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

FORM 10-Q

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

For the quarterly period ended September 30, 2019

Commission file number 1-12672

AVALONBAY COMMUNITIES, INC.
(Exact name of registrant as specified in its charter)

Maryland	**77-0404318**
(State or other jurisdiction of incorporation or organization)	(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)

(Former name, if changed since last report)

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.01 per share	AVB	New York Stock Exchange

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 ninety (90) days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐		

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date:

139,661,795 shares of common stock, par value $0.01 per share, were outstanding as of October 31, 2019.

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

	9/30/2019	12/31/2018
	(unaudited)	
ASSETS		
Real estate:		
Land and improvements	$ 4,185,720	$ 4,077,090
Buildings and improvements	16,256,164	15,651,035
Furniture, fixtures and equipment	795,370	696,200
	21,237,254	20,424,325
Less accumulated depreciation	(5,003,393)	(4,601,447)
Net operating real estate	16,233,861	15,822,878
Construction in progress, including land	1,411,823	1,768,132
Land held for development	20,095	84,712
For-sale condominium inventory	453,686	—
Real estate assets held for sale, net	—	55,208
Total real estate, net	18,119,465	17,730,930
Cash and cash equivalents	246,425	91,659
Cash in escrow	88,329	126,205
Resident security deposits	34,172	31,816
Investments in unconsolidated real estate entities	207,204	217,432
Deferred development costs	74,388	47,443
Prepaid expenses and other assets	169,263	134,715
Right of use lease assets	121,221	—
Total assets	$ 19,060,467	$ 18,380,200
LIABILITIES AND EQUITY		
Unsecured notes, net	$ 6,356,890	$ 5,905,993
Variable rate unsecured credit facility	—	—
Mortgage notes payable, net	1,004,389	1,134,270
Dividends payable	213,651	204,191
Payables for construction	93,593	96,983
Accrued expenses and other liabilities	304,676	297,700
Lease liabilities	136,705	—
Accrued interest payable	70,174	46,648
Resident security deposits	61,961	58,415
Liabilities related to real estate assets held for sale	—	150
Total liabilities	8,242,039	7,744,350
Commitments and contingencies		
Redeemable noncontrolling interests	3,355	3,244
Equity:		
Preferred stock, $0.01 par value; $25 liquidation preference; 50,000,000 shares authorized at September 30, 2019 and December 31, 2018; zero shares issued and outstanding at September 30, 2019 and December 31, 2018	—	—
Common stock, $0.01 par value; 280,000,000 shares authorized at September 30, 2019 and December 31, 2018; 139,660,299 and 138,508,424 shares issued and outstanding at September 30, 2019 and December 31, 2018, respectively	1,397	1,385
Additional paid-in capital	10,528,787	10,306,588
Accumulated earnings less dividends	329,323	350,777
Accumulated other comprehensive loss	(45,082)	(26,144)
Total stockholders' equity	10,814,425	10,632,606
Noncontrolling interests	648	—
Total equity	10,815,073	10,632,606
Total liabilities and equity	$ 19,060,467	$ 18,380,200

See accompanying notes to Condensed Consolidated Financial Statements.

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

	For the three months ended		For the nine months ended	
	9/30/2019	9/30/2018	9/30/2019	9/30/2018
Revenue:				
Rental and other income	$ 586,382	$ 575,070	$ 1,727,576	$ 1,703,263
Management, development and other fees	1,231	912	3,484	2,752
Total revenue	587,613	575,982	1,731,060	1,706,015
Expenses:				
Operating expenses, excluding property taxes	133,445	132,237	389,825	394,332
Property taxes	64,374	61,230	187,890	181,120
Interest expense, net	51,493	54,097	149,395	165,795
Loss on extinguishment of debt, net	93	1,678	602	2,717
Depreciation expense	165,463	156,538	490,213	472,282
General and administrative expense	12,769	14,744	45,440	44,384
Expensed transaction, development and other pursuit costs, net of recoveries	175	523	2,562	2,212
Casualty and impairment gain, net	—	(554)	—	(612)
Total expenses	427,812	420,493	1,265,927	1,262,230
Equity in income of unconsolidated real estate entities	1,643	10,031	780	12,560
Gain on sale of communities	130,484	27,243	165,849	132,444
Gain on other real estate transactions, net	73	12	374	335
For-sale condominium marketing and administrative costs	(1,108)	(339)	(2,526)	(497)
Income before income taxes	290,893	192,436	629,610	588,627
Income tax expense	11,184	29	11,178	87
Net income	279,709	192,407	618,432	588,540
Net (income) loss attributable to noncontrolling interests	(32)	79	(108)	251
Net income attributable to common stockholders	$ 279,677	$ 192,486	$ 618,324	$ 588,791
Other comprehensive income (loss):				
(Loss) gain on cash flow hedges	(13,644)	—	(23,763)	11,499
Cash flow hedge losses reclassified to earnings	1,746	1,466	4,825	4,679
Comprehensive income	$ 267,779	$ 193,952	$ 599,386	$ 604,969
Earnings per common share - basic:				
Net income attributable to common stockholders	$ 2.00	$ 1.39	$ 4.44	$ 4.26
Earnings per common share - diluted:				
Net income attributable to common stockholders	$ 2.00	$ 1.39	$ 4.43	$ 4.26

See accompanying notes to Condensed Consolidated Financial Statements.

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

	For the nine months ended	
	9/30/2019	9/30/2018
Cash flows from operating activities:		
Net income	$ 618,432	$ 588,540
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation expense	490,213	472,282
Amortization of deferred financing costs	5,458	6,066
Amortization of debt discount	1,186	1,259
Loss on extinguishment of debt, net	602	2,717
Amortization of stock-based compensation	20,810	15,617
Equity in loss of, and return on, unconsolidated real estate entities and noncontrolling interests, net of eliminations	10,787	4,514
Casualty and impairment gain, net	—	(58)
Abandonment of development pursuits	1,080	725
Cash flow hedge losses reclassified to earnings	4,825	4,679
Gain on sale of real estate assets	(166,223)	(141,415)
Decrease in resident security deposits, prepaid expenses and other assets	(29,804)	(4,509)
Increase in accrued expenses, other liabilities and accrued interest payable	57,556	30,140
Net cash provided by operating activities	1,014,922	980,557
Cash flows from investing activities:		
Development/redevelopment of real estate assets including land acquisitions and deferred development costs	(791,551)	(864,550)
Acquisition of real estate assets, including partnership interest	(286,804)	(84,088)
Capital expenditures - existing real estate assets	(92,825)	(59,950)
Capital expenditures - non-real estate assets	(4,223)	(2,142)
(Decrease) increase in payables for construction	(3,390)	6,946
Proceeds from sale of real estate, net of selling costs	421,735	466,187
Insurance proceeds for property damage claims	—	58
Mortgage note receivable lending	(565)	(2,880)
Mortgage note receivable payments	978	50,929
Distributions from unconsolidated real estate entities	694	2,013
Investments in unconsolidated real estate entities	(1,253)	(7,979)
Net cash used in investing activities	(757,204)	(495,456)
Cash flows from financing activities:		
Issuance of common stock, net	207,789	1,224
Dividends paid	(627,467)	(602,152)
Net borrowings under unsecured credit facility	—	56,000
Issuance of mortgage notes payable	30,250	—
Repayments of mortgage notes payable, including prepayment penalties	(160,709)	(157,164)
Issuance of unsecured notes	449,804	299,442
Payment of deferred financing costs	(10,910)	(3,347)
(Payment) receipt for termination of forward interest rate swaps	(12,309)	12,598
Contribution from noncontrolling interest	455	—
Payments related to tax withholding for share-based compensation	(15,961)	(10,543)
Distributions to DownREIT partnership unitholders	(34)	(33)
Distributions to joint venture and profit-sharing partners	(336)	(321)
Preferred interest obligation redemption and dividends	(1,400)	(1,120)
Net cash used in financing activities	(140,828)	(405,416)
Net increase in cash and cash equivalents	116,890	79,685
Cash and cash equivalents and restricted cash, beginning of period	217,864	201,906
Cash and cash equivalents and restricted cash, end of period	$ 334,754	$ 281,591
Cash paid during the period for interest, net of amount capitalized	$ 114,400	$ 130,361

See accompanying notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported in the Condensed Consolidated Statements of Cash Flows (dollars in thousands):

	For the nine months ended	
	9/30/2019	9/30/2018
Cash and cash equivalents	$ 246,425	$ 55,887
Cash in escrow	88,329	225,704
Cash, cash equivalents and restricted cash reported in the Condensed Consolidated Statements of Cash Flows	$ 334,754	$ 281,591

Supplemental disclosures of non-cash investing and financing activities:

During the nine months ended September 30, 2019:

- As described in Note 4, "Equity," 150,359 shares of common stock were issued as part of the Company's stock-based compensation plans, of which 73,072 shares related to the conversion of performance awards to restricted shares, and the remaining 77,287 shares valued at $15,145,000 were issued in connection with new stock grants; 1,594 shares valued at $314,000 were issued through the Company's dividend reinvestment plan; 83,602 shares valued at $15,961,000 were withheld to satisfy employees' tax withholding and other liabilities; and 1,730 restricted shares with an aggregate value of $305,000 previously issued in connection with employee compensation were canceled upon forfeiture.

- Common stock dividends declared but not paid totaled $213,070,000.

- The Company recorded an increase of $382,000 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. For further discussion of the nature and valuation of these items, see Note 11, "Fair Value."

- The Company recorded an increase to other liabilities of $17,824,000 and a corresponding adjustment to accumulated other comprehensive loss, and reclassified $4,825,000 of cash flow hedge losses from other comprehensive loss to interest expense, net, to record the impact of the Company's derivative and hedge accounting activity.

- The Company recorded $122,276,000 of lease liabilities and offsetting right of use lease assets for its ground and office leases, upon the adoption of ASU 2016-02, Leases, as of January 1, 2019. For further discussion on the adoption of the guidance, see Note 1, "Organization, Basis of Presentation and Significant Accounting Policies."

During the nine months ended September 30, 2018:

- The Company issued 187,010 shares of common stock as part of the Company's stock-based compensation plans, of which 88,297 shares related to the conversion of performance awards to restricted shares, and the remaining 98,713 shares valued at $15,950,000 were issued in connection with new stock grants; 1,713 shares valued at $290,000 were issued through the Company's dividend reinvestment plan; 67,963 shares valued at $10,543,000 were withheld to satisfy employees' tax withholding and other liabilities; and 4,622 restricted shares with an aggregate value of $679,000 previously issued in connection with employee compensation were canceled upon forfeiture.

- Common stock dividends declared but not paid totaled $203,624,000.

- The Company recorded an increase of $626,000 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 reclassified $4,679,000 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.

AVALONBAY COMMUNITIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization, Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

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 September 30, 2019, the Company owned or held a direct or indirect ownership interest in 272 operating apartment communities containing 78,947 apartment homes in 11 states and the District of Columbia, of which five communities containing 1,818 apartment homes were under redevelopment. In addition, the Company owned or held a direct or indirect ownership interest in 20 communities under development that are expected to contain an aggregate of 6,700 apartment homes when completed, as well as a mixed-use project being developed, which contains 172 for-sale residential condominiums and 67,000 square feet of retail space. The Company also owned or held a direct or indirect ownership interest in land or rights to land on which the Company expects to develop an additional 31 communities that, if developed as expected, will contain an estimated 9,994 apartment homes.

The interim unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements required by GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited financial statements should be read in conjunction with the financial statements and notes included in the Company's 2018 Annual Report on Form 10-K. The results of operations for the three and nine months ended September 30, 2019 are not necessarily indicative of the operating results for the full year. Management believes the disclosures are adequate to ensure the information presented is not misleading. In the opinion of management, all adjustments and eliminations, consisting only of normal, recurring adjustments necessary for a fair presentation of the financial statements for the interim periods, have been included.

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

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 three months ended		For the nine months ended	
	9/30/2019	9/30/2018	9/30/2019	9/30/2018
Basic and diluted shares outstanding				
Weighted average common shares - basic	139,340,142	137,848,788	138,931,955	137,818,076
Weighted average DownREIT units outstanding	7,500	7,500	7,500	7,500
Effect of dilutive securities	505,032	466,776	498,609	405,148
Weighted average common shares - diluted	139,852,674	138,323,064	139,438,064	138,230,724
Calculation of Earnings per Share - basic				
Net income attributable to common stockholders	$ 279,677	$ 192,486	$ 618,324	$ 588,791
Net income allocated to unvested restricted shares	(704)	(555)	(1,655)	(1,722)
Net income attributable to common stockholders, adjusted	$ 278,973	$ 191,931	$ 616,669	$ 587,069
Weighted average common shares - basic	139,340,142	137,848,788	138,931,955	137,818,076
Earnings per common share - basic	$ 2.00	$ 1.39	$ 4.44	$ 4.26
Calculation of Earnings per Share - diluted				
Net income attributable to common stockholders	$ 279,677	$ 192,486	$ 618,324	$ 588,791
Add: noncontrolling interests of DownREIT unitholders in consolidated partnerships	11	11	34	33
Adjusted net income attributable to common stockholders	$ 279,688	$ 192,497	$ 618,358	$ 588,824
Weighted average common shares - diluted	139,852,674	138,323,064	139,438,064	138,230,724
Earnings per common share - diluted	$ 2.00	$ 1.39	$ 4.43	$ 4.26

All options to purchase shares of common stock outstanding as of September 30, 2019 and 2018 are included in the computation of diluted earnings per share.

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 interest expense, net. 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. The Company does not present or disclose the fair value of Hedging Derivatives on a net basis. 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 cumulative changes in the fair value of Hedging Derivatives in other comprehensive loss. Amounts recorded in accumulated other comprehensive loss 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.

Legal and Other Contingencies

The Company is involved in various claims and/or administrative proceedings 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 outstanding litigation matters, individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

Acquisitions of Investments in Real Estate

The Company accounts for acquisitions of investments in real estate in accordance with the authoritative guidance for the initial measurement, which first requires that the Company determine if the real estate investment is the acquisition of an asset or a business combination. Under either model, the Company must identify and determine the fair value of any assets acquired, liabilities assumed and any noncontrolling interest in the acquiree. Typical assets acquired and liabilities assumed include land, building, furniture, fixtures and equipment, debt and identified intangible assets and liabilities, consisting of the value of above or below market leases and in-place leases. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes various sources, including its own analysis of recently acquired and existing comparable properties in its portfolio and other market data. Consideration for acquisitions is typically in the form of cash unless otherwise disclosed. For a business combination, the Company records the assets acquired and liabilities assumed based on the fair value of each respective item. For an asset acquisition, the allocation of the purchase price is based on the relative fair value of the net assets. The Company expenses all applicable acquisition costs for a business combination and capitalizes all applicable acquisition costs for an asset acquisition. The Company expects that acquisitions of individual operating communities will generally be viewed as asset acquisitions.

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' notes to financial statements to conform to current year presentations as a result of changes in held for sale classification, disposition activity and segment classification.

Income Taxes

Taxable income from non-REIT activities performed through taxable REIT subsidiaries ("TRS") is subject to federal, state and local income taxes. During the three and nine months ended September 30, 2019, the Company recognized income tax expense of $11,184,000 and $11,178,000, respectively, related to its activities primarily through its TRS. The income tax expense was primarily due to (i) a deferred tax liability of $6,645,000 for the Company's for-sale development, The Park Loggia (previously referred to as 15 West 61st Street), and (ii) additional expense of $4,539,000, associated with the disposition of two wholly-owned operating communities as well as deferred tax liabilities related to our sustainability initiatives, which were transacted through the Company’s TRS. See Note 5, "Investments in Real Estate Entities" for further discussion of The Park Loggia development, and Note 6, "Real Estate Disposition Activities," for further discussion of the disposition activity.

For-Sale Condominium Inventory

In conjunction with the Company’s election to proceed with the sale of the residential condominiums of The Park Loggia development, the Company reclassified the associated real estate to for-sale condominium inventory based on the condominiums' relative fair value to the overall development, as presented on the accompanying Condensed Consolidated Balance Sheets. The Company presents for-sale condominium inventory at historical cost and evaluates the condominiums for impairment when potential indicators exist, as further discussed in Note 5, "Investments in Real Estate Entities."

Leases

The Company is party to leases as both a lessor and a lessee, primarily as follows:

- lessor of residential and retail space within its apartment communities; and
- lessee under (i) ground leases for land underlying current operating or development communities and (ii) office leases for its corporate headquarters and regional offices.

The Company adopted ASU 2016-02, Leases, as of January 1, 2019 using the prospective adoption approach, applying the provisions of the new standard to existing leases as of the date of adoption.

Lessee Considerations

The Company assessed whether a contract is or contains a lease based on whether the contract conveys the right to control the use of an identified asset, including specified portions of larger assets, for a period of time in exchange for consideration. The Company identified leases as contracts in which it has the right to direct the use of the property and obtain all of the economic benefits.

The Company's leases include both fixed and variable lease payments, which are based on an index or rate such as the consumer price index (CPI) or percentage rents based on total sales. When evaluating what payments to include in the measurement of the lease liability, the Company included lease payments that depend on an index or rate only. Variable lease payments that are not based on an index or rate including changes in CPI, percentage rents based on total sales, fair market value resets and others are not included in the measurement of the lease liability, but will be recognized as variable lease expense in the period in which they are incurred.

For leases that have options to extend the term or terminate the lease early, the Company considered whether these options are reasonably certain to be exercised, taking into account physical improvements, installation or relocation costs, rent during the option periods and the cost of returning the assets to a contractually specified condition. The Company only factored the impact of options into the lease term if the option was considered reasonably certain to be exercised.

The Company determined the discount rate associated with its ground and office leases using the Company's actual borrowing rates as well as indicative market pricing for longer term rates. The Company determined the discount rates on a lease by lease basis using the incremental borrowing rate and taking into consideration the remaining term of each of the lease agreements.

Lessor Considerations

The Company evaluated leases in which it is the lessor, which are composed of residential and retail leases at its apartment communities. The accounting model for lessors did not significantly change as a result of ASU 2016-02, with the impacts primarily related to the accounting for sales-type and direct financing leases. The Company evaluated its residential and retail leases determining that they continue to be considered to be operating leases. For lease agreements that provide for rent concessions and/or scheduled fixed and determinable rent increases, rental income is recognized on a straight-line basis over the noncancellable term of the lease. The Company's residential lease term is generally one year. Some of the Company's retail leases have fixed-price renewal options, and the lessee may be able to exercise its renewal option at an amount less than the fair value of the rent at such time. The Company only includes renewal options in the lease term, if at the commencement of the lease, the option period rent is reasonably certain to be less than the base period rent and therefore exercised by the lessee.

Additionally, for the Company's residential and retail leases, which are comprised of the lease component and common area maintenance as a non-lease component, the Company determined that (i) the leases are operating leases, (ii) the lease component is the predominant component and (iii) that all components of its operating leases share the same timing and pattern of transfer.

The Company changed its presentation of charges for uncollectible lease revenue associated with its residential and retail leasing activity, reflecting those amounts as a component of rental and other income on the accompanying Condensed Consolidated Statement of Comprehensive Income for the three and nine months ended September 30, 2019. However, in accordance with its prospective adoption of the lease standard, the Company did not adjust the prior year period presentation of charges for uncollectible lease revenue associated with its residential and retail leasing activity as a component of operating expenses, excluding property taxes, on the on the accompanying Condensed Consolidated Statement of Comprehensive Income for the three and nine months ended September 30, 2018.

Implementation Considerations and Impact

As discussed above, the Company used the prospective adoption approach for the standard. Additionally, in conjunction with the implementation of the standard, the Company elected to apply certain lessee practical expedients allowed under the standard including:

- not reassessing (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) the accounting for initial direct costs for any existing leases;
- not evaluating short term leases;
- not assessing whether existing land easements are, or contain leases; and
- making an accounting policy election by class of underlying asset, to not separate non-lease components from lease components and instead to account for each separate lease and non-lease component as a single lease component.

Also in conjunction with the implementation of the standard, the Company elected to apply the following practical expedients for lessors, making an accounting policy election:

- by class of underlying asset for retail and residential leases, to not separate non-lease components from lease components and instead to account for each separate lease and non-lease component as a single lease component;
- to exclude costs paid by lessees directly to third parties on behalf of the Company; and
- to exclude sales taxes and other similar taxes assessed by a government authority and collected by the Company from the lessee.

Upon adoption, the Company recorded lease liabilities and offsetting right of use lease assets for its ground and office leases of $122,276,000. In addition, the Company made certain other reclassifications in the current year period of lease related amounts on its Condensed Consolidated Balance Sheet to conform to the presentation under the new standard. The adoption of the standard did not have a material impact on the accompanying Condensed Consolidated Statements of Comprehensive Income.

Revenue and Gain Recognition

The majority of the Company’s revenue is derived from residential and retail rental income and other lease income, which are accounted for under ASU 2016-02, Leases, discussed above. The Company's revenue streams that are not accounted for under ASU 2016-02 include:

- Management fees - The Company has investment interests in real estate joint ventures, for which the Company may manage (i) the venture, (ii) the associated operating communities owned by the ventures and/or (iii) the development or redevelopment of those operating communities. For these activities, the Company receives asset management, property management, development and/or redevelopment fee revenue. The performance obligation is the management of the venture, community or other defined task such as the development or redevelopment of the community. While the individual activities that comprise the performance obligation of the management fees can vary day to day, the nature of the overall performance obligation to provide management service is the same and considered by the Company to be a series of services that have the same pattern of transfer to the customer and the same method to measure progress toward satisfaction of the performance obligation. The Company recognizes revenue for fees as earned on a monthly basis.

- Rental and non-rental related income - The Company recognizes revenue for new rental related income not included as components of a lease, such as reservation and application fees, as well as for non-rental related income, as earned.

- Gains or losses on sales of real estate - 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. A gain or loss is recognized when the criteria for an asset to be derecognized are met, which include when (i) a contract exists and (ii) the buyer obtained control of the nonfinancial asset that was sold. In addition, a gain or loss recognized on the sale of a nonfinancial asset to an unconsolidated entity is recognized at 100%, and not the Company’s proportionate ownership percentage.

The following table provides details of the Company’s revenue streams disaggregated by the Company’s reportable operating segments, further discussed in Note 8, “Segment Reporting,” for the three and nine months ended September 30, 2019 and 2018. Segment information for total revenue has been adjusted to exclude the real estate assets that were sold from January 1, 2018 through September 30, 2019, or otherwise qualify as held for sale as of September 30, 2019, as described in Note 6, "Real Estate Disposition Activities." Additionally, as discussed above, the Company changed its presentation of charges for uncollectible lease revenue for the three and nine months ended September 30, 2019, including it as an adjustment to revenue and not as a component of operating expenses, as it is presented for prior periods on the accompanying Condensed Consolidated Statement of Comprehensive Income. In order to provide comparability between periods presented in the Company's segment reporting, the Company has included charges for uncollectible lease revenue for its segment results as a component of revenue for all periods presented. See Note 8, "Segment Reporting," for further discussion (dollars in thousands):

	For the three months ended				
	Established Communities	Other Stabilized Communities	Development/ Redevelopment Communities	Non-allocated (1)	Total
For the period ended September 30, 2019					
Management, development and other fees	$ —	$ —	$ —	$ 1,231	$ 1,231
Rental and non-rental related income (2)	1,520	638	234	—	2,392
Total non-lease revenue (3)	1,520	638	234	1,231	3,623
Lease income (4)	459,713	75,782	46,216	—	581,711
Business interruption insurance proceeds	—	307	—	—	307
Total revenue	$ 461,233	$ 76,727	$ 46,450	$ 1,231	$ 585,641
For the period ended September 30, 2018					
Management, development and other fees	$ —	$ —	$ —	$ 912	$ 912
Rental and non-rental related income (2)	1,160	610	78	—	1,848
Total non-lease revenue (3)	1,160	610	78	912	2,760
Lease income (4)	447,892	60,838	33,145	—	541,875
Total revenue	$ 449,052	$ 61,448	$ 33,223	$ 912	$ 544,635

	For the nine months ended				
	Established Communities	Other Stabilized Communities	Development/ Redevelopment Communities	Non-allocated (1)	Total
For the period ended September 30, 2019					
Management, development and other fees	$ —	$ —	$ —	$ 3,484	$ 3,484
Rental and non-rental related income (2)	4,890	1,656	566	—	7,112
Total non-lease revenue (3)	4,890	1,656	566	3,484	10,596
Lease income (4)	1,364,232	217,954	121,527	—	1,703,713
Business interruption insurance proceeds	404	510	—	—	914
Total revenue	$ 1,369,526	$ 220,120	$ 122,093	$ 3,484	$ 1,715,223
For the period ended September 30, 2018					
Management, development and other fees	$ —	$ —	$ —	$ 2,752	$ 2,752
Rental and non-rental related income (2)	3,379	1,506	226	—	5,111
Total non-lease revenue (3)	3,379	1,506	226	2,752	7,863
Lease income (4)	1,324,445	169,960	96,407	—	1,590,812
Total revenue	$ 1,327,824	$ 171,466	$ 96,633	$ 2,752	$ 1,598,675

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

(2) Amounts include revenue streams related to activities that are not considered components of a lease, including but not limited to, apartment hold fees and application fees, as well as revenue streams not related to leasing activities, including but not limited to, vendor revenue sharing, building advertising, vending and dry cleaning revenue.

(3) Represents all revenue accounted for under ASC 2014-09.

(4) Amounts include all revenue streams derived from residential and retail rental income and other lease income, which are accounted for under ASU 2016-02.

Due to the nature and timing of the Company’s identified revenue streams, there are no material amounts of outstanding or unsatisfied performance obligations as of September 30, 2019.

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 $15,443,000 and $16,277,000 for the three months ended September 30, 2019 and 2018, respectively, and $50,159,000 and $44,008,000 for the nine months ended September 30, 2019 and 2018, respectively.

3. Mortgage Notes Payable, Unsecured Notes and Credit Facility

The Company's mortgage notes payable, unsecured notes, variable rate unsecured term loans ("Term Loans") and Credit Facility, as defined below, as of September 30, 2019 and December 31, 2018 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 September 30, 2019 and December 31, 2018, as shown in the accompanying Condensed Consolidated Balance Sheets (dollars in thousands) (see Note 6, "Real Estate Disposition Activities").

	9/30/2019	12/31/2018
Fixed rate unsecured notes (1)	$ 5,850,000	$ 5,400,000
Variable rate unsecured notes (1)	300,000	300,000
Term Loans (1)	250,000	250,000
Fixed rate mortgage notes payable - conventional and tax-exempt (2)	546,082	533,215
Variable rate mortgage notes payable - conventional and tax-exempt (2)	476,150	619,140
Total mortgage notes payable, unsecured notes and Term Loans	7,422,232	7,102,355
Credit Facility	—	—
Total mortgage notes payable, unsecured notes, Term Loans and Credit Facility	$ 7,422,232	$ 7,102,355

(1) Balances at September 30, 2019 and December 31, 2018 exclude $8,977 and $9,879, respectively, of debt discount, and $34,133 and $34,128, respectively, of deferred financing costs, as reflected in unsecured notes, net on the accompanying Condensed Consolidated Balance Sheets.

(2) Balances at September 30, 2019 and December 31, 2018 exclude $14,501 and $14,590, respectively, of debt discount, and $3,342 and $3,495, respectively, of deferred financing costs, as reflected in mortgage notes payable on the accompanying Condensed Consolidated Balance Sheets.

In addition to the Credit Facility discussed in this Form 10-Q, the following debt activity occurred during the nine months ended September 30, 2019:

- In February 2019, the Company amended and restated the $250,000,000 variable rate unsecured term loan that it originally entered into in February 2017, of which $100,000,000 matures in February 2022 with stated pricing of LIBOR plus 0.90%, which remained the same, and $150,000,000 matures in February 2024 with stated pricing of LIBOR plus 0.85% that decreased from LIBOR plus 1.50%.

- In April 2019, the Company repaid $13,363,000 of 2.99% fixed rate debt and $33,854,000 of variable rate debt secured by Avalon Natick at par on its maturity date.

- In May 2019, the Company repaid $7,635,000 principal amount of variable rate debt secured by Eaves Mission Viejo at par in advance of its scheduled maturity date. The Company utilized $3,706,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.

- In May 2019, the Company repaid $20,800,000 principal amount of variable rate debt secured by AVA Nob Hill at par in advance of its scheduled maturity date. The Company utilized $10,584,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.

- In May 2019, the Company repaid $38,800,000 principal amount of variable rate debt secured by Avalon Campbell at par in advance of its scheduled maturity date. The Company utilized $22,622,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.

- In May 2019, the Company repaid $17,600,000 principal amount of variable rate debt secured by Eaves Pacifica at par in advance of its scheduled maturity date. The Company utilized $10,263,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.

- In May 2019, the Company issued $450,000,000 principal amount of unsecured notes in a public offering under its existing shelf registration statement for net proceeds of approximately $446,877,000. The notes mature in June 2029 and were issued at a 3.30% interest rate. The effective interest rate of the notes is 3.66%, including the impact of an interest rate hedge and offering costs.

- In August 2019, as part of the tax-deferred exchange associated with the disposition of Archstone Lexington and acquisition of Avalon Cerritos, the Company (i) repaid $21,700,000 principal amount of variable rate debt secured by Archstone Lexington at par in advance of its scheduled maturity date and (ii) entered into a $30,250,000 fixed rate note secured by Avalon Cerritos, with a contractual interest rate of 3.26%, maturing in August 2029. See Note 6, "Real Estate Disposition Activities," and Note 5, "Investments in Real Estate Entities," for further discussion of the disposition and acquisition activity.

In February 2019, the Company entered into a $1,750,000,000 Fifth Amended and Restated Revolving Loan Agreement (the “Credit Facility”) with a syndicate of banks, which replaces its prior $1,500,000,000 credit facility dated as of January 14, 2016. The term of the Credit Facility ends on February 28, 2024.

The Credit Facility bears interest at varying levels based on (i) the London Interbank Offered Rate (“LIBOR”) applicable to the period of borrowing for a particular draw of funds from the facility (e.g., one month to maturity, three months to maturity, etc.) and (ii) the rating levels issued for our unsecured notes. The current stated pricing for drawn borrowings is LIBOR plus 0.775% per annum (2.79% at September 30, 2019), assuming a one month borrowing rate. The stated spread over LIBOR can vary from LIBOR plus 0.70% to LIBOR plus 1.45% based upon the rating of the Company's unsecured notes. The Credit Facility also provides a competitive bid option that is available for borrowings of up to 65% of the Credit Facility amount. This option allows banks that are part of the lender consortium to bid to provide the Company loans at a rate that is lower than the stated pricing provided by the unsecured credit facility. The competitive bid option may result in lower pricing than the stated rate if market conditions allow. The annual facility fee for the Credit Facility remained 0.125%, resulting in a fee of $2,188,000 annually based on the $1,750,000,000 facility size and based on the Company's current credit rating.

The Company had no borrowings outstanding under the Credit Facility as of September 30, 2019 and December 31, 2018. The Company had $17,813,000 and $39,810,000 outstanding in letters of credit that reduced the borrowing capacity as of September 30, 2019 and December 31, 2018, respectively. In addition, the Company had $18,964,000 outstanding in additional letters of credit as of September 30, 2019.

In the aggregate, secured notes payable mature at various dates from November 2019 through July 2066, and are secured by certain apartment communities (with a net carrying value of $1,693,511,000, excluding communities classified as held for sale, as of September 30, 2019).

The weighted average interest rate of the Company's fixed rate secured notes payable (conventional and tax-exempt) was both 3.8% at September 30, 2019 and December 31, 2018, respectively. The weighted average interest rate of the Company's variable rate secured notes payable (conventional and tax-exempt) including the effect of certain financing related fees, was 3.2% and 3.4% at September 30, 2019 and December 31, 2018, respectively.

Scheduled payments and maturities of secured notes payable and unsecured notes outstanding at September 30, 2019 are as follows (dollars in thousands):

Year	Secured notes principal payments	Secured notes maturities	Unsecured notes and Term Loans maturities	Stated interest rate of unsecured notes and Term Loans
2019	975	65,886	—	N/A
2020	8,782	118,729	400,000	3.625%
2021	9,304	27,844	250,000	3.950%
			300,000	LIBOR + 0.43%
2022	9,918	—	450,000	2.950%
			100,000	LIBOR + 0.90%
2023	10,739	—	350,000	4.200%
			250,000	2.850%
2024	11,577	—	300,000	3.500%
			150,000	LIBOR + 0.85%
2025	12,508	—	525,000	3.450%
			300,000	3.500%
2026	13,545	—	475,000	2.950%
			300,000	2.900%
2027	13,575	186,505	400,000	3.350%
2028	20,607	—	450,000	3.200%
Thereafter	200,904	310,834	350,000	3.900%
			300,000	4.150%
			300,000	4.350%
			450,000	3.300%
	$ 312,434	$ 709,798	$ 6,400,000	

The Company was in compliance at September 30, 2019 with customary financial and other covenants under the Credit Facility, the Term Loans and the Company's fixed rate unsecured notes.

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4. Equity

The following summarizes the changes in equity for the nine months ended September 30, 2019 (dollars in thousands):

	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total AvalonBay stockholder's equity	Noncontrolling interests	Total equity
Balance at December 31, 2018	$ 1,385	$ 10,306,588	$ 350,777	$ (26,144)	$ 10,632,606	$ —	$ 10,632,606
Net income attributable to common stockholders	—	—	170,366	—	170,366	—	170,366
Loss on cash flow hedges, net	—	—	—	(7,231)	(7,231)	—	(7,231)
Cash flow hedge losses reclassified to earnings	—	—	—	1,468	1,468	—	1,468
Change in redemption value of redeemable noncontrolling interest	—	—	(224)	—	(224)	—	(224)
Dividends declared to common stockholders ($1.52 per share)	—	—	(212,166)	—	(212,166)	—	(212,166)
Issuance of common stock, net of withholdings	9	143,202	(1,892)	—	141,319	—	141,319
Amortization of deferred compensation	—	7,861	—	—	7,861	—	7,861
Balance at March 31, 2019	$ 1,394	$ 10,457,651	$ 306,861	$ (31,907)	$ 10,733,999	$ —	$ 10,733,999
Net income attributable to common stockholders	—	—	168,281	—	168,281	—	168,281
Loss on cash flow hedges, net	—	—	—	(2,888)	(2,888)	—	(2,888)
Cash flow hedge losses reclassified to earnings	—	—	—	1,611	1,611	—	1,611
Change in redemption value of redeemable noncontrolling interest	—	—	(45)	—	(45)	—	(45)
Noncontrolling interest contribution	—	—	—	—	—	530	530
Dividends declared to common stockholders ($1.52 per share)	—	—	(212,549)	—	(212,549)	—	(212,549)
Issuance of common stock, net of withholdings	3	50,803	—	—	50,806	—	50,806
Amortization of deferred compensation	—	10,785	—	—	10,785	—	10,785
Balance at June 30, 2019	$ 1,397	$ 10,519,239	$ 262,548	$ (33,184)	$ 10,750,000	$ 530	$ 10,750,530
Net income attributable to common stockholders	—	—	279,677	—	279,677	—	279,677
Loss on cash flow hedges, net	—	—	—	(13,644)	(13,644)	—	(13,644)
Cash flow hedge losses reclassified to earnings	—	—	—	1,746	1,746	—	1,746
Change in redemption value of redeemable noncontrolling interest	—	—	(113)	—	(113)	—	(113)
Noncontrolling interest contribution	—	—	—	—	—	118	118
Dividends declared to common stockholders ($1.52 per share)	—	—	(212,526)	—	(212,526)	—	(212,526)
Issuance of common stock, net of withholdings	—	(454)	(263)	—	(717)	—	(717)
Amortization of deferred compensation	—	10,002	—	—	10,002	—	10,002
Balance at September 30, 2019	$ 1,397	$ 10,528,787	$ 329,323	$ (45,082)	$ 10,814,425	$ 648	$ 10,815,073

The following summarizes the changes in equity for the nine months ended September 30, 2018 (dollars in thousands):

	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total equity
Balance at December 31, 2017	$ 1,381	$ 10,235,475	$ 188,609	$ (37,419)	$ 10,388,046
Net income attributable to common stockholders	—	—	141,643	—	141,643
Gain on cash flow hedges, net	—	—	—	11,501	11,501
Cash flow hedge losses reclassified to earnings	—	—	—	1,756	1,756
Change in redemption value of redeemable noncontrolling interest	—	—	(63)	—	(63)
Dividends declared to common stockholders ($1.47 per share)	—	—	(203,166)	—	(203,166)
Issuance of common stock, net of withholdings	1	(12,286)	1,143	—	(11,142)
Amortization of deferred compensation	—	6,549	—	—	6,549
Balance at March 31, 2018	$ 1,382	$ 10,229,738	$ 128,166	$ (24,162)	$ 10,335,124
Net income attributable to common stockholders	—	—	254,662	—	254,662
Cash flow hedge losses reclassified to earnings	—	—	—	1,455	1,455
Change in redemption value of redeemable noncontrolling interest	—	—	(291)	—	(291)
Dividends declared to common stockholders ($1.47 per share)	—	—	(203,472)	—	(203,472)
Issuance of common stock, net of withholdings	—	627	1	—	628
Amortization of deferred compensation	—	10,082	—	—	10,082
Balance at June 30, 2018	$ 1,382	$ 10,240,447	$ 179,066	$ (22,707)	$ 10,398,188
Net income attributable to common stockholders	—	—	192,486	—	192,486
Cash flow hedge losses reclassified to earnings	—	—	—	1,466	1,466
Change in redemption value of redeemable noncontrolling interest	—	—	(272)	—	(272)
Dividends declared to common stockholders ($1.47 per share)	—	—	(203,334)	—	(203,334)
Issuance of common stock, net of withholdings	—	442	—	—	442
Amortization of deferred compensation	—	8,422	—	—	8,422
Balance at September 30, 2018	$ 1,382	$ 10,249,311	$ 167,946	$ (21,241)	$ 10,397,398

As of September 30, 2019 and December 31, 2018, 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 nine months ended September 30, 2019, the Company:

i. issued 81,626 shares of common stock in connection with stock options exercised;
ii. issued 1,594 common shares through the Company's dividend reinvestment plan;
iii. issued 150,359 common shares in connection with restricted stock grants and the conversion of performance awards to restricted shares;
iv. issued 994,634 shares under CEP IV and CEP V, as discussed below;
v. issued 1,838 common shares in conjunction with the conversion of deferred stock awards;
vi. withheld 83,602 common shares to satisfy employees' tax withholding and other liabilities;
vii. issued 7,156 common shares through the Employee Stock Purchase Plan; and
viii. canceled 1,730 common shares of restricted stock upon forfeiture.

Any deferred compensation related to the Company's stock option, restricted stock and performance award grants during the nine months ended September 30, 2019 is not reflected on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2019, and will not be reflected until recognized as compensation cost.

In December 2015, the Company commenced a fourth continuous equity program ("CEP IV") under which the Company was able to sell (and/or enter into forward sale agreements for the sale of) up to $1,000,000,000 of its common stock from time to time. In conjunction with CEP IV, the Company engaged sales agents who received compensation up to 2.0% of the gross sales price for shares sold.

In May 2019, the Company replaced CEP IV with a new continuous equity program ("CEP V") under which the Company may sell (and/or enter into forward sale agreements for the sale of) 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 V, the Company engaged sales agents who will receive compensation of up to 1.5% of the gross sales price for shares sold. The Company expects that, if entered into, it 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, a commission of up to 1.5% of the sales prices of all borrowed shares of common stock sold. As of September 30, 2019, there was an outstanding forward sales agreement, as discussed below.

During the nine months ended September 30, 2019, the Company sold 755,054 shares at an average sales price of $198.26 per share, for net proceeds of $147,450,000 under CEP IV, and 239,580 shares at an average sales price of $208.70 per share, for net proceeds of $49,250,000 under CEP V. As of September 30, 2019 and before considering the impact of the Forward discussed below, the Company had $950,000,000 remaining authorized for issuance under CEP V.

On September 25, 2019, the Company entered into a forward contract under CEP V to sell 947,868 shares of common stock for approximate proceeds of $198,000,000, net of offering fees and discounts (the "Forward"). The sales price was established based on the stock price during intraday trading on September 25, 2019. The proceeds received by the Company will be determined on the date or 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 varies with changes in the Overnight Bank Funding rate. The Company generally has the ability to determine the date(s) and method of settlement, subject to certain conditions and the right of the forward counterparty to accelerate settlement under certain circumstances. Settlement may be (i) physical sale of shares of our common stock for cash, (ii) net cash settlement, whereby the Company will either pay or receive the difference between the forward contract price and the weighted average market price for its common stock at the time of settlement, or (iii) net share settlement, whereby the Company will either receive or issue shares of its common stock, with the number of shares issued or received determined by the difference between the forward contract price and the weighted average market price for its common stock at the time of settlement. The forward contract price and the weighted average market price would in both cases be determined under the applicable terms of the forward contract. Under either of the net settlement provisions, the Company will pay to the counterparty either cash or shares of its common stock when the weighted average market price of its common stock at the time of settlement exceeds the forward contract price, and will receive either cash or issue shares of its common stock to the extent that the weighted average market price of its common stock at the time of settlement is less than the price under the forward contract. Settlement of the forward contract will occur on one or more dates not later than September 25, 2020.

5. Investments in Real Estate Entities

Investments in Unconsolidated Real Estate Entities

As of September 30, 2019, the Company had investments in six unconsolidated real estate entities with ownership interest percentages ranging from 20.0% to 55.0%, excluding joint ventures formed with Equity Residential as part of the Archstone acquisition. The Company accounts for its investments in unconsolidated real estate entities under the equity method of accounting. The significant accounting policies of the Company's unconsolidated real estate entities are consistent with those of the Company in all material respects.

The following is a combined summary of the financial position of the entities accounted for using the equity method discussed above as of the dates presented (dollars in thousands):

	9/30/2019	12/31/2018
	(unaudited)	
Assets:		
Real estate, net	$ 1,363,360	$ 1,420,039
Other assets	199,871	45,142
Total assets	$ 1,563,231	$ 1,465,181
Liabilities and partners' capital:		
Mortgage notes payable, net and credit facility	$ 833,079	$ 837,311
Other liabilities	161,449	15,624
Partners' capital	568,703	612,246
Total liabilities and partners' capital	$ 1,563,231	$ 1,465,181

The following is a combined summary of the operating results of the entities accounted for using the equity method discussed above for the periods presented (dollars in thousands):

	For the three months ended		For the nine months ended	
	9/30/2019	9/30/2018	9/30/2019	9/30/2018
	(unaudited)		(unaudited)	
Rental and other income	$ 37,351	$ 24,535	$ 108,619	$ 68,324
Operating and other expenses	(14,363)	(8,749)	(42,001)	(26,066)
Gain on sale of communities	—	30,597	—	30,597
Interest expense, net	(8,383)	(5,938)	(25,475)	(17,130)
Depreciation expense	(9,324)	(6,288)	(49,366)	(18,704)
Net (loss) income	$ 5,281	$ 34,157	$ (8,223)	$ 37,021

In conjunction with the acquisition of the Archstone Multifamily Partners AC LP (the "U.S. Fund"), Multifamily Partners AC JV LP (the "AC JV") and Brandywine Apartments of Maryland, LLC ("Brandywine"), the Company incurred costs in excess of its equity in the underlying net assets of the respective investments. These costs represent $30,221,000 and $31,188,000 at September 30, 2019 and December 31, 2018, respectively, of the Company's respective investment balances. These amounts are being amortized over the lives of the underlying assets as a component of equity in income of unconsolidated real estate entities on the accompanying Condensed Consolidated Statements of Comprehensive Income.

Investments in Consolidated Real Estate Entities

During the nine months ended September 30, 2019, the Company acquired four consolidated communities:

- Avalon Southlands, located in Aurora, CO, which contains 338 apartment homes and was acquired for a purchase price of $91,250,000.
- Avalon Cerritos, located in Cerritos, CA, which contains 132 apartment homes and was acquired for a purchase price of $60,500,000. The acquisition of Avalon Cerritos was facilitated through a tax-deferred exchange as the replacement property for Archstone Lexington, which was sold during the nine months ended September 30, 2019, as further discussed in Note 6, "Real Estate Disposition Activities." Archstone Lexington was acquired by the Company as part of the Archstone acquisition in 2013, and was subject to both limitations related to disposal of the community, as well as for there to be a required level of secured financing as a result of the tax structured contribution of the assets to the prior Archstone partnerships. The Company maintained compliance with the tax protection requirements when selling Archstone Lexington by facilitating the sale through the tax-deferred exchange, acquiring and encumbering Avalon Cerritos. See Note 3, "Mortgage Notes Payable, Unsecured Notes and Credit Facility," for further discussion of indebtedness associated with Archstone Lexington and Avalon Cerritos.
- Portico at Silver Spring Metro, located in Silver Spring, MD, which contains 151 apartment homes and was acquired for a purchase price of $43,450,000.

- Avalon Bonterra, located in Hialeah, FL, which contains 314 apartment homes and was acquired for a purchase price of $90,000,000.

The Company accounted for these as asset acquisitions and recorded the acquired assets and assumed liabilities, including identifiable intangibles, at their relative fair values based on the purchase price and acquisition costs incurred. The Company used third party pricing or internal models for the values of the land, a valuation model for the values of the buildings, and an internal model to determine the fair values of the remaining real estate assets and in-place leases. Given the heterogeneous nature of multifamily real estate, the fair values for the land, debt, real estate assets and in-place leases incorporated significant unobservable inputs and therefore are considered to be Level 3 prices within the fair value hierarchy.

As of September 30, 2019, the Company intends to proceed with the sale of the residential condominiums of The Park Loggia development, which is currently under construction and contains 172 for-sale residential condominiums and 67,000 square feet of retail space for a projected total capitalized cost of $626,000,000. The Company expects to complete construction of both the residential and retail components of this development during 2019. The Company incurred $1,108,000 and $339,000 during the three months ended September 30, 2019 and 2018, respectively, and $2,526,000 and $497,000 for the nine months ended September 30, 2019 and 2018, respectively, in marketing and administrative costs associated with The Park Loggia, included in for-sale condominium marketing and administrative costs, on the accompanying Condensed Consolidated Statements of Comprehensive Income. As of September 30, 2019, the for-sale residential condominiums have an aggregate carrying value of $453,686,000, consisting of both completed units and units that are under construction, included in for-sale condominium inventory on the accompanying Condensed Consolidated Balance Sheets. The Company recognized a deferred tax liability and corresponding income tax expense of $6,645,000 during the three and nine months ended September 30, 2019 for the GAAP to tax basis differences of The Park Loggia, which will be realized by the Company upon disposition of its investment. See Note 1, "Organization, Basis of Presentation and Significant Accounting Policies," for further discussion of the income tax associated to The Park Loggia development.

Expensed Transaction, Development and Other Pursuit Costs and Casualty 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 expensed. The Company expensed costs related to the abandonment of Development Rights and costs for pursuits where development is not yet considered probable, as well as costs incurred in pursuing the acquisition or disposition of assets for which such acquisition and disposition activity did not occur, in the amounts of $175,000 and $523,000 for the three months ended September 30, 2019 and 2018, respectively, and $2,562,000 and $2,212,000 for the nine months ended September 30, 2019 and 2018, respectively. These costs are included in expensed transaction, development and other pursuit costs, net of recoveries on the accompanying Condensed 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, including for-sale condominium inventory, 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, the Company did not recognize any impairment losses for the three and nine months ended September 30, 2019 and 2018.

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. During the three and nine months ended September 30, 2019 and 2018, the Company did not recognize any impairment charges on its investment in land.

The Company 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 other than temporary impairment losses recognized by any of the Company's investments in unconsolidated real estate entities during the three and nine months ended September 30, 2019 and 2018.

6. Real Estate Disposition Activities

The following real estate sales occurred during the nine months ended September 30, 2019:

- In January 2019, the Company sold Oakwood Arlington, located in Arlington, VA, containing 184 apartment homes for $70,000,000. The Company's gain on disposition was $16,382,000, reported in gain on sale of communities on the accompanying Condensed Consolidated Statements of Comprehensive Income.

- In January and March 2019, the Company sold two undeveloped land parcels for an aggregate sale price of $3,680,000. The Company recognized a gain on disposition of $164,000, reported in gain on other real estate transactions, net on the accompanying Condensed Consolidated Statements of Comprehensive Income.

- In April 2019, the Company sold Archstone Toscano, located in Houston, TX, containing 474 apartment homes for $98,000,000. The Company's gain on disposition was $20,604,000, reported in gain on sale of communities on accompanying Condensed Consolidated Statement of Comprehensive Income.

- In July 2019, the Company sold AVA Stamford, located in Stamford, CT, containing 306 apartment homes for $105,000,000. The Company's gain on disposition was $62,496,000, reported in gain on sale of communities on accompanying Condensed Consolidated Statement of Comprehensive Income.

- In August 2019, the Company sold Archstone Lexington, located in Flower Mound, TX, containing 222 apartment homes for $45,100,000. The Company's gain on disposition was $20,286,000, reported in gain on sale of communities on accompanying Condensed Consolidated Statement of Comprehensive Income. The sale of Archstone Lexington was facilitated through a tax-deferred exchange. See Note 5, "Investments in Real Estate Entities," for further discussion of the acquisition of Avalon Cerritos.

- In August 2019, the Company sold Memorial Heights Villages, located in Houston, TX, containing 318 apartment homes for $65,250,000. The Company's gain on disposition was $15,328,000, reported in gain on sale of communities on accompanying Condensed Consolidated Statement of Comprehensive Income.

- In August 2019, the Company sold Avalon Orchards, located in Marlborough, MA, containing 156 apartment homes for $44,250,000. The Company's gain on disposition was $32,289,000, reported in gain on sale of communities on accompanying Condensed Consolidated Statement of Comprehensive Income.

Archstone Toscano and Memorial Heights Villages were owned through TRS and when considering the impact of the real estate sales in conjunction with the Company's other activity within TRS, the Company recognized income tax expense during the three and nine months ended September 30, 2019, as discussed in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies."

At September 30, 2019, the Company had no real estate assets that qualified as held for sale.

7. Commitments and Contingencies

Lease Obligations

The Company owns 11 apartment communities, one community under development and two commercial properties, located on land subject to ground leases expiring between October 2026 and March 2142. The ground leases for 10 of 11 of the apartment communities and the rest of the ground leases, are accounted for as operating leases, with rental expense recognized on a straight-line basis over the lease term. These operating leases have varying rental escalation terms, primarily based on variables determined at future dates such as changes in the Consumer Price Index, and five of these leases have purchase options exercisable through 2095. In addition, the Company is party to 16 leases for its corporate and regional offices with varying terms through 2031, all of which are accounted for as operating leases.

As of September 30, 2019, the Company has total operating lease assets of $99,270,000 and lease obligations of $116,489,000, reported as components of right of use lease assets and lease liabilities, respectively, on the accompanying Condensed Consolidated Balance Sheets. The Company incurred costs of $3,618,000 and $10,723,000 for the three and nine months ended September 30, 2019, respectively, related to operating leases.

One apartment community is located on land subject to a land lease which is accounted for as a finance lease. Under the terms of the lease, the Company has the option to purchase the land during the lease term, which expires in 2046. In addition to the leases described above, the Company is party to two leases for portions of parking garages, one adjacent to an apartment community and one adjacent to a community under development, accounted for as finance leases and subject to the Company's lease accounting policies discussed in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies." The Company has total finance lease assets of $21,951,000 and lease obligations of $20,216,000, reported as components of right of use lease assets and lease liabilities, respectively, on the accompanying Condensed Consolidated Balance Sheets.

The following table details the weighted average remaining lease term and discount rates for the Company's ground and office leases:

Weighted-average remaining lease term - finance leases	27 years
Weighted-average remaining lease term - operating leases	54 years
Weighted-average discount rate - finance leases	4.63%
Weighted-average discount rate - operating leases	5.1%

The following tables details the future minimum lease payments under the Company's current leases and a reconciliation of undiscounted and discounted cash flows for operating and finance leases (dollars in thousands):

	Payments due by period					
	2019	**2020**	**2021**	**2022**	**2023**	**Thereafter**
Operating Lease Obligations	$ 3,704	$ 11,850	$ 13,700	$ 13,631	$ 13,092	$ 374,716
Finance Lease Obligations	269	1,077	1,080	1,082	1,084	41,220
	$ 3,973	$ 12,927	$ 14,780	$ 14,713	$ 14,176	$ 415,936

	Total undiscounted cash flows	**Total lease liabilities**	**Difference between discounted and undiscounted cash flows**
Operating Lease Obligations	$ 430,693	$ 116,489	$ 314,204
Finance Lease Obligations	45,812	20,216	25,596
	$ 476,505	$ 136,705	$ 339,800

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

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 ("CODM") 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, expensed transaction, development and other pursuit costs, net of recoveries, interest expense, net, loss on extinguishment of debt, net, general and administrative expense, equity in income of unconsolidated real estate entities, depreciation expense, corporate income tax expense, casualty and impairment (gain) loss, net, gain on sale of communities, (gain) loss on other real estate transactions, net, for-sale condominium marketing and administrative costs and net operating income from real estate assets sold or held for sale. 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 the three and nine months ended September 30, 2019 and 2018 is as follows (dollars in thousands):

	For the three months ended		For the nine months ended	
	9/30/2019	9/30/2018	9/30/2019	9/30/2018
Net income	$ 279,709	$ 192,407	$ 618,432	$ 588,540
Indirect operating expenses, net of corporate income	20,195	19,742	62,935	58,377
Expensed transaction, development and other pursuit costs, net of recoveries	175	523	2,562	2,212
Interest expense, net	51,493	54,097	149,395	165,795
Loss on extinguishment of debt, net	93	1,678	602	2,717
General and administrative expense	12,769	14,744	45,440	44,384
Equity in income of unconsolidated real estate entities	(1,643)	(10,031)	(780)	(12,560)
Depreciation expense	165,463	156,538	490,213	472,282
Income tax expense	11,184	29	11,178	87
Casualty and impairment gain, net	—	(554)	—	(612)
Gain on sale of communities	(130,484)	(27,243)	(165,849)	(132,444)
Gain on other real estate transactions, net	(73)	(12)	(374)	(335)
For-sale condominium marketing and administrative costs	1,108	339	2,526	497
Net operating income from real estate assets sold or held for sale	(880)	(17,876)	(8,600)	(61,623)
Net operating income	$ 409,109	$ 384,381	$ 1,207,680	$ 1,127,317

The following is a summary of NOI from real estate assets sold or held for sale for the periods presented (dollars in thousands):

	For the three months ended		For the nine months ended	
	9/30/2019	9/30/2018	9/30/2019	9/30/2018
Rental income from real estate assets sold or held for sale	$ 1,972	$ 28,135	$ 15,837	$ 96,517
Operating expenses from real estate assets sold or held for sale	(1,092)	(10,259)	(7,237)	(34,894)
Net operating income from real estate assets sold or held for sale	$ 880	$ 17,876	$ 8,600	$ 61,623

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 January 1, 2019. Segment information for the three and nine months ended September 30, 2019 and 2018 has been adjusted to exclude the real estate assets that were sold from January 1, 2018 through September 30, 2019, or otherwise qualify as held for sale as of September 30, 2019, as described in Note 6, "Real Estate Disposition Activities."

In addition to NOI, the Company's CODM considers total revenue in assessing each segment's performance. As discussed in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies," the Company changed its presentation of charges for uncollectible lease revenue beginning with the three and nine months ended September 30, 2019, including it as an adjustment to revenue and not as a component of operating expenses, as it is presented for prior periods on the accompanying Condensed Consolidated Statement of Comprehensive Income. Consistent with how the Company's CODM evaluates total revenue, and to provide comparability between periods presented in the Company's segment reporting, the Company has included charges for uncollectible lease revenue for its segment results as a component of revenue for all periods presented in the following table. Total revenue for the three and nine months ended September 30, 2018 as presented in the following table includes $3,212,000 and $10,822,000, respectively, of charges for uncollectible lease revenue.

	For the three months ended		For the nine months ended		
	Total revenue	NOI	Total revenue	NOI	Gross real estate (1)
For the period ended September 30, 2019					
Established					
New England	$ 64,608	$ 42,651	$ 190,009	$ 125,362	$ 2,103,731
Metro NY/NJ	103,471	72,476	307,746	217,531	3,539,251
Mid-Atlantic	73,906	51,474	219,008	153,599	2,678,892
Pacific Northwest	28,589	20,683	84,615	61,498	988,952
Northern California	88,914	68,000	264,575	203,623	2,782,426
Southern California	101,745	71,741	303,573	217,029	3,599,266
Total Established	461,233	327,025	1,369,526	978,642	15,692,518
Other Stabilized	76,727	51,187	220,120	148,570	3,372,470
Development / Redevelopment	46,450	30,897	122,093	80,468	3,485,596
Land Held for Development	N/A	N/A	N/A	N/A	20,095
Non-allocated (2)	1,231	N/A	3,484	N/A	552,179
Total	$ 585,641	$ 409,109	$ 1,715,223	$ 1,207,680	$ 23,122,858
For the period ended September 30, 2018					
Established					
New England	$ 62,705	$ 41,591	$ 184,377	$ 121,028	$ 2,090,871
Metro NY/NJ	101,285	72,131	299,058	211,560	3,520,938
Mid-Atlantic	71,715	50,067	212,584	148,838	2,666,241
Pacific Northwest	27,723	19,679	81,104	57,445	983,942
Northern California	86,369	66,362	256,351	197,308	2,768,192
Southern California	99,255	70,392	294,350	211,474	3,567,619
Total Established	449,052	320,222	1,327,824	947,653	15,597,803
Other Stabilized	61,448	41,537	171,466	114,171	2,791,565
Development / Redevelopment	33,223	22,622	96,633	65,493	2,460,076
Land Held for Development	N/A	N/A	N/A	N/A	116,582
Non-allocated (2)	912	N/A	2,752	N/A	473,928
Total	$ 544,635	$ 384,381	$ 1,598,675	$ 1,127,317	$ 21,439,954

(1) Does not include gross real estate either sold or classified as held for sale subsequent to September 30, 2018 of $1,103,809.

(2) Revenue represents third-party management, asset management and developer fees and miscellaneous income which are not allocated to a reportable segment. Gross real estate includes the for-sale residential condominiums at The Park Loggia development, as discussed in Note 5, "Investments in Real Estate."

9. Stock-Based Compensation Plans

As part of its long term compensation plans, the Company has granted stock options, performance awards and restricted stock. Details of the outstanding awards and activity are presented below.

Information with respect to stock options granted under the Company's Second Amended and Restated 2009 Equity Incentive Plan (the "2009 Plan") for the nine months ended September 30, 2019, is as follows:

	2009 Plan shares	Weighted average exercise price per share
Options Outstanding, December 31, 2018	124,212	$ 128.84
Exercised	(81,626)	130.33
Granted	—	—
Forfeited	—	—
Options Outstanding, September 30, 2019	42,586	$ 125.98
Options Exercisable, September 30, 2019	42,586	$ 125.98

Information with respect to performance awards granted is as follows:

	Performance awards	Weighted average grant date fair value per award
Outstanding at December 31, 2018	267,129	$ 157.21
Granted (1)	79,840	200.69
Change in awards based on performance (2)	(16,760)	142.03
Converted to restricted stock or options	(73,072)	142.03
Forfeited	(3,831)	165.37
Outstanding at September 30, 2019	253,306	$ 176.18

(1) The amount of restricted stock that ultimately may be earned is based on the total shareholder return metrics related to the Company's common stock for 47,091 performance awards and financial metrics related to operating performance and leverage metrics of the Company for 32,749 performance awards.

(2) Represents the change in the number of performance awards earned based on actual performance achievement for the performance period.

The Company used a Monte Carlo model to assess the compensation cost associated with the portion of the performance awards granted in 2019 for which achievement will be determined by using total shareholder return measures. The assumptions used are as follows:

	2019
Dividend yield	3.1%
Estimated volatility over the life of the plan (1)	13.9% - 18.8%
Risk free rate	2.46% - 2.57%
Estimated performance award value based on total shareholder return measure	$204.15

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

For the portion of the performance awards granted in 2019 for which achievement will be determined by using financial metrics, the compensation cost was based on the grant date fair value of $195.72, 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, 2018	160,411	$ 166.33	209,238
Granted - restricted stock shares	77,287	195.96	73,072
Vested - restricted stock shares	(87,370)	167.72	(118,490)
Forfeited	(1,730)	176.40	—
Outstanding at September 30, 2019	148,598	$ 180.81	163,820

Total employee stock-based compensation cost recognized in income was $20,291,000 and $15,189,000 for the nine months ended September 30, 2019 and 2018, respectively, and total capitalized stock-based compensation cost was $7,622,000 and $8,391,000 for the nine months ended September 30, 2019 and 2018, respectively. At September 30, 2019, there was a total unrecognized compensation cost of $31,449,000 for unvested restricted stock and performance awards, which does not include forfeitures, and is expected to be recognized over a weighted average period of 2.1 years.

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 $1,231,000 and $912,000 for the three months ended September 30, 2019 and 2018, respectively, and $3,484,000 and $2,752,000 for the nine months ended September 30, 2019 and 2018, respectively. In addition, the Company has outstanding receivables associated with its property and construction management role of $2,901,000 and $2,519,000 as of September 30, 2019 and December 31, 2018, respectively.

Director Compensation

The Company recorded non-employee director compensation expense relating to restricted stock grants and deferred stock awards in the amount of $458,000 and $454,000 in the three months ended September 30, 2019 and 2018, respectively, and $1,288,000 and $1,200,000 in the nine months ended September 30, 2019 and 2018, 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 $953,000 and $571,000 on September 30, 2019 and December 31, 2018, respectively, reported as a component of prepaid expenses and other assets on the accompanying Condensed Consolidated Balance Sheets.

11. Fair Value

Financial Instruments Carried at Fair Value

Derivative Financial Instruments

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 September 30, 2019, 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.

The following table summarizes the consolidated derivative positions at September 30, 2019 (dollars in thousands):

	Non-designated Hedges	Cash Flow Hedges Interest Rate Swaps
Notional balance	$ 445,015	$ 350,000
Weighted average interest rate (1)	3.2%	N/A
Weighted average swapped/capped interest rate	6.5%	2.1%
Earliest maturity date	Jan 2021	Oct 2020
Latest maturity date	Nov 2021	Oct 2020

(1) Represents the weighted average interest rate on the hedged debt.

During the nine months ended September 30, 2019, in conjunction with the issuance of the Company's 3.30% notes due 2029 in May 2019, the Company settled $250,000,000 of forward interest rate swap agreements designated as cash flow hedges of the interest rate variability on the forecasted issuance of the unsecured notes, making a payment of $12,309,000. The Company has deferred this amount in accumulated other comprehensive loss on the accompanying Condensed Consolidated Balance Sheets, and will recognize the impact as a component of interest expense, net, over the 10 year term of the debt.

In addition, during the three and nine months ended September 30, 2019, the Company entered into $100,000,000 and $350,000,000, respectively, of new forward interest rate swap agreements executed to reduce the impact of variability in interest rates on a portion of the Company's expected debt issuance activity in 2020.

As of September 30, 2019, the Company had $350,000,000 outstanding forward interest rate swap agreements. At maturity of the remaining outstanding swap 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 hedging impact from these positions will then be recognized over the life of the issued debt as a yield adjustment.

The Company had six derivatives designated as cash flow hedges and five derivatives not designated as hedges at September 30, 2019. Fair value changes for derivatives not in qualifying hedge relationships for the three and nine months ended September 30, 2019 and 2018 were not material. During the nine months ended September 30, 2019, the Company deferred $23,763,000 of losses for cash flow hedges reported as a component of accumulated other comprehensive loss.

The following table summarizes the deferred losses reclassified from accumulated other comprehensive loss as a component of interest expense, net (dollars in thousands):

	For the three months ended		For the nine months ended	
	9/30/2019	9/30/2018	9/30/2019	9/30/2018
Cash flow hedge losses reclassified to earnings	$ 1,746	$ 1,466	$ 4,825	$ 4,679

The Company anticipates reclassifying approximately $6,983,000 of net hedging losses from accumulated other comprehensive loss into earnings within the next 12 months as an offset to the hedged item during this period. The Company did not have any derivatives designated as fair value hedges as of September 30, 2019 and 2018.

Redeemable Noncontrolling Interests

The Company is party to investments in two consolidated ventures, which contain 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. 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 accounts designed to preserve principal. 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 and other receivables and prepaid expenses, 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 Loans 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 Loans 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 tables summarize 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):

	9/30/2019			
Description	**Total Fair Value**	**Quoted Prices in Active Markets for Identical Asset (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Cash Flow Hedges				
Interest Rate Swaps - Liabilities	(17,824)	—	(17,824)	—
Puts	(267)	—	—	(267)
DownREIT units	(1,615)	(1,615)	—	—
Indebtedness				
Fixed rate unsecured notes	(6,221,106)	(6,221,106)	—	—
Secured notes and variable rate unsecured indebtedness	(1,432,459)	—	(1,432,459)	—
Total	$ (7,673,271)	$ (6,222,721)	$ (1,450,283)	$ (267)

Description	12/31/2018 Total Fair Value	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-Designated Hedges				
Interest Rate Caps	$ 2	$ —	$ 2	$ —
Cash Flow Hedges				
Interest Rate Swaps - Liabilities	(6,366)	—	(6,366)	—
Puts	(465)	—	—	(465)
DownREIT units	(1,305)	(1,305)	—	—
Indebtedness				
Fixed rate unsecured notes	(5,268,277)	(5,268,277)	—	—
Secured notes and variable rate unsecured indebtedness	(1,505,876)	—	(1,505,876)	—
Total	$ (6,782,287)	$ (5,269,582)	$ (1,512,240)	$ (465)

12. Subsequent Events

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

In October 2019, the U.S. Fund sold Avalon Marina Bay and the adjacent marina, The Harbor at Marina Bay, located in Marina del Rey, CA. The community and adjacent marina contain 205 apartment homes and 229 boat slips and were sold for aggregate price of $86,000,000.

In November 2019, the Company repaid $65,749,000 of 3.38% fixed rate debt secured by Avalon Columbia Pike at par at its maturity date.

In November 2019, the Company entered into an agreement to sell an operating community containing 250 apartment homes and net real estate of $39,045,000 as of September 30, 2019, resulting in the community qualifying as held for sale subsequent to September 30, 2019. The Company expects to complete the sale in the first quarter of 2020.

ITEM 2. 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 Condensed Consolidated Financial Statements and the accompanying Notes to Condensed 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 our Annual Report on Form 10-K for the year ended December 31, 2018 (the "Form 10-K").

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

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 investments relative to other markets that do not have these characteristics. We believe that the Denver, Colorado, and Southeast Florida markets share these characteristics, and in 2017 we began to invest in these markets through acquisitions and developments. 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 U.S. markets, providing a range of distinctive living experiences that customers value. We pursue this vision by targeting what we believe are among 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.

Third Quarter 2019 Highlights

- Net income attributable to common stockholders for the three months ended September 30, 2019 was $279,677,000, an increase of $87,191,000, or 45.3%, as compared to the prior year period. The increase is primarily due to an increase in real estate sales and related gains in the current year period and an increase in NOI from communities across the portfolio, partially offset by increases in income tax and depreciation expense and a decrease in joint venture real estate gains from the prior year period.

- Established Communities NOI for the three months ended September 30, 2019 was $327,025,000, an increase of $6,803,000, or 2.1%, over the prior year period.

At September 30, 2019, we owned or held a direct or indirect interest in:

- 20 communities under construction, which are expected to contain 6,700 apartment homes with a projected total capitalized cost of $2,500,000,000.

- The Park Loggia (previously referred to as 15 West 61st Street), located in New York, NY, a mixed-use development that will contain 172 for-sale residential condominiums and 67,000 square feet of retail space with a projected total capitalized cost of $626,000,000. We intend to proceed with the sale of the residential units of The Park Loggia as individual condominiums, and expect to commence settlement of condominium sales in the first quarter of 2020 after individual tax lots have been established for each condominium.

- Land or rights to land on which we expect to develop an additional 31 apartment communities that, if developed as expected, will contain 9,994 apartment homes, and will be developed for an aggregate total capitalized cost of $4,217,000,000.

During the three months ended September 30, 2019, we sold four wholly-owned operating communities containing an aggregate of 1,002 apartment homes for an aggregate sales price of $259,600,000, and our aggregate gain in accordance with GAAP was $130,399,000. The sales of two of these communities complete our exit from the Texas market.

During the three months ended September 30, 2019, we acquired two wholly-owned operating communities:

- Portico at Silver Spring Metro, located in Silver Spring, MD, contains 151 apartment homes and was acquired for a purchase price of $43,450,000.

- Avalon Bonterra, located in Hialeah, FL, contains 314 apartment homes and was acquired for a purchase price of $90,000,000.

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, including common equity we expect to issue pursuant to the equity forward contract entered into on September 25, 2019 (the "Forward"); the sale of apartment communities; or through the formation of joint ventures including the activity discussed above. See the discussion under "Liquidity and Capital Resources."

Communities Overview

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 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. 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 in the markets where we have a significant presence (New England, New York/New Jersey, Mid-Atlantic, Pacific Northwest, and Northern and Southern California) and 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 respective prior year period. For the nine month periods ended September 30, 2019 and 2018, Established Communities are communities that are consolidated for financial reporting purposes, had stabilized occupancy as of January 1, 2018, are not conducting or are not probable to conduct substantial redevelopment activities and are not held for sale as of September 30, 2019 or probable for disposition to unrelated third parties within the current year. 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* are all other completed consolidated communities that have stabilized occupancy, as defined above, as of January 1, 2019, or which were acquired as of the beginning of the current calendar year. Other Stabilized Communities includes stabilized operating communities in our expansion markets of Denver, Colorado and Southeast Florida, but excludes communities that are conducting or are probable to conduct substantial redevelopment activities within the current year.

- *Lease-Up Communities* are consolidated communities where construction has been complete for less than one year and where physical occupancy has not reached 95%.

- *Redevelopment Communities* are consolidated communities where substantial redevelopment is in progress or is probable 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.

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.

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As of September 30, 2019, 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	34	8,416
Metro NY/NJ	40	11,463
Mid-Atlantic	32	11,232
Pacific Northwest	16	4,116
Northern California	35	9,828
Southern California	53	14,689
Total Established	210	59,744
Other Stabilized Communities:		
New England	5	1,457
Metro NY/NJ	9	2,515
Mid-Atlantic	7	2,342
Pacific Northwest	—	—
Northern California	6	2,407
Southern California	4	1,822
Expansion Markets	7	2,060
Total Other Stabilized	38	12,603
Lease-Up Communities	4	1,123
Redevelopment Communities	5	1,818
Unconsolidated Communities (1)	15	3,659
Total Current Communities	272	78,947
Development Communities (2)	20	6,700
Total Communities	292	85,647
Development Rights	31	9,994

(1) In October 2019, the Archstone Multifamily Partners AC LP (the "U.S. Fund") sold Avalon Marina Bay and the adjacent marina, The Harbor at Marina Bay. Refer to Note 12, "Subsequent Events," of the Condensed Consolidated Financial Statements included elsewhere in this report for additional discussion of the disposition activity.

(2) Development Communities excludes the development of The Park Loggia, containing 172 for-sale residential condominiums and 67,000 square feet of retail space.

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. Our operating results are also affected by capital market and financing activity. A comparison of our operating results for the three and nine months ended September 30, 2019 and 2018 follows (unaudited, dollars in thousands):

	For the three months ended				For the nine months ended			
	9/30/2019	9/30/2018	$ Change	% Change	9/30/2019	9/30/2018	$ Change	% Change
Revenue:								
Rental and other income (1)	$ 586,382	$ 575,070	$ 11,312	2.0 %	$ 1,727,576	$ 1,703,263	$ 24,313	1.4 %
Management, development and other fees	1,231	912	319	35.0 %	3,484	2,752	732	26.6 %
Total revenue	587,613	575,982	11,631	2.0 %	1,731,060	1,706,015	25,045	1.5 %
Expenses:								
Direct property operating expenses, excluding property taxes (1)	112,003	111,573	430	0.4 %	323,368	333,174	(9,806)	(2.9)%
Property taxes	64,374	61,230	3,144	5.1 %	187,890	181,120	6,770	3.7 %
Total community operating expenses	176,377	172,803	3,574	2.1 %	511,258	514,294	(3,036)	(0.6)%
Corporate-level property management and other indirect operating expenses	21,442	20,664	778	3.8 %	66,457	61,158	5,299	8.7 %
Expensed transaction, development and other pursuit costs, net of recoveries	175	523	(348)	(66.5)%	2,562	2,212	350	15.8 %
Interest expense, net	51,493	54,097	(2,604)	(4.8)%	149,395	165,795	(16,400)	(9.9)%
Loss on extinguishment of debt, net	93	1,678	(1,585)	(94.5)%	602	2,717	(2,115)	(77.8)%
Depreciation expense	165,463	156,538	8,925	5.7 %	490,213	472,282	17,931	3.8 %
General and administrative expense	12,769	14,744	(1,975)	(13.4)%	45,440	44,384	1,056	2.4 %
Casualty and impairment gain, net	—	(554)	554	(100.0)%	—	(612)	612	(100.0)%
Total other expenses	251,435	247,690	3,745	1.5 %	754,669	747,936	6,733	0.9 %
Equity in income of unconsolidated real estate entities	1,643	10,031	(8,388)	(83.6)%	780	12,560	(11,780)	(93.8)%
Gain on sale of communities	130,484	27,243	103,241	379.0 %	165,849	132,444	33,405	25.2 %
Gain on other real estate transactions, net	73	12	61	508.3 %	374	335	39	11.6 %
For-sale condominium marketing and administrative costs	(1,108)	(339)	(769)	226.8 %	(2,526)	(497)	(2,029)	408.2 %
Income before income taxes	290,893	192,436	98,457	51.2 %	629,610	588,627	40,983	7.0 %
Income tax expense	11,184	29	11,155	N/A (2)	11,178	87	11,091	N/A (2)
Net income	279,709	192,407	87,302	45.4 %	618,432	588,540	29,892	5.1 %
Net (income) loss attributable to noncontrolling interests	(32)	79	(111)	N/A (2)	(108)	251	(359)	N/A (2)
Net income attributable to common stockholders	$ 279,677	$ 192,486	$ 87,191	45.3 %	$ 618,324	$ 588,791	$ 29,533	5.0 %

(1) Historically for periods prior to January 1, 2019, we presented charges for uncollectible lease revenue in direct property operating expenses, excluding property taxes. With the adoption of ASU 2016-02, Leases, we are presenting such charges as an adjustment to rental and other income in our consolidated financial statements on a prospective basis, as of January 1, 2019.

(2) Percent change is not meaningful.

Net income attributable to common stockholders increased $87,191,000, or 45.3%, to $279,677,000 for the three months ended September 30, 2019 and increased $29,533,000, or 5.0%, to $618,324,000 for the nine months ended September 30, 2019 as compared to the prior year periods. The increases for the three and nine months ended September 30, 2019 are primarily due to increases in real estate sales and related gains, increases in NOI from communities across the portfolio and decreases in interest expense in the current year periods, partially offset by increases in income tax and depreciation expense and decreases in joint venture real estate gains from the prior year periods.

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 easier 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 impact 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, expensed transaction, development and other pursuit costs, net of recoveries, interest expense, net, loss on extinguishment of debt, net, general and administrative expense, equity in income of unconsolidated real estate entities, depreciation expense, corporate income tax expense, casualty and impairment (gain) loss, net, gain on sale of communities, (gain) loss on other real estate transactions, net, for-sale condominiums marketing and administrative costs and net operating income from real estate assets sold or held for sale.

NOI does not represent cash generated from operating activities in accordance with GAAP, and 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 three and nine months ended September 30, 2019 and 2018 to net income for each period are as follows (unaudited, dollars in thousands):

	For the three months ended		For the nine months ended	
	9/30/2019	9/30/2018	9/30/2019	9/30/2018
Net income	$ 279,709	$ 192,407	$ 618,432	$ 588,540
Indirect operating expenses, net of corporate income	20,195	19,742	62,935	58,377
Expensed transaction, development and other pursuit costs, net of recoveries	175	523	2,562	2,212
Interest expense, net	51,493	54,097	149,395	165,795
Loss on extinguishment of debt, net	93	1,678	602	2,717
General and administrative expense	12,769	14,744	45,440	44,384
Equity in income of unconsolidated real estate entities	(1,643)	(10,031)	(780)	(12,560)
Depreciation expense	165,463	156,538	490,213	472,282
Income tax expense	11,184	29	11,178	87
Casualty and impairment gain, net	—	(554)	—	(612)
Gain on sale of real estate assets	(130,484)	(27,243)	(165,849)	(132,444)
Gain on other real estate transactions, net	(73)	(12)	(374)	(335)
For-sale condominium marketing and administrative costs	1,108	339	2,526	497
Net operating income from real estate assets sold or held for sale	(880)	(17,876)	(8,600)	(61,623)
Net operating income	$ 409,109	$ 384,381	$ 1,207,680	$ 1,127,317

The NOI changes for the three and nine months ended September 30, 2019, compared to the prior year periods, consist of changes in the following categories (unaudited, dollars in thousands):

	For the three months ended		For the nine months ended	
	9/30/2019		9/30/2019	
Established Communities	$	6,803	$	30,989
Other Stabilized Communities		9,650		34,399
Development and Redevelopment Communities		8,275		14,975
Total	$	24,728	$	80,363

Historically for periods prior to January 1, 2019, we presented charges related to uncollectible lease revenue in operating expenses. With the adoption of ASU 2016-02, Leases, we are presenting such charges as an adjustment to revenue in our consolidated financial statements on a prospective basis, as of January 1, 2019. For reported segment financial information, including for Established Communities as discussed below, we have also included such charges as an adjustment to revenue for all prior year periods presented in order to provide comparability.

Rental and other income increased in the three and nine months ended September 30, 2019 compared to the prior year periods due to additional rental income generated from newly developed, acquired and existing operating communities and an increase in rental rates at our Established Communities, discussed below. The change in classification of charges for uncollectible lease revenue, as described above, partially offsets the increase in rental and other income for the nine months ended September 30, 2019 over the prior year period.

Consolidated Communities — The weighted average number of occupied apartment homes increased to 72,599 apartment homes for the nine months ended September 30, 2019, compared to 72,579 homes for the prior year period. The weighted average monthly revenue per occupied apartment home increased to $2,640 for the nine months ended September 30, 2019 compared to $2,605 in the prior year period.

Established Communities — Rental revenue increased $40,898,000, or 3.1%, for the nine months ended September 30, 2019 compared to the prior year period due to an increase in average rental rates of 3.2% to $2,650 per apartment home, partially offset by a decrease in economic occupancy of 0.1% to 96.0%. 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.

The Metro New York/New Jersey region accounted for 22.4% of Established Community rental revenue for the nine months ended September 30, 2019, and experienced an increase in rental revenue of 2.8% compared to the prior year period. Average rental rates increased 2.9% to $3,099 per apartment home, partially offset by a decrease in economic occupancy of 0.1% to 96.1% for the nine months ended September 30, 2019, compared to the prior year period. The New York State Housing Stability and Tenant Protection Act of 2019 (the "Act"), which was signed into law on June 14, 2019, now limits some of the fees we previously charged in New York State (including late fees and new lease application fees), eliminates our ability to raise rents on rent stabilized apartments up to the full legal rent when residents with a preferential rent renew their lease, and implements other changes that are expected to limit our rent increases on rent stabilized apartments and generally increases tenant rights. We expect the impact of the Act to be immaterial to our Metro New York/New Jersey results of operations.

The Southern California region accounted for 22.2% of Established Community rental revenue for the nine months ended September 30, 2019, and experienced an increase in rental revenue of 3.1% compared to the prior year period. Average rental rates increased 3.3% to $2,395 per apartment home, and were partially offset by a 0.2% decrease in economic occupancy to 95.8% for the nine months ended September 30, 2019, compared to the prior year period.

The Northern California region accounted for 19.3% of Established Community rental revenue for the nine months ended September 30, 2019, and experienced an increase in rental revenue of 3.2% compared to the prior year period. Average rental rates increased 3.5% to $3,108 per apartment home, and were partially offset by a 0.3% decrease in economic occupancy to 96.2% for the nine months ended September 30, 2019, compared to the prior year period.

The Mid-Atlantic region accounted for 16.0% of Established Community rental revenue for the nine months ended September 30, 2019, and experienced an increase in rental revenue of 3.0% compared to the prior year period. Average rental rates increased 2.6% to $2,248 per apartment home, and economic occupancy increased 0.4% to 96.3% for the nine months ended September 30, 2019, compared to the prior year period.

The New England region accounted for 13.9% of Established Community rental revenue for the nine months ended September 30, 2019, and experienced an increase in rental revenue of 3.0% compared to the prior year period. Average rental rates increased 3.3% to $2,625 per apartment home, and were partially offset by a 0.3% decrease in economic occupancy to 95.6% for the nine months ended September 30, 2019, compared to the prior year period.

The Pacific Northwest region accounted for 6.2% of Established Community rental revenue for the nine months ended September 30, 2019, and experienced an increase in rental revenue of 4.2% compared to the prior year period. Average rental rates increased 4.3% to $2,365 per apartment home, and were partially offset by a 0.1% decrease in economic occupancy to 96.2% for the nine months ended September 30, 2019, compared to the prior year period.

Direct property operating expenses, excluding property taxes, decreased $9,806,000, or 2.9%, for the nine months ended September 30, 2019 compared to the prior year period. The decrease for the nine months ended September 30, 2019 is primarily due to the change in classification of charges for uncollectible lease revenue, as described above, as well as a decrease from dispositions in the prior and current year periods, partially offset by an increase due to the addition of newly developed and acquired apartment communities.

For Established Communities, direct property operating expenses, excluding property taxes, increased $3,800,000, or 4.7%, and $7,635,000, or 3.2%, for the three and nine months ended September 30, 2019 compared to the prior year periods. The increases for the three and nine months ended September 30, 2019 are primarily due to increased repair and maintenance costs, payroll and related benefit expenses, insurance and marketing costs, partially offset by decreased utility costs.

Property taxes increased $3,144,000, or 5.1%, and $6,770,000, or 3.7%, for the three and nine months ended September 30, 2019, compared to the prior year periods. The increases for the three and nine months ended September 30, 2019 are primarily due to the addition of newly developed and acquired apartment communities and increased assessments for the Company's stabilized portfolio, partially offset by decreased property taxes from dispositions.

For Established Communities, property taxes increased $1,578,000, or 3.3%, and $3,078,000, or 2.2%, for the three and nine months ended September 30, 2019, compared to the prior year periods. The increases for the three and nine months ended September 30, 2019 are primarily due to increased assessments in the current year period in the Company's East Coast and Southern California markets, partially offset by decreased tax rates in the Pacific Northwest. The increase for the nine months ended September 30, 2019 is also partially offset by a successful appeal in Northern California in the current year. 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). 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 $778,000, or 3.8%, and $5,299,000, or 8.7%, for the three and nine months ended September 30, 2019, compared to the prior year periods, primarily due to increased compensation related costs and spending on corporate initiatives in the current year periods, partially offset by advocacy contributions in the prior year periods not present in the current year periods.

Interest expense, net decreased $2,604,000, or 4.8%, and $16,400,000, or 9.9%, for the three and nine months ended September 30, 2019, compared to the prior year periods. 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 decreases for the three and nine months ended September 30, 2019 are primarily due to a decrease in outstanding secured indebtedness and an increase in capitalized interest, partially offset by an increase in outstanding unsecured indebtedness.

Loss on extinguishment of debt, net reflects prepayment penalties, the write-off of unamortized deferred financing costs and premiums and discounts from our debt repurchase and retirement activity, and payments to acquire our outstanding debt at amounts above or below the carrying basis of the debt acquired. The losses of $1,678,000 and $2,717,000 for the three and nine months ended September 30, 2018, were due to the repayment of secured debt during the periods.

Depreciation expense increased $8,925,000, or 5.7%, and $17,931,000, or 3.8%, for the three and nine months ended September 30, 2019, compared to the prior year periods, primarily due to the addition of newly developed and acquired apartment communities, partially offset by dispositions.

General and administrative expense decreased $1,975,000, or 13.4%, and increased $1,056,000, or 2.4%, for the three and nine months ended September 30, 2019, compared to the prior year periods. The decrease for the three months ended September 30, 2019 is primarily due to legal settlement proceeds related to a former Development Right, partially offset by an increase in compensation related expenses in the current year period. The increase for the nine months ended September 30, 2019 is primarily due to an increase in compensation related expenses in the current year period, partially offset by the legal settlement proceeds.

Equity in income of unconsolidated real estate entities decreased $8,388,000, or 83.6%, and $11,780,000, or 93.8%, for the three and nine months ended September 30, 2019, compared to the prior year periods. The decreases for the three and nine months ended September 30, 2019 are primarily due to a gain on the sale of a community from the U.S. Fund in the prior year periods. The decrease for the nine months ended September 30, 2019 is also due to non-cash charges for the depreciation of in-place leases associated with purchase accounting within the NYTA MF Investors LLC unconsolidated venture (the "NYC Joint Venture"), which were not present in the prior year period.

Gain on sale of communities increased for the three and nine months ended September 30, 2019 compared to the prior year periods due to increased sales and related gains in the current year periods. 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.

For-sale condominiums marketing and administrative costs consist of costs associated with the for-sale condominiums of The Park Loggia development.

Income tax expense for the three and nine months ended September 30, 2019 consists of $6,645,000 of income tax expense for a deferred tax liability for the GAAP to tax basis differences at The Park Loggia development, which will be realized upon disposition, and $4,539,000 related to other activity we undertook through taxable REIT subsidiaries ("TRS") including the disposition of two wholly-owned operating communities and expense for deferred tax liabilities related to our sustainability initiatives.

Reconciliation of Non-GAAP Financial Measures

Consistent with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts® ("NAREIT"), we calculate Funds from Operations Attributable to Common Stockholders ("FFO") as net income or loss attributable to common stockholders computed in accordance with GAAP, adjusted for:

- 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
- similar adjustments for unconsolidated partnerships and joint ventures.

FFO and FFO adjusted for non-core items, or "Core FFO," as defined below, are generally considered by management to be appropriate supplemental measures of our operating and financial performance. In calculating FFO, we exclude gains or losses related to dispositions of previously depreciated property and exclude 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 between periods. We believe that in order to understand our operating results, FFO and Core FFO should be examined with net income as presented in our Condensed Consolidated Financial Statements included elsewhere in this report.

We calculate Core FFO as FFO, adjusted for:

- joint venture gains (if not adjusted through FFO), non-core activities, and promoted interests;
- casualty and impairment losses or gains, net on non-depreciable real estate;
- gains or losses from early extinguishment of consolidated borrowings;
- abandoned pursuits;
- business interruption insurance proceeds and the related lost NOI that is covered by the expected business interruption insurance proceeds;
- property and casualty insurance proceeds and legal settlements;

- gains or losses on sales of assets not subject to depreciation;
- advocacy contributions, representing payments to promote our business interests;
- hedge ineffectiveness;
- severance related costs;
- expensed transaction costs;
- for-sale condominium marketing and administrative costs and imputed carry cost;
- income taxes; 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.

The following is a reconciliation of net income attributable to common stockholders to FFO attributable to common stockholders and to Core FFO attributable to common stockholders (unaudited, dollars in thousands, except per share amounts):

	For the three months ended		For the nine months ended	
	9/30/2019	9/30/2018	9/30/2019	9/30/2018
Net income attributable to common stockholders	$ 279,677	$ 192,486	$ 618,324	$ 588,791
Depreciation - real estate assets, including joint venture adjustments	165,673	156,204	495,249	470,976
Distributions to noncontrolling interests	11	11	34	33
Gain on sale of unconsolidated entities holding previously depreciated real estate	—	(8,636)	—	(8,636)
Gain on sale of previously depreciated real estate	(130,484)	(27,243)	(165,849)	(132,444)
FFO attributable to common stockholders	314,877	312,822	947,758	918,720
Adjusting items:				
Joint venture losses (1)	—	307	—	314
Joint venture promote (2)	—	—	—	(925)
Casualty gain, net on real estate (3)	—	(554)	—	(612)
Business interruption insurance proceeds	(307)	—	(914)	—
Lost NOI from casualty losses covered by business interruption insurance (4)	410	—	410	1,730
Loss on extinguishment of consolidated debt	93	1,678	602	2,717
Advocacy contributions	—	843	—	1,449
Severance related costs	895	80	2,267	582
Development pursuit write-offs and expensed transaction costs, net	85	(309)	1,689	261
For-sale condominium marketing and administrative costs	1,108	339	2,526	497
For-sale condominium imputed carry cost (5)	1,724	—	2,230	—
Gain on other real estate transactions, net	(73)	(12)	(374)	(335)
Legal settlements (6)	(3,093)	—	(4,071)	367
Income tax expense (7)	11,184	—	11,178	—
Core FFO attributable to common stockholders	$ 326,903	$ 315,194	$ 963,301	$ 924,765
Weighted average common shares outstanding - diluted	139,852,674	138,323,064	139,438,064	138,230,724
EPS per common share - diluted	$ 2.00	$ 1.39	$ 4.43	$ 4.26
FFO per common share - diluted	$ 2.25	$ 2.26	$ 6.80	$ 6.65
Core FFO per common share - diluted	$ 2.34	$ 2.28	$ 6.91	$ 6.69

(1) Amounts are primarily composed of (i) our portion of yield maintenance charges incurred for the early repayment of debt associated with joint venture disposition activity and (ii) the write-off of asset management fee intangibles associated with the disposition of a community in the U.S. Fund.

(2) Amount represents our promoted interest in AvalonBay Value Added Fund II, L.P.

(3) Amounts consist primarily of legal settlement proceeds for construction defects at a community acquired as part of the Archstone acquisition.

(4) Amount for the nine months ended September 30, 2018 relate to the Maplewood casualty loss in Q1 2017, and for which we recognized $3,495 in business interruption insurance proceeds in Q3 2017.

(5) Represents the imputed carry cost of for-sale residential condominiums at The Park Loggia. We compute this adjustment by multiplying the total capitalized cost of completed and unsold for-sale residential condominiums by our weighted average unsecured debt rate.

(6) Amounts for the three and nine months ended September 30, 2019 include $3,126 in legal settlement proceeds related to a former Development Right.

(7) Amounts for the three and nine months ended September 30, 2019 consist of $6,645 of income tax expense for a deferred tax liability for the GAAP to tax basis differences at The Park Loggia development and $4,539 related to other activity through a TRS, including the disposition of two wholly-owned operating communities and expense for deferred tax liabilities related to our sustainability initiatives.

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 as follows (unaudited, dollars in thousands) and a discussion of "Liquidity and Capital Resources" can be found later in this report:

	For the three months ended		For the nine months ended	
	9/30/2019	9/30/2018	9/30/2019	9/30/2018
Net cash provided by operating activities	$ 376,655	$ 355,260	$ 1,014,922	$ 980,557
Net cash used in investing activities	$ (167,180)	$ (178,775)	$ (757,204)	$ (495,456)
Net cash used in by financing activities	$ (204,765)	$ (244,791)	$ (140,828)	$ (405,416)

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 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 expenses 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 cash and cash equivalents and restricted cash of $334,754,000 at September 30, 2019, an increase of $116,890,000 from $217,864,000 at December 31, 2018. As presented in our Condensed Consolidated Statements of Cash Flows included elsewhere in this report, the following discussion relates to changes in cash due to operating, investing and financing activities.

Operating Activities — Net cash provided by operating activities increased to $1,014,922,000 for the nine months ended September 30, 2019 from $980,557,000 for the nine months ended September 30, 2018. The change was driven primarily by increased NOI from existing, acquired and newly developed communities.

Investing Activities — Net cash used in investing activities totaled $757,204,000 for the nine months ended September 30, 2019. The net cash used was primarily due to:

- investment of $791,551,000 in the development and redevelopment of communities;
- acquisition of four wholly-owned operating communities for $286,804,000; and
- capital expenditures of $97,048,000 for our operating communities and non-real estate assets.

These amounts are partially offset by proceeds from dispositions of $421,735,000.

Financing Activities — Net cash used in financing activities totaled $140,828,000 for the nine months ended September 30, 2019. The net cash used was primarily due to:

- payment of cash dividends in the amount of $627,467,000; and
- the repayment of mortgage notes payable in the amount of $160,709,000.

These amounts are partially offset by:
- proceeds from the issuance of unsecured notes in the amount of $449,804,000; and
- the issuance of common stock in the amount of $207,789,000, primarily through CEP IV and CEP V.

Variable Rate Unsecured Credit Facility

On February 28, 2019, we entered into a $1,750,000,000 Fifth Amended and Restated Revolving Loan Agreement (the "Credit Facility") with a syndicate of banks, which replaces our prior $1,500,000,000 credit facility dated as of January 14, 2016. The term of the Credit Facility ends on February 28, 2024.

The Credit Facility bears interest at varying levels based on (i) the London Interbank Offered Rate ("LIBOR") applicable to the period of borrowing for a particular draw of funds from the facility (e.g., one month to maturity, three months to maturity, etc.) and (ii) the rating levels issued for our unsecured notes. The current stated pricing for drawn borrowings is LIBOR plus 0.775% per annum (2.56% at October 31, 2019), assuming a one month borrowing rate. The stated spread over LIBOR can vary from LIBOR plus 0.70% to LIBOR plus 1.45% based upon the rating of our unsecured notes. The Credit Facility also provides a competitive bid option that is available for borrowings of up to 65% of the Credit Facility amount. This option allows banks that are part of the lender consortium to bid to provide us loans at a rate that is lower than the stated pricing provided by the unsecured credit facility. The competitive bid option may result in lower pricing than the stated rate if market conditions allow. The annual facility fee for the Credit Facility remained at 0.125%, resulting in a fee of $2,188,000 annually based on the $1,750,000,000 facility size and based on our current credit rating.

We had borrowings of $8,000,000 outstanding under the Credit Facility and had $17,088,000 outstanding in letters of credit that reduced our borrowing capacity as of October 31, 2019. In addition, we had $24,789,000 outstanding in additional letters of credit as of October 31, 2019.

Financial Covenants

We are subject to financial and other covenants contained in the Credit Facility, the Term Loans and the indentures 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 September 30, 2019.

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 originated.

Continuous Equity Offering Program

In December 2015, we commenced a fourth continuous equity program ("CEP IV") under which we were able to sell (and/or enter into forward sale agreements for the sale of) up to $1,000,000,000 of its common stock from time to time. In conjunction with CEP IV, we engaged sales agents who received compensation up to 2.0% of the gross sales price for shares sold.

In May 2019, we replaced CEP IV with a new continuous equity program ("CEP V") under which we may sell (and/or enter into forward sale agreements for the sale of) 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 V, we engaged sales agents who will receive compensation of up to 1.5% of the gross sales price for shares sold. We expect that, if entered into, 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, a commission of up to 1.5% of the sales prices of all borrowed shares of common stock sold. As of September 30, 2019, there was an outstanding forward sales agreement, as discussed below.

During the nine months ended September 30, 2019, we sold 755,054 shares at an average sales price of $198.26 per share, for net proceeds of $147,450,000 under CEP IV, and 239,580 shares at an average sales price of $208.70 per share, for net proceeds of $49,250,000 under CEP V. We have not engaged in sales activity subsequent to September 30, 2019. As of October 31, 2019, and before considering the impact of the Forward discussed below, we had $950,000,000 remaining authorized for issuance under CEP V.

Equity Forward Contract

On September 25, 2019, we entered into the Forward under CEP V to sell 947,868 shares of common stock for approximate proceeds of $198,000,000, net of offering fees and discounts. The sales price was established based on the stock price during intraday trading on September 25, 2019. The proceeds received will be determined on the date or dates of settlement, with adjustments during the term of the contract for our dividends as well as for a daily interest factor that varies with changes in the Overnight Bank Funding rate. We generally have the ability to determine the date(s) and method of settlement, subject to certain conditions and the right of the forward counterparty to accelerate settlement under certain circumstances. Settlement may be (i) physical sale of shares of our common stock for cash, (ii) net cash settlement, whereby we will either pay or receive the difference between the forward contract price and the weighted average market price for our common stock at the time of settlement, or (iii) net share settlement, whereby we will either receive or issue shares of our common stock, with the number of shares issued or received determined by the difference between the forward contract price and the weighted average market price for its common stock at the time of settlement. The forward contract price and the weighted average market price would in both cases be determined under the applicable terms of the forward contract. Under either of the net settlement provisions, we will pay to the counterparty either cash or shares of common stock when the weighted average market price of our common stock at the time of settlement exceeds the forward contract price, and will receive either cash or issue shares of common stock to the extent that the weighted average market price of our common stock at the time of settlement is less than the price under the forward contract. Settlement of the forward contract will occur on one or more dates not later than September 25, 2020.

Forward Interest Rate Swap Agreements

During the nine months ended September 30, 2019, in conjunction with the issuance of our 3.30% notes due 2029 in May 2019, we settled $250,000,000 of forward interest rate swap agreements designated as cash flow hedges of the interest rate variability of the unsecured notes, making a payment of $12,309,000.

During the three and nine months ended September 30, 2019, we entered into $100,000,000 and $350,000,000, respectively, of forward interest rate swap agreements executed to reduce the impact of variability in interest rates on a portion of our expected debt issuance activity in 2020, which are outstanding as of September 30, 2019. At maturity of the outstanding swap 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 hedging impact from these positions will then be recognized over the life of the issued debt as a yield adjustment.

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. 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.

In addition to the Credit Facility discussed in this Form 10-Q, the following debt activity occurred during the nine months ended September 30, 2019:

- In February 2019, we amended and restated the $250,000,000 variable rate unsecured term loan that we originally entered into in February 2017, of which $100,000,000 matures in February 2022 with stated pricing of LIBOR plus 0.90%, which remained the same, and $150,000,000 matures in February 2024 with stated pricing of LIBOR plus 0.85% that decreased from LIBOR plus 1.50%.

- In April 2019, we repaid $13,363,000 of 2.99% fixed rate debt and $33,854,000 of variable rate debt secured by Avalon Natick at par on its maturity date.

- In May 2019, we repaid $7,635,000 principal amount of variable rate debt secured by Eaves Mission Viejo at par in advance of its scheduled maturity date. We utilized $3,706,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.

- In May 2019, we repaid $20,800,000 principal amount of variable rate debt secured by AVA Nob Hill at par in advance of its scheduled maturity date. We utilized $10,584,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.

- In May 2019, we repaid $38,800,000 principal amount of variable rate debt secured by Avalon Campbell at par in advance of its scheduled maturity date. We utilized $22,622,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.

- In May 2019, we repaid $17,600,000 principal amount of variable rate debt secured by Eaves Pacifica at par in advance of its scheduled maturity date. We utilized $10,263,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.

- In May 2019, we issued $450,000,000 principal amount of unsecured notes in a public offering under our existing shelf registration statement for net proceeds of approximately $446,877,000. The notes mature in June 2029 and were issued at a 3.30% interest rate. The effective interest rate of the notes is 3.66%, including the impact of the interest rate hedge discussed above and offering costs.

- In August 2019, as part of the tax-deferred exchange associated with the disposition of Archstone Lexington and acquisition of Avalon Cerritos, we (i) repaid $21,700,000 principal amount of variable rate debt secured by Archstone Lexington at par in advance of its scheduled maturity date and (ii) entered into a $30,250,000 fixed rate note secured by Avalon Cerritos, with a contractual interest rate of 3.26%, maturing in August 2029. Refer to Note 6, "Real Estate Disposition Activities," and Note 5, "Investments in Real Estate Entities," of the Condensed Consolidated Financial Statements included elsewhere in this report for further discussion of the disposition and acquisition activity.

In November 2019, we repaid $65,749,000 of 3.38% fixed rate debt secured by Avalon Columbia Pike at par at its 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 September 30, 2019 and December 31, 2018 (dollars in thousands). 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.

Community	All-In interest rate (1)	Principal maturity date		Balance Outstanding (2)		Scheduled Maturities					
				12/31/2018	9/30/2019	2019	2020	2021	2022	2023	Thereafter
Tax-exempt bonds											
Fixed rate											
Avalon at Chestnut Hill	6.16%	Oct-2047		$ 37,561	$ 37,139	$ 144	$ 596	$ 629	$ 663	$ 699	$ 34,408
Avalon Westbury	3.86%	Nov-2036	(3)	62,200	62,200	—	—	—	—	—	62,200
				99,761	99,339	144	596	629	663	699	96,608
Variable rate											
Eaves Mission Viejo	2.67%	Jun-2025	(5)	7,635	—	—	—	—	—	—	—
AVA Nob Hill	2.65%	Jun-2025	(5)	20,800	—	—	—	—	—	—	—
Avalon Campbell	2.98%	Jun-2025	(5)	38,800	—	—	—	—	—	—	—
Eaves Pacifica	3.00%	Jun-2025	(5)	17,600	—	—	—	—	—	—	—
Avalon Acton	2.88%	Jul-2040	(4)	45,000	45,000	—	—	—	—	—	45,000
Avalon Clinton North	3.27%	Nov-2038	(4)	147,000	147,000	—	—	—	—	—	147,000
Avalon Clinton South	3.27%	Nov-2038	(4)	121,500	121,500	—	—	—	—	—	121,500
Avalon Midtown West	3.18%	May-2029	(4)	100,500	98,200	—	4,700	5,200	5,600	6,100	76,600
Avalon San Bruno I	3.16%	Dec-2037	(4)	64,450	64,450	—	1,400	1,900	2,000	2,200	56,950
				563,285	476,150	—	6,100	7,100	7,600	8,300	447,050
Conventional loans											
Fixed rate											
$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	—	—	—	—	—	525,000
$300 million unsecured notes	3.62%	Nov-2025		300,000	300,000	—	—	—	—	—	300,000
$475 million unsecured notes	3.35%	May-2026		475,000	475,000	—	—	—	—	—	475,000
$300 million unsecured notes	3.01%	Oct-2026		300,000	300,000	—	—	—	—	—	300,000
$350 million unsecured notes	3.95%	Oct-2046		350,000	350,000	—	—	—	—	—	350,000
$400 million unsecured notes	3.50%	May-2027		400,000	400,000	—	—	—	—	—	400,000
$300 million unsecured notes	4.09%	Jul-2047		300,000	300,000	—	—	—	—	—	300,000
$450 million unsecured notes	3.32%	Jan-2028		450,000	450,000	—	—	—	—	—	450,000
$300 million unsecured notes	3.97%	Apr-2048		300,000	300,000	—	—	—	—	—	300,000
$450 million unsecured notes	3.66%	Jun-2029		—	450,000	—	—	—	—	—	450,000
Avalon Walnut Creek	4.00%	Jul-2066		3,699	3,847	—	—	—	—	—	3,847
Eaves Los Feliz	3.68%	Jun-2027		41,400	41,400	—	—	—	—	—	41,400
Eaves Woodland Hills	3.67%	Jun-2027		111,500	111,500	—	—	—	—	—	111,500
Avalon Russett	3.77%	Jun-2027		32,200	32,200	—	—	—	—	—	32,200
Avalon San Bruno II	3.85%	Apr-2021		28,999	28,580	145	591	27,844	—	—	—
Avalon Westbury	4.88%	Nov-2036	(3)	15,095	14,030	365	1,495	1,575	1,655	1,740	7,200
Avalon San Bruno III	3.18%	Jun-2020		52,090	51,146	321	50,825	—	—	—	—
Avalon Natick	3.15%	Apr-2019	(6)	13,482	—	—	—	—	—	—	—
Avalon Hoboken	3.55%	Dec-2020		67,904	67,904	—	67,904	—	—	—	—
Avalon Columbia Pike	3.24%	Nov-2019	(7)	67,085	65,886	65,886	—	—	—	—	—
Avalon Cerritos	3.39%	Aug-2029	(8)	—	30,250	—	—	—	—	—	30,250
				5,833,454	6,296,743	66,717	520,815	279,419	451,655	601,740	4,376,397
Variable rate											
Avalon Natick	4.80%	Apr-2019	(6)	34,155	—	—	—	—	—	—	—
Archstone Lexington	4.13%	Oct-2020	(8)	21,700	—	—	—	—	—	—	—
Term Loan - $100 million	3.20%	Feb-2022		100,000	100,000	—	—	—	100,000	—	—
Term Loan - $150 million	3.13%	Feb-2024		150,000	150,000	—	—	—	—	—	150,000
$300 million unsecured notes	2.92%	Jan-2021		300,000	300,000	—	—	300,000	—	—	—
				605,855	550,000	—	—	300,000	100,000	—	150,000
Total indebtedness - excluding Credit Facility				$ 7,102,355	$ 7,422,232	$ 66,861	$ 527,511	$ 587,148	$ 559,918	$ 610,739	$ 5,070,055

(1) Rates are given as of September 30, 2019 and include 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 and debt discount for the unsecured notes of $43,110 and $44,007 as of September 30, 2019 and December 31, 2018, respectively, and deferred financing costs and debt discount associated with secured notes of $17,843 and $18,085 as of September 30, 2019 and December 31, 2018, respectively, as reflected on our Condensed Consolidated Balance Sheets included elsewhere in this report.

(3) Maturity date reflects the contractual maturity of the underlying bond. There is also an associated earlier credit enhancement maturity date.

(4) Financed by variable rate debt, but interest rate is capped through an interest rate protection agreement.

(5) During 2019, we repaid this borrowing at par in advance of its scheduled maturity date.

(6) During 2019, we repaid this borrowing at par on its scheduled maturity date.

(7) In November 2019, we repaid this borrowing at par on its scheduled maturity date.

(8) In August 2019, as part of the tax-deferred exchange associated with the disposition of Archstone Lexington and acquisition of Avalon Cerritos, we (i) repaid the borrowing secured by Archstone Lexington at par in advance of its scheduled maturity date and (ii) entered into a new borrowing secured by Avalon Cerritos.

Future Financing and Capital Needs — Portfolio and Capital Markets Activity

During the remainder of 2019, we expect to meet our liquidity needs from one or more of a variety of internal and external sources, which may include (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 2019 may include the issuance of common and preferred equity, including through the Forward. 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 and new markets where our partners bring development and operational expertise and/or experience 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 our ownership periods 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

As of September 30, 2019, we had investments in unconsolidated real estate accounted for under the equity method of accounting shown in the following table, excluding joint ventures formed with Equity Residential as part of the Archstone acquisition. Refer to Note 5, "Investments in Real Estate Entities," of the Condensed Consolidated Financial Statements included 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 September 30, 2019, detail of the real estate and associated indebtedness underlying our unconsolidated investments is presented in the following table (dollars in thousands).

				Debt (2)			
Unconsolidated Real Estate Investments	**Company ownership percentage**	**# of Apartment homes**	**Total capitalized cost (1)**	**Amount**	**Type**	**Interest rate (3)**	**Maturity date**
NYC Joint Venture							
1. Avalon Bowery Place I - New York, NY		206	$ 208,380	$ 93,800	Fixed	4.01%	Jan 2029
2. Avalon Bowery Place II - New York, NY		90	90,259	39,639	Fixed	4.01%	Jan 2029
3. Avalon Morningside - New York, NY (4)		295	210,710	112,500	Fixed	3.55%	Jan 2029/May 2046
4. Avalon West Chelsea - New York, NY (5)		305	127,564	66,000	Fixed	4.01%	Jan 2029
5. AVA High Line - New York, NY (5)		405	121,203	84,000	Fixed	4.01%	Jan 2029
Total NYC Joint Venture	20.0%	1,301	758,116	395,939		3.88%	
Archstone Multifamily Partners AC LP (the "U.S. Fund")							
1. Avalon Studio 4121 - Studio City, CA		149	57,168	27,817	Fixed	3.34%	Nov 2022
2. Avalon Marina Bay - Marina del Rey, CA (6)		205	77,200	49,950	Fixed	1.56%	Dec 2020
3. Avalon Venice on Rose - Venice, CA		70	57,426	27,815	Fixed	3.28%	Jun 2020
4. Avalon Station 250 - Dedham, MA		285	97,917	54,197	Fixed	3.73%	Sep 2022
5. Avalon Grosvenor Tower - Bethesda, MD		237	80,375	42,010	Fixed	3.74%	Sep 2022
Total U.S. Fund	28.6%	946	370,086	201,789		3.08%	
Multifamily Partners AC JV LP (the "AC JV")							
1. Avalon North Point - Cambridge, MA (7)		426	189,866	111,653	Fixed	6.00%	Aug 2021
2. Avalon North Point Lofts - Cambridge, MA		103	26,865	—	N/A	N/A	N/A
Total AC JV	20.0%	529	216,731	111,653		6.00%	
North Point II JV, LP							
1. AVA North Point - Cambridge, MA		265	106,819	—	N/A	N/A	N/A
Total North Point II JV, LP	55.0%	265	106,819	—		N/A	
Other Operating Joint Ventures							
1. MVP I, LLC	25.0%	313	125,531	103,000	Fixed	3.24%	Jul 2025
2. Brandywine Apartments of Maryland, LLC	28.7%	305	19,383	21,758	Fixed	3.40%	Jun 2028
Total Other Joint Ventures		618	144,914	124,758		3.27%	
Total Unconsolidated Investments		3,659	$ 1,596,666	$ 834,139		3.88%	

(1) Represents total capitalized cost as of September 30, 2019.

(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 September 30, 2019.

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

(5) Borrowing on this dual-branded community is comprised of a single mortgage loan.

(6) In October 2019, we sold this community and the adjacent marina for $86,000 and repaid the associated outstanding secured borrowing in conjunction with the disposition.

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

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 Condensed Consolidated Financial Statements included 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.

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

We currently have contractual obligations consisting primarily of long-term debt obligations and lease obligations for certain land parcels and regional and administrative office space. We adopted ASU 2016-02, Leases, as of January 1, 2019, and the prospective adoption of this standard did not have a material impact on our contractual lease obligations. Disclosures detailing the adoption and the associated contractual obligations can be found in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies," and Note 7, "Commitments and Contingencies," of our Condensed Consolidated Financial Statements included elsewhere in this report. As of September 30, 2019, other than as discussed in this Form 10-Q, there have been no other material changes in our scheduled contractual obligations as disclosed in our Form 10-K.

Development Communities

As of September 30, 2019, we owned or held a direct or indirect interest in 20 Development Communities under construction. We expect these Development Communities, when completed, to add a total of 6,700 apartment homes and 94,000 square feet of retail space to our portfolio for a total capitalized cost, including land acquisition costs, of approximately $2,500,000,000. Additionally, we are also developing The Park Loggia, which upon completion will contain 172 for-sale residential condominiums and 67,000 square feet of retail space for a projected total capitalized cost of $626,000,000. 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" of our Form 10-K for a discussion of the risks associated with development activity.

The following table presents a summary of the Development Communities. We hold a fee simple ownership interest in these communities (directly or through a wholly-owned subsidiary) unless otherwise noted in the table.

		Number of apartment homes	Projected total capitalized cost (1) ($ millions)	Construction start	Initial projected or actual occupancy (2)	Estimated completion	Estimated stabilized operations (3)
1.	Avalon Boonton *Boonton, NJ*	350	$ 93	Q3 2016	Q1 2019	Q4 2019	Q2 2020
2.	Avalon Belltown Towers (4) *Seattle, WA*	274	147	Q4 2016	Q2 2019	Q4 2019	Q2 2020
3.	Avalon Public Market *Emeryville, CA*	289	175	Q4 2016	Q3 2019	Q2 2020	Q4 2020
4.	Avalon Teaneck *Teaneck, NJ*	248	73	Q4 2016	Q2 2019	Q1 2020	Q3 2020
5.	AVA Hollywood (4) *Hollywood, CA*	695	365	Q4 2016	Q4 2019	Q4 2020	Q2 2021
6.	Avalon Towson *Towson, MD*	371	114	Q4 2017	Q1 2020	Q4 2020	Q2 2021
7.	Avalon Yonkers *Yonkers, NY*	590	188	Q4 2017	Q3 2019	Q1 2021	Q2 2021
8.	Avalon Walnut Creek II *Walnut Creek, CA*	200	109	Q4 2017	Q1 2020	Q2 2020	Q4 2020
9.	Avalon North Creek *Bothell, WA*	316	84	Q4 2017	Q2 2019	Q1 2020	Q3 2020
10.	Avalon Saugus (4) *Saugus, MA*	280	93	Q2 2018	Q2 2019	Q4 2019	Q3 2020
11.	Avalon Doral *Doral, FL*	350	113	Q2 2018	Q2 2020	Q1 2021	Q3 2021
12.	Avalon Norwood *Norwood, MA*	198	61	Q2 2018	Q3 2019	Q1 2020	Q3 2020
13.	Avalon East Harbor *Baltimore, MD*	400	139	Q3 2018	Q4 2020	Q3 2021	Q1 2022
14.	Avalon Old Bridge *Old Bridge, NJ*	252	66	Q3 2018	Q1 2020	Q4 2020	Q1 2021
15.	Avalon Newcastle Commons II *Newcastle, WA*	293	106	Q4 2018	Q3 2020	Q2 2021	Q4 2021
16.	Twinbrook Station *Rockville, MD*	238	66	Q4 2018	Q3 2020	Q1 2021	Q3 2021
17.	Avalon Harrison (4) *Harrison, NY*	143	76	Q4 2018	Q1 2021	Q1 2022	Q2 2022
18.	Avalon Brea Place *Brea, CA*	653	290	Q2 2019	Q1 2021	Q2 2022	Q3 2022
19.	Avalon Foundry Row *Owings Mills, MD*	437	100	Q2 2019	Q1 2021	Q1 2022	Q3 2022
20.	Avalon Marlborough II *Marlborough, MA*	123	42	Q2 2019	Q2 2020	Q4 2020	Q2 2021
	Total	6,700	$ 2,500				

(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, as well as costs incurred for first generation retail tenants such as tenant improvements and leasing commissions. 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 unless otherwise noted.

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

(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) Development Communities containing at least 10,000 square feet of retail space include Avalon Belltown Towers (11,000 square feet), AVA Hollywood (19,000 square feet), Avalon Saugus (23,000 square feet) and Avalon Harrison (27,000 square feet).

During the three months ended September 30, 2019, we 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.
1.	AVA Esterra Park *Redmond, WA*	323	$ 91	229,514	$ 396

(1) Total capitalized cost is as of September 30, 2019. We generally anticipate incurring additional costs associated with Development Communities that are customary for new developments.

We anticipate commencing the construction of five apartment communities during the balance of 2019, which, if completed as expected, will contain 1,156 apartment homes and be constructed for a total capitalized cost of $403,000,000.

Redevelopment Communities

As of September 30, 2019, there were five communities under active redevelopment. We expect the total capitalized cost to redevelop these communities to be $95,000,000, 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. You should carefully review Item 1A. "Risk Factors" of our Form 10-K 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 ($ millions) (1)	Reconstruction start	Estimated reconstruction completion (2)	Estimated restabilized operations (3)
1.	Eaves Seal Beach *Seal Beach, CA*	549	32	Q1 2018	Q4 2019	Q2 2020
2.	Eaves Redmond Campus *Redmond, WA*	422	24	Q1 2018	Q4 2019	Q2 2020
3.	Eaves Fairfax Towers *Falls Church, VA*	415	14	Q1 2018	Q4 2019	Q2 2020
4.	Avalon Prudential Center I *Boston, MA*	243	18	Q1 2018	Q1 2020	Q3 2020
5.	Avalon Darien *Darien, CT*	189	7	Q1 2019	Q4 2019	Q2 2020
	Total	1,818	$ 95			

(1) Projected total capitalized cost does not include capitalized costs incurred prior to redevelopment and represents the aggregate of any multiple phase redevelopments.

(2) Estimated reconstruction completion dates reflect all planned phases.

(3) Estimated 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 September 30, 2019, we had $20,095,000 in acquisition and related capitalized costs for direct interests in land parcels we own, and $74,388,000 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 31 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 September 30, 2019 includes $16,842,000 in original land acquisition costs, net of any impairment loss recognized. 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 9,994 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 one Development Right we currently own the land on which a community would be built if we proceeded with development. In addition, six Development Rights are additional development phases of existing stabilized operating communities we own, and will be constructed on land currently adjacent to or directly associated with those operating communities. During the next 12 months we expect to commence construction of an apartment community on the Development Right for which we currently own the land, with a carrying basis of $17,316,000.

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 the nine months ended September 30, 2019, we incurred a charge of $2,562,000 for expensed transaction, development and other pursuit costs, net of recoveries, which include development pursuits that were not yet probable of future development at the time incurred, and pursuits that we determined were no longer probable of being developed.

You should carefully review Item 1A. "Risk Factors" of our Form 10-K for a discussion of the risks associated with Development Rights.

The following presents a summary of the Development Rights as of September 30, 2019:

Market	**Number of rights**	**Estimated number of homes**	**Projected total capitalized cost ($ millions) (1)**
New England	6	1,135	$ 421
Metro NY/NJ	12	5,101	2,105
Mid-Atlantic	—	—	—
Pacific Northwest	2	542	170
Northern California	4	1,253	747
Southern California	3	791	388
Southeast Florida	1	254	99
Denver	3	918	287
Total	31	9,994	$ 4,217

(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, as well as costs incurred for first generation retail tenants such as tenant improvements and leasing commissions.

Insurance and Risk of Uninsured Losses

We maintain commercial general liability insurance and property insurance with respect to all of our communities. These policies, along with other insurance policies we maintain, have policy specifications, insured and self-insured limits, exclusions and deductibles that we consider commercially reasonable. There are, however, certain types of losses (including, but not limited to, losses arising from nuclear liability or 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 our Form 10-K for a discussion of risks associated with an uninsured property or casualty 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, the Hayward Fault or other geological faults that are known or unknown. We cannot assure you that an earthquake would not cause damage or losses greater than our current insured levels. We procure property damage and resulting business interruption insurance coverage with a loss limit of $175,000,000 for any single occurrence and in the annual aggregate for losses resulting from earthquakes. However, for any losses resulting from earthquakes at communities located in California or Washington, the loss limit is $200,000,000 for any single occurrence and in the annual aggregate. The deductible applicable to losses resulting from earthquakes occurring in California is five percent of the insured value of each damaged building subject to a minimum of $100,000 and a maximum of $25,000,000 per loss. Limits, deductibles, self-insured retentions and coverages may increase or decrease annually during the insurance renewal process which occurs on different dates throughout the calendar year.

Our communities are insured for certain property damage and business interruption losses through a combination of community specific insurance policies and/or a master property insurance program which covers the majority of our communities. This master property program provides a $400,000,000 limit for any single occurrence, subject to certain sublimits and exclusions. Under the master property program, we are subject to a $100,000 deductible per occurrence, as well as additional self-insured retention for the next $350,000 of loss, per occurrence, until the aggregate incurred self-insured retention exceeds $1,500,000 for the policy year.

Our communities are insured for third-party liability losses through a combination of community specific insurance policies and/or coverage provided under a master commercial general liability and umbrella/excess insurance program. The master commercial general liability and umbrella/excess insurance policies cover the majority of our communities and are subject to certain coverage limitations and exclusions, and they require a self-insured retention of $500,000 per occurrence.

We also maintain certain casualty policies (general liability, umbrella/excess and workers compensation) for construction related risks which have various exclusions and deductibles that, in management's view, are commercially reasonable. Certain projects are insured through our master insurance policies while others are insured through project-specific insurance policies. The limits vary by project and may be subject to deductibles up to $1,500,000 per occurrence.

We utilize a wholly-owned captive insurance company to insure certain types and amounts of risks, which includes property damage and resulting business interruption losses, general liability insurance and other construction related liability risks. In addition to our potential liability for the various policy self-insured retentions and deductibles, our captive insurance company is directly responsible for (i) 50% of the first $25,000,000 of losses (per occurrence) and 10% of the first $50,000,000 of losses (per occurrence) incurred by the master property insurance policy and (ii) covered liability claims arising out of our primary commercial general liability policy, subject to a $2,000,000 per occurrence loss limit. The captive is utilized to insure other limited levels of risk, which may be in part reinsured 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. Our communities are insured for terrorism related losses through the Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA") program. This coverage extends to most of our casualty exposures (subject to deductibles and insured limits) and certain property insurance policies. We have also purchased private-market insurance for property damage due to terrorism with limits of $600,000,000 per occurrence and in the annual aggregate that includes certain coverages (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.

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 effect 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.

Forward-Looking Statements

This Form 10-Q 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-Q, 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 timing and net sales proceeds of condominium sales;
- 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;
- the impact of landlord-tenant laws and rent regulations;
- the expected proceeds from settlement of the Forward;
- our declaration or payment of dividends;
- 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, Denver, Colorado, and Southeast Florida, 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 outstanding legal proceedings.

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:

- 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;

- the timing and net proceeds of condominium sales may not equal our current expectations;

- 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 expected proceeds from the Forward are subject to adjustment for changes in the Overnight Bank Funding Rate and the amount of dividends we pay on our common stock, and our receipt of settlement proceeds assumes that we will settle the Forward by physical delivery;

- the impact of new landlord-tenant laws and rent regulations may be greater than we expected;

- 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 the U.S. Fund, the AC JV or the REIT vehicles that are used with each respective joint venture;

- we may be unsuccessful in managing changes in our portfolio composition;

- laws and regulations implementing rent control or rent stabilization, or otherwise limiting our ability to increase rents, charge fees or evict tenants, may impact our revenue or increase our costs;

- the expected proceeds from settlement of the Forward are subject to adjustment for changes in the Overnight Bank Funding Rate and the amount of dividends we pay on our common stock, and our receipt of settlement proceeds assumes that we will settle the Forward by physical delivery; and

- our expectations, estimates and assumptions as of the date of this filing regarding outstanding legal proceedings are subject to change.

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. We have reassessed our critical accounting policies previously disclosed in Management's Discussion and Analysis and Results of Operations in our Form 10-K, and have determined that certain policies described in our Form 10-K no longer require complex or significant judgment in their application. As a result, we have updated our critical accounting policies to consist of the following: (i) cost capitalization and (ii) abandoned pursuit costs and asset impairment, as included in the discussion of our significant accounting policies found in Management's Discussion and Analysis and Results of Operations in our Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes to our exposures to market risk since December 31, 2018.

ITEM 4. CONTROL AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

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 as of September 30, 2019. 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) Changes in internal controls over financial reporting.

As of January 1, 2019, the Company adopted ASU 2016-02, Leases. The Company implemented internal controls related to the lease accounting process, but there were no significant changes to the internal control over financial reporting due to the adoption of this new standard.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Following the filing of a petition by Local 30 of the International Union of Operating Engineers ("Local 30"), on April 23, 2019 an election was held among our non-management, on-site maintenance associates at our Westchester County, New York operating communities, and the associates elected to be represented by Local 30 in collective bargaining. The Company has filed an objection with the National Labor Relations Board contesting the election on various grounds. A hearing was held in October and November, 2019, but a decision has not yet been rendered. The Company does not believe that this matter will have a material adverse effect on the Company's financial condition or its results of operations.

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

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the risk factors which could materially affect our business, financial condition or future results discussed in our Form 10-K in Part I, Item 1A. "Risk Factors." The risks described in our Form 10-K are not the only risks that could affect the Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition and/or operating results in the future. There have been no material changes to our risk factors since December 31, 2018.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

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)
July 1 - July 31, 2019	8,285	$ 208.79	—	$ 200,000
August 1 - August 31, 2019	108	$ 212.56	—	$ 200,000
September 1 - September 30, 2019	14	$ 216.16	—	$ 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.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

Exhibit No.		Description
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).1 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 May 22, 2013.)
3(ii).1	—	Amended and Restated Bylaws of the Company, as adopted by the Board of Directors on November 12, 2015, and as further amended on February 16, 2017, November 13, 2017, and May 6, 2019. (Incorporated by reference to Exhibit 3(ii).1 to Form 10-Q of the Company filed August 6, 2019.)
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.SCH	—	Inline XBRL Taxonomy Extension Schema Document. (Filed herewith.)
101.CAL	—	Inline XBRL Taxonomy Extension Calculation Linkbase Document. (Filed herewith.)
101.DEF	—	Inline XBRL Taxonomy Extension Definition Linkbase Document. (Filed herewith.)
101.LAB	—	Inline XBRL Taxonomy Extension Label Linkbase Document. (Filed herewith.)
101.PRE	—	Inline XBRL Taxonomy Extension Presentation Linkbase Document. (Filed herewith.)
104	—	Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*) (Filed herewith.)

SIGNATURES

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

AVALONBAY COMMUNITIES, INC.

Date:	November 5, 2019	/s/ Timothy J. Naughton
		Timothy J. Naughton
		Chairman, Chief Executive Officer and President
		(Principal Executive Officer)
Date:	November 5, 2019	/s/ Kevin P. O'Shea
		Kevin P. O'Shea
		Chief Financial Officer
		(Principal Financial Officer)

Exhibit 31.1

CERTIFICATION

I, Timothy J. Naughton, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: November 5, 2019

/s/ Timothy J. Naughton

Timothy J. Naughton
Chairman, Chief Executive Officer and President
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Kevin P. O'Shea, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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: November 5, 2019

/s/ Kevin P. O'Shea

Kevin P. O'Shea
Chief Financial Officer
(Principal Financial Officer)

Exhibit 32

CERTIFICATION

The undersigned officers of AvalonBay Communities, Inc. (the “Company”) hereby certify that the Company’s quarterly report on Form 10-Q 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: November 5, 2019

/s/ Timothy J. Naughton

Timothy J. Naughton
Chairman, Chief Executive Officer and President
(Principal Executive Officer)

/s/ Kevin P. O'Shea

Kevin P. O'Shea
Chief Financial Officer
(Principal 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.