Corner	Vienna, VA	16,030	45,420	2,581	16,030	48,001	64,031	7,362	56,669	58,495	—	1980/2013
Avalon Ballston Square	Arlington, VA	71,640	215,937	12,072	71,640	228,009	299,649	31,147	268,502	274,405	—	1992/2013
Avalon Courthouse Place	Arlington, VA	56,550	178,032	8,868	56,550	186,900	243,450	25,150	218,300	223,792	140,332	1999/2013
Avalon Reston Landing	Reston, VA	26,710	83,084	4,405	26,710	87,489	114,199	13,195	101,004	104,285	—	2000/2013
TOTAL MID-ATLANTIC		\$ 510,531	\$ 1,533,740	\$ 133,552	\$ 510,531	\$ 1,667,292	\$ 2,177,823	\$ 376,943	\$ 1,800,880	\$ 1,850,140	\$ 351,955	

PACIFIC NORTHWEST

Seattle, WA												
Avalon Redmond Place	Redmond, WA	\$ 4,558	\$ 18,368	\$ 10,247	\$ 4,558	\$ 28,615	\$ 33,173	\$ 15,527	\$ 17,646	\$ 18,264	\$ —	1991/1997
Avalon at Bear Creek	Redmond, WA	6,786	27,641	3,595	6,786	31,236	38,022	18,732	19,290	20,397	—	1998/1998
Avalon Bellevue	Bellevue, WA	6,664	24,119	1,726	6,664	25,845	32,509	13,251	19,258	20,223	25,103	2001
Avalon RockMeadow	Bothell, WA	4,777	19,765	2,214	4,777	21,979	26,756	11,565	15,191	15,748	—	2000/2000
Avalon ParcSquare	Redmond, WA	3,789	15,139	2,670	3,789	17,809	21,598	9,306	12,292	12,971	—	2000/2000
Avalon Brandmoor	Lynnwood, WA	8,608	36,679	1,811	8,608	38,490	47,098	19,547	27,551	28,800	—	2001/2001
AVA Belltown	Seattle, WA	5,644	12,733	888	5,644	13,621	19,265	6,856	12,409	12,877	61,769	2001
Avalon Meydenbauer	Bellevue, WA	12,697	77,451	951	12,697	78,402	91,099	20,691	70,408	73,031	—	2008
Avalon Towers Bellevue	Bellevue, WA	—	123,030	815	—	123,845	123,845	23,476	100,369	104,838	—	2011
AVA Queen Anne	Seattle, WA	12,081	41,618	347	12,081	41,965	54,046	5,917	48,129	49,689	—	2012
Avalon Brandmoor II	Lynnwood, WA	2,655	11,343	—	2,655	11,343	13,998	1,849	12,149	12,563	—	2011
AVA Ballard	Seattle, WA	16,460	46,926	918	16,460	47,844	64,304	4,620	59,684	60,540	—	2013

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		Initial Cost			Total Cost			Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation		Encumbrances	
		Land and improvements	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land and improvements	Building / Construction in Progress & Improvements	Total					
Eaves Redmond Campus	Redmond, WA	22,580	88,001	5,689	22,580	93,690	116,270	13,745	102,525	105,671	—	1991/2013
Archstone Redmond Lakeview	Redmond, WA	10,250	26,842	1,965	10,250	28,807	39,057	4,440	34,617	35,621	—	1987/2013
TOTAL PACIFIC NORTHWEST		\$ 117,549	\$ 569,655	\$ 33,836	\$ 117,549	\$ 603,491	\$ 721,040	\$ 169,522	\$ 551,518	\$ 571,233	\$ 86,872	
NORTHERN CALIFORNIA												
San Jose, CA												
Avalon Campbell	Campbell, CA	\$ 11,830	\$ 47,828	\$ 13,436	\$ 11,830	\$ 61,264	\$ 73,094	\$ 30,932	\$ 42,162	\$ 44,418	\$ 38,800	1995
Eaves San Jose	San Jose, CA	12,920	53,047	18,868	12,920	71,915	84,835	31,204	53,631	56,089	—	1985/1996
Avalon on the Alameda	San Jose, CA	6,119	50,225	1,860	6,119	52,085	58,204	29,869	28,335	29,953	50,754	1999
Avalon Mountain View	Mountain View, CA	9,755	39,393	9,960	9,755	49,353	59,108	27,178	31,930	33,117	17,700	1986
Avalon at Cahill Park	San Jose, CA	4,765	47,600	1,484	4,765	49,084	53,849	22,565	31,284	33,049	—	2002
Avalon Towers on the Peninsula	Mountain View, CA	9,560	56,136	1,118	9,560	57,254	66,814	27,109	39,705	41,684	—	2002
Avalon Willow Glen	San Jose, CA	46,060	81,957	4,096	46,060	86,053	132,113	13,139	118,974	122,271	—	2002/2013
Eaves West Valley	San Jose, CA	90,890	113,628	7,402	90,890	121,030	211,920	19,133	192,787	196,891	75,092	1970/2013
Eaves Mountain View at Middlefield	Mountain View, CA	64,070	69,018	5,112	64,070	74,130	138,200	12,194	126,006	128,519	—	1969/2013
Total San Jose, CA		\$ 255,969	\$ 558,832	\$ 63,336	\$ 255,969	\$ 622,168	\$ 878,137	\$ 213,323	\$ 664,814	\$ 685,991	\$ 182,346	
Oakland - East Bay, CA												
Avalon Fremont	Fremont, CA	\$ 10,746	\$ 43,399	\$ 5,270	\$ 10,746	\$ 48,669	\$ 59,415	\$ 29,899	\$ 29,516	\$ 31,121	\$ —	1992/1994
Eaves Pleasanton	Pleasanton, CA	11,610	46,552	21,421	11,610	67,973	79,583	35,631	43,952	46,042	—	1988/1994
Eaves Union City	Union City, CA	4,249	16,820	2,918	4,249	19,738	23,987	12,153	11,834	12,499	—	1973/1996
Eaves Fremont	Fremont, CA	6,581	26,583	9,731	6,581	36,314	42,895	20,388	22,507	23,696	—	1985/1994
Avalon Union City	Union City, CA	14,732	104,025	710	14,732	104,735	119,467	23,419	96,048	99,329	—	2009
Avalon Walnut Creek	Walnut Creek, CA	—	146,035	2,208	—	148,243	148,243	27,731	120,512	125,195	137,789	2010
Eaves Walnut Creek (1)	Walnut Creek, CA	30,320	82,375	11,632	30,320	94,007	124,327	12,658	111,669	108,646	—	1987/2013
Avalon Walnut Ridge II	Walnut Creek, CA	27,190	57,041	3,386	27,190	60,427	87,617	9,093	78,524	80,540	—	1989/2013
Total Oakland - East Bay, CA		\$ 105,428	\$ 522,830	\$ 57,276	\$ 105,428	\$ 580,106	\$ 685,534	\$ 170,972	\$ 514,562	\$ 527,068	\$ 137,789	
San Francisco, CA												
Eaves Daly City	Daly City, CA	4,230	9,659	18,742	4,230	28,401	32,631	15,793	16,838	17,747	—	1972/1997
AVA Nob Hill	San Francisco, CA	5,403	21,567	6,934	5,403	28,501	33,904	15,043	18,861	19,825	20,800	1990/1995
Eaves San Rafael	San Rafael, CA	5,982	16,885	24,396	5,982	41,281	47,263	19,364	27,899	29,067	—	1973/1996
Eaves Foster City	Foster City, CA	7,852	31,445	11,207	7,852	42,652	50,504	22,693	27,811	29,298	—	1973/1994
Eaves Pacifica	Pacifica, CA	6,125	24,796	2,727	6,125	27,523	33,648	16,591	17,057	17,867	17,600	1971/1995

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		Land and improvements	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land and improvements	Building / Construction in Progress & Improvements	Total					
Avalon Sunset Towers	San Francisco, CA	3,561	21,321	15,034	3,561	36,355	39,916	17,333	22,583	23,640	—	1961/1996
Eaves Diamond Heights	San Francisco, CA	4,726	19,130	5,844	4,726	24,974	29,700	13,772	15,928	16,670	—	1972/1994
Avalon at Mission Bay North	San Francisco, CA	14,029	78,452	2,855	14,029	81,307	95,336	36,002	59,334	61,896	68,890	2003
Avalon at Mission Bay III	San Francisco, CA	28,687	119,156	75	28,687	119,231	147,918	26,937	120,981	125,215	—	2009
Avalon Ocean Avenue	San Francisco, CA	5,544	50,883	1,759	5,544	52,642	58,186	6,740	51,446	53,340	—	2012
Avalon San Bruno	San Bruno, CA	40,780	68,684	3,028	40,780	71,712	112,492	10,028	102,464	104,932	64,450	2004/2013
Avalon San Bruno II	San Bruno, CA	23,787	44,934	1,669	23,787	46,603	70,390	6,080	64,310	65,862	30,514	2007/2013
Avalon San Bruno III	San Bruno, CA	33,303	62,910	2,412	33,303	65,322	98,625	8,517	90,108	92,222	55,650	2010/2013
Total San Francisco, CA		\$ 184,009	\$ 569,822	\$ 96,682	\$ 184,009	\$ 666,504	\$ 850,513	\$ 214,893	\$ 635,620	\$ 657,581	\$ 257,904	
TOTAL NORTHERN CALIFORNIA		\$ 545,406	\$ 1,651,484	\$ 217,294	\$ 545,406	\$ 1,868,778	\$ 2,414,184	\$ 599,188	\$ 1,814,996	\$ 1,870,640	\$ 578,039	
SOUTHERN CALIFORNIA												
Los Angeles, CA												
Avalon Woodland Hills	Woodland Hills, CA	\$ 23,828	\$ 40,372	\$ 47,354	\$ 23,828	\$ 87,726	\$ 111,554	\$ 39,443	\$ 72,111	\$ 74,700	\$ —	1989/1997
Eaves Warner Center	Woodland Hills, CA	7,045	12,986	9,445	7,045	22,431	29,476	13,887	15,589	16,318	—	1979/1998
Avalon at Glendale	Glendale, CA	—	42,564	1,319	—	43,883	43,883	18,482	25,401	26,796	—	2003
Avalon Burbank	Burbank, CA	14,053	56,827	23,979	14,053	80,806	94,859	32,102	62,757	65,454	—	1988/2002
Avalon Camarillo	Camarillo, CA	8,446	40,290	409	8,446	40,699	49,145	13,574	35,571	36,646	—	2006
Avalon Wilshire	Los Angeles, CA	5,459	41,182	1,058	5,459	42,240	47,699	12,740	34,959	36,418	—	2007
Avalon Encino	Encino, CA	12,789	49,073	576	12,789	49,649	62,438	12,575	49,863	51,445	—	2008
Avalon Warner Place	Canoga Park, CA	7,920	44,848	224	7,920	45,072	52,992	12,078	40,914	42,429	—	2008
Eaves Phillips Ranch	Pomona, CA	9,796	41,740	429	9,796	42,169	51,965	7,038	44,927	46,266	—	1989/2011
Eaves San Dimas	San Dimas, CA	1,916	7,819	1,037	1,916	8,856	10,772	1,391	9,381	9,165	—	1978/2011
Eaves San Dimas Canyon	San Dimas, CA	2,953	12,428	322	2,953	12,750	15,703	2,135	13,568	13,909	—	1981/2011
Eaves Cerritos	Artesia, CA	8,305	21,195	1,430	8,305	22,625	30,930	2,787	28,143	28,901	—	1973/2012
Avalon Playa Vista	Los Angeles, CA	30,900	72,008	2,160	30,900	74,168	105,068	8,456	96,612	97,584	—	2006/2012
Avalon Simi Valley	Simi Valley, CA	42,020	73,361	4,564	42,020	77,925	119,945	11,883	108,062	110,634	—	2007/2013
Avalon Studio City II	Studio City, CA	4,626	22,954	1,222	4,626	24,176	28,802	3,353	25,449	26,306	—	1991/2013
Avalon Studio City III	Studio City, CA	15,756	78,178	3,607	15,756	81,785	97,541	11,304	86,237	88,924	—	2002/2013
Avalon Calabasas	Calabasas, CA	42,720	107,642	8,461	42,720	116,103	158,823	18,337	140,486	143,201	99,166	1988/2013
Avalon Oak Creek	Agoura Hills, CA	43,540	79,974	4,999	43,540	84,973	128,513	13,868	114,645	117,487	85,288	2004/2013
Avalon Del Mar Station	Pasadena, CA	20,560	106,556	3,363	20,560	109,919	130,479	13,319	117,160	120,743	76,471	2006/2013
Eaves Old Town Pasadena	Pasadena, CA	9,110	15,371	1,376	9,110	16,747	25,857	2,686	23,171	23,616	15,669	1972/2013

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		Land and improvements	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land and improvements	Building / Construction in Progress & Improvements	Total					
Eaves Thousand Oaks	Thousand Oaks, CA	13,950	20,211	2,153	13,950	22,364	36,314	4,166	32,148	33,006	27,411	1992/2013
Eaves Los Feliz	Los Angeles, CA	18,940	43,661	3,433	18,940	47,094	66,034	7,096	58,938	60,298	43,258	1989/2013
Eaves Woodland Hills	Woodland Hills, CA	68,940	90,549	9,449	68,940	99,998	168,938	17,097	151,841	155,277	104,694	1971/2013
Avalon Thousand Oaks Plaza	Thousand Oaks, CA	12,810	22,581	1,873	12,810	24,454	37,264	4,172	33,092	33,972	—	2002/2013
Total Los Angeles, CA		\$ 426,382	\$ 1,144,370	\$ 134,242	\$ 426,382	\$ 1,278,612	\$ 1,704,994	\$ 283,969	\$ 1,421,025	\$ 1,459,495	\$ 451,957	
Orange County, CA												
AVA Newport	Costa Mesa, CA	\$ 1,975	\$ 3,814	\$ 9,801	\$ 1,975	\$ 13,615	\$ 15,590	\$ 5,998	\$ 9,592	\$ 10,100	\$ —	1956/1996
Eaves Mission Viejo	Mission Viejo, CA	2,517	9,257	3,466	2,517	12,723	15,240	7,564	7,676	7,400	7,635	1984/1996
Eaves South Coast	Costa Mesa, CA	4,709	16,063	12,895	4,709	28,958	33,667	14,897	18,770	19,657	—	1973/1996
Eaves Santa Margarita	Rancho Santa Margarita, CA	4,607	16,911	10,427	4,607	27,338	31,945	13,779	18,166	19,012	—	1990/1997
Eaves Huntington Beach	Huntington Beach, CA	4,871	19,745	9,656	4,871	29,401	34,272	17,769	16,503	17,489	—	1971/1997
Avalon Anaheim Stadium	Anaheim, CA	27,874	69,156	706	27,874	69,862	97,736	16,932	80,804	83,316	—	2009
Avalon Irvine	Irvine, CA	9,911	67,524	68	9,911	67,592	77,503	14,941	62,562	64,983	—	2010
Avalon Irvine II	Irvine, CA	4,358	40,906	—	4,358	40,906	45,264	4,241	41,023	42,511	—	2013
Eaves Lake Forest	Lake Forest, CA	5,199	21,134	2,131	5,199	23,265	28,464	3,866	24,598	25,441	—	1975/2011
Eaves Seal Beach	Seal Beach, CA	46,790	99,999	4,748	46,790	104,747	151,537	15,067	136,470	140,246	—	1971/2013
Total Orange County, CA		\$ 112,811	\$ 364,509	\$ 53,898	\$ 112,811	\$ 418,407	\$ 531,218	\$ 115,054	\$ 416,164	\$ 430,155	\$ 7,635	
San Diego, CA												
Eaves Mission Ridge	San Diego, CA	\$ 2,710	\$ 10,924	\$ 11,357	\$ 2,710	\$ 22,281	\$ 24,991	\$ 12,987	\$ 12,004	\$ 12,684	\$ —	1960/1997
AVA Cortez Hill	San Diego, CA	2,768	20,134	23,497	2,768	43,631	46,399	20,396	26,003	27,513	—	1973/1998
Avalon Fashion Valley	San Diego, CA	19,627	44,972	399	19,627	45,371	64,998	11,485	53,513	55,029	—	2008
Eaves San Marcos	San Marcos, CA	3,277	13,385	982	3,277	14,367	17,644	2,377	15,267	15,653	—	1988/2011
Eaves Rancho Penasquitos	San Diego, CA	6,692	27,143	2,027	6,692	29,170	35,862	4,715	31,147	31,972	—	1986/2011
Eaves La Mesa	La Mesa, CA	9,490	28,482	1,354	9,490	29,836	39,326	4,513	34,813	36,077	—	1989/2013
Total San Diego, CA		\$ 44,564	\$ 145,040	\$ 39,616	\$ 44,564	\$ 184,656	\$ 229,220	\$ 56,473	\$ 172,747	\$ 178,928	\$ —	
TOTAL SOUTHERN CALIFORNIA		\$ 583,757	\$ 1,653,919	\$ 227,756	\$ 583,757	\$ 1,881,675	\$ 2,465,432	\$ 455,496	\$ 2,009,936	\$ 2,068,578	\$ 459,592	
TOTAL ESTABLISHED COMMUNITIES		\$ 2,711,536	\$ 8,768,161	\$ 911,889	\$ 2,711,536	\$ 9,680,050	\$ 12,391,586	\$ 2,715,827	\$ 9,675,759	\$ 9,945,347	\$ 2,404,461	

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		Initial Cost			Total Cost					Total Cost, Net of Accumulated Depreciation	Encumbrances	
		Land and improvements	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land and improvements	Building / Construction in Progress & Improvements	Total			Total Cost, Net of Accumulated Depreciation	Encumbrances	
OTHER STABILIZED												
Eaves Dublin	Dublin, CA	\$ 5,276	\$ 19,642	\$ 12,310	\$ 5,276	\$ 31,952	\$ 37,228	\$ 15,397	\$ 21,831	\$ 19,902	\$ —	1989/1997
AVA Burbank	Burbank, CA	22,483	28,104	48,165	22,483	76,269	98,752	35,042	63,710	66,594	—	1961/1997
AVA Pacific Beach	San Diego, CA	9,922	40,580	40,107	9,922	80,687	90,609	35,087	55,522	49,113	—	1969/1997
Eaves Creekside	Mountain View, CA	6,546	26,263	21,310	6,546	47,573	54,119	22,428	31,691	33,054	—	1962/1997
AVA Pasadena	Pasadena, CA	8,400	11,547	5,514	8,400	17,061	25,461	1,950	23,511	24,016	11,489	1973/2012
AVA 55 Ninth	San Francisco, CA	20,267	97,211	1,135	20,267	98,346	118,613	5,709	112,904	114,536	—	2014
Avalon Morrison Park	San Jose, CA	13,837	64,527	—	13,837	64,527	78,364	4,128	74,236	76,418	—	2014
Avalon San Dimas	San Dimas, CA	9,141	30,708	—	9,141	30,708	39,849	1,458	38,391	39,272	—	2014
Avalon Mission Oaks	Camarillo, CA	9,600	34,540	2,889	9,600	37,429	47,029	2,606	44,423	46,907	—	2014
Toluca Hills Apartments by Avalon	Los Angeles, CA	85,450	161,256	11,171	85,450	172,427	257,877	26,708	231,169	236,149	—	1973/2013
Avalon Berkeley	Berkeley, CA	4,500	28,430	—	4,500	28,430	32,930	1,484	31,446	32,679	—	2014
Eaves West Valley II	San Jose, CA	—	18,412	—	—	18,412	18,412	1,411	17,001	17,676	7,995	2013
Avalon Studio City	Studio City, CA	17,658	90,715	4,837	17,658	95,552	113,210	13,012	100,198	102,765	—	1987/2013
Eaves Trumbull	Trumbull, CT	4,414	31,254	3,860	4,414	35,114	39,528	22,039	17,489	18,515	38,852	1997
Avalon Shelton III	Shelton, CT	7,749	40,269	—	7,749	40,269	48,018	3,732	44,286	46,440	—	2013
Avalon East Norwalk	Norwalk, CT	10,395	36,246	—	10,395	36,246	46,641	2,981	43,660	44,875	—	2013
Avalon at Stratford	Stratford, CT	2,564	27,109	—	2,564	27,109	29,673	1,322	28,351	29,107	—	2014
Avalon Oaks	Wilmington, MA	2,129	18,302	4,265	2,129	22,567	24,696	11,925	12,771	11,749	—	1999
Avalon Natick	Natick, MA	15,645	64,845	—	15,645	64,845	80,490	5,752	74,738	76,754	51,230	2013
Avalon at Assembly Row	Somerville, MA	8,504	—	47,432	8,504	47,432	55,936	2,179	53,757	56,158	—	2015
Eaves Burlington	Burlington, MA	7,714	32,502	5,210	7,714	37,712	45,426	3,726	41,700	42,947	—	1988/2012
Avalon Canton at Blue Hills	Canton, MA	6,562	33,890	105	6,562	33,995	40,557	2,014	38,543	38,984	—	2014
Avalon Burlington	Burlington, MA	15,600	58,312	14,929	15,600	73,241	88,841	7,761	81,080	76,409	—	1989/2013
Avalon at Edgewater (2)	Edgewater, NJ	14,528	24,389	1,517	14,528	25,906	40,434	12,981	27,453	50,185	—	2002
Avalon Somerset	Somerset, NJ	18,241	58,343	—	18,241	58,343	76,584	5,510	71,074	73,201	—	2013
Avalon Bloomingdale	Bloomingdale, NJ	3,006	27,800	—	3,006	27,800	30,806	2,136	28,670	29,628	—	2014
Avalon Green	Elmsford, NY	1,820	10,525	6,951	1,820	17,476	19,296	8,585	10,711	5,989	—	1995
AVA High Line	New York, NY	—	155,989	—	—	155,989	155,989	3,878	152,111	150,721	—	2015
Avalon Ossining	Ossining, NY	6,390	30,297	—	6,390	30,297	36,687	1,876	34,811	35,722	—	2014
Archstone Lexington	Flower Mound, TX	4,540	25,946	1,863	4,540	27,809	32,349	4,643	27,706	28,758	16,255	2000/2013
Archstone Toscano	Houston, TX	15,607	72,365	—	15,607	72,365	87,972	5,817	82,155	84,442	—	2014
Memorial Heights Villages	Houston, TX	9,607	42,936	—	9,607	42,936	52,543	2,232	50,311	51,047	—	2014
Avalon Tysons Corner	Tysons Corner, VA	13,851	43,397	12,485	13,851	55,882	69,733	28,807	40,926	42,570	—	1996

AVALONBAY COMMUNITIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)
December 31, 2015
(Dollars in thousands)

Community	City and state	2015						2014	2015	Year of Completion/ Acquisition		
		Initial Cost		Costs Subsequent to Acquisition / Construction	Total Cost		Total Cost, Net of Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Encumbrances			
		Land and improvements	Building / Construction in Progress & Improvements		Land and improvements	Building / Construction in Progress & Improvements						
Avalon Arlington North	Arlington, VA	21,600	59,077	—	21,600	59,077	80,677	3,601	77,076	78,895	—	2014
Oakwood Arlington	Arlington, VA	18,850	38,545	2,156	18,850	40,701	59,551	5,707	53,844	54,927	—	1987/2013
AVA University District	Seattle, WA	12,594	60,773	293	12,594	61,066	73,660	4,386	69,274	71,367	—	2014
TOTAL OTHER STABILIZED		\$ 434,990	\$ 1,645,046	\$ 248,504	\$ 434,990	\$ 1,893,550	\$ 2,328,540	\$ 320,010	\$ 2,008,530	\$ 2,058,471	\$ 125,821	
LEASE-UP												
Avalon Exeter	Boston, MA	\$ 16,313	\$ 110,043	\$ 148	\$ 16,313	\$ 110,191	\$ 126,504	\$ 5,827	\$ 120,677	\$ 122,588	\$ —	2014
AVA Somerville	Somerville, MA	10,902	—	60,810	10,902	60,810	71,712	2,794	68,918	71,998	—	2015
AVA Theater District	Boston, MA	17,014	160,167	—	17,014	160,167	177,181	1,924	175,257	133,082	—	2015
Avalon Marlborough	Marlborough, MA	15,312	59,079	—	15,312	59,079	74,391	931	73,460	46,903	—	2015
Avalon Framingham	Framingham, MA	9,303	34,004	—	9,303	34,004	43,307	206	43,101	18,335	—	2015
Avalon Huntington Station	Huntington Station, NY	21,896	58,602	—	21,896	58,602	80,498	2,964	77,534	78,571	—	2014
Avalon Wharton	Wharton, NJ	2,273	48,504	—	2,273	48,504	50,777	1,698	49,079	48,531	—	2015
Avalon Bloomfield Station	Bloomfield, NJ	10,695	39,897	—	10,695	39,897	50,592	624	49,968	29,680	—	2015
Avalon Roseland	Roseland, NJ	11,265	34,504	—	11,265	34,504	45,769	753	45,016	33,143	—	2015
Avalon West Chelsea	New York, NY	—	119,361	—	—	119,361	119,361	10,341	109,020	117,562	—	2015
Avalon Mosaic	Fairfax, VA	33,488	75,723	—	33,488	75,723	109,211	4,911	104,300	106,456	—	2014
Avalon Alderwood I	Lynnwood, WA	12,294	55,423	—	12,294	55,423	67,717	2,470	65,247	65,614	—	2015
Avalon Dublin Station	Dublin, CA	7,772	70,902	—	7,772	70,902	78,674	4,372	74,302	77,015	—	2014
Avalon Hayes Valley	San Francisco, CA	12,594	79,800	—	12,594	79,800	92,394	1,992	90,402	79,572	—	2015
Avalon Vista	Vista, CA	12,686	42,661	—	12,686	42,661	55,347	888	54,459	36,630	—	2015
Avalon Baker Ranch	Lake Forest, CA	31,687	97,419	—	31,687	97,419	129,106	2,181	126,925	110,748	—	2015
AVA Little Tokyo	Los Angeles, CA	14,734	93,470	222	14,734	93,692	108,426	3,630	104,796	105,404	—	2015
TOTAL LEASE-UP		\$ 240,228	\$ 1,179,559	\$ 61,180	\$ 240,228	\$ 1,240,739	\$ 1,480,967	\$ 48,506	\$ 1,432,461	\$ 1,281,832	\$ —	

AVALONBAY COMMUNITIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)
December 31, 2015
(Dollars in thousands)

Community	City and state	2015						Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	2014	2015	Year of Completion/ Acquisition			
		Initial Cost			Total Cost								Total Cost, Net of Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Encumbrances
		Land and improvements	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land and improvements	Building / Construction in Progress & Improvements	Total								
REDEVELOPMENT															
Avalon Silicon Valley	Sunnyvale, CA	\$ 20,713	\$ 99,573	\$ 11,163	\$ 20,713	\$ 110,736	\$ 131,449	\$ 62,735	\$ 68,714	\$ 65,997	\$ —	1998			
Avalon Santa Monica on Main	Santa Monica, CA	32,000	60,770	11,000	32,000	71,770	103,770	8,732	95,038	89,409	—	2007/2013			
Avalon La Jolla Colony	San Diego, CA	16,760	27,694	3,687	16,760	31,381	48,141	4,852	43,289	42,888	27,176	1987/2013			
Avalon Walnut Ridge I	Walnut Creek, CA	9,860	19,850	2,549	9,860	22,399	32,259	2,908	29,351	28,429	20,754	2000/2013			
Avalon Pasadena	Pasadena, CA	10,240	31,558	2,719	10,240	34,277	44,517	4,627	39,890	40,103	28,079	2004/2013			
AVA Back Bay	Boston, MA	9,034	36,540	39,506	9,034	76,046	85,080	28,618	56,462	55,733	—	1968/1998			
Avalon Bear Hill	Waltham, MA	27,350	96,387	18,621	27,350	115,008	142,358	14,991	127,367	118,155	—	1999/2013			
Avalon Towers	Long Beach, NY	3,118	11,973	20,127	3,118	32,100	35,218	12,753	22,465	13,914	—	1990/1995			
Avalon at Arlington Square	Arlington, VA	22,041	90,296	18,070	22,041	108,366	130,407	46,173	84,234	72,275	—	2001			
TOTAL REDEVELOPMENT		\$ 151,116	\$ 474,641	\$ 127,442	\$ 151,116	\$ 602,083	\$ 753,199	\$ 186,389	\$ 566,810	\$ 526,903	\$ 76,009				
TOTAL CURRENT COMMUNITIES		\$ 3,537,870	\$ 12,067,407	\$ 1,349,015	\$ 3,537,870	\$ 13,416,422	\$ 16,954,292	\$ 3,270,732	\$ 13,683,560	\$ 13,812,553	\$ 2,606,291				
DEVELOPMENT															
Avalon Glendora	Glendora, CA	\$ 10,530	\$ 37,448	\$ 34,090	\$ 10,530	\$ 71,538	\$ 82,068	\$ 338	\$ 81,730	\$ 52,146	\$ —	N/A			
Avalon Irvine III	Irvine, CA	—	774	51,534	—	52,308	52,308	—	52,308	26,303	—	N/A			
Avalon Dublin Station II	Dublin, CA	1,848	18,949	59,948	1,848	78,897	80,745	54	80,691	43,422	—	N/A			
Avalon West Hollywood	West Hollywood, CA	—	—	93,676	—	93,676	93,676	—	93,676	58,128	—	N/A			
Avalon Chino Hills	Chino Hills, CA	—	72	24,567	—	24,639	24,639	—	24,639	N/A	—	N/A			
Avalon Dogpatch	San Francisco, CA	—	182	62,124	—	62,306	62,306	—	62,306	N/A	—	N/A			
Avalon Huntington Beach	Huntington Beach, CA	—	981	87,648	—	88,629	88,629	—	88,629	40,739	—	N/A			
AVA NoMa	Washington, DC	—	211	47,583	—	47,794	47,794	—	47,794	N/A	—	N/A			
Avalon North Station	Boston, MA	—	117	142,794	—	142,911	142,911	—	142,911	46,268	—	N/A			
Avalon Quincy	Quincy, MA	—	40	34,458	—	34,498	34,498	—	34,498	N/A	—	N/A			
AVA Wheaton	Wheaton, MD	—	144	18,151	—	18,295	18,295	—	18,295	14,347	—	N/A			
Avalon Hunt Valley	Hunt Valley, MD	—	310	28,920	—	29,230	29,230	—	29,230	N/A	—	N/A			
Avalon Laurel	Laurel, MD	—	220	30,788	—	31,008	31,008	—	31,008	N/A	—	N/A			
Avalon Princeton	Princeton, NJ	—	202	49,869	—	50,071	50,071	—	50,071	35,456	—	N/A			
Avalon Union	Union, NJ	468	2,126	36,867	468	38,993	39,461	5	39,456	12,717	—	N/A			
Avalon Maplewood	Maplewood, NJ	—	79	19,101	—	19,180	19,180	—	19,180	N/A	—	N/A			
Avalon Willoughby Square/AVA DoBro	Brooklyn, NY	9,145	25,827	373,975	9,145	399,802	408,947	135	408,812	266,318	—	N/A			

AVALONBAY COMMUNITIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)
December 31, 2015
(Dollars in thousands)

Community	City and state	2015					2014	2015	Total Cost, Net of Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Encumbrances	Year of Completion/Acquisition
		Initial Cost		Costs Subsequent to Acquisition / Construction	Total Cost		Total	Accumulated Depreciation				
		Land and improvements	Building / Construction in Progress & Improvements		Land and improvements	Building / Construction in Progress & Improvements						
Avalon Green III	Elmsford, NY	2,786	9,674	8,689	2,786	18,363	21,149	46	21,103	1,447	—	N/A
Avalon Great Neck	Great Neck, NY	—	69	26,168	—	26,237	26,237	—	26,237	N/A	—	N/A
Avalon Sheepshead Bay	Brooklyn, NY	—	104	20,290	—	20,394	20,394	—	20,394	N/A	—	N/A
Avalon Rockville Centre II	Rockville Centre, NY	—	—	11,302	—	11,302	11,302	—	11,302	N/A	—	N/A
Avalon Falls Church	Falls Church, VA	35,018	61,217	8,243	35,018	69,460	104,478	1,040	103,438	69,631	—	N/A
AVA Capitol Hill	Seattle, WA	4,139	13,031	61,910	4,139	74,941	79,080	72	79,008	39,870	—	N/A
Avalon Esterra Park	Redmond, WA	—	179	84,249	—	84,428	84,428	—	84,428	33,523	—	N/A
Avalon Alderwood II	Redmond, WA	—	—	14,264	—	14,264	14,264	—	14,264	N/A	—	N/A
Avalon Newcastle I	Newcastle, WA	—	—	27,140	—	27,140	27,140	—	27,140	N/A	—	N/A
TOTAL DEVELOPMENT		\$ 63,934	\$ 171,956	\$ 1,458,348	\$ 63,934	\$ 1,630,304	\$ 1,694,238	\$ 1,690	\$ 1,692,548	\$ 740,315	\$ —	
Land Held for Development		\$ 484,377	\$ —	\$ —	\$ 484,377	\$ —	\$ 484,377	\$ —	\$ 484,377	\$ 180,516	\$ —	
Corporate Overhead		39,371	29,535	66,286	39,371	95,821	135,192	53,368	81,824	41,940	3,875,000	
2015 Disposed Communities		—	—	—	—	—	—	—	—	160,416	—	
TOTAL		\$ 4,125,552	\$ 12,268,898	\$ 2,873,649	\$ 4,125,552	\$ 15,142,547	\$ 19,268,099	\$ 3,325,790	\$ 15,942,309	\$ 14,935,740	\$ 6,481,291	

- (1) This community was under redevelopment for some or all of 2015, with the redevelopment effort primarily focused on the exterior and/or common area, with no expected material impact on community operations. This community is therefore included in the Established Community portfolio and not classified as a Redevelopment Community.
- (2) The 2015 financial reporting cost includes the basis for the land parcel which held the apartment homes which were destroyed, and is net of the recognized impairment to write-off the net book value of the fixed assets destroyed by the fire.

AVALONBAY COMMUNITIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)

December 31, 2015

(Dollars in thousands)

Amounts include real estate assets held for sale.

Depreciation of AvalonBay Communities, Inc. building, improvements, upgrades and furniture, fixtures and equipment (FF&E) is calculated over the following useful lives, on a straight line basis:

Building—30 years

Improvements, upgrades and FF&E—not to exceed 7 years

The aggregate cost of total real estate for federal income tax purposes was approximately \$18,958,119 at December 31, 2015.

The changes in total real estate assets for the years ended December 31, 2015, 2014 and 2013 are as follows:

	For the year ended		
	12/31/2015	12/31/2014	12/31/2013
Balance, beginning of period	\$ 17,849,316	\$ 16,800,321	\$ 10,071,342
Acquisitions, construction costs and improvements	1,667,989	1,311,003	7,157,639
Dispositions, including casualty losses and impairment loss on planned dispositions	(249,206)	(262,008)	(428,660)
Balance, end of period	<u>\$ 19,268,099</u>	<u>\$ 17,849,316</u>	<u>\$ 16,800,321</u>

The changes in accumulated depreciation for the years ended December 31, 2015, 2014 and 2013, are as follows:

	For the year ended		
	12/31/2015	12/31/2014	12/31/2013
Balance, beginning of period	\$ 2,913,576	\$ 2,516,112	\$ 2,056,222
Depreciation, including discontinued operations	477,923	442,682	573,715
Dispositions, including casualty losses	(65,709)	(45,218)	(113,825)
Balance, end of period	<u>\$ 3,325,790</u>	<u>\$ 2,913,576</u>	<u>\$ 2,516,112</u>

AMENDED AND RESTATED BYLAWS
OF
AVALONBAY COMMUNITIES, INC.

November 12, 2015

AMENDED AND RESTATED BYLAWS
OF
AVALONBAY COMMUNITIES, INC.
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ARTICLE I

MEETINGS OF STOCKHOLDERS

1.01 **PLACE**. All meetings of the holders (the “Stockholders”) of the issued and outstanding common stock and preferred stock of AvalonBay Communities, Inc. (the “Corporation”) shall be held at the principal executive office of the Corporation or at such other place as shall be set in accordance with these Bylaws and stated in the notice of the meeting.

1.02 **ANNUAL MEETINGS**. An annual meeting of the Stockholders for the election of directors of the Corporation (“Directors”) and the transaction of such other business as may be properly brought before the meeting shall be held on the date and at the time and place set by the Board of Directors. Failure to hold an annual meeting shall not invalidate the Corporation’s existence or affect any otherwise valid acts of the Corporation.

1.03 **MATTERS TO BE CONSIDERED AT ANNUAL MEETING**.

(a) A proposal of business to be considered by the Stockholders may be made at an annual meeting of Stockholders (i) pursuant to the Corporation’s notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any Stockholder who was a Stockholder of record of a class of stock of the Corporation (“Stock”) entitled to vote on the matter being proposed (A) at the time of giving of notice provided for in this Section 1.03, (B) as of the record date for the annual meeting in question and (C) at the time of such annual meeting (and any postponement or adjournment thereof), and who complied with this Section 1.03. For a proposal of business to be properly brought before an annual meeting by a Stockholder, the Stockholder must have given timely notice thereof in writing to the Secretary of the Corporation, such business must be a proper matter for action by the Stockholders and such Stockholder must be present in person or by proxy at the annual meeting (and any postponement or adjournment thereof).

To be timely, a Stockholder’s notice shall set forth all information required under this Section 1.03 and be delivered to the Secretary at the principal executive office of the Corporation not earlier than the 150th day nor later than 5:00 p.m., Eastern Time, on the 120th day prior to the first anniversary of the date of the proxy statement for the preceding year’s annual meeting (the “Notice Anniversary Date”); provided, however, that in the event that the date of the annual meeting is advanced or delayed by more than thirty (30) days from the first anniversary of the date of the preceding year’s annual meeting, in order for notice by the Stockholder to be timely, such notice must be so delivered not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Eastern Time, on the later of the 120th day prior to the date of such annual meeting, as originally convened, or the tenth (10th) day following the day on which public announcement of the date of such annual meeting is first made. The public announcement of a postponement or an adjournment of an annual meeting shall not commence a new time period for the giving of a stockholder’s notice as described above.

For purposes of these Bylaws, (i) “the date of the proxy statement” shall have the same meaning as “the date of the company’s proxy statement released to shareholders” as used in Rule 14a-8(3) promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as interpreted by the Securities and Exchange Commission from time to time, and (ii) “public announcement” shall mean disclosure in a (A) press release reported by the Dow Jones News Service, Associated Press, Business Wire, PR Newswire or other widely circulated news or wire service, (B) document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to the Exchange Act or (C) letter or report sent to Stockholders of record of the Corporation entitled to vote at the meeting.

(b) A Stockholder’s notice to the Secretary shall set forth:

(i) as to any business that the Stockholder proposes to bring before the annual meeting, a description of such business, the Stockholder’s reasons for proposing such business at the annual meeting and any material interest in such business of such Stockholder or any Stockholder Associated Person (as defined below), individually or in the aggregate, including any anticipated benefit to the Stockholder or any Stockholder Associated Person therefrom;

(ii) as to the Stockholder giving the notice and any Stockholder Associated Person,

(A) the class, series and number of all shares of Stock or other securities of the Corporation or any affiliate thereof (collectively, the “Company Securities”), if any, which are owned (beneficially or of record) by such stockholder or Stockholder Associated Person, the date on which each such Company Security was acquired and the investment intent of such acquisition, and any short interest (including any opportunity to profit or share in any benefit from any decrease in the price of such stock or other security) in any Company Securities of any such person,

(B) the nominee holder for, and number of, any Company Securities owned beneficially but not of record by such Stockholder or Stockholder Associated Person,

(C) whether and the extent to which such Stockholder or Stockholder Associated Person, directly or indirectly (through brokers, nominees or otherwise), is subject to or during the last six months has engaged in any hedging, derivative or other transaction or series of transactions or entered into any other agreement, arrangement or understanding (including any short interest, any borrowing or lending of securities or any proxy or voting agreement), the effect or intent of which is to (I) manage risk or benefit of changes in the price of (x) Company Securities or (y) any security of any entity that was listed in the Peer Group in the Stock Performance Graph in the most recent annual report to security holders of the Corporation (a “Peer Group Company”) for such stockholder or Stockholder Associated Person or (II) increase or decrease the voting power of such stockholder or Stockholder Associated Person in the Corporation or any affiliate thereof (or, as applicable, in any Peer Group Company) disproportionately to such person’s economic interest in the Company Securities (or, as applicable, in any Peer Group Company); and

(D) any substantial interest, direct or indirect (including, without limitation, any existing or prospective commercial, business or contractual relationship with the Corporation), by security holdings or otherwise, of such Stockholder or Stockholder Associated Person, in the Corporation or any affiliate thereof, other than an interest arising from the ownership of Company Securities where such Stockholder or Stockholder Associated Person receives no extra or special benefit not shared on a *pro rata* basis by all other holders of the same class or series;

(iii) as to the Stockholder giving the notice and any Stockholder Associated Person with an interest or ownership referred to in clause (i) or (ii) of this paragraph (b) of this Section 1.03,

(A) the name and address of such Stockholder, as they appear on the Corporation's stock ledger, and the current name and business address, if different, of each such Stockholder Associated Person and

(B) the investment strategy or objective, if any, of such Stockholder and each such Stockholder Associated Person who is not an individual and a copy of the prospectus, offering memorandum or similar document, if any, provided to investors or potential investors in such Stockholder and each such Stockholder Associated Person;

(iv) the name and address of any person who contacted or was contacted by the Stockholder giving the notice or any Stockholder Associated Person about the Stockholder's business proposal; and

(v) to the extent known by the Stockholder giving the notice, the name and address of any other Stockholder supporting the proposal for business.

For purposes of these Bylaws, "Stockholder Associated Person" of any Stockholder shall mean (i) any person acting in concert with such Stockholder, (ii) any beneficial owner of shares of stock of the Corporation owned of record or beneficially by such Stockholder (other than a stockholder that is a depositary) and (iii) any person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, such Stockholder or such Stockholder Associated Person.

(c) If information submitted pursuant to this Section 1.03 by any Stockholder proposing business at an annual meeting of Stockholders shall be inaccurate in any material respect, such information may be deemed not to have been provided in accordance with this Section 1.03. Any such Stockholder shall notify the Corporation of any inaccuracy or change (within two Business Days (as defined below) of becoming aware of such inaccuracy or change) in any such information. Upon written request by the Secretary or the Board of Directors, any such Stockholder shall provide, within five (5) Business Days of delivery of such request (or such other period as may be specified in such request), (i) written verification, satisfactory, in the discretion of the Board of Directors or any authorized officer of the Corporation, to demonstrate the accuracy of any information submitted by the Stockholder pursuant to this Section 1.03, and (ii) a written update of any information (including, if requested by the Corporation, written confirmation by such Stockholder that it continues to intend to bring such business proposal

before the meeting) submitted by the Stockholder pursuant to this Section 1.03 as of an earlier date. If a Stockholder fails to provide such written verification or written update within such period, the information as to which written verification or a written update was requested may be deemed not to have been provided in accordance with this Section 1.03.

(d) Only such business shall be conducted at an annual meeting of Stockholders as shall have been brought before the meeting in accordance with the procedures set forth in this Section 1.03. The Presiding Officer (as defined in Section 1.10 hereof) of the meeting shall have the power to determine whether any business proposed to be brought before the meeting was proposed in accordance with this Section 1.03.

(e) Notwithstanding the foregoing provisions of this Section 1.03, a Stockholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 1.03. Nothing in this Section 1.03 shall be deemed to affect any right of a Stockholder to request inclusion of a proposal in, or the right of the Corporation to omit a proposal from, any proxy statement filed by the Corporation with the Securities and Exchange Commission pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act.

(f) This Section 1.03 shall not prevent the consideration and approval or disapproval at the annual meeting of reports of officers, Directors and committees of the Board of Directors, but in connection with such reports, no new business shall be acted upon at such annual meeting except in accordance with the provisions of this Section 1.03.

1.04 SPECIAL MEETINGS.

(a) The Chairman of the Board of Directors, the Chief Executive Officer, the President or the Board of Directors may call a special meeting of the Stockholders. Except as provided in paragraph (4) of subsection (b) of this Section 1.04, a special meeting of the Stockholders shall be held on the date and at the time and place set by the Chairman of the Board of Directors, the Chief Executive Officer, the President or the Board of Directors, whoever has called the meeting. In addition, subject to subsection (b) of this Section 1.04, the Secretary of the Corporation shall call a special meeting of the Stockholders to act on any matter that may properly be considered at a meeting of the Stockholders upon the written request of Stockholders entitled to cast a majority of all the votes entitled to be cast on such matter at such meeting.

(b) (1) Any Stockholder of record seeking to have Stockholders request a special meeting shall, by sending written notice to the Secretary (the "Record Date Request Notice") by registered mail, return receipt requested, request the Board of Directors to fix a record date to determine the Stockholders entitled to request a special meeting (the "Request Record Date"). The Record Date Request Notice shall set forth the purpose of the meeting and the matters proposed to be acted on at such meeting, shall be signed by one or more Stockholders of record as of the date of signature (or their agents duly authorized in a writing accompanying the Record Date Request Notice), shall bear the date of signature of each such Stockholder (or such agent) and shall set forth all information relating to each such Stockholder, each individual whom the Stockholder proposes to nominate for election or re-election as a Director and each matter proposed to be acted on at the meeting that would be required to be disclosed in

connection with the solicitation of proxies for the election of Directors or the election of each such individual, as applicable, in an election contest (even if an election contest is not involved), or would otherwise be required in connection with such a solicitation, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act. Upon receiving the Record Date Request Notice, the Board of Directors may fix a Request Record Date. The Request Record Date shall not precede and shall not be more than ten (10) days after the close of business on the date on which the resolution fixing the Request Record Date is adopted by the Board of Directors. If the Board of Directors, within fifteen (15) days after the date on which a valid Record Date Request Notice is received, fails to adopt a resolution fixing the Request Record Date, the Request Record Date shall be the close of business on the fifteenth (15th) day after the first date on which the Record Date Request Notice is received by the Secretary.

(2) In order for any Stockholder to request a special meeting to act on any matter that may properly be considered at a meeting of stockholders, one or more written requests for a special meeting (collectively, the “Special Meeting Request”) signed by Stockholders of record (or their agents duly authorized in a writing accompanying the request) as of the Request Record Date entitled to cast not less than a majority of all of the votes entitled to be cast on such matter at such meeting (the “Special Meeting Percentage”) shall be delivered to the Secretary. In addition, the Special Meeting Request shall (i) set forth the purpose of the meeting and the matters proposed to be acted on at such meeting (which shall be limited to those lawful matters set forth in the Record Date Request Notice received by the Secretary), (ii) bear the date of signature of each such Stockholder (or other agent) signing the Special Meeting Request, (iii) set forth (A) the name and address, as they appear in the Corporation’s books, of each Stockholder signing such request (or on whose behalf the Special Meeting Request is signed), (B) the class, series and number of all shares of Stock of the Corporation which are owned (beneficially or of record) by such Stockholder and (C) the nominee holder for, and number of, shares of Stock of the Corporation owned beneficially but not of record by such Stockholder, (iv) be sent to the Secretary by registered mail, return receipt requested and (v) be received by the Secretary within sixty (60) days after the Request Record Date. Any requesting Stockholder (or agent duly authorized in a writing accompanying the revocation of the Special Meeting Request) may revoke his, her or its request for a special meeting at any time by written revocation delivered to the Secretary.

(3) The Secretary shall inform the requesting Stockholders of the reasonably estimated cost of preparing and mailing or delivering the notice of the meeting (including the Corporation’s proxy materials). The Secretary shall not be required to call a special meeting upon Stockholder request and such meeting shall not be held unless, in addition to the documents required by paragraph (2) of this Section 1.04(b), the Secretary receives payment of such reasonably estimated cost prior to the preparation and mailing or delivery of such notice of the meeting.

(4) In the case of any special meeting called by the Secretary upon the request of Stockholders (a “Stockholder-Requested Meeting”), such meeting shall be held at such place, date and time as may be designated by the Board of Directors; provided, however, that the date of any Stockholder-Requested Meeting shall be not more than ninety (90) days after the record date for such meeting (the “Meeting Record Date”); and provided further that if the Board of Directors fails to designate, within fifteen (15) days after the date that a valid Special

Meeting Request is actually received by the Secretary (the “Delivery Date”), a date and time for a Stockholder-Requested Meeting, then such meeting shall be held at 2:00 p.m. local time on the ninetieth (90th) day after the Meeting Record Date or, if such ninetieth (90th) day is not a Business Day, on the first preceding Business Day; and provided further that in the event that the Board of Directors fails to designate a place for a Stockholder Requested Meeting within fifteen (15) days after the Delivery Date, then such meeting shall be held at the principal executive office of the Corporation. In fixing a date for a Stockholder-Requested Meeting, the Board of Directors may consider such factors as it deems relevant, including, without limitation, the nature of the matters to be considered, the facts and circumstances surrounding any request for the meeting and any plan of the Board of Directors to call an annual meeting or a special meeting. In the case of any Stockholder-Requested Meeting, if the Board of Directors fails to fix a Meeting Record Date that is a date within thirty (30) days after the Delivery Date, then the close of business on the thirtieth (30th) day after the Delivery Date shall be the Meeting Record Date. The Board of Directors may revoke the notice for any Stockholder-Requested Meeting in the event that the requesting stockholders fail to comply with the provisions of paragraph (3) of this Section 1.04(b).

(5) If written revocations of the Special Meeting Request have been delivered to the Secretary and the result is that Stockholders of record (or their agents duly authorized in writing), as of the Request Record Date, entitled to cast less than the Special Meeting Percentage have delivered, and not revoked, requests for a special meeting on the matter to the Secretary: (i) if the notice of the meeting has not already been delivered, the Secretary shall refrain from delivering the notice of the meeting and send to all requesting Stockholders who have not revoked such requests written notice of any revocation of a request for a special meeting on the matter, or (ii) if the notice of meeting has been delivered and if the Secretary first sends to all requesting Stockholders who have not revoked requests for a special meeting on the matter written notice of any revocation of a request for the special meeting and written notice of the Corporation’s intention to revoke the notice of the meeting or for the Presiding Officer to adjourn the meeting without action on the matter, (A) the Secretary may revoke the notice of the meeting at any time before ten days before the commencement of the meeting or (B) the Presiding Officer may call the meeting to order and adjourn the meeting without acting on the matter. Any request for a special meeting received after a revocation by the Secretary of a notice of a meeting shall be considered a request for a new special meeting.

(6) The Chairman of the Board of Directors, the President, the Chief Executive Officer or the Board of Directors may appoint regionally or nationally recognized independent inspectors of elections to act as the agent of the Corporation for the purpose of promptly performing a ministerial review of the validity of any purported Special Meeting Request received by the Secretary. For the purpose of permitting the inspectors to perform such review, no such purported Special Meeting Request shall be deemed to have been received by the Secretary until the earlier of (i) five (5) Business Days after actual receipt by the Secretary of such purported request and (ii) such date as the independent inspectors certify to the Corporation that the valid requests received by the Secretary represent, as of the Request Record Date, Stockholders of record entitled to cast not less than the Special Meeting Percentage. Nothing contained in this paragraph (6) shall in any way be construed to suggest or imply that the Corporation or any Stockholder shall not be entitled to contest the validity of any request, whether during or after such five (5) Business Day period, or to take any other action (including,

without limitation, the commencement, prosecution or defense of any litigation with respect thereto, and the seeking of injunctive relief in such litigation).

(7) For purposes of these Bylaws, "Business Day" shall mean any day other than a Saturday, a Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

1.05 NOTICE. Not fewer than ten (10) nor more than ninety (90) days before the date of each meeting of Stockholders, the Secretary shall give to each Stockholder entitled to vote at such meeting and to each Stockholder not entitled to vote who is entitled to notice of the meeting notice in writing or by electronic transmission, stating the time and place of the meeting and, in the case of a special meeting or as otherwise may be required by any statute, the purpose for which the meeting is called. The Corporation may give a single notice to all Stockholders who share an address, which single notice shall be effective as to any Stockholder at such address, unless such Stockholder objects in writing to receiving such single notice or revokes in writing a prior consent to receiving such single notice. Failure to give notice of any meeting to one or more Stockholders, or any irregularity in such notice, shall not affect the validity of any meeting fixed in accordance with these Bylaws, or the validity of any proceedings at any such meeting. The Corporation may postpone or cancel a meeting of Stockholders by making a public announcement of such postponement or cancellation prior to the meeting. Notice of the date to which the meeting is postponed shall be given not less than ten (10) days prior to such date and otherwise in the manner set forth in this section.

1.06 SCOPE OF NOTICE. No business shall be transacted at a special meeting of Stockholders except such business that is specifically designated in the notice of the meeting. Subject to the provisions of Section 1.03, any business of the Corporation may be transacted at the annual meeting without being specifically designated in the notice, except such business as is required by any statute to be stated in such notice.

1.07 QUORUM. At any meeting of Stockholders, the presence in person or by proxy of Stockholders entitled to cast a majority of all the votes entitled to be cast at such meeting on any matter shall constitute a quorum; but this Section 1.07 shall not affect any requirement under any statute or the charter of the Corporation, as amended from time to time (the "Charter"), for the vote necessary for the approval of any matter. If, however, such quorum is not established at any meeting of Stockholders, the Presiding Officer may adjourn the meeting *sine die* or from time to time to a date not more than 120 days after the original record date without notice other than announcement at the meeting. At such adjourned meeting at which a quorum shall be present, any business may be transacted which might have been transacted at the meeting as originally notified. The Stockholders present either in person or by proxy, at a meeting which has been duly called and at which a quorum has been established, may continue to transact business until adjournment, notwithstanding the withdrawal from the meeting of enough Stockholders to leave fewer than required to establish a quorum.

1.08 VOTING.

(a) A majority of the votes cast at a meeting of Stockholders duly called and at which a quorum is present shall be sufficient to take or authorize action upon any matter

which may properly come before the meeting, unless more than a majority of the votes cast is specifically required by statute, the Charter or these Bylaws. Unless otherwise provided by statute or by the Charter, each outstanding share (a "Share") of Stock of the Corporation, regardless of class, shall be entitled to one vote on each matter submitted to a vote at a meeting of Stockholders. Any holder of shares entitled to vote on any matter may vote part of the shares in favor of the proposal and refrain from voting the remaining shares or, other than elections to office, vote them against the proposal but, if the Stockholder fails to specify the number of shares such Stockholder is voting affirmatively, it shall be conclusively presumed that the Stockholder's approving vote is with respect to all votes said Stockholder is entitled to cast. Shares of its own Stock directly or indirectly owned by the Corporation shall not be voted at any meeting and shall not be counted in determining the total number of outstanding Shares entitled to vote at any given time, but Shares of its own voting Stock held by it in a fiduciary capacity may be voted and shall be counted in determining the total number of outstanding Shares at any given time. Notwithstanding anything else contained in these Bylaws, the rights of any class of "Excess Stock" (as such term is defined in the Charter) and the rights of holders of any class of Excess Stock shall be limited to the rights with respect thereto provided in the Charter. Notwithstanding the foregoing, a nominee for Director shall be elected as a Director only if such nominee receives the affirmative vote of a majority of the total votes cast for and affirmatively withheld as to such nominee at a meeting of Stockholders duly called and at which a quorum is present. However, Directors shall be elected by a plurality of votes cast at a meeting of Stockholders duly called and at which a quorum is present for which (i) the Secretary of the Corporation receives notice that a Stockholder has nominated an individual for election as a Director in compliance with the requirements of advance notice of Stockholder nominees for Director set forth in Section 1.03, and (ii) such nomination has not been withdrawn by such Stockholder on or before the close of business on the tenth day before the date of filing of the definitive proxy statement of the Corporation with the Securities and Exchange Commission, and, as a result of which, the number of nominees is greater than the number of Directors to be elected at the meeting. Each Share may be voted for as many individuals as there are Directors to be elected and for whose election the Share is entitled to be voted.

(b) If an incumbent Director fails to receive the required vote for re-election in accordance with paragraph (a) of this Section 1.08 in an election where the number of nominees is not greater than the number of Directors to be elected at the meeting, he or she shall offer to resign from the Board of Directors and the Nominating and Corporate Governance Committee of the Board of Directors will consider such offer to resign, will act on an expedited basis to determine whether to accept such Director's resignation and will submit such recommendation for prompt consideration by the Board of Directors. The Director whose resignation is under consideration shall not participate in any deliberation or vote of the Nominating and Corporate Governance Committee or the Board of Directors regarding that resignation but may participate in the deliberation or vote on any other business transacted by the Board of Directors or any committee thereof. Notwithstanding the foregoing, in the event that no nominee for Director receives the vote required in paragraph (a) of this Section 1.08, the Nominating and Corporate Governance Committee shall make a final determination as to whether to recommend to the Board of Directors whether to accept any or all resignations, including those resignations from members of the Nominating and Corporate Governance Committee, and any and all Directors may participate in the deliberation and vote of the Board of Directors on such recommendation. The Nominating and Corporate Governance Committee and

the Board of Directors may consider any factors they deem relevant in deciding whether to accept a Director's resignation. Within 90 days after the date of certification of the election results, the Board of Directors will promptly disclose its decision and basis for whether to accept the resignation (or the reasons for not accepting the resignation, if applicable) in a press release, in a filing with the Securities and Exchange Commission or by other public announcement (including a posting on the Corporation's website). If such incumbent Director's resignation is not accepted by the Board of Directors, such Director will continue to serve until his or her successor is elected and qualifies, or his or her death, resignation, retirement or removal, whichever event shall occur first. If a Director's resignation is accepted by the Board of Directors, or if a nominee for Director is not elected and the nominee is not an incumbent Director, then the Board of Directors, in its sole discretion, may fill any resulting vacancy pursuant to the Charter or decrease the size of the Board of Directors pursuant to Section 2.03.

1.09 PROXIES. A holder of record of Shares may cast votes in person or by proxy executed by the Stockholder or by the Stockholder's duly authorized agent in any manner permitted by law. Such proxy or evidence of authorization of such proxy shall be filed with the Secretary of the Corporation before or at the meeting. No proxy shall be valid more than eleven (11) months after its date unless otherwise provided in the proxy.

1.10 CONDUCT OF MEETINGS.

(a) Every meeting of Stockholders shall be conducted by an individual appointed by the Board of Directors to be chairman of the meeting or, in the absence of such appointment or appointed individual, by the Chairman or, in the case of a vacancy in the office or absence of the Chairman, by one of the following officers present at the meeting in the following order: the Chief Executive Officer, the President, the Vice Presidents in their order of rank and, within each rank, in their order of seniority, the Secretary or, in the absence of all of the foregoing officers, a chairman chosen by the Stockholders by the vote of a majority of the votes cast by Stockholders present in person or by proxy. The Secretary of the Corporation or, in the case of a vacancy in the office or absence of the Secretary, an Assistant Secretary or, in the case of a vacancy in the office of Assistant Secretary or the absence of both the Secretary and all Assistant Secretaries, an individual appointed by the chairman of the meeting (the "Presiding Officer") shall act as secretary of such meeting. Unless otherwise approved by the Presiding Officer, attendance at a meeting of Stockholders is restricted to Stockholders of record, persons authorized in accordance with Section 1.09 to act by proxy, and officers of the Corporation.

(b) The order of business and all other matters of procedure at any meeting of Stockholders shall be determined by the Presiding Officer. The Presiding Officer may prescribe such rules, regulations and procedures and take such action as, in the discretion of the Presiding Officer and without any action by the Stockholders, are appropriate for the proper conduct of the meeting, including, without limitation, (i) restricting admission to the time set for the commencement of the meeting; (ii) limiting attendance at the meeting to Stockholders of record of the Corporation, their duly authorized proxies and such other individuals as the Presiding Officer may determine; (iii) limiting participation at the meeting on any matter to Stockholders of record of the Corporation entitled to vote on such matter, their duly authorized proxies and other such individuals as the Presiding Officer may determine; (iv) limiting the time allotted to questions or comments; (v) determining when and for how long the polls should be opened and

when the polls should be closed; (vi) maintaining order and security at the meeting; (vii) removing any Stockholder or any other individual who refuses to comply with meeting procedures, rules or guidelines as set forth by the Presiding Officer; (viii) concluding a meeting or recessing or adjourning the meeting to a later date and time and at a place announced at the meeting; and (ix) complying with any state and local laws and regulations concerning safety and security. Unless otherwise determined by the Presiding Officer, meetings of Stockholders shall not be required to be held in accordance with the rules of parliamentary procedure.

1.11 TABULATION OF VOTES. Before or at any annual or special meeting of Stockholders, the Board of Directors or the Presiding Officer may appoint one or more persons as tellers (the “Teller” or “Tellers”) or inspectors (the “Inspector” or “Inspectors”) for such meeting. A Teller may, but need not, be an officer or employee of the Corporation. An Inspector may not be an officer or employee of, or otherwise affiliated with, the Corporation. Except as otherwise provided by the Presiding Officer, the Teller or Inspector, if any, shall be responsible for (i) determining the number of shares of stock represented at the meeting, in person or by proxy, and the validity and effect of proxies, (ii) receiving and tabulating all votes, ballots or consents, (iii) reporting such tabulation to the Presiding Officer and (iv) doing such acts as are proper to fairly conduct the election or vote. In tabulating votes, a Teller or Inspector shall be entitled to rely in whole or in part on tabulations and analyses made by personnel of the Corporation, its counsel, its transfer agent, its registrar or such other organizations that are customarily employed to provide such services. The Teller, if any, may be authorized by the Presiding Officer to determine on a preliminary basis the legality and sufficiency of all votes cast and proxies delivered under the Corporation’s Charter, Bylaws and applicable law. The Presiding Officer may review all preliminary determinations made by the Teller hereunder, and in doing so, the Presiding Officer shall be entitled to exercise his or her sole judgment and discretion and he or she shall not be bound by any preliminary determinations made by the Teller. The Inspector, if any, shall hear and determine all challenges and questions arising in connection with the right to vote. Each report of a Teller or Inspector shall be in writing and signed by him or her or by a majority of them if there is more than one. The report of the majority shall be the report of the Tellers or Inspectors. The report of the Inspector or Inspectors on the number of shares represented at the meeting and the results of the voting shall be *prima facie* evidence thereof.

1.12 VOTING OF STOCK BY CERTAIN HOLDERS. Stock of the Corporation registered in the name of a corporation, limited liability company, partnership, joint venture, trust or other entity, if entitled to be voted, may be voted by the president or a vice president, managing member, manager, general partner or trustee thereof, as the case may be, or a proxy appointed by any of the foregoing individuals, unless some other person who has been appointed to vote such stock pursuant to a bylaw or a resolution of the governing body of such corporation or other entity or agreement of the partners of a partnership presents a certified copy of such bylaw, resolution or agreement, in which case such person may vote such stock. Any trustee or fiduciary, in such capacity, may vote stock registered in such trustee’s or fiduciary’s name, either in person or by proxy.

The Board of Directors may adopt by resolution a procedure by which a Stockholder may certify in writing to the Corporation that any shares of stock registered in the name of the Stockholder are held for the account of a specified person other than the

Stockholder. The resolution shall set forth the class of Stockholders who may make the certification, the purpose for which the certification may be made, the form of certification and the information to be contained in it; if the certification is with respect to a record date, the time after the record date within which the certification must be received by the Corporation; and any other provisions with respect to the procedure which the Board of Directors considers necessary or desirable. On receipt by the Secretary of the Corporation of such certification, the person specified in the certification shall be regarded as, for the purposes set forth in the certification, the Stockholder of record of the specified stock in place of the Stockholder who makes the certification.

1.13 INFORMAL ACTION BY STOCKHOLDERS. Any action required or permitted to be taken at a meeting of Stockholders may be taken without a meeting if a unanimous consent setting forth such action is given in writing or by electronic transmission by each Stockholder entitled to vote on the matter and filed with the minutes of proceedings of the Stockholders. Such written consents may be signed by different Stockholders on separate counterparts.

1.14 VOTING BY BALLOT. Voting on any question or in any election may be *viva voce* unless the Presiding Officer shall order that voting be by ballot.

1.15 PROXY ACCESS.

(a) Notwithstanding anything to the contrary in these Bylaws, whenever the Board of Directors solicits proxies with respect to the election of Directors at an annual meeting of Stockholders, subject to the provisions of this Section 1.15, the Corporation shall include in its proxy statement and other applicable filings pursuant to Section 14(a) of the Exchange Act (the "Company Proxy Materials"), in addition to any individuals nominated for election by or at the direction of the Board of Directors, the name, together with the Required Information (as defined below), of any individual nominated for election to the Board of Directors (each such individual being hereinafter referred to as a "Stockholder Nominee") by a Stockholder or group of no more than twenty (20) Stockholders that satisfies the requirements of this Section 1.15 (such individual or group, including as the context requires each member thereof, being hereinafter referred to as the "Eligible Stockholder"). For purposes of this Section 1.15, the "Required Information" that the Corporation shall include in the Company Proxy Materials is (A) the information provided to the Secretary of the Corporation concerning the Stockholder Nominee and the Eligible Stockholder that is required to be disclosed in the Company Proxy Materials by the rules and regulations promulgated under the Exchange Act and (B) if the Eligible Stockholder so elects, a written statement in support of the Stockholder Nominee's candidacy, not to exceed 500 words, delivered to the Secretary of the Corporation at the time the Notice of Proxy Access Nomination (as defined below) required by this Section 1.15 is provided (the "Statement"). Notwithstanding anything to the contrary contained in this Section 1.15, the Corporation may omit from the Company Proxy Materials any information or Statement (or portion thereof) that the Board of Directors, in its sole discretion, determines is materially false or misleading, omits to state any material fact necessary in order to make such information or Statement, in light of the circumstances under which it was provided or made, not misleading, or would violate any applicable law or regulation.

(b) To be eligible to require the Company to include a Stockholder Nominee in the Company Proxy Materials pursuant to this Section 1.15, an Eligible Stockholder must have Owned (as defined below) at least three percent (3%) or more of the shares of common stock, par value \$.01 per share (the “Common Stock”) of the Corporation outstanding from time to time (the “Required Shares”) continuously for at least three (3) years (the “Minimum Holding Period”) as of both the date the Notice of Proxy Access Nomination is delivered or mailed to and received by the Secretary of the Corporation in accordance with this Section 1.15 and the close of business on the record date for determining the stockholders entitled to vote at the annual meeting of Stockholders, and must continuously Own the Required Shares through the date of such annual meeting (and any postponement or adjournment thereof). For purposes of this Section 1.15, an Eligible Stockholder shall be deemed to “Own” only those outstanding shares of Common Stock as to which the Eligible Stockholder possesses both (i) the full voting and investment rights pertaining to the shares and (ii) the full economic interest in (including the opportunity for profit from and risk of loss on) such shares; provided that the number of shares calculated in accordance with clauses (i) and (ii) shall not include any shares (A) sold by such Eligible Stockholder or any of its Affiliates (as defined below) in any transaction that has not been settled or closed, including short sales, (B) borrowed by such Eligible Stockholder or any of its Affiliates for any purpose or purchased by such Eligible Stockholder or any of its Affiliates pursuant to an agreement to resell, (C) that are subject to any option, warrant, forward contract, swap, contract of sale, other derivative or similar instrument, agreement, arrangement or understanding entered into by such Stockholder or any of its Affiliates, whether any such instrument, agreement, arrangement or understanding is to be settled with shares or with cash based on the notional amount or value of shares of outstanding Common Stock, in any such case which instrument, agreement, arrangement or understanding has, or is intended to have, the purpose or effect of (1) reducing in any manner, to any extent or at any time in the future, such Stockholder’s or its Affiliate’s full right to vote or direct the voting of any such shares and/or (2) hedging, offsetting or altering to any degree any gain or loss arising from the full economic ownership of such shares by such Stockholder or its Affiliate or (D) for which the Stockholder has transferred the right to vote the shares other than by means of a proxy, power of attorney or other instrument or arrangement that is unconditionally revocable at any time by the Stockholder and that expressly directs the proxy holder to vote at the direction of the Stockholder. In addition, an Eligible Stockholder shall be deemed to “Own” shares of Common Stock held in the name of a nominee or other intermediary so long as the Stockholder retains the full right to instruct how the shares are voted with respect to the election of Directors and possesses the full economic interest in the shares of Common Stock. An Eligible Stockholder’s Ownership of shares of Common Stock shall be deemed to continue during any period in which the Stockholder has loaned such shares provided that the Eligible Stockholder has the power to recall such loaned shares on three Business Days’ notice and has in fact recalled such loaned shares as of the time the Notice of Proxy Access Nomination is provided and through the date of the annual meeting of Stockholders. For purposes of this Section 1.15, the terms “Owned,” “Owning” and other variations of the word “Own” shall have correlative meanings. Whether outstanding shares of Common Stock are “Owned” for these purposes shall be determined by the Board of Directors, in its sole discretion. In addition, the term “Affiliate” or “Affiliates” shall have the meaning ascribed thereto under the Exchange Act.

(c) To be eligible to require the Company to include a Stockholder Nominee in the Company Proxy Materials pursuant to this Section 1.15, an Eligible Stockholder must

provide to the Secretary of the Corporation, in proper form and within the times specified below, (i) a written notice expressly electing to have such Stockholder Nominee included in the Company Proxy Materials pursuant to this Section 1.15 (a “Notice of Proxy Access Nomination”) and (ii) any updates or supplements to such Notice of Proxy Access Nomination. To be timely, the Notice of Proxy Access Nomination must be delivered or mailed to and received by the Secretary of the Corporation at the principal executive office of the Corporation not earlier than the 150th day nor later than 5:00 p.m., Eastern Time, on the 120th day prior to the Notice Anniversary Date; provided, however, that in the event that the date of the annual meeting of Stockholders is advanced or delayed by more than thirty (30) days from the first anniversary of the date of the preceding year’s annual meeting, the Notice of Proxy Access Nomination to be timely must be so delivered or mailed to and received by the Secretary not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Eastern Time, on the later of the 120th day prior to the date of such annual meeting, as originally convened, or the tenth (10th) day following the day on which public announcement of the date of such annual meeting is first made. The public announcement of a postponement or an adjournment of an annual meeting shall not commence a new time for the giving of a Notice of Proxy Access Nomination as described above.

(d) To be in proper form for purposes of this Section 1.15, the Notice of Proxy Access Nomination delivered or mailed to and received by the Secretary shall include the following information:

(i) one or more written statements from the record holder of the Required Shares (or from each intermediary through which the Required Shares are or have been held during the Minimum Holding Period and, if applicable, each participant in the Depository Trust Company (“DTC”) or affiliate of a DTC participant through which the Required Shares are or have been held by such intermediary during the Minimum Holding Period if the intermediary is not a DTC participant or affiliate of a DTC participant) verifying that, as of a date within seven (7) Business Days prior to the date the Notice of Proxy Access Nomination is delivered to or mailed to and received by the Secretary of the Corporation, the Eligible Stockholder Owns, and has Owned continuously for the Minimum Holding Period, the Required Shares, and the Eligible Stockholder’s agreement to provide (A) within five (5) Business Days after the record date for the annual meeting of Stockholders, written statements from the record holder or intermediaries between the record holder and the Eligible Stockholder verifying the Eligible Stockholder’s continuous Ownership of the Required Shares through the close of business on the record date, together with a written statement by the Eligible Stockholder that such Eligible Stockholder will continue to Own the Required Shares through the date of such annual meeting (and any postponement or adjournment thereof), and (B) the updates and supplements to the Notice of Proxy Access Nomination at the times and in the forms required by this Section 1.15;

(ii) a copy of the Schedule 14N filed or to be filed with the Securities and Exchange Commission as required by Rule 14a-18 under the Exchange Act;

(iii) information that is the same as would be required to be set forth in a stockholder’s notice of nomination pursuant to Section 2.04(c) of Article II of these Bylaws, including the written consent of the Stockholder Nominee to being named in the Company Proxy Materials as a nominee and to serving as a Director if elected;

(iv) the undertaking and questionnaire required by Section 2.04(d) of Article II of these Bylaws;

(v) the written agreement of the Stockholder Nominee, upon such Stockholder Nominee's election, to make such acknowledgments, enter into such agreements and provide such information as the Board of Directors requires of all Directors at such time, including, without limitation, agreeing to be bound by the Corporation's code of conduct, insider trading policy and other similar policies and procedures;

(vi) a representation that the Eligible Stockholder (A) acquired the Required Shares in the ordinary course of business and not with the intent to change or influence control of the Corporation, and that neither the Eligible Stockholder nor any Stockholder Nominee being nominated thereby presently has such intent, (B) has not nominated and will not nominate for election to the Board of Directors at the annual meeting of Stockholders (or any postponement or adjournment thereof) any individual other than the Stockholder Nominee(s) included in the Company Proxy Materials pursuant to this Section 1.15, (C) has not engaged and will not engage in, and has not been and will not be a "participant" in another person's, "solicitation," each within the meaning of Rule 14a-1(l) under the Exchange Act, in support of the election of any individual as a Director at the annual meeting (or any postponement or adjournment thereof) other than such Stockholder Nominee(s) or a nominee of the Board of Directors, (D) has complied, and will comply, with all applicable laws and regulations applicable to solicitations and the use, if any, of soliciting material in connection with the annual meeting, including, without limitation, Rule 14a-9 under the Exchange Act, (E) will not distribute to any Stockholder any form of proxy for the annual meeting other than the form distributed by the Corporation and (F) has not provided and will not provide facts, statements or information in its communications with the Corporation and the Stockholders that were not or will not be true, correct and complete in all material respects or which omitted or will omit to state a material fact necessary in order to make such facts, statements or information, in light of the circumstances under which they were or will be provided, not misleading;

(vii) a written undertaking that the Eligible Stockholder (A) assumes all liability stemming from any legal or regulatory violation arising out of communications with the Stockholders by the Eligible Stockholder, its Affiliates and associates or their respective agents or representatives, either before or after providing a Notice of Proxy Access Nomination pursuant to this Section 1.15, or out of the facts, statements or information that the Eligible Stockholder or its Stockholder Nominee(s) provided to the Corporation pursuant to this Section 1.15 or otherwise in connection with the inclusion of such Stockholder Nominee(s) in the Company Proxy Materials pursuant to this Section 1.15, and (B) indemnifies and holds harmless the Corporation and each of its Directors, officers and employees against any liability, loss or damages in connection with any threatened or pending action, suit or proceeding, whether legal, administrative or investigative, against the Corporation or any of its Directors, officers or employees arising out of any nomination of a Stockholder Nominee or inclusion of such Stockholder Nominee in the Company Proxy Materials pursuant to this Section 1.15;

(viii) a written description of any compensatory, payment or other agreement, arrangement or understanding with any person or entity other than the Corporation under which the Stockholder Nominee is receiving or will receive compensation or payments

directly related to service on the Board of Directors, together with a copy of any such agreement, arrangement or understanding if written; and

(ix) in the case of the nomination by a group, the designation by all group members of one group member that is authorized to act on behalf of all group members with respect to matters relating to the nomination, including withdrawal of the nomination.

The Corporation may also require each Stockholder Nominee and the Eligible Stockholder to furnish such other information (A) as may reasonably be required by the Corporation to determine the eligibility of such Stockholder Nominee to serve as an Independent Director (as defined in Section 2.08 of Article II of these Bylaws), (B) that could be material to a Stockholder's understanding of the independence or lack of independence of such Stockholder Nominee or (C) as may reasonably be required by the Corporation to determine that the Eligible Stockholder meets the criteria for qualification as an Eligible Stockholder.

(e) To be eligible to require the Company to include a Stockholder Nominee in the Company Proxy Materials pursuant to this Section 1.15, an Eligible Stockholder must further update and supplement the Notice of Proxy Access Nomination, if necessary, so that the information provided or required to be provided in such Notice of Proxy Access Information pursuant to this Section 1.15 shall be true and correct as of the record date for the annual meeting of Stockholders and as of the date that is ten (10) Business Days prior to such annual meeting or any postponement or adjournment thereof, and such update and supplement (or a written notice stating that there is no such update or supplement) shall be delivered or mailed to and received by the Secretary at the principal executive office of the Corporation not later than 5:00 p.m., Eastern Time, on the fifth (5th) Business Day after the record date for the meeting (in the case of the update and supplement required to be made as of the record date) and not later than 5:00 p.m., Eastern Time, on the eighth (8th) Business Day prior to the date of the meeting, if practicable, or, if not practicable, on the first practicable date prior to the meeting or any postponement or adjournment thereof (in the case of the update and supplement required to be made as of ten (10) Business Days prior to the meeting or any postponement or adjournment thereof).

(f) In the event that any facts, statements or information provided by the Eligible Stockholder or a Stockholder Nominee to the Corporation or the Stockholders ceases to be true, correct and complete in all material respects or omits a material fact necessary to make such facts, statements or information, in light of the circumstances under which they were provided, not misleading, the Eligible Stockholder or Stockholder Nominee, as the case may be, shall promptly notify the Secretary of the Corporation of any defect in such previously provided facts, statements or information and of the facts, statements or information required to correct any such defect.

(g) Whenever an Eligible Stockholder consists of a group of more than one Stockholder, each provision in this Section 1.15 that requires the Eligible Stockholder to provide any written statements, representations, undertakings, agreements or other instruments or to comply with any other conditions shall be deemed to require each Stockholder that is a member of such group to provide such statements, representations, undertakings, agreements or other instruments and to meet such other conditions (which, if applicable, shall apply with respect to

the portion of the Required Shares Owned by such Stockholder). When an Eligible Stockholder is comprised of a group, a violation of any provision of these Bylaws by any member of the group shall be deemed a violation by the entire group. No person may be a member of more than one group of persons constituting an Eligible Stockholder with respect to any annual meeting of Stockholders. In determining the aggregate number of Stockholders in a group, two or more funds that are part of the same family of funds under common management and investment control (a "Qualifying Fund Family") shall be treated as one Stockholder. Not later than the deadline for delivery of the Notice of Proxy Access Nomination pursuant to this Section 1.15, a Qualifying Fund Family whose stock Ownership is counted for purposes of determining whether a Stockholder or group of Stockholders qualifies as an Eligible Stockholder shall provide to the Secretary of the Corporation such documentation as is reasonably satisfactory to the Board of Directors, in its sole discretion, that demonstrates that the funds comprising the Qualifying Fund Family satisfy the definition thereof.

(h) The maximum number of Stockholder Nominees nominated by all Eligible Stockholders and entitled to be included in the Company Proxy Materials with respect to an annual meeting of Stockholders shall be the greater of (i) 20% of the number of Directors up for election as of the last day on which a Notice of Proxy Access Nomination may be timely delivered pursuant to and in accordance with this Section 1.15 (the "Final Proxy Access Nomination Date") or, if such percentage is not a whole number, the closest whole number below such percentage or (ii) two (2); provided that the maximum number of Stockholder Nominees entitled to be included in the Company Proxy Materials with respect to a forthcoming annual meeting of Stockholders shall be reduced by the number of individuals who were elected as Directors at the immediately preceding or second preceding annual meeting of Stockholders after inclusion in the Company Proxy Materials pursuant to this Section 1.15 and whom the Board of Directors nominates for re-election at such forthcoming annual meeting of Stockholders. In the event that one or more vacancies for any reason occur on the Board of Directors after the Final Proxy Access Nomination Date but before the date of the annual meeting of Stockholders and the Board of Directors elects to reduce the size of the Board of Directors in connection therewith, the maximum number of Stockholder Nominees eligible for inclusion in the Company Proxy Materials pursuant to this Section 1.15 shall be calculated based on the number of Directors serving as so reduced. Any individual nominated by an Eligible Stockholder for inclusion in the Company Proxy Materials pursuant to this Section 1.15 whose nomination is subsequently withdrawn or whom the Board of Directors decides to nominate for election to the Board of Directors shall be counted as one of the Stockholder Nominees for purposes of determining when the maximum number of Stockholder Nominees eligible for inclusion in the Company Proxy Materials pursuant to this Section 1.15 has been reached. Any Eligible Stockholder submitting more than one Stockholder Nominee for inclusion in the Company Proxy Materials pursuant to this Section 1.15 shall rank such Stockholder Nominees based on the order that the Eligible Stockholder desires such Stockholder Nominees be selected for inclusion in the Company Proxy Materials in the event that the total number of Stockholder Nominees submitted by Eligible Stockholders pursuant to this Section 1.15 exceeds the maximum number of Stockholder Nominees eligible for inclusion in the Company Proxy Materials pursuant to this Section 1.15(h). In the event the number of Stockholder Nominees submitted by Eligible Stockholders pursuant to this Section 1.15 exceeds the maximum number of nominees eligible for inclusion in the Company Proxy Materials pursuant to this Section 1.15(h), the highest-ranking Stockholder Nominee from each Eligible Stockholder pursuant to

the preceding sentence shall be selected for inclusion in the Company Proxy Materials until the maximum number is reached, proceeding in order of the number of shares of Common Stock (largest to smallest) disclosed as Owned by each Eligible Stockholder in the Notice of Proxy Access Nomination submitted to the Secretary of the Corporation. If the maximum number is not reached after the highest-ranking Stockholder Nominee from each Eligible Stockholder has been selected, this selection process shall continue as many times as necessary, following the same order each time, until the maximum number is reached. The Stockholder Nominees so selected in accordance with this Section 1.15(h) shall be the only Stockholder Nominees entitled to be included in the Company Proxy Materials and, following such selection, if the Stockholder Nominees so selected are not included in the Company Proxy Materials or are not submitted for election for any reason (other than the failure of the Corporation to comply with this Section 1.15), no other Stockholder Nominees shall be included in the Company Proxy Materials pursuant to this Section 1.15.

(i) The Corporation shall not be required to include, pursuant to this Section 1.15, a Stockholder Nominee in the Company Proxy Materials for any annual meeting of Stockholders (i) for which meeting the Secretary of the Corporation receives a notice that the Eligible Stockholder or any other Stockholder has nominated one or more individuals for election to the Board of Directors pursuant to the advance notice requirements for stockholder nominees for Director set forth in Section 2.04 of Article II of these Bylaws, (ii) if the Eligible Stockholder who has nominated such Stockholder Nominee has engaged in or is currently engaged in, or has been or is a “participant” in another person’s, “solicitation,” each within the meaning of Rule 14a-1(l) under the Exchange Act, in support of the election of any individual as a Director at the annual meeting other than its Stockholder Nominee(s) or a nominee of the Board of Directors, (iii) if such Stockholder Nominee would not qualify as an Independent Director, (iv) if such Stockholder Nominee is or becomes a party to any agreement by which the Stockholder Nominee agrees or commits to vote a certain way on certain matters, (v) if the election of such Stockholder Nominee as a Director would cause the Corporation to fail to comply with these Bylaws, the Charter, the rules and listing standards of any national securities exchange on which any securities of the Corporation are listed or over-the-counter market on which any securities of the Corporation are traded, or any applicable state or federal law, rule or regulation, (vi) if such Stockholder Nominee is or has been, within the past three (3) years, an officer or director of a competitor, as defined in Section 8 of the Clayton Antitrust Act of 1914, (vii) if such Stockholder Nominee is a defendant in or named subject of a pending criminal proceeding (excluding traffic violations and other minor offenses) or has been convicted or has pleaded *nolo contendere* in such a criminal proceeding within the past ten (10) years, (viii) if such Stockholder Nominee is subject to any order of the type specified in Rule 506(d) of Regulation D promulgated under the Securities Act of 1933, as amended, (ix) if the Eligible Stockholder who has nominated such Stockholder Nominee or such Stockholder Nominee provides any facts, statements or information to the Corporation or the Stockholders required or requested pursuant to this Section 1.15 that is not true, correct and complete in all material respects or that omits a material fact necessary to make such facts, statements or information, in light of the circumstances in which they were provided, not misleading, or that otherwise contravenes any of the agreements, representations or undertakings made by such Eligible Stockholder or Stockholder Nominee pursuant to this Section 1.15 or (x) if the Eligible Stockholder who has nominated such Stockholder Nominee or such Stockholder Nominee fails

to comply with any of its obligations pursuant to this Section 1.15, in each instance as determined by the Board of Directors, in its sole discretion.

(j) Notwithstanding anything to the contrary set forth herein, the Board of Directors or the Presiding Officer shall declare a nomination by an Eligible Stockholder to be invalid, and such nomination shall be disregarded notwithstanding that proxies in respect of such vote may have been received by the Corporation, if (i) the Stockholder Nominee(s) and/or the applicable Eligible Stockholder shall have failed to comply with its or their obligations under this Section 1.15, as determined by the Board of Directors or the Presiding Officer, or (ii) the Eligible Stockholder, or a qualified representative thereof, does not appear at the annual meeting of Stockholders to present the nomination of the Stockholder Nominee(s) included in the Company Proxy Materials pursuant to this Section 1.15. For purposes of this Section 1.15(j), to be considered a qualified representative of a Stockholder, a person must be a duly authorized officer, manager or partner of such Stockholder or must be authorized by a writing executed by such Stockholder or an electronic transmission delivered by such Stockholder to act for such Stockholder as its proxy at the annual meeting of Stockholders and such person must produce such writing or electronic transmission, or a reliable reproduction thereof, at such annual meeting.

(k) Any Stockholder Nominee who is included in the Company Proxy Materials for an annual meeting of Stockholders but withdraws from or becomes ineligible or unavailable for election to the Board of Directors at such annual meeting will be ineligible for inclusion in the Company Proxy Materials as a Stockholder Nominee pursuant to this Section 1.15 for the next two annual meetings of Stockholders. For the avoidance of doubt, this Section 1.15(k) shall not prevent any Stockholder from nominating any individual to the Board of Directors pursuant to and in accordance with Section 2.04 of Article II of these Bylaws.

(l) This Section 1.15 provides the exclusive method for a Stockholder to require the Corporation to include nominee(s) for election to the Board of Directors in the Company Proxy Materials.

ARTICLE II

DIRECTORS

2.01 **GENERAL POWERS.** The business and affairs of the Corporation shall be managed under the direction of its Board of Directors. All powers of the Corporation may be exercised by or under the authority of the Board of Directors, except as conferred on or reserved to the Stockholders by statute, the Charter or these Bylaws.

2.02 **OUTSIDE ACTIVITIES.** The Board of Directors and its members are required to spend only such time managing the business and affairs of the Corporation as is necessary to carry out their duties in accordance with Section 2-405.1 of the Maryland General Corporation Law, as amended from time to time (the "MGCL"). Except as set forth in the Charter or by separate agreement, arrangement or policy of the Corporation, the Board of Directors, each Director, and the agents, officers and employees of the Corporation or of the Board of Directors or of any Director may engage with or for others in business activities of the types conducted by

the Corporation. Except as set forth in the Charter or by separate agreement, arrangement or policy of the Corporation, none of such individuals has an obligation to notify or present to the Corporation or each other any investment opportunity that may come to such person's attention even though such investment might be within the scope of the Corporation's purposes or various investment objectives. Any interest that a Director has in any investment opportunity presented to the Corporation must be disclosed by such Director to the Board of Directors (and, if voting thereon, to the Stockholders or to any committee of the Board of Directors) within ten (10) days after the later of the date upon which such Director becomes aware of such interest or the date upon which such Director becomes aware that the Corporation is considering such investment opportunity. If such interest comes to the interested Director's attention after a vote to take such investment opportunity, the voting body shall be notified of such interest and shall reconsider such investment opportunity if not already consummated or implemented.

2.03 NUMBER AND TENURE. The number of Directors of the Corporation shall be that number set forth in the Charter or such other number as may be designated from time to time by resolution of a majority of the entire Board of Directors; provided, however, that the number of Directors shall be not less than five (5) nor greater than fifteen (15) and further provided that the tenure of office of a Director shall not be affected by any decrease in the number of Directors. The minimum or maximum number of Directors provided in this Section 2.03 may be changed only by amendment to these Bylaws or by amendment to the Charter, provided that any such amendment shall be both duly adopted by the affirmative vote of a majority of the outstanding Shares entitled to vote and deemed advisable or approved by the Board of Directors. Each Director shall serve for the term set forth in the Charter and until his or her successor is elected and qualifies.

2.04 NOMINATION OF DIRECTORS.

(a) Nominations of individuals for election to the Board of Directors may be made at an annual meeting of Stockholders: (i) pursuant to the Corporation's notice of meeting, (ii) by or at the direction of the Board of Directors or (iii) by any Stockholder who was a Stockholder of record of a class of Stock entitled to vote at the meeting in the election of each individual so nominated (A) at the time of giving of notice provided for in this Section 2.04, (B) as of the record date for the annual meeting in question and (C) at the time of such annual meeting (and any postponement or adjournment thereof), and who complied with this Section 2.04. Any Stockholder who seeks to make such a nomination must be present in person or by proxy at the annual meeting (and any postponement or adjournment thereof). Only individuals nominated in accordance with the procedures set forth in this Section 2.04 shall be eligible for election as Directors at an annual meeting of Stockholders.

(b) For any nomination to be properly brought before an annual meeting by a Stockholder pursuant to clause (iii) of paragraph (a) of this Section 2.04, the Stockholder must have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a Stockholder's notice shall set forth all information required under this Section 2.04 and be delivered to the Secretary at the principal executive office of the Corporation not earlier than the 150th day nor later than 5:00 p.m., Eastern Time, on the 120th day prior to the Notice Anniversary Date; provided, however, that in the event that the date of the annual meeting is advanced or delayed by more than thirty (30) days from the first anniversary of the date of the preceding

year's annual meeting, notice by the Stockholder to be timely must be so delivered not earlier than the 150th day prior to the date of such annual meeting and not later than 5:00 p.m., Eastern Time, on the later of the 120th day prior to the date of such annual meeting or the tenth (10th) day following the day on which public announcement of the date of such annual meeting is first made. The public announcement of a postponement or an adjournment of an annual meeting shall not commence a new time period for the giving of a Stockholder's notice as described above.

(c) A Stockholder's notice to the Secretary shall set forth:

(i) as to each individual whom the Stockholder proposes to nominate for election or reelection as a Director (each, a "Proposed Nominee"), all information relating to the Proposed Nominee that would be required to be disclosed in connection with the solicitation of proxies for the election of the Proposed Nominee as a Director in an election contest (even if an election contest is not involved), or would otherwise be required in connection with such solicitation, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act and the rules thereunder (including the Proposed Nominee's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected);

(ii) as to the Stockholder giving the notice, any Proposed Nominee and any Stockholder Associated Person,

(A) the class, series and number of Company Securities, if any, which are owned (beneficially or of record) by such Stockholder, Proposed Nominee or Stockholder Associated Person, the date on which each such Company Security was acquired and the investment intent of such acquisition, and any short interest (including any opportunity to profit or share in any benefit from any decrease in the price of such stock or other security) in any Company Securities of any such person,

(B) the nominee holder for, and number of, any Company Securities owned beneficially but not of record by such Stockholder, Proposed Nominee or Stockholder Associated Person,

(C) whether and the extent to which such Stockholder, Proposed Nominee or Stockholder Associated Person, directly or indirectly (through brokers, nominees or otherwise), is subject to or during the last six months has engaged in any hedging, derivative or other transaction or series of transactions or entered into any other agreement, arrangement or understanding (including any short interest, any borrowing or lending of securities or any proxy or voting agreement), the effect or intent of which is to (I) manage risk or benefit of changes in the price of (x) Company Securities or (y) any security of any entity that was a Peer Group Company for such stockholder, Proposed Nominee or Stockholder Associated Person or (II) increase or decrease the voting power of such Stockholder, Proposed Nominee or Stockholder Associated Person in the Corporation or any affiliate thereof (or, as applicable, in any Peer Group Company) disproportionately to such person's economic interest in the Company Securities (or, as applicable, in any Peer Group Company); and

(D) any substantial interest, direct or indirect (including, without limitation, any existing or prospective commercial, business or contractual relationship with the Corporation), by security holdings or otherwise, of such Stockholder, Proposed Nominee or Stockholder Associated Person, in the Corporation or any affiliate thereof, other than an interest arising from the ownership of Company Securities where such stockholder, Proposed Nominee or Stockholder Associated Person receives no extra or special benefit not shared on a *pro rata* basis by all other holders of the same class or series;

(iii) as to the Stockholder giving the notice, any Stockholder Associated Person with an interest or ownership referred to in clause (ii) of this paragraph (c) of this Section 2.04 and any Proposed Nominee,

(A) the name and address of such Stockholder, as they appear on the Corporation's stock ledger, and the current name and business address, if different, of each such Stockholder Associated Person and any Proposed Nominee and

(B) the investment strategy or objective, if any, of such Stockholder and each such Stockholder Associated Person who is not an individual and a copy of the prospectus, offering memorandum or similar document, if any, provided to investors or potential investors in such stockholder and each such Stockholder Associated Person;

(iv) the name and address of any person who contacted or was contacted by the Stockholder giving the notice or any Stockholder Associated Person about the Proposed Nominee; and

(v) to the extent known by the Stockholder giving the notice, the name and address of any other Stockholder supporting the nominee for election or reelection as a Director.

(d) Such Stockholder's notice shall, with respect to any Proposed Nominee, be accompanied by a written undertaking executed by the Proposed Nominee (i) that such Proposed Nominee (a) is not, and will not become, a party to any agreement, arrangement or understanding with any person or entity other than the Corporation in connection with service or action as a Director, including, without limitation, voting on any matter, that has not been disclosed to the Corporation and (b) will serve as a Director if elected; and (ii) attaching a completed Proposed Nominee questionnaire (which questionnaire shall be provided by the Corporation, upon request, to the Stockholder providing the notice and shall include all information relating to the Proposed Nominee that would be required to be disclosed in connection with the solicitation of proxies for the election of the Proposed Nominee as a Director in an election contest (even if an election contest is not involved), or would otherwise be required in connection with such solicitation, in each case pursuant to Regulation 14A (or any successor provision) under the Exchange Act and the rules thereunder, or would be required pursuant to the rules of any national securities exchange on which any securities of the Corporation are listed or over-the-counter market on which any securities of the Corporation are traded).

(e) Notwithstanding anything in this Section 2.04 to the contrary, in the event that the number of Directors to be elected to the Board of Directors is increased, and there is no public announcement of such action at least 130 days prior to the Notice Anniversary Date, a Stockholder's notice required by this Section 2.04 shall also be considered timely, but only with respect to nominees for any new positions created by such increase, if it shall be delivered to the Secretary at the principal executive office of the Corporation not later than 5:00 p.m., Eastern Time, on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

(f) Nominations of individuals for election to the Board of Directors may be made at a special meeting of Stockholders at which Directors are to be elected only (i) by or at the direction of the Board of Directors, (ii) by a Stockholder that has requested that a special meeting be called for the purpose of electing Directors in compliance with Section 1.04 of these Bylaws and that has supplied the information required by Section 1.04 about each individual whom the Stockholder proposes to nominate for election as a Director or (iii) provided that the special meeting has been called by the Chairman of the Board of Directors, the Chief Executive Officer, the President or the Board of Directors in accordance with Section 1.04 of these Bylaws for the purpose of electing Directors, by any Stockholder of the Corporation who is a Stockholder of record of a class of Stock entitled to vote in the election of Directors (A) at the time of giving of notice provided for in this Section 2.04, (B) as of the record date for the special meeting in question and (C) at the time of such special meeting (and any postponement or adjournment thereof), and who complied with this Section 2.04. Any Stockholder who seeks to make such a nomination must be present in person or by proxy at the special meeting. In the event the Corporation calls a special meeting of Stockholders for the purpose of electing one or more individuals to the Board of Directors, any such Stockholder may nominate an individual or individuals (as the case may be) for election as a Director as specified in the Corporation's notice of meeting, if the Stockholder's notice containing the information required by paragraphs (b) and (c) of this Section 2.04 shall be delivered to the Secretary at the principal executive office of the Corporation not earlier than the 120th day prior to such special meeting and not later than 5:00 p.m., Eastern Time, on the later of the 90th day prior to such special meeting or the tenth (10th) day following the day on which public announcement is first made of the date of the special meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. The public announcement of a postponement or adjournment of a special meeting shall not commence a new time period for the giving of a Stockholder's notice as described above.

(g) If information submitted pursuant to this Section 2.04 by any Stockholder proposing a nominee for election as a Director at a meeting of Stockholders shall be inaccurate in any material respect, such information may be deemed not to have been provided in accordance with this Section 2.04. Any such Stockholder shall notify the Corporation of any inaccuracy or change (within two Business Days of becoming aware of such inaccuracy or change) in any such information. Upon written request by the Secretary or the Board of Directors, any such Stockholder shall provide, within five (5) Business Days after delivery of such request (or such other period as may be specified in such request), (i) written verification, satisfactory, in the discretion of the Board of Directors or any authorized officer of the Corporation, to demonstrate the accuracy of any information submitted by the Stockholder pursuant to this Section 2.04, and (ii) a written update of any information (including, if requested by the Corporation, written confirmation by such Stockholder that it continues to intend to bring such nomination before the

meeting) submitted by the Stockholder pursuant to this Section 2.04 as of an earlier date. If a Stockholder fails to provide such written verification or written update within such period, the information as to which written verification or a written update was requested may be deemed not to have been provided in accordance with this Section 2.04.

(h) Only such individuals who are nominated in accordance with this Section 2.04 shall be eligible for election by Stockholders as Directors. The Presiding Officer of the meeting shall have the power to determine whether a nomination was made in accordance with this Section 2.04.

(i) Notwithstanding the foregoing provisions of this Section 2.04, a Stockholder shall also comply with all applicable requirements of state law and of the Exchange Act and the rules and regulations thereunder with respect to the matters set forth in this Section 2.04. Nothing in this Section 2.04 shall be deemed to affect any right of a Stockholder to request inclusion of a proposal in, nor the right of the Corporation to omit a proposal from, any proxy statement filed by the Corporation with the Securities and Exchange Commission pursuant to Rule 14a-8 (or any successor provision) under the Exchange Act. Nothing in this Section 2.04 shall require disclosure of revocable proxies received by the Stockholder or Stockholder Associated Person pursuant to a solicitation of proxies after the filing of an effective Schedule 14A by such Stockholder or Stockholder Associated Person under Section 14(a) of the Exchange Act.

2.05 ANNUAL AND REGULAR MEETINGS. An annual meeting of the Board of Directors shall be held immediately after and at the same place as the annual meeting of Stockholders and no notice other than this Bylaw shall be necessary for the calling of such meeting. In the event such meeting is not so held, the meeting may be held at such time and place as shall be specified in a notice given as hereinafter provided for special meetings of the Board of Directors. The Board of Directors may provide, by resolution, the time and place of regular meetings of the Board of Directors without other notice than such resolution.

2.06 SPECIAL MEETINGS. Special meetings of the Board of Directors may be called by or at the request of the Chairman, the Chief Executive Officer, the President or a majority of the Directors then in office. The person or persons authorized to call special meetings of the Board of Directors may fix the time and place of any special meeting of the Board of Directors called by them. The Board of Directors may provide, by resolution, the time and place of special meetings of the Board of Directors without other notice than such resolution.

2.07 NOTICE. Notice of any special meeting of the Board of Directors shall be delivered personally or by telephone, electronic mail, facsimile transmission, United States mail or courier to each Director at his or her business or residence address. Notice by personal delivery, telephone, electronic mail or facsimile transmission shall be given at least one (1) Business Day (or, if given on a day other than a Business Day, at least twenty-four (24) hours) prior to the meeting. Notice by United States mail shall be given at least three (3) days prior to the meeting. Notice by courier shall be given at least two (2) days prior to the meeting. Telephone notice shall be deemed to be given when the Director or his or her agent is personally given such notice in a telephone call to which the Director or his or her agent is a party. Electronic mail notice shall be deemed to be given upon transmission of the message to

the electronic mail address given to the Corporation by the Director. Facsimile transmission notice shall be deemed to be given upon completion of the transmission of the message to the number given to the Corporation by the Director and receipt of a completed answer-back indicating receipt. Notice by United States mail shall be deemed to be given when deposited in the United States mail properly addressed, with postage thereon prepaid. Notice by courier shall be deemed to be given when deposited with or delivered to a courier properly addressed. Neither the business to be transacted at, nor the purpose of, any annual, regular or special meeting of the Board of Directors need be stated in the notice, unless specifically required by statute or these Bylaws.

2.08 QUORUM. A majority of the Directors then in office shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, provided, however, that a quorum for the transaction of business with respect to any matter in which any Director (or affiliate of such Director) who is not an Independent Director (as defined by the rules of the New York Stock Exchange (the “NYSE”), as such rules shall be amended from time to time) has any interest shall consist of a majority of the Directors that includes a majority of the Independent Directors then in office; and provided further that if, pursuant to applicable law, the Charter or these Bylaws, the vote of a majority or other percentage of a specified group of Directors is required for action, a quorum must also include a majority or such other percentage of such group. If less than a majority of such Directors is present at such meeting, a majority of the Directors present may adjourn the meeting from time to time without further notice.

The Directors present at a meeting which has been duly called and at which a quorum has been established may continue to transact business until adjournment, notwithstanding the withdrawal from the meeting of enough Directors to leave fewer than required to establish a quorum.

2.09 VOTING. The action of a majority of the Directors present at a meeting at which a quorum is present shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by applicable law, the Charter or these Bylaws; provided, however, that no act relating to any matter in which a Director (or affiliate of such Director) who is not an Independent Director has any interest shall be the act of the Board of Directors unless such act has been approved by a majority of the Board of Directors that includes a majority of the Independent Directors. If enough Directors have withdrawn from a meeting to leave fewer than required to establish a quorum, but the meeting is not adjourned, the action of the majority of that number of Directors necessary to constitute a quorum at such meeting shall be the action of the Board of Directors, unless the concurrence of a greater proportion is required for such action by applicable law, the Charter or these Bylaws.

2.10 CONDUCT OF MEETINGS. At each meeting of the Board of Directors, the Chairman or, in the absence of the Chairman, a Director who has previously been designated as Lead Independent Director or, in the absence of the Chairman and such Director, a Director chosen by a majority of the Directors present, shall act as chairman of the meeting. The Secretary of the Corporation or, in his or her absence, an Assistant Secretary of the Corporation shall act as Secretary of the meeting or, in the absence of the Secretary and all Assistant Secretaries, the chairman of the meeting shall designate any individual to act as secretary of the meeting. Directors may participate in a meeting by conference telephone or other

communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means constitute presence in person at such meeting for all purposes of these Bylaws.

2.11 RESIGNATIONS. Any Director may resign from the Board of Directors or any committee thereof in the manner provided in the Charter.

2.12 REMOVAL OF DIRECTORS. Any Director may be removed in the manner provided in the Charter.

2.13 VACANCIES. Vacancies on the Board of Directors shall be filled in the manner provided in the Charter.

2.14 CONSENT BY DIRECTORS WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of the Board of Directors may be taken without a meeting, if a consent in writing or by electronic transmission to such action is given by each Director and is filed with the minutes of proceedings of the Board of Directors. Written consents may be signed by different Directors on separate counterparts.

2.15 COMPENSATION. Directors shall not receive any stated salary for their services as directors but, by resolution of the Board of Directors, may receive compensation per year and/or per meeting and/or per visit to real property or other facilities owned or leased by the Corporation and for any service or activity they performed or engaged in as Directors. Directors may be reimbursed for expenses of attendance, if any, at each annual, regular or special meeting of the Board of Directors or of any committee thereof and for their expenses, if any, in connection with each property visit and any other service or activity they perform or engage in as Directors; but nothing herein contained shall be construed to preclude any Directors from serving the Corporation in any other capacity and receiving compensation therefor.

2.16 LEAD INDEPENDENT DIRECTOR. From time to time the Independent Directors then serving on the Board of Directors may appoint from among them one member to serve as "Lead Independent Director," which position shall have such description as the Independent Directors shall in their discretion determine, but only to the extent not inconsistent with the Charter or these Bylaws.

2.17 RELIANCE. Each Director and officer of the Corporation shall, in the performance of his or her duties with respect to the Corporation, be entitled to rely on any information, opinion, report or statement, including any financial statement or other financial data, prepared or presented by an officer or employee of the Corporation whom the Director or officer reasonably believes to be reliable and competent in the matters presented, by a lawyer, certified public accountant or other person, as to a matter which the Director or officer reasonably believes to be within the person's professional or expert competence, or, with respect to a director, by a committee of the Board of Directors on which the Director does not serve, as to a matter within its designated authority, if the Director reasonably believes the committee to merit confidence.

2.18 RATIFICATION. The Board of Directors or the Stockholders may ratify any action or inaction by the Corporation or its officers to the extent that the Board of Directors or

the Stockholders could have originally authorized the matter and, if so ratified, such action or inaction shall have the same force and effect as if originally duly authorized, and such ratification shall be binding upon the Corporation and its Stockholders. Moreover, any action or inaction questioned in any proceeding on the ground of lack of authority, defective or irregular execution, adverse interest of a Director, officer or Stockholder, non-disclosure, miscomputation, the application of improper principles or practices of accounting, or otherwise, may be ratified, before or after judgment, by the Board of Directors or by the Stockholders, and such ratification shall constitute a bar to any claim or execution of any judgment in respect of such questioned action or inaction.

2.19 EMERGENCY PROVISIONS. Notwithstanding any other provision in the Charter or these Bylaws, this Section 2.19 shall apply during the existence of any catastrophe, or other similar emergency condition, as a result of which a quorum of the Board of Directors under Article II of these Bylaws cannot readily be obtained (an “Emergency”). During any Emergency, unless otherwise provided by the Board of Directors, (i) a meeting of the Board of Directors or a committee thereof may be called by any Director or officer by any means feasible under the circumstances; (ii) notice of any meeting of the Board of Directors during such an Emergency may be given less than twenty-four (24) hours prior to the meeting to as many Directors and by such means as may be feasible at the time, including publication, television or radio, and (iii) the number of Directors necessary to constitute a quorum shall be one-third of the entire Board of Directors.

ARTICLE III

COMMITTEES

3.01 NUMBER, TENURE AND QUALIFICATION. The Board of Directors may appoint from among its members certain committees as described below. The term of office of any committee member shall be as provided in the resolution of the Board of Directors designating such member but shall not exceed such member’s tenure as Director. Any member of a committee may be removed at any time by resolution of the Board of Directors. A committee may not take or authorize any act as to any matter in which any Director (or affiliate of such Director) who is not an Independent Director has or is reasonably likely to have any interest unless a majority of the members of such committee shall be Independent Directors.

(a) Executive Committee. The Board of Directors may, by resolution adopted by a majority of the Directors, appoint an Executive Committee consisting of one or more Directors. The Board may designate one or more Directors as an alternate member of the Executive Committee, who may replace any absent member at any meeting of the Executive Committee.

(b) Audit Committee. The Board of Directors shall, by resolution adopted by a majority of the Directors, appoint an Audit Committee consisting of three or more Directors whose membership on the Audit Committee shall satisfy the requirements set forth in the applicable rules, if any, of the NYSE, as amended from time to time. The Board may designate one or more Directors as an alternate member of the Audit Committee, who may replace any absent member at any meeting of the Audit Committee.

(c) Compensation Committee. The Board of Directors shall, by resolution adopted by a majority of the Directors, appoint a Compensation Committee consisting of two or more Directors whose membership on the Compensation Committee shall satisfy the requirements set forth in the applicable rules, if any, of the NYSE, as amended from time to time. The Board may designate one or more Directors as an alternate member of the Compensation Committee, who may replace any absent member at any meeting of the Compensation Committee.

(d) Other Committees. The Board of Directors may, by resolution adopted by a majority of the Directors, appoint such other standing or special committees, each consisting of one or more Directors, as it may from time to time deem advisable to perform such general or special duties as may from time to time be delegated to any such committee by the Board of Directors, subject to the limitations contained in the MGCL or imposed by the Charter or these Bylaws. The Board may designate one or more Directors as an alternate member of any committee designated pursuant to this Section 3.01(d), who may replace any absent member at any meeting of such committee.

3.02 DELEGATION OF POWER. The Board of Directors may, by resolution or adoption of a committee charter, delegate to committees appointed under Section 3.01 any of the powers of the Board of Directors, except those powers which the Board of Directors is specifically prohibited from delegating pursuant to Section 2-411 of the MGCL, and may prescribe rules governing the conduct and proceedings of these committees.

3.03 QUORUM AND VOTING. Subject to such terms as may appear in the delegation of authority to such committee (which may be contained in the charter for such committee), a majority of the members of any committee shall constitute a quorum for the transaction of business by such committee, and the act of a majority of the committee members present at a meeting shall constitute the act of the committee. Notwithstanding the foregoing, no act relating to any matter in which any Director (or affiliate of such Director) who is not an Independent Director has any interest shall be the act of any committee unless a majority of the Independent Directors on the committee vote for such act.

3.04 CONDUCT OF MEETINGS. Subject to such terms as may appear in the delegation of authority to such committee (which may be contained in the charter for such committee), the Board of Directors shall designate for each committee a chairman, and if such chairman is not present at a particular meeting, the committee shall select a presiding officer for such meeting. Subject in each case to any provisions to the contrary in any effective resolution of the Board of Directors relating to the appointment or authority of a committee of the Board of Directors (including any committee charter adopted by such resolution), each committee shall (i) adopt its own rules governing the time and place of holding and the method of calling its meetings and the conduct of its proceedings and (ii) meet at the call of the chairman of such committee or the Chairman of the Board of Directors. Members of any committee shall be entitled to participate in meetings of such committee by conference telephone or other communications equipment if all persons participating in the meeting can hear each other at the same time. Participation in a meeting by these means shall constitute presence in person at the meeting. Each committee shall keep minutes of its meetings and report the results of any proceedings to the Board of Directors.

3.05 CONSENT BY COMMITTEES WITHOUT A MEETING. Any action required or permitted to be taken at any meeting of a committee of the Board of Directors may be taken without a meeting, if a consent in writing or by electronic transmission to such action is given by each member of the committee and is filed with the minutes of proceedings of such committee. Written consents may be signed by different members on separate counterparts.

3.06 VACANCIES. Subject to the provisions hereof, the Board of Directors shall have the power at any time to change the membership of any committee, to appoint the chair of any committee, to fill any vacancy, to designate an alternate member to replace any absent or disqualified member or to dissolve any such committee.

ARTICLE IV

OFFICERS

4.01 TITLES AND ELECTION. The Corporation shall have a Chairman of the Board, a Chief Executive Officer, a President, a Chief Operating Officer, a Chief Financial Officer, one or more Vice Presidents (including Vice Presidents of varying degrees, such as Executive, Regional or Senior Vice Presidents), a Secretary, a Treasurer and such Assistant Secretaries and Assistant Treasurers and such other officers as the Board of Directors, or any committee or officer appointed by the Board of Directors for such purpose, may from time to time elect. The Chief Executive Officer may from time to time appoint one or more Vice Presidents, Assistant Secretaries and Assistant Treasurers or other officers. Notwithstanding the foregoing, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Secretary and the Treasurer shall be elected by a majority of the Directors at the time in office. The officers of the Corporation elected by the Board of Directors shall be elected annually at the first meeting of the Board of Directors following each annual meeting of Stockholders. If the election of such officers shall not take place at such meeting, such election shall be held as soon thereafter as may be convenient. Each officer shall hold office until the first meeting of the Board of Directors following the next annual meeting of Stockholders and until his or her successor is duly elected and qualifies or until his or her death, or his or her resignation or removal in the manner hereinafter provided. Any two or more offices, except President and Vice President, may be held by the same person. Election of an officer or agent shall not of itself create contract rights between the Corporation and such officer or agent. No officer need be a Stockholder or a Director of the Corporation.

4.02 REMOVAL AND RESIGNATION. Any officer or agent of the Corporation may be removed, either with or without cause, by a majority of the Directors at the time in office, at any regular or special meeting of the Board of Directors, or, except in the case of an officer elected by the Board of Directors, by a committee or an officer upon whom such power of removal may be conferred by the Board of Directors, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Any officer of the Corporation may resign at any time by delivering his or her resignation to the Board of Directors, the Chairman of the Board, the Chief Executive Officer, the President or the Secretary. Any resignation shall take effect immediately upon its receipt or at such later time specified in the resignation. The acceptance of a resignation shall not be necessary to make it effective unless otherwise stated in

the resignation. Such resignation shall be without prejudice to the contract rights, if any, of the Corporation.

4.03 OUTSIDE ACTIVITIES. The officers and agents of the Corporation are required to spend only such time managing the business and affairs of the Corporation as is necessary to carry out their duties in accordance with applicable law and these Bylaws. Except as set forth in the Charter or by the terms of any separate agreement, arrangement or policy of the Corporation, the officers and agents of the Corporation may engage with or for others in business activities of the types conducted by the Corporation. Except as set forth in the Charter or by the terms of any separate agreement, arrangement or policy of the Corporation, the officers and agents of the Corporation (other than those serving who are also Directors) do not have an obligation to notify or present to the Corporation or each other any investment opportunity that may come to such person's attention even though such investment might be within the scope of the Corporation's purposes or various investment objectives. Any interest that an officer or an agent has in any investment opportunity presented to the Corporation must be disclosed by such officer or agent to the Board of Directors (and, if voting thereon, to the Stockholders or to any committee of the Board of Directors) within ten (10) days after the later of the date upon which such officer or agent becomes aware of such interest or that the Corporation is considering such investment opportunity. If such interest comes to the attention of the interested officer or agent after a vote to take such investment opportunity, the voting body shall reconsider such investment opportunity if not already consummated or implemented.

4.04 VACANCIES. A vacancy in any office may be filled by the Board of Directors, or any committee or officer authorized by these Bylaws or the Board of Directors for such purpose, for the balance of the term. A vacancy in any office previously appointed by the Chief Executive Officer may be filled by the Chief Executive Officer for the balance of the term.

4.05 CHAIRMAN OF THE BOARD. The Chairman of the Board shall, if present, preside at all meetings of the Board of Directors, and shall exercise and perform such other powers and duties as may from time to time be assigned to him by the Board of Directors or prescribed by these Bylaws.

4.06 CHIEF EXECUTIVE OFFICER. Unless otherwise determined by the Board of Directors and subject to such supervisory powers, if any, as may be given by the Board of Directors to the Chairman, the Chief Executive Officer shall, subject to the control of the Board of Directors, have general supervision, direction, and control of the business of the Corporation and shall exercise and perform such other powers and duties as may from time to time be assigned to him by the Board of Directors or prescribed by these Bylaws.

4.07 PRESIDENT. The President shall exercise and perform such duties as may from time to time be assigned to him by the Board of Directors or the Chief Executive Officer or prescribed by these Bylaws.

4.08 VICE PRESIDENTS. In the absence of the President or in the event of a vacancy in such office, the Vice Presidents in order of their rank and, within each rank, in their order of seniority as fixed by the Board of Directors, or if not ranked, the Vice President designated by the Board of Directors, shall perform the duties of the President, and when so acting shall have

all the powers of and be subject to all the restrictions upon the President. The Vice President shall have such other powers and perform such other duties as from time to time may be assigned to them by the Board of Directors or the Chief Executive Officer or prescribed by these Bylaws.

4.09 CHIEF FINANCIAL OFFICER. The Chief Financial Officer shall have all the powers of the Treasurer and shall have such other responsibilities and duties as determined by the Board of Directors or the Chief Executive Officer. For purposes of Section 4.08 of these Bylaws, the Chief Financial Officer shall be considered to have the rank of Executive Vice President.

4.10 CHIEF OPERATING OFFICER. The Chief Operating Officer shall have the responsibilities and duties as determined by the Board of Directors or the Chief Executive Officer. For purposes of Section 4.08 of these Bylaws, the Chief Operating Officer shall be considered to have the rank of Executive Vice President.

4.11 SECRETARY.

(a) The Secretary shall keep, or cause to be kept, minutes of the proceedings of the Board of Directors, committees of the Board of Directors and Stockholders. Such minutes shall include all waivers of notice, consents to the holding of meetings, and approvals of the minutes of meetings executed pursuant to these Bylaws or the MGCL. The Secretary shall keep, or cause to be kept at the principal executive office or at the office of the Corporation's transfer agent or registrar, a record of its Stockholders, giving the names and addresses of all Stockholders and the number and class of shares held by each.

(b) The Secretary shall give, or cause to be given, notice of all meetings of the Stockholders and may give, or cause to be given, notice of all meetings of the Board of Directors required by these Bylaws or by law to be given, and shall keep the seal of the Corporation in safe custody, and shall have such other powers and perform such other duties as may be from time to time assigned to him by the Board of Directors or prescribed by these Bylaws.

4.12 TREASURER.

(a) The Treasurer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of account in written form or any other form capable of being converted into written form.

(b) The Treasurer shall deposit all monies and other valuables in the name and to the credit of the Corporation with such depositories as may be designated by the Board of Directors. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board of Directors, taking proper vouchers for such disbursements, and shall render to the Chairman, Chief Executive Officer, President and Board of Directors, whenever any of them requests it, an account of all of his transactions as Treasurer and of the financial condition of the Corporation, and shall have such other powers and perform such other duties as may be from time to time assigned to him by the Board of Directors or prescribed by these Bylaws.

4.13 ASSISTANT SECRETARIES AND ASSISTANT TREASURERS. The Board of Directors, or any committee or officer appointed by the Board of Directors for such purpose,

may appoint one or more Assistant Secretaries or Assistant Treasurers. The Assistant Secretaries and Assistant Treasurers (i) shall have the power to perform and shall perform all the duties of the Secretary and the Treasurer, respectively, in such respective officer's absence and (ii) shall perform such duties as shall be assigned to them by the Secretary or Treasurer, respectively, or by the Chairman, Chief Executive Officer, President or Board of Directors, or any such designated committee or officer.

4.14 SUBORDINATE OFFICERS. The Corporation shall have such subordinate officers as the Board of Directors, or any committee or officer appointed by the Board of Directors for such purpose, may from time to time elect. Each such officer shall hold office for such period and perform such duties as the Board of Directors, the Chairman, the Chief Executive Officer, the President or any designated committee or officer may prescribe.

4.15 COMPENSATION. The compensation of the officers shall be fixed from time to time by or under the authority of the Board of Directors and no officer shall be prevented from receiving such compensation by reason of the fact that he is also a Director.

ARTICLE V

SHARES OF STOCK

5.01 FORM OF CERTIFICATES. The Corporation may issue some or all of the shares of any or all classes or series of Stock with or without certificates as determined by the Board of Directors or the Chairman of the Board. In the event that the Corporation issues shares of Stock represented by certificates, such certificates shall be in such form as prescribed by the Board of Directors or a duly authorized officer, shall contain the statements and information required by the MGCL and shall be signed by the officers of the Corporation in any manner permitted by the MGCL. In the event that the Corporation issues shares of Stock without certificates, to the extent then required by the MGCL, the Corporation shall provide to the record holders of such shares a written statement of the information required by the MGCL to be included on stock certificates. There shall be no differences in the rights and obligations of stockholders based on whether or not their shares are represented by certificates.

5.02 TRANSFER OF SHARES. All transfers of shares of Stock by the holder of the shares, in person or by his attorney, shall be made on the books of the Corporation in such manner as the Board of Directors or any officer of the Corporation may prescribe and, if such shares are certificated, upon surrender of certificates duly endorsed. The issuance of a new certificate upon the transfer of certificated shares is subject to the determination of the Board of Directors or an officer of the Corporation that such shares shall no longer be represented by certificates. Upon the transfer of any uncertificated shares, the Corporation shall provide to the record holders of such shares, to the extent then required by the MGCL, a written statement of the information required by the MGCL to be included on stock certificates.

Notwithstanding the foregoing, transfers of shares of any class or series of Stock will be subject in all respects to the Charter and all of the terms and conditions contained therein.

5.03 STOCK LEDGER. The Corporation shall maintain at its principal executive office or at the office of its counsel, accountants or transfer agent or at such other place designated by the Board of Directors, an original or duplicate stock ledger containing the name and address of each Stockholder and the number of shares of each class of Stock held by each Stockholder. The stock ledger shall be maintained pursuant to a system that the Corporation shall adopt allowing for the issuance, recordation and transfer of its Stock by electronic or other means that can be readily converted into written form for visual inspection and not involving any issuance of certificates. Such system shall include provisions for notice to acquirers of Stock (whether upon issuance or transfer of Stock) in accordance with Sections 2-210 and 2-211 of the MGCL and Section 8-204 of the Commercial Law Article of the State of Maryland. The Corporation shall be entitled to treat the holder of record of any share or shares of Stock as the holder in fact thereof and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Maryland. Until a transfer is duly effected on the stock ledger, the Corporation shall not be affected by any notice of such transfer, either actual or constructive. Nothing herein shall impose upon the Corporation, the Board of Directors or officers or their agents and representatives a duty or limit their rights to inquire as to the actual ownership of Shares.

5.04 LOST CERTIFICATE. Any officer of the Corporation may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost, destroyed, stolen or mutilated, upon the making of an affidavit of that fact by the person claiming the certificate to be lost, destroyed, stolen or mutilated; provided, however, if such shares have ceased to be certificated, no new certificate shall be issued unless requested in writing by such Stockholder and the Board of Directors or an officer of the Corporation has determined that such certificates may be issued. Unless otherwise determined by an officer of the Corporation, the owner of such lost, destroyed, stolen or mutilated certificate or certificates, or his or her legal representative, shall be required, as a condition precedent to the issuance of a new certificate or certificates, to give the Corporation a bond in such sums as it may direct as indemnity against any claim that may be made against the Corporation.

5.05 EMPLOYEE STOCK PURCHASE PLANS. The Board of Directors shall have the authority, in its discretion, to adopt one or more employee stock purchase plans or agreements, containing such terms and conditions as the Board may prescribe, for the issue and sale of unissued shares of Stock, or of its issued shares acquired or to be acquired, to the employees of the Corporation or to the employees of its subsidiary corporations or to a trustee on their behalf, and for the payment of such shares in installments or at one time, and for such consideration as may be fixed by the Board or any committee thereof, and may provide for aiding any such employees in paying for such shares by compensation for services rendered, promissory notes or otherwise. The Board of Directors, or any committee thereof, may carry out and administer any such plan or delegate part or all of the administration of any such plan to any other entity or person.

5.06 FIXING OF RECORD DATE.

(c) The Board of Directors may set, in advance, a record date for the purpose of determining Stockholders entitled to receive notice of, or to vote at, any meeting of Stockholders, or Stockholders entitled to receive payment of any dividend or the allotment of any rights, or in order to make a determination of Stockholders for any other proper purpose. Such date, in any case, shall not be prior to the close of business on the day the record date is fixed and shall be not more than ninety (90) days, and in case of a meeting of Stockholders not less than ten (10) days, prior to the date on which the meeting or particular action requiring such determination of Stockholders is to be held or taken.

(d) When a record date for the determination of Stockholders entitled to notice of and vote at any meeting of Stockholders has been set as provided in this section, such record date shall continue to apply to the meeting if postponed or adjourned, except if the meeting is postponed or adjourned to a date more than 120 days after the record date originally fixed for the meeting, in which case a new record date for such meeting may be determined as set forth herein.

5.07 FRACTIONAL STOCK; ISSUANCE OF UNITS. The Board of Directors may authorize the Corporation to issue fractional shares of Stock or authorize the issuance of scrip, all on such terms and under such conditions as it may determine. Notwithstanding any other provision of the Charter or these Bylaws, the Board of Directors may authorize the issuance of units consisting of different securities of the Corporation. Any security issued in a unit shall have the same characteristics as any identical securities issued by the Corporation, except that the Board of Directors may provide that for a specified period securities of the Corporation issued in such unit may be transferred on the books of the Corporation only in such unit.

ARTICLE VI

DIVIDENDS AND DISTRIBUTIONS

6.01 AUTHORIZATION. Dividends and other distributions upon the Stock may be authorized by the Board of Directors, subject to the provisions of law and the Charter. Dividends and other distributions may be paid in cash, property or Stock of the Corporation, subject to the provisions of law and of the Charter.

6.02 CONTINGENCIES. Before payment of any dividend or other distribution, there may be set aside out of any assets of the Corporation available for dividends or other distributions such sum or sums as the Board of Directors may from time to time, in its absolute discretion, think proper as a reserve fund for contingencies, for equalizing dividends, for repairing or maintaining any property of the Corporation or for such other purpose as the Board of Directors shall determine, and the Board of Directors may modify or abolish any such reserve.

ARTICLE VII

INDEMNIFICATION AND ADVANCE OF EXPENSES

7.01 **INDEMNIFICATION TO THE EXTENT PERMITTED BY LAW.** The Corporation shall indemnify, to the full extent authorized or permitted by Maryland statutory or decisional law or any other applicable law, any person made, or threatened to be made, a party to any action or proceeding (whether civil or criminal or otherwise) by reason of the fact he, his testator or intestate is or was a Director or officer of the Corporation or any predecessor of the Corporation, or is or was serving at the request of the Corporation or any predecessor of the Corporation as a director or officer of, or in any other capacity with respect to, any other corporation, partnership, joint venture, trust, employee benefit plan, or other enterprise (an "Indemnified Person"), including the advancement of expenses under procedures provided under such law; provided, however, that no indemnification shall be provided for expenses relating to any willful or grossly negligent failure to make disclosures required by the next to last sentence of Sections 2.02 or 4.03 hereof as applied to Directors and officers respectively. The Corporation shall indemnify any Indemnified Person's spouse (whether by statute or at common law and without regard to the location of the governing jurisdiction) and children to the same extent and subject to the same limitations applicable to any Indemnified Person hereunder for claims arising out of the status of such person as a spouse or child of such Indemnified Person, including claims seeking damages from marital property (including community property) or property held by such Indemnified Person and such spouse or property transferred to such spouse or child, but such indemnity shall not otherwise extend to protect the spouse or child against liabilities caused by the spouse's or child's own acts. The provisions of this Section 7.01 shall constitute a contract with each Indemnified Person who serves at any time while these provisions are in effect and may be modified adversely only with the consent of affected Indemnified Persons and each such Indemnified Person shall be deemed to be serving as such in reliance on these provisions.

7.02 **INDEMNIFICATION OF EMPLOYEES AND AGENTS OF THE CORPORATION.** The Corporation may, to the extent authorized from time to time by the Board of Directors, grant rights to indemnification and to the advancement of expenses to any employee or agent of the Corporation to the fullest extent of the provisions of this Article VII with respect to the indemnification of and advancement of expenses to Directors and officers of the Corporation.

7.03 **INSURANCE.** The Corporation shall have the power to purchase and maintain insurance to protect itself and any Indemnified Person or employee or agent of the Corporation against any liability, whether or not the Corporation would have the power to indemnify him or her against such liability.

7.04 **NON-EXCLUSIVE RIGHTS TO INDEMNITY; HEIRS AND PERSONAL REPRESENTATIVES.** The rights to indemnification set forth in this Article VII are in addition to all rights which any Indemnified Person may be entitled as a matter of law or by contract, and shall inure to the benefit of the heirs and personal representatives of each Indemnified Person.

7.05 NO LIMITATION. In addition to any indemnification permitted by these Bylaws, the Board of Directors shall, in its sole discretion, have the power to grant such indemnification to such persons as it deems in the interest of the Corporation to the full extent permitted by law. The indemnification and payment or reimbursement of expenses provided in these Bylaws shall not be deemed exclusive of or limit in any way other rights to which any person seeking indemnification or payments or reimbursement of expenses may be or may become entitled under any bylaw, regulation, insurance, agreement or otherwise. This Article shall not limit the Corporation's power to indemnify against liabilities other than those arising from a person's serving the Corporation as a Director or officer.

7.06 AMENDMENT, REPEAL OR MODIFICATION. Any amendment, repeal or modification of any provision of this Article VII by the Stockholders or the Directors of the Corporation is effective on a prospective basis only and neither repeal nor modification of such provisions shall adversely affect any right or protection of a Director or officer of the Corporation under this Article VII existing at the time of such amendment, repeal or modification.

7.07 RIGHT OF CLAIMANT TO BRING SUIT. If a claim under Section 7.01 of this Article VII is not paid in full by the Corporation within ninety (90) days after a written claim has been received by the Corporation, the claimant may at any time thereafter bring suit against the Corporation to recover the unpaid amount of the claim and, if successful in whole or in part, the claimant shall be entitled to be paid also the expense of prosecuting such claim. It shall be a defense to any such action (other than an action brought to enforce a claim for expenses incurred in defending any proceeding in advance of its final disposition where the required undertaking, if any, has been tendered to the Corporation) that the claimant has not met the standards of conduct which make it permissible under the MGCL for the Corporation to indemnify the claimant for the amount claimed, but the burden of proving such defense shall be on the Corporation. Neither the failure of the Corporation (including its Board of Directors, independent legal counsel or Stockholders) to have made a determination prior to the commencement of such action that indemnification of the claimant is proper in the circumstances because he or she has met the applicable standard of conduct set forth in the MGCL, nor an actual determination by the Corporation (including its Board of Directors, independent legal counsel or Stockholders) that the claimant has not met such applicable standard of conduct, shall be a defense to the action or create a presumption that claimant has not met the applicable standard of conduct.

7.08 VESTING. The rights to indemnification and advance of expenses provided by the Charter and these Bylaws shall vest immediately upon election or appointment of a Director or officer.

ARTICLE VIII

NOTICES

8.01 NOTICES. Unless otherwise provided in these Bylaws, whenever notice is required to be given pursuant to these Bylaws, it shall be construed to mean either written notice personally delivered against written receipt, or notice in writing transmitted by mail, by

depositing the same in a post office or letter box, in a post-paid sealed wrapper, addressed, if to the Corporation, to 671 N. Glebe Road, Suite 800, Arlington, Virginia 22203 (or any subsequent address selected by the Board of Directors), attention Chief Executive Officer, or if to a Stockholder, Director or officer, at the address of such person as it appears on the records of the Corporation. In addition, whenever notice is required to be given to a Stockholder, such requirement shall be satisfied when written notice is left at such Stockholder's residence or usual place of business or is delivered to such Stockholder by any other means permitted by Maryland law. If transmitted electronically, notice to a Stockholder shall be deemed to be given when transmitted to the Stockholder by an electronic transmission to any address or number of the Stockholder at which the Stockholder receives electronic transmissions. Unless otherwise specified, notice sent by mail shall be deemed to be given at the time mailed.

8.02 SECRETARY TO GIVE NOTICE. All notices required by law or these Bylaws to be given by the Corporation shall be given by the Secretary or any other officer of the Corporation designated by the Chairman or the Chief Executive Officer. If the Secretary and Assistant Secretary are absent or refuse or neglect to act, the notice may be given by, or by any person directed to do so by, the Chairman or the Chief Executive Officer or, with respect to any meeting called pursuant to these Bylaws upon the request of any Stockholders or Directors, by any person directed to do so by the Stockholders or Directors upon whose request the meeting is called.

8.03 WAIVER OF NOTICE. Whenever any notice of a meeting is required to be given pursuant to the Charter or these Bylaws or pursuant to applicable law, a waiver thereof in writing or by electronic transmission, given by the person or persons entitled to such notice, whether before or after the time stated therein, shall be deemed equivalent to the giving of such notice. A waiver of notice of a Stockholders meeting shall be filed with the records of such meeting. Neither the business to be transacted at nor the purpose of any meeting need be set forth in the waiver of notice of such meeting, unless specifically required by statute. The attendance of any person at any meeting shall constitute a waiver of notice of such meeting, except where such person attends a meeting for the express purpose of objecting to the transaction of any business on the ground that the meeting has not been lawfully called or convened.

ARTICLE IX

MISCELLANEOUS

9.01 EXEMPTION FROM MARYLAND CONTROL SHARE ACQUISITION ACT. Notwithstanding any other provision of the Charter or these Bylaws, the provisions of the Maryland Control Share Acquisition Act (Sections 3-701 to 3-710 of the MGCL) shall not apply to any share of Stock of the Corporation now or hereafter held by any current or future Stockholders. All shares of Stock currently outstanding or issued in the future are exempted from the Maryland Control Share Acquisition Act to the fullest extent permitted by Maryland law. This section may be repealed, in whole or in part, at any time, whether before or after an acquisition of control shares and, upon such repeal, may, to the extent provided by any successor bylaw, apply to any prior or subsequent control share acquisition.

9.02 OFFICES OF THE CORPORATION. The principal executive office for the transaction of the business of the Corporation is hereby fixed and located at 671 N. Glebe Road, Suite 800, Arlington Virginia 22203. The Board of Directors is hereby granted full power and authority to change said principal office from one location to another. Branch and subordinated offices may at any time be established by the Board of Directors. The principal office of the corporation in the State of Maryland shall be located at such place as the Board of Directors may designate.

9.03 BOOKS AND RECORDS. The Corporation shall keep correct and complete books and records of its accounts and transactions and minutes of the proceedings of its Stockholders and Board of Directors meetings and of its executive or other committees when exercising any of the powers or authority of the Board of Directors. The books and records of the Corporation may be in written form or in any other form that can be converted within a reasonable time into written form for visual inspection. Minutes shall be recorded in written form but may be maintained in the form of a reproduction.

9.04 INSPECTION OF BYLAWS AND CORPORATE RECORDS. These Bylaws, the minutes of proceedings of the Stockholders, annual statements of affairs and any voting trust agreements on record shall be open to inspection upon written demand delivered to the Corporation by any Stockholder or holder of a voting trust certificate at any reasonable time during usual business hours, for a purpose reasonably related to such holder's interests as a Stockholder or as the holder of such voting trust certificate, in each case as set forth in the MGCL. Other documents, such as the Corporation's books of account, stock ledger and Stockholder lists, may be made available for inspection by any Stockholder or holder of a voting trust certificate to the extent required by the MGCL.

9.05 CONTRACTS. The Board of Directors may authorize any Director(s), officer(s) or agent(s) to enter into any contract or to execute and deliver any instrument in the name of and on behalf of the Corporation, and such authority may be general or confined to specific instances. Any agreement, deed, mortgage, lease or other document shall be valid and binding upon the Corporation when duly authorized or ratified by action of the Board of Directors and executed by an authorized person.

9.06 CHECKS, DRAFTS, ETC. All checks, drafts or other orders for the payment of money, notes or other evidences of indebtedness issued in the name of the Corporation shall be signed by such officers or agents of the Corporation in such manner as shall from time to time be determined by the Board of Directors.

9.07 LOANS.

(a) Such officers or agents of the Corporation as from time to time have been designated by the Board of Directors shall have authority (i) to effect loans, advances, or other forms of credit at any time or times for the Corporation, from such banks, trust companies, institutions, corporations, firms, or persons, in such amounts and subject to such terms and conditions, as the Board of Directors from time to time has designated; (ii) as security for the repayment of any loans, advances, or other forms of credit so authorized, to assign, transfer, endorse, and deliver, either originally or in addition or substitution, any or all personal property,

real property, stocks, bonds, deposits, accounts, documents, bills, accounts receivable, and other commercial paper and evidences of debt or other securities, or any rights or interests at any time held by the Corporation; (iii) in connection with any loans, advances, or other forms of credit so authorized, to make, execute, and deliver one or more notes, mortgages, deeds of trust, financing statements, security agreements, acceptances, or written obligations of the Corporation, on such terms and with such provisions as to the security or sale or disposition of them as those officers or agents deem proper; and (iv) to sell to, or discount or rediscount with, the banks, trust companies, institutions, corporations, firms or persons making those loans, advances, or other forms of credit, any and all commercial paper, bills, accounts receivable, acceptances, and other instruments and evidences of debt at any time held by the Corporation, and, to that end, to endorse, transfer, and deliver the same.

(b) From time to time the Corporation shall certify to each bank, trust company, institution, corporation, firm or person so designated, the signatures of the officers or agents so authorized. Each bank, trust company, institution, corporation, firm or person so designated is authorized to rely upon such certification until it has received written notice that the Board of Directors has revoked the authority of those officers or agents.

9.08 FISCAL YEAR. The Board of Directors shall have the power, from time to time, to fix the fiscal year of the Corporation by a duly adopted resolution, and, in the absence of such resolution, the fiscal year shall be the year ending December 31.

9.09 ANNUAL REPORT. Each fiscal year, the Board of Directors of the Corporation shall cause to be sent to the Stockholders an Annual Report in such form as may be deemed appropriate by the Board of Directors. The Annual Report shall include audited financial statements and shall be accompanied by the report thereon of an independent certified public accountant.

9.10 INTERIM REPORTS. The Corporation may send interim reports to the Stockholders having such form and content as the Board of Directors deems proper.

9.11 BYLAWS SEVERABLE. The provisions of these Bylaws are severable, and if any provision shall be held invalid or unenforceable, that invalidity or unenforceability shall attach only to that provision and shall not in any manner affect or render invalid or unenforceable any other provision of these Bylaws, and these Bylaws shall be carried out as if the invalid or unenforceable provision were not contained herein.

ARTICLE X

AMENDMENT OF BYLAWS

10.01 BY DIRECTORS. The Board of Directors shall have the power, at any annual or regular meeting, or at any special meeting if notice thereof is included in the notice of such special meeting, to alter or repeal any Bylaws of the Corporation and to make new Bylaws, except that the Board of Directors shall not alter or repeal (i) Section 2.03 to change the minimum or maximum number of Directors without the vote of the Stockholders required therein, (ii) Section 7.01 without a vote of the Stockholders and the consent of any Indemnified

Persons whose rights to indemnification, based on conduct prior to such amendment, would be adversely affected by such proposed alteration or repeal; (iii) this Section 10.01; or (iv) Section 10.02.

10.02 BY STOCKHOLDERS. With the approval of the Board of Directors, the Stockholders shall have the power, by affirmative vote of a majority of the outstanding shares of common stock of the Corporation, at any annual meeting (subject to the requirements of Section 1.03), or at any special meeting if notice thereof is included in the notice of such special meeting, to alter or repeal any Bylaws of the Corporation and to make new Bylaws, except that the Stockholders shall not alter or repeal Section 7.01 without the consent of any Indemnified Persons adversely affected by such proposed alteration or repeal, and except that a vote of two-thirds of the outstanding shares of common stock of the Corporation is required to amend Sections 1.03, 2.04 and 2.13.

ARTICLE XI

EXCLUSIVE FORUM FOR CERTAIN LITIGATION

Unless the Corporation consents in writing to the selection of an alternative forum, the Circuit Court for Baltimore City, Maryland, or, if that Court does not have jurisdiction, the United States District Court for the District of Maryland, Baltimore Division, shall be the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the Corporation, (b) any action asserting a claim of breach of any duty owed by any Director or officer or other employee of the Corporation to the Corporation or to the Stockholders, (c) any action asserting a claim against the Corporation or any Director or officer or other employee of the Corporation arising pursuant to any provision of the MGCL, the Charter or these Bylaws or (d) any action asserting a claim against the Corporation or any Director or officer or other employee of the Corporation that is governed by the internal affairs doctrine.

AVALONBAY COMMUNITIES, INC.
RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	Year Ended December 31, 2015	Year Ended December 31, 2014 (1)	Year Ended December 31, 2013 (1)	Year Ended December 31, 2012 (1)	Year Ended December 31, 2011 (1)
Income (loss) from continuing operations before cumulative effect of change in accounting principle	\$ 743,594	\$ 668,516	\$ 57,827	\$ 250,431	\$ 140,215
(Plus):					
Equity in income of unconsolidated entities, net of distributions received	84,764	71,781	74,575	11,170	618
Amortization of capitalized interest (2)	25,150	22,489	20,157	17,929	16,277
Earnings before fixed charges	853,508	762,786	152,559	279,530	157,110
(Plus) Fixed charges:					
Portion of rents representative of the interest factor	7,790	7,504	7,112	6,873	6,933
Interest expense	175,615	180,618	172,402	136,920	167,814
Interest capitalized	79,834	69,961	66,838	49,556	33,863
Preferred dividend	—	—	—	—	—
Total fixed charges (3)	263,239	258,083	246,352	193,349	208,610
(Less):					
Interest capitalized	79,834	69,961	66,838	49,556	33,863
Preferred dividend	—	—	—	—	—
Noncontrolling interest in income of a subsidiary that has not incurred fixed charges	—	14,132	—	—	—
Earnings (4)	\$ 1,036,913	\$ 936,776	\$ 332,073	\$ 423,323	\$ 331,857
Ratio (4 divided by 3)	3.94	3.63	1.35	2.19	1.59

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(1) The results of operations for 2010 through 2014 have been adjusted to remove the Company's earnings classified as discontinued operations.

(2) Represents an estimate of capitalized interest costs based on the Company's established depreciation policy and an analysis of interest costs capitalized since 1998 (the year in which AvalonBay was formed).

SUBSIDIARY LIST (BY JURISDICTION)

California

San Francisco Bay Partners II, Ltd.

Connecticut

Bronxville West, LLC

Forestbroad LLC

Smithtown Galleria Associates Limited Partnership

Town Close Associates Limited Partnership

Delaware

1865 Broadway For-Sale, LLC

1865 Broadway Retail, LLC

Alameda Financing, L.P.

AMP Apartments Subtenant, LLC

AMP Apartments, LLC

AMP Manager LLC

AOP GP LLC

Archstone Bay Club Marina LP

Archstone Builders Incorporated

Archstone Camargue III LLC

Archstone Carillon Point GP LLC

Archstone Carillon Point LP

Archstone Carillon Point REIT GP LLC

Archstone Carillon Point REIT LP

Archstone Champions Park LLC

Archstone Charter Oak LLC

Archstone Communities LLC

Archstone DC One Holdings LLC

Archstone Del Mar Station LLC

Archstone Developer LLC

Archstone East 33rd Street GP LLC

Archstone East 33rd Street LP

Archstone East 33rd Street Master Lessee GP LLC

Archstone East 33rd Street Master Lessee LP

Archstone East 33rd Street REIT GP LLC

Archstone East 33rd Street REIT LP

Archstone East 39th Street (Nominee) GP LLC

Archstone East 39th Street (Nominee) LP

Archstone East 39th Street Holdings GP LLC

Archstone East 39th Street Holdings LP

Archstone East 39th Street Principal GP LLC

Archstone East 39th Street Principal LP

Archstone Financial Services LLC
Archstone Grosvenor Tower GP LLC
Archstone Grosvenor Tower LP
Archstone Grosvenor Tower REIT GP LLC
Archstone Grosvenor Tower REIT LP
Archstone HoldCO CM LLC
Archstone Holdings Germany II LLC
Archstone Holdings Germany LLC
Archstone Huntington Beach College Park LLC
Archstone Huntington Beach Member LLC
Archstone Katahdin GP LLC
Archstone Katahdin LP
Archstone Legacy Place GP LLC
Archstone Legacy Place LP
Archstone Legacy Place REIT GP LLC
Archstone Legacy Place REIT LP
Archstone Lexington Apartments GP LLC
Archstone Lexington Apartments LP
Archstone Lincoln Towers LLC
Archstone Management Germany II B LLC
Archstone Management Germany II LLC
Archstone Management Germany LLC
Archstone Management Services Incorporated
Archstone Marina Bay GP LLC
Archstone Marina Bay LP
Archstone Marina Bay Nominee LP
Archstone Marina Bay REIT GP LLC
Archstone Marina Bay REIT LP
Archstone Master Property Holdings LLC
Archstone Memorial Heights Villages I LLC
Archstone Multifamily CM LLC
Archstone Multifamily Guarantor (GP) LLC
Archstone Multifamily Guarantor LLC
Archstone Multifamily Guarantor LP
Archstone Multifamily Holdings I (Borrower-A) GP LLC
Archstone Multifamily Holdings I (Borrower-A) LP
Archstone Multifamily Holdings I (Borrower-B) GP LLC
Archstone Multifamily Holdings I (Borrower-B) LP
Archstone Multifamily Holdings I (Development Borrower Pledgor) GP LLC
Archstone Multifamily Holdings I (Development Borrower Pledgor) LP
Archstone Multifamily Holdings I (Development Borrower) GP LLC
Archstone Multifamily Holdings I (Development Borrower) LP
Archstone Multifamily Holdings I (Parent Borrower-B) GP LLC
Archstone Multifamily Holdings I (Parent Borrower-B) LP
Archstone Multifamily Holdings I (Parent C) GP LLC
Archstone Multifamily Holdings I (Parent C) LP

Archstone Multifamily Holdings I LLC
Archstone Multifamily Holdings I LP
Archstone Multifamily Holdings II (Borrower) GP LLC
Archstone Multifamily Holdings II (Borrower) LP
Archstone Multifamily Holdings II LP
Archstone Multifamily Nominee (GP) LLC
Archstone Multifamily Parallel Guarantor I LLC
Archstone Multifamily Parallel Guarantor II LLC
Archstone Multifamily Parallel Guarantor LLC
Archstone Multifamily Partners AC Asset Manager LLC
Archstone Multifamily Partners AC CM LLC
Archstone Multifamily Partners AC Funding GP LLC
Archstone Multifamily Partners AC Funding LP
Archstone Multifamily Partners AC GP LLC
Archstone Multifamily Partners AC Investor I LLC
Archstone Multifamily Partners AC Investor II LLC
Archstone Multifamily Partners AC JV Asset Manager LLC
Archstone Multifamily Partners AC JV CM LLC
Archstone Multifamily Partners AC JV GP LLC
Archstone Multifamily Partners AC JV Investor I LLC
Archstone Multifamily Partners AC JV LP
Archstone Multifamily Partners AC LP
Archstone Multifamily Principal LP
Archstone Multifamily Series II LLC
Archstone Multifamily Series III LLC
Archstone Multifamily Series IV LLC
Archstone Multifamily Series IV Nominee (GP) LLC
Archstone Multifamily Series IV Nominee LP
Archstone Multifamily Series IV Principal LP
Archstone National Gateway I GP LLC
Archstone National Gateway I LP
Archstone National Gateway II GP LLC
Archstone National Gateway II LP
Archstone New Development Holdings GP LLC
Archstone New Development Holdings LP
Archstone Nominee LP
Archstone North Braeswood GP LLC
Archstone North Braeswood LP
Archstone North Braeswood Mezz GP LLC
Archstone North Braeswood Mezz LP
Archstone North Capitol Hill 2 GP LLC
Archstone North Capitol Hill 2 LP
Archstone North Capitol Hill GP LLC
Archstone North Capitol Hill LP
Archstone North Point II LLC
Archstone Northcreek LLC

Archstone Oak Creek I LLC
Archstone Oak Creek II LLC
Archstone Oakwood Arlington LLC
Archstone Oakwood Toluca Hills LLC
Archstone OC/SD JV Holdings LLC
Archstone OC/SD JV LLC
Archstone Old Town Pasadena LLC
Archstone Parallel Residual JV 2, LLC
Archstone Parallel Residual JV, LLC
Archstone Parkland Gardens LLC
Archstone Property Holdings GP LLC
Archstone Property Holdings LLC
Archstone Property Management LLC
Archstone Real Estate Advisory Services GP LLC
Archstone Real Estate Advisory Services LP
Archstone Redmond Campus LLC
Archstone Residual JV, LLC
Archstone San Bruno III LLC
Archstone San Bruno III-B LLC
Archstone San Mateo Holdings LLC
Archstone SellCo CM LLC
Archstone Smith Corporate Holdings LLC
Archstone Studio 4041 GP LLC
Archstone Studio 4041 LP
Archstone Studio 4041 REIT GP LLC
Archstone Studio 4041 REIT LP
Archstone Sunnyvale GP LLC
Archstone Sunnyvale LP
Archstone Sunnyvale REIT GP LLC
Archstone Sunnyvale REIT LP
Archstone Thousand Oaks LLC
Archstone Trademark JV, LLC
Archstone Tysons Corner LLC
Archstone Venice GP LLC
Archstone Venice LP
Archstone Venice REIT GP LLC
Archstone Venice REIT LP
Archstone Waterford Place LLC
Archstone Westbury (Nominee) GP LLC
Archstone Westbury (Nominee) LP
Archstone Westbury GP LLC
Archstone Westbury Holdings GP LLC
Archstone Westbury Holdings LP
Archstone Westbury LP
Archstone Westbury Principal GP LLC
Archstone Westbury Principal LP

Archstone-Smith Unitholder Services LLC
Aria at Laurel Hill, LLC
Arlington Square Financing, LLC
ASN 50th Street LLC
ASN Bear Hill LLC
ASN Calabasas I LLC
ASN Calabasas II LLC
ASN Clinton Green Member LLC
ASN Europe Trading Incorporated
ASN Europe Trading US Incorporated
ASN Holdings LLC
ASN La Jolla Colony LLC
ASN Lake Mendota Investments LLC
ASN Long Beach LLC
ASN Los Feliz LLC
ASN Maple Leaf (Office) LLC
ASN Meadows at Russett I LLC
ASN Meadows at Russett II LLC
ASN Monument Park LLC
ASN Mountain View LLC
ASN Pasadena LLC
ASN Presidio View LLC
ASN Quincy LLC
ASN Redmond Lakeview LLC
ASN Redmond Park LLC
ASN San Jose LLC
ASN Tanforan Crossing I LLC
ASN Tanforan Crossing II LLC
ASN Technologies, Inc.
ASN Thousand Oaks Plaza LLC
ASN Walnut Ridge LLC
ASN Warner Center LLC
ASN Woodland Hills East LLC
AVA Capitol Hill, LLC
AVA Ninth, L.P.
Avalon 55 Ninth, LLC
Avalon Alderwood Phase I, LLC
Avalon Anaheim Stadium, L.P.
Avalon Arboretum, L.P.
Avalon at 318 I Street, LLC
Avalon at Ballston, LLC
Avalon at Diamond Heights, L.P.
Avalon at Florham Park, LLC
Avalon at Mission Bay III, L.P.
Avalon at Pacific Bay, L.P.
Avalon at Providence Park, LLC

Avalon at Stratford, LLC
Avalon Baker Ranch, L.P.
Avalon Ballard, LLC
Avalon Belltown, LLC
Avalon Brandemoor II, LLC
Avalon Burlington, LLC
Avalon Chino Hills, L.P.
Avalon Clark and Polk, LLC
Avalon Columbus Circle, LLC
Avalon DownREIT V, L.P.
Avalon Dublin Station II, L.P.
Avalon Encino, L.P.
Avalon Exeter, LLC
Avalon Fair Lakes, LLC
Avalon Fairfax City, LLC
Avalon Fashion Valley, L.P.
Avalon Framingham, LLC
Avalon Glendora, L.P.
Avalon Gold, LLC
Avalon Great Neck, LLC
Avalon Green II, LLC
Avalon Grosvenor, L.P.
Avalon Hoboken, LLC
Avalon Hoboken TRS, LLC
Avalon Hoboken JV, LLC
Avalon Hollywood GP, LLC
Avalon Hollywood, L.P.
Avalon Hunt Valley, LLC
Avalon II California Value I, L.P.
Avalon II California Value II, L.P.
Avalon II California Value III, L.P.
Avalon II California Value IV, L.P.
Avalon II Maryland Value I, L.P.
Avalon II Maryland Value II, L.P.
Avalon II Maryland Value III, L.P.
Avalon II Maryland Value IV, L.P.
Avalon II Massachusetts Value I, L.P.
Avalon II New Jersey Value I, L.P.
Avalon II New Jersey Value II, L.P.
Avalon Irvine III, L.P.
Avalon Irvine, L.P.
Avalon Laurel, LLC
Avalon Lyndhurst, LLC
Avalon Marlborough, LLC
Avalon Milazzo, L.P.
Avalon Mission Oaks, L.P.

Avalon Morrison Park, L.P.
Avalon Mosaic II, LLC
Avalon Mosaic, LLC
Avalon Nashua, LLC
Avalon New Canaan, LLC
Avalon New Jersey Value II, LLC
Avalon New York Value I, LLC
Avalon Newport, L.P.
Avalon Norden Place, LLC
Avalon North Bergen, LLC
Avalon Ocean Avenue, L.P.
Avalon Ossining, LLC
Avalon Overlake, LLC
Avalon Oyster, LLC
Avalon Park Crest, LLC
Avalon Phoenixville, LLC
Avalon Potomac Yard, LLC
Avalon Princeton, LLC
Avalon Queen Anne, LLC
Avalon Rancho Vallecitos, L.P.
Avalon Riverview I, LLC
Avalon Riverview North, LLC
Avalon Roseland, LLC
Avalon Run, LLC
Avalon San Dimas, L.P.
Avalon Shelton III, LLC
Avalon Shipyard, LLC
Avalon Somers, LLC
Avalon Stuart, LLC
Avalon Tinton Falls, LLC
Avalon Towers Bellevue, LLC
Avalon Union City, L.P.
Avalon University District, LLC
Avalon Upper Falls Limited Partnership
Avalon Upper Falls, LLC
Avalon Villa Bonita, L.P.
Avalon Villa San Dimas, L.P.
Avalon Village Square, L.P.
Avalon Vista, L.P.
Avalon Watch, LLC
Avalon West Chelsea, LLC
Avalon West Hollywood, L.P.
Avalon West Long Branch, LLC
Avalon White Plains II, LLC
Avalon Willoughby West, LLC
Avalon Wilshire, L.P.

Avalon Winbrook Redevelopment, LLC
Avalon Woodland Hills, L.P.
Avalon WP I, LLC
Avalon WP II, LLC
Avalon WP III, LLC
Avalon WP IV, LLC
Avalon WP V, LLC
Avalon WP VI, LLC
Avalon Yonkers ATI Site, LLC
Avalon Yonkers Sun Sites, LLC
AvalonBay Capital Management II, LLC
AvalonBay Fund II Subsidiary GP, LLC
AvalonBay Trade Zone Village, LLC
AvalonBay VAF II Acquisition, LLC
AvalonBay Value Added Fund II Feeder, L.P.
AvalonBay Value Added Fund II, L.P.
AvalonBay Value Added Fund Liquidating Trust
AvalonBay Value Added REIT II, L.P.
AVB 1865 Broadway, LLC
AVB Albemarle, LLC
AVB Bloomfield Station Urban Renewal, LLC
AVB Brandywine Member, LLC
AVB Broadway Developer, LLC
AVB Broadway Member, LLC
AVB Consulate, LLC
AVB Del Rey, L.P.
AVB Glover Park, LLC
AVB Hillwood Holding, LLC
AVB La Mesa GP LLC
AVB La Mesa II GP LLC
AVB La Mesa II LP
AVB La Mesa LP
AVB Legacy DownREIT, LLC
AVB Manager II, LLC
AVB Maple Leaf Apartments GP, LLC
AVB Maple Leaf Apartments Limited Partnership
AVB Maple Leaf REIT, LLC
AVB Opera Warehouse GP, LLC
AVB Opera Warehouse, L.P.
AVB Princeton Homes, LLC
AVB Residual Parallel II, LLC
AVB Santa Monica on Main GP LLC
AVB Santa Monica on Main LP
AVB Simi Valley GP LLC
AVB Simi Valley LP
AVB Southwest Berkeley GP LLC

AVB Southwest Berkeley LP
AVB Statesman, LLC
AVB Studio City GP LLC
AVB Studio City III-A GP LLC
AVB Studio City III-A LP
AVB Studio City III-B GP LLC
AVB Studio City III-B LP
AVB Studio City III-C GP LLC
AVB Studio City III-C LP
AVB Studio City LP
AVB Trademark, LLC
AVB Tunlaw Gardens, LLC
AVB Walnut Creek GP LLC
AVB Walnut Creek LP
AVB Walnut Creek Station GP LLC
AVB Walnut Creek Station LP
AVB Willow Glen GP LLC
AVB Willow Glen LP
Bay Countrybrook L.P.
Bay Pacific Northwest, L.P.
Bellevue Financing, LLC
Bloomingdale Urban Renewal, LLC
Boonton Urban Renewal, LLC
Bowery Place I Low-Income Operator, LLC
Bowery Place I Manager, LLC
BPR Sudbury Development LLC
Briarwood Borrower, LLLP
Capital Mezz LLC
CG-N Affordable LLC
CG-N Affordable Manager LLC
CG-S Affordable LLC
CG-S Affordable Manager LLC
Clinton Green Company, LLC
Clinton Green Condo LLC
Clinton Green Holdings LLC
Clinton Green North, LLC
Clinton Green South, LLC
Clinton Green Theatre, LLC
Courthouse Hill LLC
Crescent Financing, LLC
Crest Financing, L.P.
CVP II, LLC
CVP III, LLC
Darien Financing, LLC
Dermont Clinton Green, LLC
Eaves Artesia, L.P.

Eaves Burlington, LLC
Edgewater Financing, LLC
El Paseo Drive Land LLC
Fairfax Towers Financing, L.P.
Freehold Financing, LLC
Gables Rothbury Borrower, LLLP
Garden City Apartments, LLC
Garden City SF, LLC
Garden City Townhomes, LLC
Gardens Financing, LLC
Gates Financing, LLC
Glen Cove Development LLC
Glen Cove II Development LLC
Hayes Valley, L.P.
Jones Road Residential, LLC
La Brea Gateway LLC
Lake Mendota Investments LLC
Laurel Hill Private Sewer Treatment Facility, LLC
Legacy Holdings JV, LLC
Lexford Properties, L.P.
LMI Pembroke Landings LLC
LMI Preston Park LLC
LMI Riverbend LLC
LMI Rosemont LLC
Maplewood Urban Renewal, LLC
Mark Pasadena Financing, L.P.
Mission Bay North Financing, L.P.
MVP I, LLC
Newcastle Construction Management, LLC
Newcastle For Sale, LLC
Newcastle Joint Venture, LLC
Newcastle Multifamily Rental, LLC
North Bergen Residential Urban Renewal, LLC
North Bergen Retail Urban Renewal, LLC
North Point Apartments GP LLC
North Point Apartments Limited Partnership
North Point Holdings GP LLC
North Point Holdings LP
North Point REIT LLC
Norwalk Retail, LLC
Oak Road Office, LLC
OEC Holdings LLC
Parallel Residual JV LLC
Pennsylvania Entity GP, LLC
PHVP I GP, LLC
PHVP I, LP

Pleasant Hill Manager, LLC
Pleasant Hill Transit Village Associates LLC
Quincy Avalon, LLC
Ridgefield Park Urban Renewal, LLC
Roselle Park Urban Renewal, LLC
Roselle Park VP, LLC
Run East II Financing, LLC
San Bruno III Financing, L.P.
Shady Grove Road Financing, LLC
Sheepshead Bay Road Lender, LLC
Sheepshead Bay Road Manager, LLC
Sheepshead Bay Road Owner, LLC
Sheepshead Bay Road Partner, LLC
Silicon Valley Financing, LLC
Smith Property Holdings Ballston Place L.L.C.
Smith Property Holdings Consulate L.L.C.
Smith Property Holdings Crystal Towers L.P.
Smith Property Holdings Five (D.C.) L.P.
Smith Property Holdings One (D.C.) L.P.
Smith Property Holdings Reston Landing L.L.C.
Smith Property Holdings Seven L.P.
Smith Property Holdings Two LP
Smith Property Holdings Two (D.C.) L.P.
Sudbury Land Avalon, LLC
Tysons West, LLC
Union Urban Renewal, LLC
Valet Waste Holdings, Inc.
Wesmont Station Licensee, LLC
Wesmont Station Residential I Urban Renewal, LLC
Wesmont Station Residential II Urban Renewal, LLC
Wesmont Station Retail I Urban Renewal, LLC
Wesmont Station Retail II Urban Renewal, LLC
West Chelsea Transaction, LLC
West Windsor Urban Renewal, LLC
Wharton Urban Renewal, LLC
Woodland Park REIT Holdings GP LLC
Woodland Park REIT Holdings LP
Woodland Park REIT LLC
WP Apartments GP LLC
WP Apartments LP

District of Columbia

4100 Massachusetts Avenue Associates, L.P.

Maryland

Archstone
Archstone Inc.
Archstone Multifamily Series I Trust
Avalon 4100 Massachusetts Avenue, Inc.
Avalon Acton, Inc.
Avalon at Chestnut Hill, Inc.
Avalon at Great Meadow, Inc.
Avalon at St. Clare, Inc.
Avalon BFG, Inc.
Avalon Blue Hills, Inc.
Avalon Canton, Inc.
Avalon Chase Glen, Inc.
Avalon Chase Grove, Inc.
Avalon Chino Hills Manager, Inc.
Avalon Cohasset, Inc.
Avalon Collateral, Inc.
Avalon Commons, Inc.
Avalon DownREIT V, Inc.
Avalon Fairway Hills I Associates
Avalon Fairway Hills II Associates
Avalon Fairway II, Inc.
Avalon Glendora Manager, Inc.
Avalon Grosvenor LLC
Avalon Hayes Valley Manager, Inc.
Avalon Hingham, Inc.
Avalon Hingham PM, Inc.
Avalon Mission Oaks Manager, Inc.
Avalon Natick, Inc.
Avalon Oaks, Inc.
Avalon Oaks West, Inc.
Avalon Promenade, Inc.
Avalon Sharon, Inc.
Avalon Symphony Woods, Inc.
Avalon Twinbrook Station, Inc.
Avalon Upper Falls Limited Dividend Corporation
Avalon West Hollywood Manager, Inc.
AvalonBay Assembly Row TRS, Inc.
AvalonBay Capital Management, Inc.
AvalonBay Construction Services, Inc.
AvalonBay Grosvenor, Inc.
AvalonBay NYC Development, Inc.
AvalonBay Orchards, Inc.
AvalonBay Shrewsbury, Inc.
AvalonBay Traville, LLC
AVB Development Transactions, Inc.
AVB Northborough, Inc.

AVB Pennsylvania Realty Trust
AVB Pleasant Hill TRS, Inc.
AVB Realty Management Services, Inc.
AVB Service Provider, Inc.
AVB Tysons Development, Inc.
Bay Asset Group, Inc.
Bay Development Partners, Inc.
Bay GP, Inc.
Brandywine Apartments of Maryland, LLC
California Multiple Financing, Inc.
California San Bruno III Financing, Inc.
Easton Avalon, Inc.
Georgia Avenue, Inc.
Hingham Shipyard Avalon II, Inc
JP Construction in Milford, Inc.
Juanita Construction, Inc.
Lexington Ridge-Avalon, Inc.
Norwood Avalon, Inc.
Pomorum Holdings, Inc.
Smith Realty Company
Sudbury Avalon, Inc.

Massachusetts

AvalonBay BFG Limited Partnership
Hingham Shipyard East Property Owners Association, Inc.
Smith Property Holdings Cronin's Landing L.P.

New Jersey

Town Cove Jersey City Urban Renewal, Inc.
Town Run Associates

New York

Avalon Huntington Former S Corp

Virginia

Hillwood Square Mutual Association

FOREIGN ENTITIES:

Archstone B.V.
Archstone Deutsche RE Holding GmbH
Archstone Holdings Germany Ltd.
Archstone LT Holdings Germany Ltd.
Archstone Management Germany B.V.
Archstone Management Germany II Cooperatief U.A.
Archstone Management Germany II S.a.r.l.

Archstone Management Germany S.a.r.l.
DeWAG 1. Objektgesellschaft mbH
DeWAG 10. Objektgesellschaft B.V.
DeWAG 11. Objektgesellschaft B.V.
DeWAG 12. Objektgesellschaft mbH
DeWAG 13. Objektgesellschaft mbH
DeWAG 14. Objektgesellschaft B.V.
DeWAG 15. Objektgesellschaft B.V.
DeWAG 16. Objektgesellschaft B.V.
DeWAG 17. Objektgesellschaft B.V.
DeWAG 18. Objektgesellschaft B.V.
DeWAG 19. Objektgesellschaft B.V.
DeWAG 2. Objektgesellschaft mbH
DeWAG 20. Objektgesellschaft B.V.
DeWAG 21. Objektgesellschaft B.V.
DeWAG 22. Objektgesellschaft B.V.
DeWAG 23. Objektgesellschaft B.V.
DeWAG 24. Objektgesellschaft B.V.
DeWAG 25. Objektgesellschaft B.V.
DeWAG 3. Objektgesellschaft mbH
DeWAG 4. Objektgesellschaft mbH
DeWAG 9. Objektgesellschaft B.V.
DeWAG Capital GmbH
DeWAG Deutsche WohnAnlage GmbH
DeWAG Holdings B.V.
DeWAG Holdings GmbH
DeWAG Holdings II S.a.r.l.
DeWAG Holdings S.a.r.l.
DeWAG II-1. Objektgesellschaft B.V.
DeWAG II-2. Objektgesellschaft B.V.
DeWAG II-3. Objektgesellschaft B.V.
DeWAG II-4. Objektgesellschaft B.V.
DeWAG II-5. Objektgesellschaft B.V.
DeWAG II-6. Objektgesellschaft B.V.
DeWAG II-7. Objektgesellschaft B.V.
DeWAG JV Holdings 1 B.V.
DeWAG LT Holdings II S.a.r.l.
DeWAG LT Holdings S.a.r.l.
DeWAG Management GmbH
Pomorum Insurance Company Ltd.
TSP Wega Vermoögensverwaltungs GmbH & Co. KG
TSP Wega Verwaltungs GmbH

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Forms S-3 No. 333-202185, No. 333-87063, and No. 333-107413) of AvalonBay Communities, Inc., and
- (2) Registration Statement (Forms S-8 No. 333-161258, No. 333-16837, and No. 333-115290) pertaining to the Employees' Savings Plans of AvalonBay Communities, Inc.;

of our reports dated February 25, 2016, with respect to the consolidated financial statements and schedule of AvalonBay Communities, Inc. and the effectiveness of internal control over financial reporting of AvalonBay Communities, Inc. included in this Annual Report (Form 10-K) of AvalonBay Communities, Inc. for the year ended December 31, 2015.

/s/ Ernst & Young LLP

McLean, Virginia
February 25, 2016

CERTIFICATION

I, Timothy J. Naughton, certify that:

1. I have reviewed this annual report on Form 10-K of AvalonBay Communities, Inc.;
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 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 officers 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d - 15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 officers 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 the registrant's Board of Directors (or persons performing the equivalent functions):
 - (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 information; 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.

Date: February 25, 2016

/s/ TIMOTHY J. NAUGHTON

Timothy J. Naughton

Chairman, Chief Executive Officer and President

CERTIFICATION

I, Kevin P. O'Shea, certify that:

1. I have reviewed this annual report on Form 10-K of AvalonBay Communities, Inc.;
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 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 officers 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a - 15(f) and 15d - 15(f)) 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) 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
 - (d) 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 (the registrant's fourth fiscal quarter in the case of an annual report) 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 officers 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 the registrant's Board of Directors (or persons performing the equivalent functions):
 - (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 information; 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.

Date: February 25, 2016

/s/ KEVIN P. O'SHEA

Kevin P. O'Shea

Chief Financial Officer

CERTIFICATION

The undersigned officers of AvalonBay Communities, Inc. (the "Company") hereby certify that the Company's annual report on Form 10-K to which this certification is attached (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 25, 2016

/s/ TIMOTHY J. NAUGHTON

Timothy J. Naughton

Chairman, Chief Executive Officer and President

/s/ KEVIN P. O'SHEA

Kevin P. O'Shea

Chief Financial Officer

This certification is being furnished and not filed, and shall not be incorporated into any document for any purpose, under the Securities Exchange Act of 1934 or the Securities Act of 1933.