

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2003

Commission file number 1-12672

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

Maryland
*(State or other jurisdiction of
incorporation or organization)*

77-0404318
*(I.R.S. Employer
Identification No.)*

2900 Eisenhower Avenue, Suite 300
Alexandria, Virginia 22314
(Address of principal executive office, including zip code)

(703) 329-6300
(Registrant's telephone number, including area code)

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

Common Stock, par value \$.01 per share	New York Stock Exchange, Pacific Exchange
8.70% Series H Cumulative Redeemable Preferred Stock, par value \$.01 per share <i>(Title of each class)</i>	New York Stock Exchange, Pacific Exchange <i>(Name of each exchange on which registered)</i>

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes No

The aggregate market value of the Registrant's Common Stock, par value \$.01 per share, held by nonaffiliates of the Registrant, as of June 30, 2003 was \$2,879,772,904.

The number of shares of the Registrant's Common Stock, par value \$.01 per share, outstanding as of February 27, 2004 was 71,145,602.

Documents Incorporated by Reference

Portions of AvalonBay Communities, Inc.'s Proxy Statement for the 2004 annual meeting of stockholders, a definitive copy of which will be filed with the SEC within 120 days after the year end of the year covered by this Form 10-K, are incorporated by reference herein as portions of Part III of this Form 10-K.

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PART I

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Our actual results could differ materially from those set forth in each forward-looking statement. Certain factors that might cause such a difference are discussed in this report, included in the section entitled "Forward-Looking Statements" on page 54 of this Form 10-K.

ITEM 1. BUSINESS

General

AvalonBay Communities, Inc. is a Maryland corporation that has elected to be treated as a real estate investment trust, or REIT, for federal income tax purposes. We focus on the development, redevelopment, acquisition, ownership and operation of apartment communities in high barrier-to-entry markets of the United States. This is because we believe that, long term, the limited new supply of apartment homes and lower housing affordability in these markets will result in larger increases in cash flows relative to other markets over an entire business cycle. These barriers-to-entry generally include a difficult and lengthy entitlement process with local jurisdictions and dense urban or suburban areas where zoned and entitled land is in limited supply. Our markets are located in the Northeast, Mid-Atlantic, Midwest, Pacific Northwest, and Northern and Southern California regions of the United States. We believe that we have penetrated substantially all of the high barrier-to-entry markets of the country.

At February 27, 2004, we owned or held a direct or indirect ownership interest in 131 operating apartment communities containing 38,504 apartment homes in ten states and the District of Columbia, of which two communities containing 1,089 apartment homes were under reconstruction. In addition, we owned or held a direct or indirect ownership interest in 11 communities under construction that are expected to contain an aggregate of 3,493 apartment homes when completed. We also owned a direct or indirect ownership interest in rights to develop an additional 40 communities that, if developed in the manner expected, will contain an estimated 10,070 apartment homes. We generally obtain ownership in an apartment community by developing a new community on vacant land or by acquiring and either repositioning or redeveloping an existing community. In selecting sites for development, redevelopment or acquisition, we favor locations that are near expanding employment centers and convenient to recreation areas, entertainment, shopping and dining.

Our real estate investments consist of the following reportable segments: Established Communities, Other Stabilized Communities and Development/Redevelopment Communities. Established Communities are generally operating communities that were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year. Other Stabilized Communities are generally all other operating communities that have stabilized occupancy and operating expenses as of the beginning of the current year, but had not achieved stabilization as of the beginning of the prior year. Development/Redevelopment Communities consist of communities that are under construction, communities where substantial redevelopment is in progress or is planned to begin during the current year and communities under lease-up. A more detailed description of these segments and other related information can be found in Note 9, "Segment Reporting," of the Consolidated Financial Statements set forth in Item 8 of this report.

Our principal financial goal is to increase long-term stockholder value by successfully and cost-effectively developing, redeveloping, acquiring, owning and operating high-quality communities in our selected markets that contain features and amenities desired by residents, as well as by providing our residents with efficient and effective service. To help fulfill this goal, we regularly (i) monitor our investment allocation by geographic market and product type, (ii) develop, redevelop and acquire apartment communities in high barrier-to-entry markets with growing or high potential for demand, (iii) selectively sell apartment communities that no longer meet our long-term strategy due to product type, location or relative potential for future appreciation and redeploy the proceeds from those sales, and (iv) endeavor to maintain a capital structure that is aligned with our business risks such that we maintain continuous access to cost-effective capital. Our long-term strategy is to more deeply penetrate the high barrier-to-entry markets in our chosen regions with a broad range of products and services and an intense focus on our customer. A substantial majority of our current communities are upscale (commanding among the highest rents in their submarkets). We also pursue the ownership and operation of apartment communities that target a variety of customer segments and price points, consistent with our goal to offer a broad range of products and services.

During the three years ended December 31, 2003, we acquired five apartment communities, disposed of 20 apartment communities, and completed the development of 23 apartment communities and the redevelopment of three apartment communities. During 2003, we shifted from acquiring to selling apartment communities in response to strong investor demand, allowing us to realize a portion of the value created over the past business cycle, as well as providing additional liquidity. In 2004, we plan to continue our disposition activity, although at a reduced level, and we expect to expand our acquisition and development volume. The level of disposition, acquisition or development activity, however, is heavily influenced by capital market conditions, including prevailing interest rates. A further discussion of our development, redevelopment, disposition and acquisition strategy follows.

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

- Boston, Massachusetts;
- Chicago, Illinois;
- New Canaan, Connecticut;
- New York, New York;
- Newport Beach, California;
- San Jose, California;
- Seattle, Washington; and
- Woodbridge, New Jersey.

After selecting a target site, we usually negotiate for the right to acquire the site either through an option or a long-term conditional contract. Options and long-term conditional contracts generally enable us to acquire the target site shortly before the start of construction, which reduces development-related risks as well as preserves capital. After we acquire land, we generally shift our focus to construction. Except for certain mid-rise and high-rise apartment communities where we may elect to use third-party general contractors or construction managers, we act as our own general contractor and construction manager. We generally perform these functions directly (and not through a subsidiary) both for ourselves and for the joint ventures and partnerships of which we are a member or a partner. We believe this enables us to achieve higher construction quality, greater control over construction schedules and significant cost savings. Our development, property management and construction teams monitor construction progress to ensure high-quality workmanship and a smooth and timely transition into the leasing and operational phase.

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

Redevelopment Strategy. When we undertake the redevelopment of a community, our goal is to generally renovate and/or rebuild an existing community so that our total investment is significantly below replacement cost and the community is one of the highest quality apartment communities or best rental values for an apartment community in its local area. We have established procedures to minimize both the cost and risks of redevelopment. Our redevelopment teams, which include key redevelopment, construction and property management personnel, monitor redevelopment progress. We believe we achieve significant cost savings by acting as our own general contractor. More importantly, this helps to ensure high-quality design and workmanship and a smooth and timely transition into the lease-up and restabilization phase.

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

Disposition Strategy. We sell assets when market conditions are favorable and redeploy the proceeds from those sales to develop, redevelop and acquire communities and to rebalance our portfolio across geographic regions. This also allows us to realize a portion of the value created over the past business cycle, as well as provides additional liquidity. We are then able to redeploy the net proceeds from our dispositions in lieu of raising that amount of capital externally by issuing debt or equity securities. When we decide to sell a community, we generally solicit competing bids from unrelated parties for these individual assets and consider the sales price of each proposal.

Acquisition Strategy. Our core competencies in development and redevelopment discussed above allow us to be selective in the acquisitions we target. From time to time, in order to achieve rapid penetration into markets that are generally supply constrained and in which we desire an increased presence and to help us achieve our desired product mix, or to rebalance our portfolio, we will acquire existing apartment communities.

Property Management Strategy. We intend to increase operating income through innovative, proactive property management that will result in higher revenue from communities and controlled operating expenses.

Our principal strategies to maximize revenue include:

- strong focus on resident satisfaction;
- staggering lease terms such that lease expirations are better matched to traffic patterns;
- balancing high occupancy with premium pricing, and increasing rents as market conditions permit;
- managing community occupancy for optimal rental revenue levels; and
- applying new technology to optimize revenue from each community.

Controlling operating expenses is another way in which we intend to increase earnings growth. Growth in our portfolio and the resulting increase in revenue allows for fixed operating costs to be spread over a larger volume of revenue, thereby increasing operating margins. We control operating expenses as follows:

- receive and approve invoices on-site to ensure careful monitoring of budgeted versus actual expenses;
- purchase supplies in bulk where possible;
- bid third-party contracts on a volume basis;
- strive to retain residents through high levels of service in order to eliminate the cost of preparing an apartment home for a new resident and to reduce marketing and vacant apartment utility costs;
- perform turnover work in-house or hire third-parties, generally depending upon the least costly alternative;
- undertake preventive maintenance regularly to maximize resident satisfaction and property and equipment life; and
- aggressively pursue real estate tax appeals.

On-site property management teams receive bonuses based largely upon the net operating income produced at their respective communities.

We generally manage the operation and leasing activity of our communities directly (and not through a subsidiary) both for ourselves and the joint ventures and partnerships of which we are a member or a partner.

We are also pursuing ancillary services which could provide additional revenue sources. In general, as a REIT we cannot directly provide services to our tenants that are not customarily provided by a landlord, nor can we share in the income of a third party that provides such services. However, we can provide such non-customary services to residents if we do so through a “taxable REIT subsidiary,” which is a subsidiary that is treated as a “C corporation” and is therefore subject to federal income taxes. We have used taxable REIT subsidiaries on a limited basis, such as to receive a commission from a “preferred provider” maid service company used by residents.

Technology Strategy. We believe that an innovative management information system infrastructure is an important element in managing our future growth. This is because timely and accurate collection of financial and resident profile data will enable us to maximize revenue through careful leasing decisions and financial management.

We currently have minority investments in three technology companies. These investments were made with the belief that they would promote the development and application of technology and services which would improve the operating performance of our real estate holdings. Our technology investments consist of (i) an entity engaged in the development and deployment of an on-site property management and leasing automation system that enables management to capture, review and analyze data to a greater extent than is possible using existing commercial software; (ii) an entity formed by a number of real estate investment trusts and real estate operating companies for the purpose of investing in multi-sector real estate technology opportunities; and (iii) an internet-based rental housing information provider.

Financing Strategy. We have consistently maintained, and intend to continue to maintain, a capital structure that is aligned to the business risks presented by our corporate strategy. At December 31, 2003, our debt-to-total market capitalization was 39.9%, and our permanent long-term floating rate debt, not including borrowings under our unsecured credit facility, was 1.4% of total market capitalization. Total market capitalization reflects the aggregate of the market value of our common stock, the market value of our operating partnership units outstanding (based on the market value of our common stock), the liquidation preference of our preferred stock and the outstanding principal amount of our debt.

We estimate that a portion of our short-term liquidity needs will be met from retained operating cash and borrowings under our variable rate unsecured credit facility. If required to meet the balance of our current or anticipated liquidity needs, we will attempt to arrange additional capacity under our existing unsecured credit facility, sell existing communities or land and/or issue additional debt or equity securities. A determination to engage in an equity or debt offering depends on a variety of factors such as general market and economic conditions, including interest rates, our short and long term liquidity needs, the adequacy of our expected liquidity sources, the relative costs of debt and equity capital, and growth opportunities. A summary of debt and equity activity for the last three years is reflected on our Consolidated Statement of Cash Flows of the Consolidated Financial Statements set forth in Item 8 of this report.

While we believe we have the financial position to expand our short-term credit capacity and access the capital markets as needed, we cannot assure you that we will be successful in completing these arrangements, sales or offerings. The failure to complete these transactions on a cost-effective basis or at all could have a material adverse impact on our operating results and financial condition.

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

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

While we emphasize equity real estate investments in apartment communities, we have the ability, which would be exercised in the discretion of our Board of Directors, to invest in other types of real estate, mortgages (including participating or convertible mortgages), securities of other REITs or real estate operating companies, or securities of

technology companies that relate to our real estate operations or of companies that provide services to us or our residents, in each case consistent with our qualification as a REIT. On occasion, we own and operate retail space at our communities when either (i) the highest and best use of the space is for retail (e.g., street level in an urban area) or (ii) we believe the retail space will enhance the attractiveness of the community to residents. As of December 31, 2003, we had a total of 192,040 square feet of rentable retail space that produced gross rental revenue in 2003 of \$2,329,000 (0.4% of total revenue). Any investment in securities of other entities is subject to the percentage of ownership limitations and gross income tests necessary for REIT qualification. Our current policy does not contemplate future investments in mortgages or deeds of trust.

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

Inflation and Deflation

Substantially all of our leases are for a term of one year or less, which may enable us to realize increased rents upon renewal of existing leases or the beginning of new leases. Such short-term leases generally minimize the risk to us of the adverse effects of inflation, although as a general rule these leases permit residents to leave at the end of the lease term and therefore our rental revenues are impacted by declines in market rents more quickly than if our leases were for longer terms. Short-term leases combined with relatively consistent demand have allowed rents, and therefore cash flow from the portfolio, to provide an attractive inflation hedge. However, in a deflationary rent environment as is currently being experienced, we are exposed to declining rents more quickly under these shorter-term leases.

Tax Matters

We filed an election with our initial federal income tax return to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, and intend to maintain our qualification as a REIT in the future. As a qualified REIT, with limited exceptions, we will not be taxed under federal and certain state income tax laws at the corporate level on our net income to the extent net income is distributed to our stockholders. We expect to make sufficient distributions to avoid income tax at the corporate level.

Competition

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

Environmental and Related Matters

Under various federal, state and local environmental laws, regulations and ordinances, a current or previous owner or operator of real estate may be required, regardless of knowledge or responsibility, to investigate and remediate the effects of hazardous or toxic substances or petroleum product releases at the property and may be held liable to a governmental entity or to third parties for property damage and for investigation and remediation costs incurred by these parties as a result of the contamination. These damages and costs may be substantial. The presence of such substances, or the failure to properly remediate the contamination, may adversely affect the owner's ability to borrow against, sell or rent the affected property. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs as a result of the contamination.

Certain federal, state and local laws, regulations and ordinances govern the removal, encapsulation or disturbance of asbestos containing materials (“ACMs”) when such materials are in poor condition or in the event of reconstruction, remodeling, renovation, or demolition of a building. These laws may impose liability for release of ACMs and may provide for third parties to seek recovery from owners or operators of real properties for personal injury associated with exposure to ACMs. We are not aware that any ACMs were used in the construction of the communities we developed. ACMs were, however, used in the construction of several of the communities that we acquired. We have implemented an operations and maintenance program for each of the communities at which ACMs have been detected. We do not anticipate that we will incur any material liabilities as a result of the presence of ACMs at our communities.

We are aware that some of our communities have lead paint and have implemented an operations and maintenance program at each of those communities. We do not anticipate that we will incur any material liabilities as a result of the presence of lead paint at our communities.

All of our stabilized operating communities, and all of the communities that we are currently developing or redeveloping, have been subjected to at least a Phase I or similar environmental assessment, which generally does not involve invasive techniques such as soil or ground water sampling. These assessments, together with subsurface assessments conducted on some properties, have not revealed, and we are not otherwise aware of, any environmental conditions that we believe would have a material adverse effect on our business, assets, financial condition or results of operations. In connection with our ownership, operation and development of communities, from time to time we undertake remedial action in response to the presence of subsurface or other contaminants. In some cases, an indemnity exists upon which we may be able to rely if environmental liability arises from the contamination. There can be no assurance, however, that all necessary remediation actions have been or will be undertaken at our properties or that we will be indemnified, in full or at all, in the event that environmental liability arises.

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

Additionally, we have occasionally been involved in developing, managing, leasing and operating various properties for third parties. Consequently, we may be considered to have been an operator of such properties and, therefore, potentially liable for removal or remediation costs or other potential costs which could relate to hazardous or toxic substances. We are not aware of any material environmental liabilities with respect to properties managed or developed by us or our predecessors for such third parties.

We cannot assure you that:

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

Other Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934 are available free of charge in the “Investor Relations” section of our website (www.avalonbay.com) as soon as reasonably practicable after the reports are filed with or furnished to the SEC.

We were incorporated under the laws of the State of California in 1978. In 1995, we reincorporated in the State of Maryland and have been focused on the ownership and operation of apartment communities since that time. As of December 31, 2003, we had 1,622 employees.

ITEM 2. COMMUNITIES

Our real estate investments consist primarily of current operating apartment communities, communities in various stages of development (“Development Communities”) and Development Rights as defined below. Our current operating communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities and Redevelopment Communities. The following is a description of each category:

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

- *Established Communities* (also known as Same Store Communities) are communities where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year. We determine which of our communities fall into the Established Communities category annually as of January 1st of each year and maintain that classification throughout the year. For the year ended December 31, 2003, the Established Communities are communities that had stabilized occupancy and operating expenses as of January 1, 2002 and are not conducting or planning to conduct substantial redevelopment activities, as described below, and are not held for sale or planned for disposition within the current year. We consider a community to have stabilized occupancy at the earlier of (i) attainment of 95% physical occupancy or (ii) the one-year anniversary of completion of development or redevelopment.
- *Other Stabilized Communities* includes all other completed communities that have stabilized occupancy, as defined above. Other Stabilized Communities do not include communities that are conducting or planning to conduct substantial redevelopment activities within the current year.

- *Lease-Up Communities* are communities where construction has been complete for less than one year and where physical occupancy has not reached 95%.
- *Redevelopment Communities* are communities where substantial redevelopment is in progress or is planned to begin during the current year. Redevelopment is considered substantial when capital invested during the reconstruction effort exceeds the lesser of \$5,000,000 or 10% of the community's acquisition cost.

Development Communities are communities that are under construction and for which a final certificate of occupancy has not been received. These communities may be partially complete and operating.

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

As of December 31, 2003, our communities were classified as follows:

	<u>Number of communities</u>	<u>Number of apartment homes</u>
<u>Current Communities</u>		
Established Communities:		
Northeast	30	7,559
Mid-Atlantic	16	4,684
Midwest	4	1,296
Pacific Northwest	9	2,436
Northern California	29	8,663
Southern California	11	3,180
Total Established	<u>99</u>	<u>27,818</u>
Other Stabilized Communities:		
Northeast	12	3,891
Mid-Atlantic	1	842
Midwest	—	—
Pacific Northwest	3	723
Northern California	3	655
Southern California	3	1,442
Total Other Stabilized	<u>22</u>	<u>7,553</u>
Lease-Up Communities	8	2,044
Redevelopment Communities	<u>2</u>	<u>1,089</u>
Total Current Communities	<u>131</u>	<u>38,504</u>
<u>Development Communities</u>	<u>11</u>	<u>3,493</u>
<u>Development Rights</u>	<u>40</u>	<u>10,070</u>

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

Current Communities

The Current Communities are primarily garden-style apartment communities consisting of two and three-story buildings in landscaped settings. The Current Communities, as of February 27, 2004, include 98 garden-style (of which 10 are mixed communities and include townhomes), 19 high-rise and 14 mid-rise apartment communities. The Current Communities offer many attractive amenities including some or all of the following:

- vaulted ceilings;
- lofts;
- fireplaces;
- patios/decks; and
- modern appliances.

Other features at various communities may include:

- swimming pools;
- fitness centers;
- tennis courts; and
- business centers.

We also have an extensive and ongoing maintenance program to keep all communities and apartment homes substantially free of deferred maintenance and, where vacant, available for immediate occupancy. We believe that the aesthetic appeal of our communities and a service oriented property management team, focused on the specific needs of residents, enhances market appeal to discriminating residents. We believe this will ultimately achieve higher rental rates and occupancy levels while minimizing resident turnover and operating expenses.

These Current Communities are located in the following geographic markets:

	Number of communities at		Number of apartment homes at		Percentage of total apartment homes at	
	1-1-03	2-27-04	1-1-03	2-27-04	1-1-03	2-27-04
Northeast	45	47	12,667	13,213	31.5%	34.3%
Boston, MA	13	15	3,142	3,716	7.8%	9.7%
Fairfield County, CT	13	14	3,350	3,673	8.3%	9.5%
Long Island, NY	3	3	915	915	2.3%	2.4%
Northern New Jersey	5	4	1,802	1,451	4.5%	3.8%
Central New Jersey	4	4	1,440	1,440	3.6%	3.7%
New York, NY	7	7	2,018	2,018	5.0%	5.2%
Mid-Atlantic	22	20	6,754	6,423	16.8%	16.7%
Baltimore, MD	4	4	1,054	1,054	2.6%	2.7%
Washington, DC	18	16	5,700	5,369	14.2%	13.9%
Midwest	9	4	2,624	1,296	6.5%	3.4%
Chicago, IL	4	4	1,296	1,296	3.2%	3.4%
Minneapolis, MN	5	—	1,328	—	3.3%	—
Pacific Northwest	12	12	3,159	3,159	7.9%	8.2%
Seattle, WA	12	12	3,159	3,159	7.9%	8.2%
Northern California	32	33	9,318	9,568	23.2%	24.8%
Oakland-East Bay, CA	6	6	2,090	2,090	5.2%	5.4%
San Francisco, CA	8	9	1,765	2,015	4.4%	5.2%
San Jose, CA	18	18	5,463	5,463	13.6%	14.2%
Southern California	17	15	5,657	4,845	14.1%	12.6%
Los Angeles, CA	5	5	2,401	2,261	6.0%	5.9%
Orange County, CA	8	6	2,022	1,350	5.0%	3.5%
San Diego, CA	4	4	1,234	1,234	3.1%	3.2%
	137	131	40,179	38,504	100.0%	100.0%

We manage and operate all of the Current Communities. During the year ended December 31, 2003, we completed construction of 1,959 apartment homes in seven communities and sold 3,634 apartment homes in twelve communities. The average age of the Current Communities, on a weighted average basis according to number of apartment homes, is 8.1 years.

Of the Current Communities, as of February 27, 2004, we own:

- a fee simple, or absolute, ownership interest in 104 operating communities;
- a fee simple, or absolute, ownership interest in four operating communities which are on land subject to land leases expiring in January 2062, April 2095, May 2099 and March 2142;
- a general partnership interest in three partnerships that each own a fee simple interest in an operating community;
- a general partnership interest in five partnerships structured as “DownREITs,” as described more fully below, that own an aggregate of 15 communities;
- a membership interest in four limited liability companies that each hold a fee simple interest in an operating community, two of which are on land subject to land leases with one lease expiring in July 2029 and one lease expiring in November 2089; and

- a 100% interest in a senior participating mortgage note secured by one community, which allows us to share in part of the rental income or resale proceeds of the community.

We also hold a fee simple ownership interest in nine of the Development Communities, a membership interest in a limited liability company that owns one Development Community and a general partnership interest in a partnership structured as a “DownREIT” that owns one Development Community.

In each of our six partnerships structured as DownREITs, either AvalonBay or one of our wholly-owned subsidiaries is the general partner, and there are one or more limited partners whose interest in the partnership is represented by units of limited partnership interest. For each DownREIT partnership, limited partners are entitled to receive an initial distribution before any distribution is made to the general partner. Although the partnership agreements for each of the DownREITs are different, generally the distributions per unit paid to the holders of units of limited partnership interests have approximated our current common stock dividend amount. Each DownREIT partnership has been structured so that it is unlikely the limited partners will be entitled to a distribution greater than the initial distribution provided for in the applicable partnership agreement. The holders of units of limited partnership interest have the right to present each unit of limited partnership interest for redemption for cash equal to the fair market value of a share of our common stock on the date of redemption. In lieu of a cash redemption by the partnership, we may elect to acquire any unit presented for redemption for one share of our common stock or for such cash amount. As of February 27, 2004, there were 589,412 DownREIT partnership units outstanding. The DownREIT partnerships are consolidated for financial reporting purposes.

Profile of Current, Development and Unconsolidated Communities (1)
(Dollars in thousands, except per apartment home data)

City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Acres	Year of completion/acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/03	Average economic occupancy		Average rental rate		Financial reporting cost (\$)
							2003	2002	\$ per Apt (4)	\$ per Sq. Ft.	
CURRENT COMMUNITIES											
NORTHEAST											
Boston, MA											
Avalon at Center Place (10)	225	231,671	1.2	1991/1997	1,030	91.6%	93.7%	96.2%	\$ 2,162	\$ 1.97	\$ 27,761
Avalon at Faxon Park	171	175,494	8.3	1998	1,026	98.8%	93.5%	93.9%	1,706	1.55	15,322
Avalon at Flanders Hill	280	299,978	62.0	2003	1,099	92.9%	79.9%	(3) N/A	1,451	1.08	(3) 36,642
Avalon at Lexington	198	231,182	16.1	1994	1,168	93.4%	91.6%	93.8%	1,793	1.41	15,448
Avalon at Newton Highlands (7)	294	401,241	7.0	2003	1,177	63.3%	27.9%	(3) N/A	2,180	0.45	(3) 55,121
Avalon at Prudential Center	781	747,954	1.0	1968/1998	958	94.4%	92.0%	(2) 89.2%	(2) 2,582	2.48	(2) 154,665
Avalon Essex	154	173,520	11.1	2000	1,127	96.8%	93.1%	94.0%	1,767	1.46	21,619
Avalon Estates	162	188,392	55.0	2001	1,163	93.2%	92.9%	88.5%	1,545	1.23	20,322
Avalon Ledges	304	315,554	58.0	2002	1,023	94.1%	80.1%	37.5%	(3) 1,398	1.08	36,016
Avalon Oaks	204	229,748	22.5	1999	1,023	90.2%	92.2%	92.2%	1,562	1.28	20,935
Avalon Oaks West	120	123,960	27.0	2002	1,033	90.8%	91.7%	76.3%	(3) 1,497	1.33	16,799
Avalon Orchards	156	186,500	23.0	2002	1,219	95.5%	93.0%	63.1%	(3) 1,481	1.15	21,010
Avalon Summit	245	203,848	8.0	1986/1996	832	96.3%	91.5%	90.7%	1,290	1.42	16,863
Avalon West	120	147,472	8.0	1996	1,229	90.8%	89.1%	92.1%	1,416	1.03	11,083
Fairfield-New Haven, CT											
Avalon at Greyrock Place	306	201,500	3.0	2002	1,040	95.8%	90.8%	66.7%	(3) 1,938	2.67	70,316
Avalon Corners	195	192,174	3.2	2000	986	90.3%	92.1%	87.7%	1,862	1.74	31,810
Avalon Gates	340	381,322	37.0	1997	1,122	71.8%	81.5%	93.0%	1,664	1.21	36,525
Avalon Glen	238	221,828	4.1	1991	932	92.4%	90.2%	91.4%	1,734	1.68	31,440
Avalon Haven	128	140,107	10.6	2000	1,095	96.1%	95.9%	91.0%	1,553	1.36	13,766
Avalon Lake	135	166,231	32.0	1999	1,184	94.1%	95.7%	95.2%	1,774	1.38	17,050
Avalon New Canaan (6)	104	130,104	9.1	2002	1,251	83.7%	82.4%	31.0%	(3) 2,472	1.63	24,285
Avalon on Stamford Harbor	323	336,566	12.1	2003	1,042	94.1%	87.0%	(3) N/A	2,052	1.71	(3) 62,465
Avalon Springs	102	158,259	12.0	1996	1,552	94.1%	93.0%	86.1%	2,499	1.50	17,058
Avalon Valley	268	297,479	17.1	1999	1,070	93.7%	96.0%	96.4%	1,630	1.41	26,059
Avalon Walk I & II	764	761,441	38.4	1992/1994	996	87.0%	89.6%	94.6%	1,301	1.17	59,203
Long Island, NY											
Avalon Commons	312	363,049	20.6	1997	1,164	95.5%	98.1%	98.1%	1,829	1.54	33,322
Avalon Court	494	597,104	35.4	1997/2000	1,209	91.9%	96.7%	98.9%	2,265	1.81	59,341
Avalon Towers	109	124,836	1.3	1990/1995	1,145	93.6%	97.9%	97.6%	2,928	2.50	17,307

Profile of Current, Development and Unconsolidated Communities (1)
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							2003	2002	\$ per Apt (4)	\$ per Sq. Ft.			
Northern New Jersey													
Avalon at Edgewater	Edgewater, NJ	408	405,144	7.1	2002	993	90.9%	90.0%	71.9%	(3)	2,070	1.88	74,760
Avalon at Florham Park	Florham Park, NJ	270	331,560	41.9	2001	1,228	88.9%	91.5%	93.4%		2,240	1.67	41,572
Avalon Cove	Jersey City, NJ	504	574,675	11.0	1997	1,140	90.7%	89.5%	87.4%		2,305	1.81	92,247
The Tower at Avalon Cove	Jersey City, NJ	269	241,825	2.8	1999	905	94.4%	91.9%	85.6%		2,096	2.14	49,749
Central New Jersey													
Avalon at Freehold	Freehold, NJ	296	317,608	42.3	2002	1,073	91.9%	91.3%	80.7%	(3)	1,573	1.34	34,434
Avalon Run East	Lawrenceville, NJ	206	265,198	27.0	1996	1,287	92.7%	91.9%	93.0%		1,604	1.14	16,294
Avalon Watch	West Windsor, NJ	512	485,871	64.0	1988	949	98.2%	92.4%	92.0%		1,323	1.29	29,981
New York, NY													
Avalon Riverview I (10)	Long Island City, NY	372	332,940	1.0	2002	895	94.1%	86.8%	37.3%	(3)	2,560	2.48	94,393
Avalon Gardens	Nanuet, NY	504	638,439	55.0	1998	1,267	95.8%	95.0%	90.7%		1,859	1.39	54,474
Avalon Green	Elmsford, NY	105	113,538	16.9	1995	1,081	87.6%	92.9%	94.8%		2,204	1.89	12,634
Avalon on the Sound (8) (10)	New Rochelle, NY	412	372,860	2.4	2001	905	89.8%	92.0%	87.7%		2,222	2.26	91,598
Avalon View	Wappingers Falls, NY	288	335,088	41.0	1993	1,164	92.0%	93.7%	95.3%		1,373	1.11	18,494
Avalon Willow	Mamaroneck, NY	227	199,945	4.0	2000	881	91.6%	92.9%	90.3%		2,108	2.22	47,057
The Avalon	Bronxville, NY	110	119,186	1.5	1999	1,085	95.5%	93.6%	96.0%		3,247	2.81	31,227
MID-ATLANTIC													
Baltimore, MD													
Avalon at Fairway Hills I & II	Columbia, MD	720	724,253	44.0	1987/1996	1,005	96.7%	95.5%	95.0%		1,143	1.08	45,091
Avalon at Symphony Glen	Columbia, MD	176	179,867	10.0	1986	1,022	97.7%	97.2%	97.2%		1,182	1.12	9,219
Avalon Landing	Annapolis, MD	158	117,033	13.8	1984/1995	741	95.6%	96.2%	97.7%		1,053	1.37	9,881
Washington, DC													
AutumnWoods	Fairfax, VA	420	355,228	24.2	1989/1996	846	94.8%	93.6%	93.8%		1,089	1.20	31,022
Avalon at Arlington Square	Arlington, VA	842	909,449	18.9	2001	1,080	93.9%	87.5%	73.8%	(3)	1,667	1.35	112,294
Avalon at Ballston - Vermont & Quincy Towers (7)	Arlington, VA	454	420,242	2.3	1990/1997	926	94.3%	93.5%	90.9%		1,405	1.42	47,488
Avalon at Ballston - Washington Towers	Arlington, VA	344	294,786	4.1	1990	857	94.8%	94.1%	91.9%		1,399	1.54	37,463
Avalon at Cameron Court	Alexandria, VA	460	467,292	16.0	1998	1,016	95.2%	93.8%	94.6%		1,497	1.38	43,246
Avalon at Decoverly	Rockville, MD	368	368,446	25.0	1991/1995	1,001	96.2%	95.4%	92.7%		1,265	1.20	31,820
Avalon at Foxhall	Washington, D.C.	308	298,725	2.7	1982	970	72.7%	62.1%	88.4%	(2)	1,782	1.14	(2) 43,273
Avalon at Fox Mill	Herndon, VA	165	219,360	12.8	2000	1,329	94.5%	91.6%	93.3%		1,517	1.05	19,515
Avalon at Gallery Place I	Washington, DC	203	183,326	0.5	2003	903	68.5%	33.6%	N/A	(3)	2,200	0.82	(3) 52,271
Avalon at Providence Park	Fairfax, VA	141	148,211	4.0	1988/1997	1,051	93.6%	94.5%	96.0%		1,270	1.14	11,301
Avalon at Rock Spring (8) (10)	North Bethesda, MD	386	388,480	10.2	2003	1,006	79.8%	51.8%	N/A	(3)	1,570	0.81	(3) 45,834
Avalon Crescent	McLean, VA	558	613,426	19.1	1996	1,099	95.3%	92.4%	93.4%		1,585	1.33	57,339
Avalon Crossing	Rockville, MD	132	147,690	5.0	1996	1,119	88.6%	91.8%	94.0%		1,666	1.37	13,895
Avalon Fields I & II	North Potomac, MD	288	292,282	9.2	1998	1,050	97.9%	93.9%	92.3%		1,285	1.19	22,699
Avalon Knoll	Germtown, MD	300	290,365	26.7	1985	968	92.0%	94.4%	95.0%		1,054	1.03	8,697

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							2003	2002	\$ per Apt (4)	\$ per Sq. Ft.				
MIDWEST														
Chicago, IL														
200 Arlington Place	Arlington Heights, IL	409	346,832	2.8	1987/2000	848	91.7%	89.8%	92.3%	1,280	1.36	49,998		
Avalon at Danada Farms (7)	Wheaton, IL	295	350,606	19.2	1997	1,188	92.9%	91.3%	93.5%	1,282	0.98	38,454		
Avalon at Stratford Green (7)	Bloomington, IL	192	237,204	12.7	1997	1,235	90.6%	90.8%	91.5%	1,261	0.93	21,992		
Avalon at West Grove (7)	Westmont, IL	400	388,500	17.4	1967	971	88.5%	90.2%	91.5%	859	0.80	30,187		
PACIFIC NORTHWEST														
Seattle, WA														
Avalon at Bear Creek (7)	Redmond, WA	264	288,250	22.2	1998	1,092	90.9%	91.9%	94.3%	1,116	0.94	34,461		
Avalon Bellevue	Bellevue, WA	202	164,226	1.7	2001	813	97.0%	93.8%	92.5%	1,151	1.33	30,649		
Avalon Belltown	Seattle, WA	100	80,200	0.7	2001	802	97.0%	94.9%	83.8%	1,277	1.51	18,365		
Avalon Brandemoor (7)	Lynwood, WA	424	453,602	22.6	2001	1,070	92.9%	91.8%	93.9%	900	0.77	45,326		
Avalon Greenbriar	Renton, WA	356	382,382	17.0	1987	1,074	91.3%	94.6%	91.0%	1,055	0.93	36,297		
Avalon HighGrove (7)	Everett, WA	391	422,482	19.0	2000	1,081	96.4%	94.1%	94.8%	873	0.76	39,626		
Avalon ParcSquare (7)	Redmond, WA	124	127,236	2.0	2000	1,026	97.6%	95.9%	95.7%	1,234	1.15	19,134		
Avalon Redmond Place (7)	Redmond, WA	222	206,004	8.4	1991/1997	928	93.7%	92.1%	94.6%	1,036	1.03	26,064		
Avalon RockMeadow (7)	Bothell, WA	206	240,817	11.2	2000	1,169	97.1%	93.2%	93.3%	1,018	0.81	24,603		
Avalon WildReed (7)	Everett, WA	234	259,080	23.0	2000	1,107	96.6%	94.9%	94.4%	848	0.73	22,956		
Avalon WildWood (7)	Lynwood, WA	238	313,107	15.8	2001	1,316	97.9%	94.5%	94.1%	1,086	0.78	32,893		
Avalon Wynhaven (7)	Issaquah, WA	333	424,604	11.6	2001	1,275	85.9%	87.0%	89.3%	1,209	0.82	52,591		
NORTHERN CALIFORNIA														
Oakland-East Bay, CA														
Avalon at Union Square	Union City, CA	208	150,140	8.5	1973/1996	722	95.7%	96.4%	94.8%	1,058	1.41	22,081		
Avalon at Willow Creek	Fremont, CA	235	197,575	13.5	1985/1994	841	94.9%	97.2%	95.8%	1,240	1.43	34,550		
Avalon Dublin	Dublin, CA	204	179,004	13.0	1989/1997	877	91.2%	94.4%	94.9%	1,334	1.44	26,788		
Avalon Fremont	Fremont, CA	443	446,422	22.3	1994	1,008	96.6%	95.8%	93.7%	1,447	1.37	77,639		
Avalon Pleasanton	Pleasanton, CA	456	377,438	14.7	1988/1994	828	94.3%	95.9%	95.7%	1,231	1.43	60,764		
Avalon Waterford	Hayward, CA	544	451,937	11.1	1985/1986	831	89.3%	93.3%	92.9%	1,112	1.25	59,459		
San Francisco, CA														
Avalon at Cedar Ridge	Daly City, CA	195	141,411	7.0	1972/1997	725	95.4%	95.7%	96.6%	1,345	1.77	25,683		
Avalon at Diamond Heights	San Francisco, CA	154	123,080	3.0	1972/1994	799	96.8%	97.9%	92.2%	1,514	1.86	24,636		
Avalon at Mission Bay North (10)	San Francisco, CA	250	244,224	1.4	2003	977	94.0%	52.3%	(3)	N/A	2,444	1.31	(3)	79,424
Avalon at Nob Hill	San Francisco, CA	185	109,238	1.4	1990/1995	590	94.6%	93.4%	94.3%	1,470	2.32	27,568		
Avalon Sunset Towers	San Francisco, CA	243	175,511	16.0	1961/1996	722	97.5%	95.5%	95.0%	1,525	2.02	28,382		
Avalon Foster City	Foster City, CA	288	222,276	11.0	1973/1994	772	97.9%	95.7%	96.6%	1,335	1.66	43,054		
Avalon Pacifica	Pacifica, CA	220	186,785	21.9	1971/1995	849	98.2%	95.8%	95.9%	1,403	1.58	31,415		
Avalon Towers by the Bay	San Francisco, CA	226	243,033	1.0	1999	1,075	97.8%	94.0%	93.8%	2,467	2.16	66,922		
Avalon Crowne Ridge	San Rafael, CA	254	221,525	21.9	1973/1996	872	98.0%	92.5%	93.4%	1,336	1.42	31,587		

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							2003	2002	\$ per Apt (4)	\$ per Sq. Ft.			
San Jose, CA													
Avalon at Blossom Hill	San Jose, CA	324	322,207	7.5	1995	994	96.3%	96.8%	93.4%	1,463	1.42	60,956	
Avalon at Cahill Park	San Jose, CA	218	218,245	3.8	2002	1,001	91.7%	93.0%	39.7%	(3)	1,669	1.55	52,352
Avalon at Creekside	Mountain View, CA	294	215,680	15.0	1962/1997	734	96.3%	95.7%	96.3%		1,267	1.65	42,966
Avalon at Foxchase	San Jose, CA	396	335,212	12.0	1988/1987	844	96.9%	97.7%	94.9%		1,222	1.41	59,295
Avalon at Parkside	Sunnyvale, CA	192	199,353	8.0	1991/1996	1,038	98.4%	95.8%	95.8%		1,593	1.47	37,922
Avalon at Pruneyard	Campbell, CA	252	197,000	8.5	1968/1997	782	96.0%	97.0%	94.9%		1,174	1.46	31,879
Avalon at River Oaks	San Jose, CA	226	210,050	4.0	1990/1996	929	94.7%	95.9%	93.9%		1,418	1.46	44,990
Avalon Campbell	Campbell, CA	348	326,796	10.8	1995	939	96.8%	94.0%	93.1%		1,451	1.45	60,035
Avalon Cupertino	Cupertino, CA	311	293,328	8.0	1999	943	97.7%	95.2%	93.9%		1,615	1.63	49,109
Avalon Mountain View (6)	Mountain View, CA	248	211,552	10.5	1986	853	95.2%	95.3%	93.8%		1,520	1.70	50,697
Avalon on the Alameda	San Jose, CA	305	299,722	8.9	1999	983	92.8%	93.9%	92.7%		1,787	1.71	56,432
Avalon Rosewalk	San Jose, CA	456	450,252	16.6	1997/1999	987	96.1%	96.6%	92.7%		1,458	1.43	78,261
Avalon Silicon Valley	Sunnyvale, CA	710	658,591	13.6	1997	928	97.2%	93.8%	92.2%		1,654	1.67	121,140
Avalon Sunnyvale	Sunnyvale, CA	220	159,653	5.0	1987/1995	726	98.6%	96.8%	95.2%		1,272	1.70	35,075
Avalon Towers on the Peninsula	Mountain View, CA	211	218,392	1.9	2002	1,035	97.2%	94.4%	62.4%	(3)	2,123	1.94	65,692
CountryBrook (7)	San Jose, CA	360	323,012	14.0	1985/1996	897	93.6%	93.3%	93.1%		1,222	1.27	48,229
Fairway Glen	San Jose, CA	144	119,492	6.0	1986	830	99.3%	97.4%	95.1%		1,195	1.40	17,293
SAN MARINO	San Jose, CA	248	209,465	11.5	1984/1988	845	96.8%	96.7%	93.7%		1,247	1.43	34,196
SOUTHERN CALIFORNIA													
Los Angeles, CA													
Avalon at Media Center	Burbank, CA	748	530,114	14.7	1961/1997	709	95.9%	94.6%	90.3%	(2)	1,167	1.56	75,819
Avalon at Warner Center	Woodland Hills, CA	227	191,645	6.8	1979/1998	844	93.4%	95.0%	96.3%		1,364	1.53	26,445
Avalon Glendale (10)	Burbank, CA	223	241,712	5.1	2003	1,084	58.3%	24.8%	N/A		2,092	0.48	39,920
Avalon Woodland Hills	Woodland Hills, CA	663	592,722	18.2	1989/1997	894	93.8%	95.0%	95.4%		1,304	1.39	71,862
The Promenade	Burbank, CA	400	360,587	6.9	1988/2002	923	91.5%	93.1%	92.8%	(3)	1,484	1.53	71,003
Orange County, CA													
Avalon at Laguna Niguel	Laguna Niguel, CA	176	174,848	10.0	1988/1998	993	94.9%	95.1%	96.8%		1,235	1.18	20,995
Avalon at Pacific Bay	Huntington Beach, CA	304	268,000	9.7	1971/1997	882	94.7%	96.7%	95.3%		1,248	1.37	31,947
Avalon at South Coast	Costa Mesa, CA	258	208,890	8.9	1973/1996	810	92.6%	95.3%	96.5%		1,180	1.39	24,837
Avalon Mission Viejo	Mission Viejo, CA	166	124,600	7.8	1984/1996	751	98.2%	96.8%	95.9%		1,114	1.44	13,298
Avalon Newport	Costa Mesa, CA	145	120,690	6.6	1956/1996	832	96.6%	96.2%	97.7%		1,389	1.60	10,113
Avalon Santa Margarita	Rancho Santa Margarita, CA	301	229,593	20.0	1990/1997	763	92.7%	94.0%	94.4%		1,137	1.40	23,955
San Diego, CA													
Avalon at Cortez Hill	San Diego, CA	294	224,840	1.2	1973/1998	765	95.2%	94.6%	92.5%		1,245	1.54	34,401
Avalon at Mission Bay	San Diego, CA	564	402,327	12.9	1969/1997	713	96.1%	96.1%	96.2%		1,278	1.72	66,059
Avalon at Mission Ridge	San Diego, CA	200	208,100	4.0	1960/1997	1,041	94.5%	95.0%	96.4%		1,379	1.26	21,675
Avalon at Penasquitos Hills	San Diego, CA	176	141,120	8.8	1982/1997	802	95.5%	93.2%	95.2%		1,105	1.28	14,353

Profile of Current, Development and Unconsolidated Communities (1)
(Dollars in thousands, except per apartment home data)

	City and state	Number of homes	Approx. area rentable (Sq. Ft.)	Acres	Year of completion / acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/03	Average economic occupancy		Average rental rate		Financial reporting cost (5)
								2003	2002	\$ per Apt (4)	\$ per Sq. Ft.	
DEVELOPMENT COMMUNITIES												
Avalon at Crane Brook	Danvers & Peabody, MA	387	491,870	20.0	N/A	1,271	N/A	N/A	N/A	N/A	N/A	26,029
Avalon at Glen Cove South	Glen Cove, NY	256	270,000	4.0	N/A	1,050	N/A	N/A	N/A	N/A	N/A	49,731
Avalon at Grosvenor Station (7)	North Bethesda, MD	497	478,530	9.9	N/A	963	N/A	N/A	N/A	N/A	N/A	69,618
Avalon at Steven's Pond	Saugus, MA	326	360,509	82.0	N/A	1,106	N/A	N/A	N/A	N/A	N/A	53,172
Avalon at the Pinchills I	Plymouth, MA	101	197,354	6.0	N/A	1,954	N/A	N/A	N/A	N/A	N/A	4,834
Avalon Darien	Darien, CT	189	242,311	30.0	N/A	1,282	N/A	N/A	N/A	N/A	N/A	37,213
Avalon at Traville	North Potomac, MD	520	573,560	47.9	N/A	1,103	N/A	N/A	N/A	N/A	N/A	46,056
Avalon Milford I	Milford, CT	246	218,000	22.0	N/A	886	N/A	N/A	N/A	N/A	N/A	14,926
Avalon Run East II	Lawrenceville, NJ	312	341,152	70.0	N/A	1,095	N/A	N/A	N/A	N/A	N/A	19,014
Avalon Pines I	Coram, NY	298	442,895	32.0	N/A	1,485	N/A	N/A	N/A	N/A	N/A	11,127
Avalon Chrystie Place I (11)	New York, NY	361	266,555	1.5	N/A	738	N/A	N/A	N/A	N/A	N/A	25,194
UNCONSOLIDATED COMMUNITIES												
Avalon Arbor (9)	Shrewsbury, MA	302	297,989	26.0	1991	986	88.4%	90.4%	92.0%	1,246	1.14	N/A
Avalon Bedford (8)	Stamford, CT	368	331,655	4.6	1961/1998	819	88.4%	88.9%	90.9%	1,570	1.55	N/A
Avalon Grove (8)	Stamford, CT	402	363,408	12.0	1996	906	89.8%	90.3%	84.9%	1,942	1.94	N/A
Avalon Run (6)	Lawrenceville, NJ	426	443,168	9.0	1994	1,010	91.8%	90.5%	91.4%	1,366	1.19	N/A

- (1) We own a fee simple interest in the communities listed, excepted as noted below.
- (2) Represents community which was under redevelopment during the year, resulting in lower average economic occupancy and average rental rate per square foot for the year.
- (3) Represents community that completed development or was purchased during the year, which could result in lower average economic occupancy and average rental rate per square foot for the year.
- (4) Represents the average rental revenue per occupied apartment home.
- (5) Costs are presented in accordance with generally accepted accounting principles. For current Development Communities, cost represents total costs incurred through December 31, 2003. Financial reporting costs are excluded for unconsolidated communities, see Note 6, "Investments in Unconsolidated Entities."
- (6) We own a general partnership interest in a partnership that owns a fee simple interest in this community.
- (7) We own a general partnership interest in a partnership structured as a DownREIT that owns this community.
- (8) We own a membership interest in a limited liability company that holds a fee simple interest in this community.
- (9) We have a 100% interest in a senior participating mortgage note secured by this community, which allows us to share in part of the rental income or resale proceeds of the community.
- (10) Community is located on land subject to a land lease.
- (11) This community is being financed under a joint venture structure with third-party financing, in which the community is owned by a limited liability company managed by one of our wholly-owned subsidiaries.

Features and Recreational Amenities - Current and Development Communities

	1 BR		2BR		3BR		Studios/ efficiencies	Other	Total	Parking spaces	Washer & dryer hook-ups or units	Vaulted ceilings	Lofts	Fireplaces	Large storage or walk-in closet	Balcony, patio deck or sunroom	Built-in bookcases	Car- ports	Non- direct access garages	Direct access garages	Homes w/ pre-wired security garages
	1/1.5 BA	1/1.5 BA	2/2.5 /3 BA	2/2.5 BA	3BA																
CURRENT COMMUNITIES (I)																					
NORTHEAST																					
Boston, MA																					
Avalon at Center Place	103	—	111	5	—	6	—	225	371	All	None	None	None	Half	Some	None	No	No	No	None	
Avalon at Faxon Park	68	—	75	28	—	—	—	171	327	All	Some	Some	Some	All	All	None	No	Yes	No	All	
Avalon at Flanders Hill	108	—	142	30	—	—	—	280	589	All	None	Some	Some	All	Some	None	No	Yes	Yes	All	
Avalon at Lexington	28	24	90	56	—	—	—	198	362	All	Some	Some	Some	Most	All	None	Yes	Yes	No	All	
Avalon at Newton Highlands	90	46	92	56	4	6	—	294	540	All	Some	Some	Some	Most	Most	None	No	Yes	No	All	
Avalon at Prudential Center	361	—	237	—	23	148	12	781	538	None	None	None	None	Most	Some	None	No	No	No	None	
Avalon Essex	50	—	62	—	—	—	42	154	336	All	None	Some	Some	All	All	None	No	Yes	Yes	All	
Avalon Estates	66	16	80	—	—	—	—	162	345	All	Some	Some	Some	All	All	None	No	Yes	Yes	All	
Avalon Ledges	124	—	152	28	—	—	—	304	594	All	None	Some	Some	All	Some	None	No	Yes	No	All	
Avalon Oaks	60	24	96	24	—	—	—	204	394	All	Some	Some	Some	All	All	None	No	Yes	No	All	
Avalon Oaks West	48	12	48	12	—	—	—	120	232	All	Some	Some	Some	All	All	None	No	Yes	No	All	
Avalon Orchards	69	12	75	—	—	—	—	156	307	All	None	Half	Some	Most	All	None	No	Yes	Yes	All	
Avalon Summit	154	61	28	2	—	—	—	245	366	None	None	None	None	None	All	None	No	Yes	No	None	
Avalon West	40	—	55	25	—	—	—	120	285	All	Some	Some	Some	All	Half	None	No	Yes	Yes	All	
Fairfield-New Haven, CT																					
Avalon at Greyrock Place	104	91	99	12	—	—	—	306	464	All	None	None	None	All	All	None	No	No	Yes	All	
Avalon Corners	118	—	77	—	—	—	—	195	273	All	Some	Some	Some	All	All	None	No	Yes	No	All	
Avalon Gates	122	—	168	50	—	—	—	340	688	All	Some	Some	None	All	All	None	Yes	Yes	No	All	
Avalon Glen	124	—	114	—	—	—	—	238	363	Most	Some	Some	Some	Half	Most	None	Yes	Yes	No	Most	
Avalon Haven	44	60	—	24	—	—	—	128	256	All	None	Some	Some	All	All	None	Yes	Yes	No	All	
Avalon Lake	36	—	46	—	—	24	29	135	290	All	Some	Some	Some	All	All	None	No	Yes	No	All	
Avalon New Canaan	16	—	64	24	—	—	—	104	194	All	None	Some	Some	All	All	None	No	Yes	Yes	All	
Avalon on Stamford Harbor	159	—	130	20	—	14	—	323	623	All	Some	Some	Some	Most	All	None	No	No	No	All	
Avalon Springs	—	—	70	32	—	—	—	102	264	All	Half	Half	Most	All	All	None	No	No	Yes	All	
Avalon Valley	106	—	134	28	—	—	—	268	637	All	Some	Some	Some	All	All	None	Yes	Yes	No	All	
Avalon Walk I & II	272	116	122	74	—	—	180	764	1,411	All	Some	Some	Half	All	All	Some	Yes	No	No	Half	
Long Island, NY																					
Avalon Commons	128	40	112	32	—	—	—	312	485	All	Some	Some	Some	All	All	None	No	Yes	No	All	
Avalon Court	172	54	194	44	30	—	—	494	1,110	All	Some	Most	Some	All	All	None	No	Yes	Yes	All	
Avalon Towers	—	—	37	1	3	1	67	109	198	All	None	None	None	All	Most	None	No	No	Yes	All	
Northern New Jersey																					
Avalon at Edgewater	158	—	190	60	—	—	—	408	872	All	None	Some	Some	All	All	None	No	No	Yes	Some	
Avalon at Florham Park	46	—	107	117	—	—	—	270	581	All	Most	None	Some	All	Some	None	No	No	Yes	All	
Avalon Cove	190	—	190	46	2	—	76	504	464	All	Some	Some	Some	All	Most	None	No	Yes	Some	All	
The Tower at Avalon Cove	147	24	74	24	—	—	—	269	296	All	None	None	None	Half	Some	None	No	Yes	No	All	
Central New Jersey																					
Avalon at Freehold	42	41	176	37	—	—	—	296	591	All	Some	Some	Some	All	All	None	No	Yes	No	None	
Avalon Run East	64	—	106	36	—	—	—	206	401	All	Some	Some	Some	All	All	None	Yes	Yes	Yes	All	
Avalon Watch	252	36	142	82	—	—	—	512	781	Most	Some	None	Some	All	All	None	No	Yes	No	None	

Features and Recreational Amenities - Current and Development Communities

	1 BR		2BR		3BR		Studios/ efficiencies	Other	Total	Parking spaces	Washer & dryer hook-ups or units	Vaulted ceilings	Lofts	Fireplaces	Large storage or walk-in closet	Balcony, patio deck or sunroom	Built-in bookcases	Car- ports	Non- direct access garages	Direct access garages	Homes w/ pre-wired security garages
	1/1.5 BA	1/1.5 BA	2/2.5 /3 BA	2/2.5 BA	3BA																
New York, NY																					
Avalon Riverview I	184	—	114	—	31	43	—	372	426	All	None	None	None	None	Most	Some	None	No	Yes	No	Some
Avalon Gardens	208	48	144	104	—	—	—	504	1,382	All	Half	Half	Some	All	Most	None	None	Yes	Yes	Yes	All
Avalon Green	25	24	56	—	—	—	—	105	208	All	Some	Half	Some	All	All	None	None	Yes	No	No	All
Avalon on the Sound	143	—	184	22	20	43	—	412	648	Most	None	Some	None	Most	Some	None	None	No	Yes	No	Some
Avalon View	115	47	62	64	—	—	—	288	598	All	Some	Some	Some	Most	All	None	None	Yes	No	No	None
Avalon Willow	150	77	—	—	—	—	—	227	371	All	Some	Some	None	Most	All	None	None	No	Yes	Yes	All
The Avalon	55	2	43	10	—	—	—	110	167	All	Some	Some	Some	Most	Half	None	None	No	Yes	No	All
MID-ATLANTIC																					
Baltimore, MD																					
Avalon at Fairway Hills I & II	283	223	154	60	—	—	—	720	1,171	All	Some	None	Some	Some	All	Some	None	No	No	No	None
Avalon at Symphony Glen	88	14	54	20	—	—	—	174	268	All	Some	None	Most	All	All	Half	None	No	No	No	None
Avalon Landing	65	18	57	—	—	—	18	158	256	All	None	None	Most	Most	All	None	None	Yes	No	No	None
Washington, DC																					
AutumnWoods	220	72	96	—	—	—	32	420	720	All	Some	None	Some	All	All	Some	None	Yes	No	No	None
Avalon at Arlington Square	383	20	342	97	—	—	—	842	1,411	All	Some	Some	Some	Some	Some	Some	None	No	No	Some	All
Avalon at Ballston — Vermont & Quincy Towers	333	37	84	—	—	—	—	454	972	All	None	None	None	Most	All	None	None	No	No	Yes	None
Avalon at Ballston — Washington Towers	205	28	111	—	—	—	—	344	470	All	None	None	Some	Most	All	None	None	No	No	Yes	None
Avalon at Cameron Court	208	—	168	—	—	—	84	460	897	All	Some	Some	Some	All	Most	None	None	No	Yes	Yes	All
Avalon at Discoverly	156	—	104	64	44	—	—	368	627	All	Some	Some	Most	Most	All	None	None	No	No	No	None
Avalon at Foxhall	160	70	—	3	—	27	48	308	335	All	None	None	Some	Most	All	Some	None	No	Yes	No	None
Avalon at Fox Mill	—	—	92	73	—	—	—	165	366	All	Most	None	Most	All	All	None	None	No	No	Yes	All
Avalon at Gallery Place I	111	77	—	4	—	11	—	203	125	All	Some	None	None	All	Some	None	None	No	No	No	None
Avalon at Providence Park	19	—	112	4	—	—	6	141	299	All	None	None	Most	All	All	None	None	No	No	No	None
Avalon at Rock Spring	178	39	133	36	—	—	—	386	680	All	Some	Some	Some	Most	Most	Some	None	No	No	Yes	All
Avalon Crescent	186	26	346	—	—	—	—	558	989	All	Some	Some	Half	Most	All	Some	None	No	Yes	Yes	All
Avalon Crossing	—	27	105	—	—	—	—	132	224	All	Some	Some	Half	All	All	Some	None	No	Yes	Yes	All
Avalon Fields I & II	74	32	84	32	—	—	66	288	461	All	Some	Some	Half	All	Most	None	None	No	Yes	No	All
Avalon Knoll	136	55	81	28	—	—	—	300	477	All	Some	None	Half	All	All	Some	None	No	No	No	None
MIDWEST																					
Chicago, IL																					
200 Arlington Place	142	89	148	—	—	30	—	409	650	All	None	None	None	All	Some	None	None	No	Yes	No	None
Avalon at Danada Farms	80	52	134	29	—	—	—	295	555	All	None	None	Some	All	Some	Some	None	No	No	Yes	None
Avalon at Stratford Green	45	9	108	21	—	—	9	192	420	All	None	None	Some	Most	Some	Some	None	No	Yes	Yes	None
Avalon at West Grove	200	200	—	—	—	—	—	400	599	None	None	None	None	None	All	None	None	Yes	No	No	None
PACIFIC NORTHWEST																					
Seattle, WA																					
Avalon at Bear Creek	55	40	110	59	—	—	—	264	515	All	All	None	Most	All	All	Some	Yes	Yes	Yes	Yes	All
Avalon Bellevue	110	—	67	—	—	25	—	202	300	All	None	Some	Some	All	All	None	No	No	No	None	
Avalon Belltown	64	—	20	—	—	16	—	100	134	All	None	None	None	All	Some	None	No	No	No	Some	
Avalon Brandemoor	88	109	149	78	—	—	—	424	732	All	Some	None	Most	All	All	Some	Yes	Yes	Yes	All	
Avalon Greenbriar	16	19	217	169	—	—	—	421	731	All	Some	None	Most	All	All	Some	Yes	No	No	None	
Avalon HighGrove	84	119	124	56	8	—	—	391	721	All	Some	None	Most	Most	All	Some	Yes	Yes	Yes	All	
Avalon ParcSquare	31	26	55	5	7	—	—	124	189	All	None	None	None	All	All	None	No	No	No	All	
Avalon Redmond Place	76	44	67	35	—	—	—	222	384	All	Some	None	Most	All	All	None	Yes	Yes	No	None	
Avalon RockMeadow	28	48	86	28	16	—	—	206	415	All	Some	None	Most	Most	All	Some	Yes	Yes	Yes	All	
Avalon WildReed	36	60	78	60	—	—	—	234	463	All	Some	None	Most	Most	All	Some	Yes	Yes	No	All	
Avalon Wildwood	5	—	211	—	17	—	5	238	484	All	Some	None	Most	Some	Most	None	No	No	Yes	All	
Avalon Wynhaven	3	42	239	13	28	—	8	333	1,486	All	Most	Some	Most	All	All	None	Yes	Yes	Yes	All	

Features and Recreational Amenities - Current and Development Communities

	1 BR		2BR		3BR		Studios/ efficiencies	Other	Total	Parking spaces	Washer & dryer hook-ups or units	Vaulted ceilings	Lofts	Fireplaces	Large storage or walk-in closet	Balcony, patio deck or sunroom	Built-in bookcases	Car- ports	Non- direct access garages	Direct access garages	Homes w/ pre-wired security garages
	1/1.5 BA	1/1.5 BA	2/2.5 /3 BA	2/2.5 BA	3BA																
NORTHERN CALIFORNIA																					
Oakland-East Bay, CA																					
Avalon at Union Square	124	84	—	—	—	—	—	208	210	None	None	None	Most	All	All	None	Yes	No	No	None	
Avalon at Willow Creek	99	—	136	—	—	—	—	235	240	All	None	None	None	All	All	None	Yes	No	No	None	
Avalon Dublin	72	8	60	48	—	—	—	204	435	Most	Some	None	Most	All	All	None	No	Yes	No	None	
Avalon Fremont	130	81	176	—	56	—	—	443	892	All	Most	None	Some	Most	All	None	Yes	Yes	No	All	
Avalon Pleasanton	238	—	218	—	—	—	—	456	856	All	Some	None	Most	All	All	None	Yes	Yes	Yes	None	
Avalon Waterford	208	—	336	—	—	—	—	544	910	Some	Some	None	None	All	All	None	Yes	No	No	None	
San Francisco, CA																					
Avalon at Cedar Ridge	117	33	24	—	—	21	—	195	259	None	None	Some	None	Some	All	None	Yes	No	Yes	None	
Avalon at Diamond Heights	90	—	49	15	—	—	—	154	155	None	Some	None	None	All	All	None	No	Yes	No	None	
Avalon at Mission Bay North	148	—	95	6	—	1	—	250	198	All	None	Some	None	All	Some	None	No	Yes	No	None	
Avalon at Nob Hill	114	—	25	—	—	46	—	185	104	None	None	None	None	None	Some	Most	No	Yes	No	None	
Avalon Sunset Towers	183	20	20	—	—	20	—	243	244	None	None	None	None	None	Some	None	No	No	Yes	None	
Avalon Foster City	124	123	1	—	—	40	—	288	490	None	None	None	None	Most	Most	None	Yes	No	No	None	
Avalon Pacifica	58	106	56	—	—	—	—	220	329	None	None	None	Some	Some	All	None	Yes	Yes	No	None	
Avalon Towers by the Bay	103	—	120	—	3	—	—	226	235	All	Some	None	Some	Half	Most	None	No	No	Yes	All	
Avalon Crowne Ridge	158	68	24	—	—	4	—	254	396	Some	Some	None	Some	None	All	None	Yes	No	Yes	None	
San Jose, CA																					
Avalon at Blossom Hill	90	—	210	—	24	—	—	324	379	All	Some	None	None	Most	All	None	Yes	Yes	No	All	
Avalon at Cahill Park	118	—	94	—	6	—	—	218	283	All	Some	Some	Some	Most	All	None	No	Yes	No	None	
Avalon at Creekside	158	128	—	—	—	8	—	294	441	None	None	None	Some	None	Most	None	Yes	No	No	None	
Avalon at Foxchase	168	—	228	—	—	—	—	396	666	All	Some	None	None	Some	All	None	Yes	No	No	None	
Avalon at Parkside	60	—	96	36	—	—	—	192	351	All	Some	None	Half	All	All	Some	Yes	Yes	No	None	
Avalon at Pruneyard	212	40	—	—	—	—	—	252	400	All	None	None	None	None	Half	None	Yes	Yes	No	None	
Avalon at River Oaks	100	—	126	—	—	—	—	226	358	All	None	None	Most	All	All	None	No	No	Yes	None	
Avalon Campbell	156	—	180	—	12	—	—	348	454	All	Some	None	None	All	All	None	Yes	Yes	No	All	
Avalon Cupertino	145	—	152	—	14	—	—	311	501	All	Some	None	Some	Some	All	Some	No	Yes	No	None	
Avalon Mountain View	108	—	88	52	—	—	—	248	248	All	Some	None	None	Some	All	None	Yes	No	No	None	
Avalon on the Alameda	113	—	164	—	28	—	—	305	558	All	Some	None	Some	All	All	Some	No	Yes	No	All	
Avalon Rosewalk	168	—	264	—	24	—	—	456	705	All	Some	None	Some	Some	All	Most	Yes	Yes	No	All	
Avalon Silicon Valley	338	—	336	18	15	3	—	710	1,400	All	Some	Some	Some	Most	All	Some	No	Yes	No	None	
Avalon Sunnyvale	112	10	54	—	—	44	—	220	394	Some	None	None	None	All	All	None	No	No	Yes	None	
Avalon Towers on the Peninsula	90	—	115	—	6	—	—	211	512	All	None	None	None	Most	All	None	No	Yes	No	None	
Avalon CountryBrook	108	—	252	—	—	—	—	360	692	All	Some	None	All	None	All	None	Yes	Yes	No	None	
Avalon Fairway Glen	60	—	84	—	—	—	—	144	245	All	Some	None	None	None	All	None	Yes	No	No	Some	
Avalon San Marino	103	—	145	—	—	—	—	248	439	All	Some	None	None	Most	All	None	Yes	No	No	None	
SOUTHERN CALIFORNIA																					
Los Angeles, CA																					
Avalon at Media Center	296	102	117	12	—	221	—	748	910	Some	None	None	Some	Some	Some	None	Yes	Yes	No	None	
Avalon at Warner Center	88	54	65	20	—	—	—	227	449	All	Some	None	Some	Some	All	None	Yes	No	No	None	
Avalon Glendale	75	—	121	—	27	—	—	223	460	All	None	None	Some	All	All	None	No	Yes	No	All	
Avalon Woodland Hills	222	—	441	—	—	—	—	663	1,353	Some	None	Some	None	Most	All	None	No	No	No	None	
Avalon The Promenade	153	—	196	51	—	—	—	400	720	Some	None	Some	All	Some	All	None	No	No	No	None	

Features and Recreational Amenities - Current and Development Communities

	1BR		2BR		3BR		Studios/ efficiencies	Other	Total	Parking spaces	Washer & dryer hook-ups or units	Vaulted ceilings	Lofts	Fireplaces	Large storage or walk-in closet	Balcony, patio deck or sunroom	Built-in bookcases	Car- ports	Non- direct access garages	Direct access garages	Homes w/ pre-wired security garages
	1/1.5 BA	1/1.5 BA	2/2.5 /3 BA	2/2.5 BA	3BA																
Orange County, CA																					
Avalon at Pacific Bay	144	56	104	—	—	—	—	304	485	All	None	None	None	None	Half	All	None	Yes	Yes	No	None
Avalon at South Coast	124	—	86	—	—	48	—	258	426	Some	Half	None	None	None	Half	All	None	Yes	Yes	No	None
Avalon Laguna Niguel	—	—	176	—	—	—	—	176	381	None	Some	None	All	None	None	Most	None	Yes	No	No	None
Avalon Mission Viejo	94	28	44	—	—	—	—	166	243	None	None	None	None	None	All	None	None	Yes	Yes	No	None
Avalon Newport	44	54	—	35	—	12	—	145	244	Most	Some	None	Some	Most	Most	Some	None	Yes	Yes	No	None
Avalon Santa Margarita	160	—	141	—	—	—	—	301	515	All	None	None	None	None	All	None	None	Yes	Yes	No	None
San Diego, CA																					
Avalon at Cortez Hill	114	—	83	—	—	97	—	294	292	None	None	None	None	None	None	All	None	No	No	Yes	None
Avalon at Mission Bay	270	9	165	—	—	120	—	564	746	None	None	None	None	None	Some	All	None	No	Yes	No	None
Avalon at Mission Ridge	18	1	98	83	—	—	—	200	381	Most	None	None	Most	Most	Most	None	None	No	Yes	No	None
Avalon at Penasquitos Hills	48	48	80	—	—	—	—	176	273	All	None	None	All	Some	All	All	Yes	No	No	No	None
DEVELOPMENT COMMUNITIES																					
Avalon at Crane Brook	160	12	177	38	—	—	—	387	737	All	Some	Some	Some	All	Some	None	No	Yes	No	All	
Avalon at Glen Cove South	112	—	91	—	—	53	—	256	458	All	None	None	Some	Most	Some	None	No	No	No	Some	
Avalon at Grosvenor Station	265	33	185	13	—	1	—	497	742	All	Some	Some	Some	Most	All	None	No	No	Yes	All	
Avalon at Steven's Pond	102	—	202	22	—	—	—	326	663	All	Some	Some	Some	All	All	Some	No	Yes	Yes	All	
Avalon at the Pinehills	12	—	73	16	—	—	—	101	246	All	Some	Some	Some	All	All	None	No	No	Yes	All	
Avalon Darien	77	—	78	32	—	—	2	189	472	All	Some	Some	Some	Some	All	None	No	No	Yes	All	
Avalon at Traville	190	30	232	68	—	—	—	520	1,084	All	Some	Some	Some	Most	Most	Some	No	Yes	Yes	None	
Avalon Milford I	184	—	62	—	—	—	—	246	426	All	Some	None	Some	All	All	None	Yes	Yes	No	All	
Avalon Run East II	72	36	148	56	—	—	—	312	697	All	Some	Some	Some	Most	All	None	No	Yes	Yes	All	
Avalon Pines I	72	—	220	—	6	—	—	298	1,094	All	Most	Some	Some	Most	All	None	No	Yes	Yes	All	
Avalon Christy Place I	199	—	89	—	—	73	—	361	—	Some	None	None	None	Some	Some	None	No	No	No	No	

Features and Recreational Amenities - Current and Development Communities

	Buildings w/security systems	Community entrance controlled access	Building entrance controlled access	Underground parking	Aerobics dance studio	Car wash	Picnic area	Walking/jogging trail	Pool	Sauna/whirlpool	Tennis court	Racquetball	Fitness center	Sand volleyball	Indoor/outdoor basketball	Clubhouse/clubroom	Business center	Tot lot	Concierge
CURRENT COMMUNITIES (I)																			
NORTHEAST																			
Boston, MA																			
Avalon at Center Place	None	Yes	Yes	Yes	No	Yes	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	No	Yes
Avalon at Faxon Park	None	No	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	Yes	No	Yes	No
Avalon at Flanders Hill	All	No	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	Yes	Yes	No	Yes	No
Avalon at Lexington	None	No	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	No	Yes	No
Avalon at Newton Highlands	All	No	Yes	Yes	No	No	Yes	Yes	Yes	Yes	No	No	Yes	No	No	Yes	Yes	Yes	Yes
Avalon at Prudential Center	None	No	Yes	Yes	No	No	Yes	No	No	No	No	No	No	No	No	Yes	No	No	Yes
Avalon Essex	None	No	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	Yes	No	No	No
Avalon Estates	None	No	No	No	No	No	Yes	Yes	Yes	Yes	No	No	Yes	No	No	No	Yes	Yes	No
Avalon Ledges	All	No	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	Yes	Yes	No	Yes	No
Avalon Oaks	None	No	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	Yes	No	Yes	No
Avalon Oaks West	All	No	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	Yes	No	Yes	No
Avalon Orchards	None	No	No	No	No	No	Yes	Yes	Yes	Yes	No	No	Yes	No	No	Yes	No	Yes	No
Avalon Summit	None	No	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	No	No	No	No
Avalon West	None	No	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	No	Yes	No
Fairfield-New Haven, CT																			
Avalon at Greyrock Place	All	Yes	No	Yes	No	No	Yes	No	Yes	No	Yes	No	Yes	No	No	Yes	Yes	Yes	Yes
Avalon Corners	All	Yes	Yes	Yes	No	No	Yes	No	Yes	No	No	No	Yes	No	No	Yes	Yes	Yes	No
Avalon Gates	None	Yes	No	No	No	No	Yes	No	Yes	No	No	Yes	Yes	Yes	Yes	Yes	No	Yes	No
Avalon Glen	None	No	Yes	Yes	No	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	Yes
Avalon Haven	None	No	No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	Yes	No
Avalon Lake	None	No	No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	No	No	No	No
Avalon New Canaan	All	No	Yes	No	No	No	Yes	Yes	Yes	No	No	No	Yes	No	No	Yes	Yes	Yes	No
Avalon on Stamford Harbor	All	Yes	Yes	Yes	No	No	Yes	Yes	Yes	No	No	Yes	Yes	No	Yes	Yes	Yes	No	Yes
Avalon Springs	All	No	No	No	No	No	Yes	Yes	Yes	No	No	No	Yes	No	No	Yes	No	Yes	No
Avalon Valley	None	No	No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	No	Yes	No
Avalon Walk I & II	None	No	No	No	Yes	No	Yes	Yes	Yes	No	Yes	Yes	Yes	No	Yes	Yes	No	Yes	No
Long Island, NY																			
Avalon Commons	All	No	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	Yes	Yes	No
Avalon Court	All	Yes	Yes	No	No	Yes	Yes	Yes	Yes	No	No	Yes	Yes	No	Yes	Yes	Yes	Yes	No
Avalon Towers	All	No	No	Yes	No	Yes	No	No	Yes	No	No	No	Yes	No	No	Yes	No	No	Yes
Northern New Jersey																			
Avalon at Edgewater	All	Yes	Yes	Yes	No	No	No	No	Yes	No	No	No	Yes	No	No	Yes	Yes	No	Yes
Avalon at Florham Park	None	No	No	No	No	No	No	No	Yes	No	No	No	Yes	No	No	Yes	No	No	No
Avalon Cove	All	Yes	Yes	No	No	No	Yes	Yes	Yes	No	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
The Tower at Avalon Cove	All	No	Yes	No	No	No	Yes	Yes	Yes	No	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes
Central New Jersey																			
Avalon at Freehold	None	No	No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	Yes	Yes	Yes	No
Avalon Run East	None	No	No	No	No	No	Yes	Yes	Yes	No	No	No	Yes	No	No	Yes	No	Yes	No
Avalon Watch	None	No	Yes	No	No	No	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes	Yes	No	Yes	No

Features and Recreational Amenities - Current and Development Communities

	Buildings w/security systems	Community entrance controlled access	Building entrance controlled access	Underground parking	Aerobics dance studio	Car wash	Picnic area	Walking/jogging trail	Pool	Sauna/whirlpool	Tennis court	Racquetball	Fitness center	Sand volleyball	Indoor/outdoor basketball	Clubhouse/clubroom	Business center	Tot lot	Concierge
New York, NY																			
Avalon Riverview I	All	Yes	Yes	No	No	No	Yes	Yes	No	No	No	No	Yes	No	No	Yes	Yes	No	Yes
Avalon Gardens	All	No	No	No	No	No	Yes	No	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Avalon Green	All	No	No	No	No	No	No	No	Yes	No	No	No	No	Yes	No	Yes	No	No	No
Avalon on the Sound	All	Yes	Yes	No	No	No	Yes	Yes	Yes	No	No	No	Yes	No	Yes	Yes	Yes	No	Yes
Avalon View	None	No	No	No	No	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	Yes	No	Yes	No
Avalon Willow	All	Yes	Yes	Yes	No	No	Yes	No	Yes	No	No	Yes	Yes	No	No	Yes	Yes	No	Yes
The Avalon	All	No	Yes	Yes	No	No	No	No	No	No	No	No	Yes	No	No	Yes	Yes	No	Yes
MID-ATLANTIC																			
Baltimore, MD																			
Avalon at Fairway Hills I & II	None	No	No	No	No	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No	No	Yes	Yes	Yes	No
Avalon at Symphony Glen	None	No	No	No	No	Yes	Yes	Yes	Yes	No	No	No	Yes	No	No	Yes	No	Yes	No
Avalon Landing	None	No	No	No	No	Yes	Yes	Yes	Yes	No	No	No	Yes	No	No	Yes	No	No	No
Washington, DC																			
AutumnWoods	None	No	No	No	No	Yes	Yes	Yes	Yes	No	Yes	No	Yes	Yes	Yes	Yes	No	Yes	No
Avalon at Arlington Square	Some	No	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	Yes	Yes	No
Avalon at Ballston — Vermont & Quincy Towers	None	Yes	Yes	Yes	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	Yes	No	No	No
Avalon at Ballston — Washington Towers	None	Yes	Yes	Yes	No	No	Yes	No	Yes	No	Yes	No	Yes	No	No	Yes	No	No	Yes
Avalon at Cameron Court	All	Yes	No	No	Yes	Yes	Yes	No	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes	No	No
Avalon at Decoverly	None	No	No	No	No	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	No	Yes	Yes	No	Yes	No
Avalon at Foxhall	None	Yes	Yes	Yes	No	No	No	Yes	Yes	No	No	No	Yes	No	No	Yes	No	No	No
Avalon at Fox Mill	None	No	No	No	No	Yes	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	Yes	No
Avalon at Gallery Place I	All	Yes	Yes	Yes	No	No	No	No	No	No	No	No	Yes	No	No	No	Yes	No	Yes
Avalon at Providence Park	None	No	No	No	No	Yes	No	No	Yes	No	No	No	Yes	No	No	Yes	Yes	No	No
Avalon at Rock Spring	None	No	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	Yes	Yes	Yes	No
Avalon Crescent	None	Yes	No	No	Yes	Yes	Yes	Yes	Yes	No	No	No	Yes	No	No	Yes	Yes	Yes	Yes
Avalon Crossing	None	Yes	No	No	No	Yes	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	Yes	No
Avalon Fields I & II	All	No	No	No	No	Yes	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	Yes	No
Avalon Knoll	None	No	Yes	No	No	Yes	Yes	Yes	Yes	No	Yes	No	Yes	No	Yes	No	No	Yes	No
MIDWEST																			
Chicago, IL																			
200 Arlington Place	None	No	Yes	No	No	No	No	No	Yes	No	No	No	Yes	No	No	Yes	No	No	No
Avalon at Danada Farms	None	No	No	No	No	No	No	No	Yes	No	No	No	Yes	No	No	Yes	Yes	No	Yes
Avalon at Stratford Green	None	No	No	No	No	Yes	Yes	Yes	Yes	No	No	No	No	No	No	Yes	No	No	Yes
Avalon at West Grove	None	No	Yes	No	No	No	Yes	No	Yes	Yes	No	Yes	Yes	No	No	Yes	Yes	Yes	No
PACIFIC NORTHWEST																			
Seattle, WA																			
Avalon at Bear Creek	All	Yes	No	No	No	No	Yes	Yes	Yes	Yes	No	No	Yes	No	No	Yes	Yes	Yes	No
Avalon Bellevue	None	No	Yes	Yes	No	No	No	No	No	No	No	No	Yes	No	No	Yes	Yes	No	Yes
Avalon Belltown	None	Yes	Yes	Yes	No	No	No	No	No	No	No	No	Yes	No	No	Yes	No	No	No
Avalon Brandemoor	All	No	No	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	Yes	Yes	Yes	No
Avalon Greenbriar	None	No	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	Yes	Yes	No	Yes	No
Avalon HighGrove	None	No	No	No	No	No	No	No	Yes	Yes	No	No	Yes	No	No	Yes	Yes	Yes	No
Avalon ParcSquare	None	Yes	Yes	Yes	No	No	No	Yes	No	No	No	No	Yes	No	No	Yes	Yes	No	No
Avalon Redmond Place	None	No	No	No	No	Yes	No	Yes	Yes	Yes	No	No	Yes	No	No	Yes	No	Yes	No
Avalon RockMeadow	None	No	No	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	Yes	Yes	Yes	No
Avalon WildReed	None	No	No	No	No	No	Yes	Yes	Yes	Yes	No	No	Yes	No	No	Yes	Yes	Yes	No
Avalon Wildwood	All	No	No	No	No	No	No	Yes	Yes	Yes	No	No	Yes	No	No	Yes	Yes	Yes	No
Avalon Wynhaven	None	No	Yes	Yes	No	No	Yes	Yes	Yes	Yes	No	No	Yes	No	Yes	Yes	Yes	Yes	No

Features and Recreational Amenities - Current and Development Communities

	Buildings w/security systems	Community entrance controlled access	Building entrance controlled access	Underground parking	Aerobics dance studio	Car wash	Picnic area	Walking/jogging trail	Pool	Sauna/whirlpool	Tennis court	Racquetball	Fitness center	Sand volleyball	Indoor/outdoor basketball	Clubhouse/clubroom	Business center	Tot lot	Concierge
NORTHERN CALIFORNIA																			
Oakland-East Bay, CA																			
Avalon at Union Square	None	Yes	No	No	No	No	No	No	Yes	No	No	No	Yes	No	No	No	No	No	No
Avalon at Willow Creek	Some	Yes	No	No	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	Yes	No	No	No	No
Avalon Dublin	None	No	No	No	No	Yes	Yes	No	Yes	Yes	No	No	Yes	Yes	Yes	No	No	Yes	No
Avalon Fremont	All	No	No	Yes	Yes	Yes	No	No	Yes	Yes	No	No	Yes	No	No	Yes	No	No	No
Avalon Pleasanton	None	No	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	Yes	No	Yes	Yes	No
Avalon Waterford	Some	Yes	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	Yes	No	No	Yes	No
San Francisco, CA																			
Avalon at Cedar Ridge	None	No	No	No	No	No	No	No	Yes	Yes	No	No	Yes	No	No	Yes	No	No	No
Avalon at Diamond Heights	None	No	Yes	Yes	No	No	No	No	Yes	Yes	No	No	Yes	No	No	Yes	No	No	No
Avalon at Mission Bay North	All	Yes	Yes	Yes	Yes	No	No	No	No	No	No	No	Yes	No	No	Yes	No	No	Yes
Avalon at Nob Hill	None	Yes	Yes	Yes	No	No	Yes	No	No	No	No	No	Yes	No	No	No	No	No	Yes
Avalon Sunset Towers	All	Yes	Yes	Yes	No	Yes	Yes	No	No	No	No	No	No	No	No	No	No	No	No
Avalon Foster City	Some	No	No	No	No	Yes	No	Yes	Yes	No	No	No	No	No	No	Yes	No	Yes	No
Avalon Pacifica	None	No	No	No	No	No	No	No	Yes	No	No	No	Yes	No	No	No	No	No	No
Avalon Towers by the Bay	None	Yes	Yes	Yes	No	No	No	No	No	Yes	No	No	Yes	No	No	Yes	Yes	No	Yes
Avalon Crowne Ridge	None	No	No	Yes	No	No	No	Yes	Yes	Yes	No	No	Yes	No	No	No	Yes	No	No
San Jose, CA																			
Avalon at Blossom Hill	None	Yes	Yes	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	No	Yes	No	No
Avalon at Cahill Park	All	Yes	Yes	Yes	Yes	No	No	No	Yes	Yes	No	No	Yes	No	No	Yes	Yes	No	No
Avalon at Creekside	Some	No	No	No	No	No	Yes	Yes	Yes	No	Yes	No	Yes	Yes	Yes	Yes	Yes	No	No
Avalon at Foxchase	None	No	No	Yes	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	No	No	No	No
Avalon at Parkside	None	No	No	Yes	No	No	Yes	No	Yes	Yes	No	No	Yes	No	Yes	Yes	Yes	Yes	No
Avalon at Pruneyard	None	No	No	No	No	No	Yes	No	Yes	Yes	No	No	Yes	Yes	Yes	No	Yes	No	No
Avalon at River Oaks	None	No	No	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	No	Yes	No	No
Avalon Campbell	Some	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No	No	Yes	Yes	No	No	Yes	Yes	No
Avalon Cupertino	None	Yes	Yes	Yes	No	No	No	No	Yes	Yes	No	No	Yes	No	No	No	Yes	No	No
Avalon Mountain View	None	No	No	Yes	No	Yes	Yes	No	Yes	No	No	No	Yes	No	No	No	Yes	Yes	No
Avalon on the Alameda	All	Yes	Yes	Yes	No	No	No	No	Yes	Yes	No	No	Yes	No	No	No	No	No	No
Avalon Rosewalk	None	Yes	No	No	Yes	No	Yes	Yes	Yes	Yes	No	No	Yes	No	No	No	Yes	No	No
Avalon Silicon Valley	Some	Yes	Yes	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes	No	Yes	Yes	Yes	Yes	Yes
Avalon Sunnyvale	None	No	No	Yes	Yes	Yes	Yes	No	Yes	Yes	No	No	Yes	No	No	No	Yes	Yes	No
Avalon Towers on the Peninsula	All	Yes	Yes	Yes	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	No	No	No	No	Yes
Avalon CountryBrook	None	Yes	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	No	No	No	No
Avalon Fairway Glen	Some	No	No	No	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	No	No	No	Yes	No
Avalon San Marino	None	Yes	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	No	No	Yes	No
SOUTHERN CALIFORNIA																			
Los Angeles, CA																			
Avalon at Media Center	None	No	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	No	Yes	No	No
Avalon at Warner Center	None	Yes	Yes	No	No	No	No	No	Yes	Yes	Yes	No	Yes	No	No	No	Yes	No	No
Avalon Glendale	None	Yes	Yes	Yes	No	No	No	No	Yes	No	No	No	Yes	No	No	Yes	Yes	No	No
Avalon Woodland Hills	None	Yes	No	Yes	No	No	No	No	Yes	Yes	No	No	Yes	No	No	No	Yes	No	No
Avalon The Promenade	None	Yes	Yes	Yes	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	Yes	Yes	Yes	No

Features and Recreational Amenities - Current and Development Communities

	Buildings w/security systems	Community entrance controlled access	Building entrance controlled access	Under-ground parking	Aerobics dance studio	Car wash	Picnic area	Walking/jogging trail	Pool	Sauna/whirlpool	Tennis court	Racquetball	Fitness center	Sand volleyball	Indoor/outdoor basketball	Clubhouse/clubroom	Business center	Tot lot	Concierge
Orange County, CA																			
Avalon at Pacific Bay	None	Yes	No	No	No	No	No	No	Yes	Yes	No	No	Yes	No	No	No	Yes	Yes	No
Avalon at South Coast	None	Yes	No	No	No	Yes	No	No	Yes	Yes	Yes	No	Yes	Yes	No	Yes	Yes	No	No
Avalon Laguna Niguel	None	No	No	Yes	No	No	No	No	Yes	Yes	No	No	Yes	No	No	No	No	Yes	No
Avalon Mission Viejo	None	Yes	No	No	No	No	No	Yes	Yes	Yes	No	No	Yes	No	No	No	Yes	No	No
Avalon Newport	None	No	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	No	Yes	No	No
Avalon Santa Margarita	None	No	No	No	No	No	Yes	Yes	Yes	Yes	No	No	Yes	No	No	No	No	Yes	No
San Diego, CA																			
Avalon at Cortez Hill	All	Yes	Yes	No	No	No	No	Yes	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes	No	No
Avalon at Mission Bay	None	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	No	No
Avalon at Mission Ridge	Some	No	No	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	No	No	Yes	No
Avalon at Penasquitos Hills	None	No	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No	No	Yes	Yes	No
DEVELOPMENT COMMUNITIES																			
Avalon at Crane Brook	Some	No	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	Yes	Yes	Yes
Avalon at Glen Cove South	Some	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No	No	No	Yes	No	No	Yes	Yes	Yes	No
Avalon at Grosvonor Station	All	Yes	Yes	Yes	No	Yes	Yes	No	Yes	No	No	No	Yes	No	No	Yes	Yes	No	Yes
Avalon at Steven's Pond	All	No	Yes	No	Yes	No	Yes	No	Yes	Yes	No	No	Yes	No	Yes	Yes	No	Yes	No
Avalon at the Pinehills	None	No	No	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	Yes	No	No	No
Avalon Darien	None	No	No	No	No	No	Yes	Yes	Yes	No	No	Yes	Yes	No	No	Yes	Yes	Yes	No
Avalon at Traville	None	No	Yes	No	No	No	Yes	Yes	Yes	No	No	No	Yes	No	Yes	Yes	Yes	Yes	No
Avalon Milford I	None	Yes	No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	Yes	No
Avalon Run East II	None	No	No	No	No	No	Yes	Yes	Yes	No	Yes	No	Yes	No	Yes	Yes	No	Yes	No
Avalon Pines I	None	No	No	No	No	No	Yes	Yes	Yes	No	Yes	No	Yes	No	Yes	Yes	No	Yes	No
Avalon Chrystie Place I	None	Yes	Yes	No	No	No	Yes	No	No	No	No	No	Yes	No	No	Yes	Yes	Yes	Yes

(1) For the purpose of this table, Current Communities excludes communities held by unconsolidated real estate joint ventures.

Development Communities

As of February 27, 2004, we had eleven Development Communities under construction. We expect these Development Communities, when completed, to add a total of 3,493 apartment homes to our portfolio for a total capital cost, including land acquisition costs, of approximately \$671,900,000. Statements regarding the future development or performance of the Development Communities are forward-looking statements. We cannot assure you that:

- we will complete the Development Communities;
- our budgeted costs or estimates of occupancy rates will be realized;
- our schedule of leasing start dates, construction completion dates or stabilization dates will be achieved; or
- future developments will realize returns comparable to our past developments.

You should carefully review the discussion under “Risks of Development and Redevelopment” included elsewhere in this Item 2.

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

	Number of apartment homes	Total capital cost ⁽¹⁾ (\$ millions)	Construction start	Initial occupancy ⁽²⁾	Estimated completion	Estimated stabilization ⁽³⁾
1. Avalon at Grosvenor Station ⁽⁴⁾ <i>North Bethesda, MD</i>	497	\$ 82.3	Q1 2002	Q3 2003	Q4 2004	Q2 2005
2. Avalon at Glen Cove South <i>Glen Cove, NY</i>	256	62.6	Q3 2002	Q1 2004	Q2 2004	Q4 2004
3. Avalon at Steven's Pond <i>Saugus, MA</i>	326	55.4	Q3 2002	Q1 2003	Q2 2004	Q4 2004
4. Avalon Darien <i>Darien, CT</i>	189	43.6	Q4 2002	Q2 2003	Q3 2004	Q1 2005
5. Avalon at Traville ⁽⁵⁾ <i>North Potomac, MD</i>	520	71.5	Q4 2002	Q3 2003	Q1 2005	Q3 2005
6. Avalon Run East II <i>Lawrenceville, NJ</i>	312	49.3	Q2 2003	Q3 2004	Q1 2005	Q3 2005
7. Avalon at Crane Brook <i>Danvers & Peabody, MA</i>	387	56.2	Q3 2003	Q3 2004	Q2 2005	Q4 2005
8. Avalon Milford I <i>Milford, CT</i>	246	32.5	Q3 2003	Q3 2004	Q1 2005	Q3 2005
9. Avalon Chrystie Place I ⁽⁶⁾ <i>New York, NY</i>	361	149.9	Q4 2003	Q3 2005	Q4 2005	Q2 2006
10. Avalon at The Pinehills I <i>Plymouth, MA</i>	101	19.9	Q4 2003	Q4 2004	Q1 2005	Q3 2005
11. Avalon Pines I <i>Coram, NY</i>	298	48.7	Q4 2003	Q1 2005	Q4 2005	Q2 2006
Total	3,493	\$ 671.9				

(1) Total capital cost includes all capitalized costs projected to be or actually incurred to develop the respective Development Community, determined in accordance with generally accepted accounting principles ("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.

(2) Future initial occupancy dates are estimates.

(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) The community is owned by a DownREIT partnership in which one of our wholly-owned subsidiaries is the general partner with a majority interest. This community is consolidated for financial reporting purposes.

(5) This is a two-phase community for which construction of the second phase commenced in the second quarter of 2003.

(6) This community is being financed under a joint venture structure with third-party financing, in which the community is owned by a limited liability company managed by one of our wholly-owned subsidiaries. The total capital cost for this community includes costs associated with the construction of 89,000 square feet of retail space and 30,000 square feet for a community facility. Our portion of the total capital cost of this joint venture is projected to be \$30.0 million including community-based tax-exempt debt.

Redevelopment Communities

As of February 27, 2004, we had two communities under redevelopment. We expect the total capital cost to complete these communities, including the cost of acquisition, capital expenditures subsequent to acquisition and redevelopment, to be approximately \$203,800,000, of which approximately \$34,200,000 is the additional capital invested or expected to be invested during redevelopment and \$5,800,000 has been invested since acquisition unrelated to redevelopment. Statements regarding the future redevelopment or performance of the Redevelopment Communities are forward-looking statements. 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 schedules for reconstruction completion or restabilized operations, or that we will meet our budgeted costs, either individually or in the aggregate. See the discussion under "Risks of Development and Redevelopment" included elsewhere in this report.

The following presents a summary of these Redevelopment Communities:

	Number of apartment homes	Total cost (\$ millions)		Reconstruction start	Estimated Reconstruction completion	Estimated restabilized operations ⁽³⁾
		Acquisition cost ⁽¹⁾	Total capital cost ⁽²⁾			
1. Avalon at Foxhall <i>Washington, DC</i>	308	\$ 35.7	\$ 43.8	Q4 2002	Q2 2004	Q4 2004
2. Avalon at Prudential Center <i>Boston, MA</i>	781	133.9	160.0	Q4 2000	Q2 2006	Q4 2006
Total	1,089	\$ 169.6	\$ 203.8			

(1) Acquisition cost includes capital expenditures subsequent to acquisition unrelated to redevelopment.

(2) Total capital cost includes all capitalized costs projected to be incurred to redevelop the respective Redevelopment Community, including costs to acquire the community, reconstruction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated redevelopment overhead and other regulatory fees determined in accordance with GAAP.

(3) 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

As of February 27, 2004, we are considering the development of 40 new apartment communities on land that is either owned by us, under contract, subject to a leasehold interest or for which we hold a purchase option. We generally hold Development Rights through options to acquire land, although for 10 of the Development Rights we currently own the land on which a community would be built if we proceeded with development. 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 10,070 apartment homes to our portfolio. Substantially all of these apartment homes will offer features like those offered by the communities we currently own. At December 31, 2003, there were cumulative capitalized costs (including legal fees, design fees and related overhead costs, but excluding land costs) of \$31,334,000 relating to Development Rights. In addition, land costs related to the pursuit of Development Rights (consisting of original land and additional carrying costs) of \$81,358,000 are reflected as land held for development on the accompanying Consolidated Balance Sheets as of December 31, 2003.

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 pursue, 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 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, deeming future development no longer probable, any capitalized pre-development costs are written-off with a charge to expense.

Because we intend to limit the percentage of debt used to finance new developments, other financing alternatives may be required to help finance the development of those Development Rights scheduled to start construction after January 1, 2004.

Although the development of any particular Development Right cannot be assured, we believe that the Development Rights, in the aggregate, present attractive potential opportunities for future development and growth of long-term stockholder value.

Statements regarding the future development of the Development Rights are forward-looking statements. We cannot assure you that:

- we will succeed in obtaining zoning and other necessary governmental approvals or the financing required to develop these communities, or that we will decide to develop any particular community; or
- if we undertake construction of any particular community, that we will complete construction at the total capital cost assumed in the financial projections in the following table.

The following presents a summary of the 40 Development Rights we are currently pursuing:

	Location		Estimated number of homes	Total capital cost (\$ millions) (1)
1.	Kirkland, WA	(2)	211	\$ 50
2.	Danbury, CT	(2)	234	36
3.	Orange, CT	(2)	168	22
4.	Los Angeles, CA	(2)	309	63
5.	Bedford, MA	(2)	139	21
6.	Camarillo, CA	(2)	249	43
7.	San Francisco, CA		313	100
8.	Plymouth, MA Phase II		69	13
9.	Stratford, CT		146	23
10.	Newton, MA		240	60
11.	Hingham, MA		236	44
12.	Andover, MA		115	21
13.	Long Island City, NY Phase II and III		609	162
14.	Quincy, MA	(2)	148	24
15.	Milford, CT		284	41
16.	New York, NY Phase II		205	88
17.	Los Angeles, CA		123	36
18.	New Rochelle, NY Phase II and III		588	144
19.	Greenburgh, NY Phase II		766	120
20.	Glen Cove, NY	(2)	111	31
21.	Encino, CA		146	46
22.	Coram, NY Phase II	(2)	152	26
23.	Rockville, MD Phase II		196	28
24.	Wilton, CT		100	24
25.	Dublin, CA Phase I		304	72
26.	Sharon, MA		190	31
27.	Bellevue, WA		368	71
28.	Seattle, WA	(2)	194	50
29.	Norwalk, CT		312	63
30.	Danvers, MA		428	80
31.	Shrewsbury, MA		300	44
32.	Cohasset, MA		200	38
33.	Dublin, CA Phase II		200	47
34.	College Park, MD		320	44
35.	Oyster Bay, NY		273	69
36.	Yaphank, NY		270	41
37.	New York, NY Phase III		103	46
38.	West Haven, CT		170	23
39.	Dublin, CA Phase III		205	49
40.	Camarillo, CA		376	55
	Total		<u>10,070</u>	<u>\$ 2,089</u>

(1) Total capital 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.

(2) We own the land parcel, but construction has not yet begun.

Risks of Development and Redevelopment

We intend to continue to pursue the development and redevelopment of apartment home communities. Our development and redevelopment activities may be exposed to the following:

- we may abandon opportunities we have already begun to explore based on further review of, or changes in, financial, demographic, environmental or other factors;
- we may encounter liquidity constraints, including the unavailability of financing on favorable terms for the development or redevelopment of a community;
- we may be unable to obtain, or we may experience delays in obtaining, all necessary zoning, land-use, building, occupancy, and other required governmental permits and authorizations;
- we may incur construction or reconstruction costs for a community that exceed our original estimates due to increased materials, labor or other expenses, which could make completion of development or redevelopment of the community uneconomical;
- occupancy rates and rents at a newly completed development or redevelopment community may fluctuate depending on a number of factors, including competition and market and general economic conditions, and may not be sufficient to make the community profitable; and
- we may be unable to complete construction and lease-up on schedule, resulting in increased debt service expense and construction costs.

The occurrence of any of the events described above could adversely affect results of operations and our payment of distributions to our stockholders.

Construction costs are projected by us based on market conditions prevailing in the community's market at the time our budgets are prepared and reflect changes to those market conditions that we anticipated at that time. Although we attempt to anticipate changes in market conditions, we cannot predict those changes with certainty. Construction costs have been increasing and, for some of our Development Communities, the total construction costs have been or are expected to be higher than the original budget. Total capital cost includes all capitalized costs projected to be incurred to develop the respective Development or Redevelopment Community, determined in accordance with GAAP, including:

- land and/or property acquisition costs;
- construction or reconstruction costs;
- real estate taxes;
- capitalized interest;
- loan fees;
- permits;
- professional fees;
- allocated development or redevelopment overhead; and
- other regulatory fees.

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

Capitalized Interest

In accordance with GAAP, we capitalize interest expense during construction or reconstruction until a building obtains a certificate of occupancy. Interest that is incurred thereafter and allocated to a completed apartment home within the community is expensed. Capitalized interest during the years ended December 31, 2003 and 2002 totaled \$24,709,000 and \$29,937,000, respectively.

Recent Developments

Sales of Existing Communities. We seek to increase our geographical concentration in selected high barrier-to-entry markets where we believe we can:

- apply sufficient market and management presence to enhance revenue growth;
- reduce operating expenses; and
- leverage management talent.

To achieve this increased concentration, we (i) sell assets that do not meet our long-term investment strategy due to product type, location or relative potential for future appreciation and (ii) redeploy the proceeds from those sales to develop, redevelop and acquire communities. Pending such redeployment, we will generally use the proceeds from the sale of these communities to reduce amounts outstanding under our variable rate unsecured credit facility. On occasion, we will set aside the proceeds from the sale of communities into a cash escrow account to facilitate a nontaxable, like-kind exchange transaction. We sold twelve communities, totaling 3,634 apartment homes, during the period from January 1, 2003 through February 27, 2004. Net proceeds from the sale of these assets were \$396,518,000.

Land Acquisitions. We carefully select land for development and follow established procedures that we believe minimize both the cost and the risks of development. During 2003, we acquired four land parcels for an aggregate purchase price of \$17,730,000. The land parcels purchased, which are currently held for future development, are as follows:

	<u>Gross acres</u>	<u>Estimated number of apartment homes</u>	<u>Total capital cost⁽¹⁾ (\$ millions)</u>	<u>Date acquired</u>	<u>Construction start⁽²⁾</u>	<u>Construction completion⁽²⁾</u>
1. Avalon at Juanita Village ⁽³⁾ <i>Kirkland, WA</i>	2.9	211	\$ 50	March 2003	Q1 2004	Q4 2005
2. Avalon Pines II <i>Coram, NY</i>	16.0	152	26	March 2003	Q4 2004	Q1 2006
3. Avalon at Bedford Center <i>Bedford, MA</i>	9.4	139	21	May 2003	Q3 2005	Q3 2006
4. Avalon Glen Cove North ⁽⁴⁾ <i>Glen Cove, NY</i>	<u>1.3</u>	<u>111</u>	<u>31</u>	December 2003	Q4 2004	Q2 2006
<i>Total</i>	<u>29.6</u>	<u>613</u>	<u>\$ 128</u>			

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

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

(3) The community expected to be built on this land parcel will be subject to a purchase agreement upon completion.

(4) This land parcel is subject to a lease.

Insurance and Risk of Uninsured Losses

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

Many of our West Coast communities are located in the general vicinity of active earthquake faults. A large concentration of our communities lie near, and thus are susceptible to, the major fault lines in the San Francisco Bay Area, including the San Andreas fault and the Hayward fault. We cannot assure you that an earthquake would not cause damage or losses greater than insured levels. In July 2003, we renewed our earthquake insurance. We have in place with respect to communities located in California, for any single occurrence and in the aggregate, \$75,000,000 of coverage with a deductible per building equal to five percent of the insured value of that building. The five percent deductible is subject to a minimum of \$100,000 per occurrence. Earthquake coverage outside of California is subject to a \$75,000,000 limit, except with respect to the state of Washington, for which the limit is \$65,000,000. Our earthquake insurance outside of California provides for a \$100,000 deductible per occurrence. In addition, up to an annual aggregate of \$2,000,000, the next \$400,000 of loss per occurrence outside California will be treated as an additional deductible.

Our annual general liability policy and workman's compensation coverage was renewed on August 1, 2003. Although the insurance coverage provided for in the renewal policies did not materially change from the preceding year, the level of our deductible and premium costs has increased. Including the costs we estimate that we may incur as a result of deductibles, we expect the cost related to these insurance categories for the policy period from August 1, 2003 to July 31, 2004 to increase approximately \$500,000 as compared to the prior period.

Our property insurance policy was scheduled to renew on November 1, 2003; however, in an effort to capitalize on declining insurance rates we elected to renew effective July 31, 2003 with an expiration date of February 1, 2005. Based on this renewal, we have seen a decline in insurance premiums for property coverage, which combined with the cost we may incur as a result of deductibles, will result in flat or declining overall insurance costs as compared to prior periods.

Just as with office buildings, transportation systems and government buildings, there have been recent reports that apartment communities could become targets of terrorism. In November 2002, Congress passed the Terrorism Risk Insurance Act ("TRIA") which is designed to make terrorism insurance available. In connection with this legislation, we have purchased insurance for property damage due to terrorism up to \$200,000,000. Additionally, we have purchased insurance for certain terrorist acts, not covered under TRIA, such as domestic-based terrorism. This insurance, often referred to as "non-certified" terrorism insurance, is subject to deductibles, limits and exclusions. Our general liability policy provides TRIA coverage (subject to deductibles and insured limits) for liability to third parties that result from terrorist acts at our communities.

Mold growth may occur when excessive moisture accumulates in buildings or on building materials, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Although the occurrence of mold at multifamily and other structures, and the need to remediate such mold, is not a new phenomenon, there has been increased awareness in recent years that certain molds may in some instances lead to adverse health effects, including allergic or other reactions. To help limit mold growth, we educate residents about the importance of adequate ventilation and request or require that they notify us when they see mold or excessive moisture. We have established procedures for promptly addressing and remediating mold or excessive moisture from apartment homes when we become aware of its presence regardless of whether we or the resident believe a health risk is present.

However, we cannot assure that mold or excessive moisture will be detected and remediated in a timely manner. If a significant mold problem arises at one of our communities, we could be required to undertake a costly remediation program to contain or remove the mold from the affected community and could be exposed to other liabilities. We cannot assure that we will have coverage under our existing policies for property damage or liability to third parties arising as a result of exposure to mold or a claim of exposure to mold at one of our communities.

In March 2003, we renewed our Directors and Officers ("D&O") insurance. Since then, we have noted an increase in competition from new carriers entering the market and expanded capital capacity of existing carriers, resulting in a partial reversal of the significant premium increases experienced in recent years. We are currently renewing our coverage for the year beginning March 10, 2004 and expect our premium to decline approximately 10% to 12% from the prior coverage period. However, there can be no assurance that we will be able to renew on such favorable terms.

Americans with Disabilities Act

The apartment communities we own and any apartment communities that we acquire must comply with Title III of the Americans with Disabilities Act to the extent that such properties are "public accommodations" and/or "commercial facilities" as defined by the Americans with Disabilities Act. Compliance with the Americans with Disabilities Act requirements could require removal of structural barriers to handicapped access in certain public areas of our properties where such removal is readily achievable. The Americans with Disabilities Act does not, however, consider residential properties, such as apartment communities, to be public accommodations or commercial facilities, except to the extent portions of such facilities, such as leasing offices, are open to the public. We believe our properties comply in all material respects with all present requirements under the Americans with Disabilities Act and applicable state laws. Noncompliance could result in imposition of fines or an award of damages to private litigants.

ITEM 3. LEGAL PROCEEDINGS

We are from time to time subject to claims and administrative proceedings arising in the ordinary course of business. Some of these claims and proceedings are expected to be covered by liability insurance. The following matter, for which, based on the advice of counsel, we believe we have meritorious defenses and are therefore vigorously defending against, is not covered by liability insurance. However, outstanding litigation matters, individually and in the aggregate, including the matter described below, are not expected to have a material adverse effect on our business or financial condition.

We are currently involved in litigation with York Hunter Construction, Inc. and National Union Fire Insurance Company. The action arises from our October 1999 termination of York Hunter as construction manager under a contract relating to construction of the Avalon Willow community in Mamaroneck, New York, because of alleged failures and deficiencies by York Hunter and its subcontractors in performing under the contract. York Hunter initiated the litigation in October 1999 by filing a complaint against us and other defendants claiming more than \$7,000,000 in damages. We have filed counterclaims against York Hunter seeking more than \$7,000,000 in compensatory damages, including lost rental income and costs to complete the community. We have also filed a claim against National Union Fire Insurance, which furnished construction and performance bonds to us on behalf of York Hunter. Although no assurances can be made with respect to any litigation, based on the advice of our counsel in this matter, Wachtel & Masyr LLP, we believe that we have meritorious defenses against all of York Hunter's claims and are vigorously contesting those claims. We also are pursuing our counterclaims against York Hunter and National Union Fire Insurance aggressively. A non-jury trial commenced on April 29, 2003 in the Supreme Court of the State of New York, County of Westchester and is on-going at this time. While the outcome of such litigation cannot be predicted with certainty, we do not expect any current litigation, including the litigation with York Hunter and National Union, to have a material effect on our business or financial condition.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS

No matter was submitted to a vote of our security holders during the fourth quarter of 2003.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the New York Stock Exchange (NYSE) and the Pacific Exchange (PCX) under the ticker symbol AVB. The following table sets forth the quarterly high and low sales prices per share of our common stock on the NYSE for the years 2003 and 2002, as reported by the NYSE. On February 27, 2004 there were 745 holders of record of an aggregate of 71,145,602 shares of our outstanding common stock. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one recordholder.

	2003			2002		
	Sales Price		Dividends declared	Sales Price		Dividends declared
	High	Low		High	Low	
Quarter ended March 31	\$ 40.31	\$ 35.24	\$ 0.70	\$ 50.66	\$ 44.44	\$ 0.70
Quarter ended June 30	\$ 44.45	\$ 37.08	\$ 0.70	\$ 52.65	\$ 45.66	\$ 0.70
Quarter ended September 30	\$ 48.00	\$ 42.38	\$ 0.70	\$ 46.15	\$ 40.48	\$ 0.70
Quarter ended December 31	\$ 49.71	\$ 44.67	\$ 0.70	\$ 41.83	\$ 36.72	\$ 0.70

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

During the three months ended December 31, 2003, we issued 145,700 shares of common stock in exchange for 145,700 units of limited partnership held by certain limited partners of Avalon DownREIT V, L.P., Avalon Upper Falls, L.P. and Bay Pacific Northwest, L.P. These shares were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933. We are relying on the exemption based on factual representations received from the limited partners who received these shares.

ITEM 6. SELECTED FINANCIAL DATA

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

	For the year ended				
	12-31-03	12-31-02	12-31-01	12-31-00	12-31-99
Revenue:					
Rental and other income	\$ 608,720	\$ 587,385	\$ 581,810	\$ 521,402	\$ 463,247
Management, development and other fees	931	2,145	1,386	1,107	1,223
Total revenue	<u>609,651</u>	<u>589,530</u>	<u>583,196</u>	<u>522,509</u>	<u>464,470</u>
Expenses:					
Operating expenses, excluding property taxes	177,814	160,844	144,845	130,599	124,039
Property taxes	57,555	52,269	47,295	42,238	38,902
Interest expense	134,911	119,666	101,170	81,071	72,461
Depreciation expense	151,454	134,939	119,875	112,192	101,117
General and administrative expense	13,734	13,449	14,705	13,013	9,592
Non-recurring items	—	—	—	—	16,782
Impairment loss	—	6,800	—	—	—
Total expenses	<u>535,468</u>	<u>487,967</u>	<u>427,890</u>	<u>379,113</u>	<u>362,893</u>
Equity in income of unconsolidated entities	25,535	55	856	2,428	2,867
Interest income	3,440	3,978	6,823	4,764	7,362
Venture partner interest in profit-sharing	(1,688)	(857)	1,158	—	—
Minority interest in consolidated partnerships	(999)	(914)	(997)	(1,086)	(1,231)
Income before gain on sale of communities	100,471	103,825	163,146	149,502	110,575
Gain on sale of communities	—	—	62,852	40,779	47,093
Income from continuing operations	<u>100,471</u>	<u>103,825</u>	<u>225,998</u>	<u>190,281</u>	<u>157,668</u>
Discontinued operations:					
Income from discontinued operations	10,064	20,900	22,999	20,323	14,608
Gain on sale of communities	160,990	48,893	—	—	—
Total discontinued operations	<u>171,054</u>	<u>69,793</u>	<u>22,999</u>	<u>20,323</u>	<u>14,608</u>
Net income	271,525	173,618	248,997	210,604	172,276
Dividends attributable to preferred stock (1)	(10,744)	(17,896)	(40,035)	(39,779)	(39,779)
Net income available to common stockholders (1)	<u>\$ 260,781</u>	<u>\$ 155,722</u>	<u>\$ 208,962</u>	<u>\$ 170,825</u>	<u>\$ 132,497</u>
Per Common Share and Share Information:					
Earnings per common share - basic					
Income from continuing operations (net of dividends attributable to preferred stock)	\$ 1.32	\$ 1.24	\$ 2.72	\$ 2.27	\$ 1.82
Discontinued operations	\$ 2.48	\$ 1.02	\$ 0.36	\$ 0.31	\$ 0.23
Net income available to common stockholders (1)	\$ 3.80	\$ 2.26	\$ 3.08	\$ 2.58	\$ 2.05
Weighted average common shares outstanding - basic	68,559,657	68,772,139	67,842,752	66,309,707	64,724,799
Earnings per common share - diluted					
Income from continuing operations (net of dividends attributable to preferred stock)	\$ 1.30	\$ 1.23	\$ 2.66	\$ 2.22	\$ 1.80
Discontinued operations	\$ 2.43	\$ 1.00	\$ 0.36	\$ 0.31	\$ 0.23
Net income available to common stockholders (1)	\$ 3.73	\$ 2.23	\$ 3.02	\$ 2.53	\$ 2.03
Weighted average common shares outstanding - diluted	70,203,467	70,674,211	69,781,719	68,140,998	66,110,664
Cash dividends declared	\$ 2.80	\$ 2.80	\$ 2.56	\$ 2.24	\$ 2.06

	For the year ended				
	12-31-03	12-31-02	12-31-01	12-31-00	12-31-99
Other Information:					
Net income	\$ 271,525	\$ 173,618	\$ 248,997	\$ 210,604	\$ 172,276
Depreciation - continuing operations	151,454	134,939	119,875	112,192	101,117
Depreciation - discontinued operations	2,342	9,538	10,204	10,418	8,642
Interest expense - continuing operations	134,911	119,666	101,170	81,071	72,461
Interest expense - discontinued operations	1,106	1,716	2,033	2,538	2,238
Interest income	(3,440)	(3,978)	(6,823)	(4,764)	(7,362)
EBITDA ⁽²⁾	<u>\$ 557,898</u>	<u>\$ 435,499</u>	<u>\$ 475,456</u>	<u>\$ 412,059</u>	<u>\$ 349,372</u>
Funds from Operations ⁽³⁾	\$ 229,332	\$ 251,410	\$ 275,755	\$ 252,013	\$ 196,058
Number of Current Communities ⁽⁴⁾	131	137	126	126	122
Number of apartment homes	38,504	40,179	37,228	37,147	36,008
Balance Sheet Information:					
Real estate, before accumulated depreciation	\$ 5,431,757	\$ 5,369,453	\$ 4,837,869	\$ 4,535,969	\$ 4,266,426
Total assets	\$ 4,909,582	\$ 4,950,835	\$ 4,664,289	\$ 4,397,255	\$ 4,154,662
Notes payable and unsecured credit facilities	\$ 2,337,817	\$ 2,471,163	\$ 2,082,769	\$ 1,729,924	\$ 1,593,647
Cash Flow Information:					
Net cash flows provided by operating activities	\$ 239,815	\$ 307,810	\$ 320,528	\$ 302,083	\$ 251,779
Net cash flows provided by (used in) investing activities	\$ 33,935	\$ (435,796)	\$ (274,941)	\$ (258,155)	\$ (236,687)
Net cash flows provided by (used in) financing activities	\$ (279,465)	\$ 68,008	\$ (29,909)	\$ 5,685	\$ (16,361)

Notes to Selected Financial Data

- (1) In 2003, the Securities and Exchange Commission clarified Emerging Issues Task Force Topic D-42, "The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock." The clarification of Topic D-42 was effective in the first fiscal period ending after September 15, 2003, and was to be applied retroactively. As such, we have revised our historical 2001 results of operations to reflect the initial offering costs as additional dividends attributable to preferred stock in the amount of \$7,538, which reduced earnings per common share — basic and earnings per common share — diluted by \$0.11 and \$0.10, respectively.
- (2) EBITDA is defined by us as net income before interest income and expense, income taxes, depreciation and amortization from both continuing and discontinued operations. Under this definition, which complies with the rules and regulations of the Securities and Exchange Commission, EBITDA includes gains on sale of assets and gain on sale of partnership interests. Management generally considers EBITDA to be an appropriate supplemental measure to net income of our operating performance because it helps investors to understand our ability to incur and service debt and to make capital expenditures. EBITDA should not be considered as an alternative to net income (as determined in accordance with generally accepted accounting principles, or "GAAP"), as an indicator of our operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Our calculation of EBITDA may not be comparable to EBITDA as calculated by other companies.
- (3) We generally consider Funds from Operations, or "FFO," to be an appropriate supplemental measure of our operating and financial performance because, by excluding gains or losses related to dispositions of property and excluding real estate depreciation, which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates, FFO can help one compare the operating performance of a company's real estate between periods or as compared to different companies. We believe that in order to understand our operating results, FFO should be examined with net income as presented in the Consolidated Statements of Operations and Other Comprehensive Income included elsewhere in this report. Consistent with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts®, ("NAREIT"), we calculate FFO as net income or loss computed in accordance with GAAP, adjusted for:
- gains or losses on sales of property;
 - extraordinary gains or losses (as defined by GAAP);
 - depreciation of real estate assets; and
 - adjustments for unconsolidated partnerships and joint ventures.

Effective January 1, 2003, we no longer add back impairment losses when calculating FFO pursuant to NAREIT's clarified FFO definition. As a result, FFO for 2002 has been reduced from amounts previously reported to reflect \$6,800 of asset impairment losses recognized in 2002. In addition, FFO for 2001 has been reduced from amounts previously reported to reflect the initial offering costs as additional dividends attributable to preferred stock as discussed in note (1) above. FFO does not represent net income in accordance with GAAP, and therefore it should not be considered an alternative to net income, which remains the primary measure, as an indication of our performance. In addition, FFO as calculated by other REITs may not be comparable to our calculation of FFO. The following is a reconciliation of net income to FFO:

	For the year ended				
	12-31-03	12-31-02	12-31-01	12-31-00	12-31-99
Net income	\$ 271,525	\$ 173,618	\$ 248,997	\$ 210,604	\$ 172,276
Dividends attributable to preferred stock	(10,744)	(17,896)	(40,035)	(39,779)	(39,779)
Depreciation – real estate assets, including discontinued operations	150,706	141,659	126,984	119,416	107,928
Joint venture adjustments, including the gain on sale of a community	(22,428)	1,321	1,102	792	751
Minority interest expense, including discontinued operations	1,263	1,601	1,559	1,759	1,975
Gain on sale of communities	(160,990)	(48,893)	(62,852)	(40,779)	(47,093)
Funds from Operations attributable to common stockholders	\$ 229,332	\$ 251,410	\$ 275,755	\$ 252,013	\$ 196,058
Weighted average common shares outstanding – diluted	70,203,467	70,674,211	69,781,719	68,140,998	66,110,664
FFO per common share – diluted	\$ 3.27	\$ 3.55	\$ 3.95	\$ 3.70	\$ 2.97

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

- (4) Current Communities consist of all communities other than those which are still under construction and have not received a certificate of occupancy.

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

We are a real estate investment trust, or REIT, incorporated in the state of Maryland and focused on the ownership and operation of apartment communities in high barrier-to-entry markets of the United States. As of December 31, 2003, we had 131 current operating communities, which are the primary contributors to our overall operating performance. The net operating income of these communities, which is one of the financial measures that we use to evaluate community performance, is affected by the demand and supply dynamics within our markets, which drives our rental rates and occupancy levels, and is affected by our ability to control operating costs. Our overall operating performance is also impacted by the general availability and cost of capital and the performance of our newly developed and acquired apartment communities. We create long-term shareholder value by accessing capital on cost effective terms, deploying that capital to develop, redevelop and acquire apartment communities in high barrier-to-entry markets, operating apartments and selling communities when they no longer meet our long-term investment strategy and when market conditions are favorable.

This report, including the following discussion and analysis of our financial condition and results of operations, contains forward-looking statements that predict or indicate future events and trends that do not report historical matters. Actual results or developments could differ materially from those projected in such statements as a result of the risk factors set forth on page 54 of this report. The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and notes included elsewhere in this report.

Business Description and Community Information Overview

We believe that apartment communities present an attractive long-term investment opportunity compared to other real estate investments because a broad potential resident base should result in relatively stable demand over a real estate cycle. We intend to continue to pursue real estate investments in markets where constraints to new supply exist, and where new household formations are expected to out-pace multifamily permit activity over the course of the real estate cycle. Barriers-to-entry in our markets generally include a difficult and lengthy entitlement process with local jurisdictions and dense urban or suburban areas where zoned and entitled land is in limited supply. We evaluate the appropriate allocation of product type within our individual markets, which are located in the Northeast, Mid-Atlantic, Midwest, Pacific Northwest, and Northern and Southern California regions of the United States, to ensure that our product mix will perform at a high level and achieve our portfolio objectives. Our strategy is to more deeply penetrate these markets with a broad range of products (which is currently primarily upscale apartment communities) and services, with an intense focus on our customer. A substantial majority of our current communities are upscale (commanding among the highest rents in their submarkets). We also pursue the ownership and operation of apartment communities that target a variety of customer segments and price points consistent with our goal to offer a broad range of products and services. We believe that lower housing affordability and the limited new supply of apartment homes in our markets will result in a higher propensity to rent and larger increases in cash flows relative to other markets over an entire business cycle.

However, we believe we are toward the end of a period of the business cycle where rents have been resetting to lower levels, resulting in a decline in cash flows in 2003 as compared to prior years. A number of our markets experienced economic contraction due to job losses in 2002 and 2003, particularly in the technology, telecom and financial services sectors. This has resulted in continued weak apartment market fundamentals as reflected in declining rental rates. However, the rate of decline has been diminishing, and we expect 2004 to be a year of transition. An improving economy with modest job growth is anticipated in 2004, which should result in the stabilization of apartment market fundamentals and an improved demand and supply balance during the year. Although we do not expect this to result in revenue growth for our current operating communities in 2004, it should curtail the significant declines in revenue that those communities experienced over the last two years.

With the expected transition of apartment fundamentals, we are preparing for a transition in certain aspects of our business activity. With our in-house capabilities and expertise we believe we are well positioned to continue to pursue opportunities to develop, acquire and operate apartment homes in our target markets. However, the level of development or acquisition volume, or disposition activity, is heavily influenced by capital and real estate market conditions. During 2003, in response to capital markets conditions and strong apartment demand, we curtailed development and acquisition activity and increased our disposition activity. We sold assets that did not meet our long-term investment criteria in markets where there was strong relative demand by investors in apartment communities. This allowed us to realize a portion of the value created over the past business cycle, and provided additional liquidity. In 2004, we plan to continue our disposition activity, although at a reduced level, and expect to increase development and acquisition volume.

Our real estate investments consist primarily of current operating apartment communities, communities in various stages of development (“Development Communities”), and Development Rights (i.e., land or land options held for development), as further described in Item 2 of this report. Our current operating communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities and Redevelopment Communities. Established Communities are generally operating communities that were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, which allows the performance of these communities and the markets in which they are located to be compared and monitored between years. Other Stabilized Communities are generally all other operating communities that have stabilized occupancy and operating expenses as of the beginning of the current year, but had not achieved stabilization as of the beginning of the prior year. Lease-Up Communities consist of communities where construction is complete but stabilization has not been achieved. Redevelopment Communities consist of communities where substantial redevelopment is in progress or is planned to begin during the current year. A more detailed description of our reportable segments and other related operating information can be found in Note 9, “Segment Reporting,” of our Consolidated Financial Statements.

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

As of December 31, 2003, we owned or held an ownership interest in 142 apartment communities containing 41,997 apartment homes in ten states and the District of Columbia, of which eleven communities were under construction and two communities were under reconstruction. In addition, we owned a direct or indirect ownership interest in Development Rights to develop an additional 40 communities that, if developed in the manner expected, will contain an estimated 10,070 apartment homes.

Critical Accounting Policies

The preparation of financial statements in conformity with generally accepted accounting principles (“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, it is possible that different accounting policies would have been applied, resulting in a different presentation of our financial statements. Below is a discussion of accounting policies that we consider critical, in that they may require complex judgment in their application or require estimates about matters which are inherently uncertain, and are critical to an understanding of our financial condition and operating results. As a REIT that owns, operates and develops apartment communities, our critical accounting policies relate to revenue recognition, cost capitalization, asset impairment evaluation and REIT status. A discussion of all of our accounting policies, including further discussion of the critical accounting policies described below, can be found in Note 1, “Organization and Significant Accounting Policies” of our Consolidated Financial Statements.

Revenue Recognition

Rental income related to leases is recognized on an accrual basis when due from residents in accordance with SEC Staff Accounting Bulletin No. 104, "Revenue Recognition" and Statement of Financial Accounting Standards No. 13, "Accounting for Leases." In accordance with our standard lease terms, rental payments are generally due on a monthly basis. Any cash concessions given at the inception of the lease are amortized over the approximate life of the lease – generally one year. A discussion regarding the impact of cash concessions on rental revenue for Established Communities can be found in "Results of Operations."

Cost Capitalization

We capitalize costs during the development of assets (including interest and related loan fees, property taxes and other direct and indirect costs) beginning when active development commences until the asset, or a portion of the asset, is delivered and is ready for its intended use, which is generally indicated by the issuance of a certificate of occupancy. We capitalize costs during redevelopment of apartment homes (including interest and related loan fees, property taxes and other direct and indirect costs) beginning when an apartment home is taken out-of-service for redevelopment until the apartment home redevelopment is completed and the apartment home is available for a new resident.

We capitalize pre-development costs incurred in pursuit of Development Rights for which we currently believe future development is probable. These costs include legal fees, design fees and related overhead costs. Future development of these Development Rights is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and availability of capital. 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, deeming future development no longer probable, any capitalized pre-development costs are written-off with a charge to expense.

We generally capitalize only non-recurring expenditures. We capitalize improvements and upgrades only if the item: (i) exceeds \$15,000; (ii) extends the useful life of the asset; and (iii) is not related to making an apartment home ready for the next resident. Under this policy, virtually all capitalized costs are non-recurring, as recurring make-ready costs are expensed as incurred. Recurring make-ready costs include: (i) carpet and appliance replacements; (ii) floor coverings; (iii) interior painting; and (iv) other redecorating costs. Because we expense carpet replacements, our expense levels and volatility are greatest in the third quarter of each year following our peak summer leasing period. We capitalize purchases of personal property, such as computers and furniture, only if the item is a new addition and the item exceeds \$2,500. We generally expense replacements of personal property.

In 2003, 2002 and 2001, the amounts capitalized (excluding land costs) related to acquisitions, development and redevelopment were \$296,764,000, \$457,851,000 and \$401,359,000, respectively. For Established and Other Stabilized Communities, we recorded non-revenue generating capital expenditures of \$11,064,000 or \$333 per apartment home in 2003, \$10,214,000 or \$302 per apartment home in 2002 and \$7,967,000 or \$251 per apartment home in 2001. In addition, revenue generating capital expenditures, such as water sub-metering equipment and cable installations, were \$529,000, \$697,000 and \$1,675,000, in 2003, 2002 and 2001, respectively. The average maintenance costs charged to expense per apartment home, including carpet and appliance replacements, related to these communities was \$1,262 in 2003, \$1,224 in 2002 and \$1,196 in 2001. We anticipate that capitalized costs and expensed maintenance costs per apartment home will gradually increase as the average age of our communities increases, and expensed maintenance costs will fluctuate with turnover.

Asset Impairment Evaluation

If there is an event or change in circumstance that indicates an impairment in the value of a community, our policy is to assess the impairment by making a comparison of the current and projected operating cash flows of the community over its remaining useful life, on an undiscounted basis, to the carrying amount of the community. If the carrying amount is in excess of the estimated projected operating cash flows of the community, we would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value. Real estate assets held for sale are measured at the lower of the carrying amount or the fair value less the cost to sell.

We account for our investments in technology companies in accordance with Accounting Principles Board (“APB”) Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock.” If there is an event or change in circumstance that indicates a loss in the value of an investment, we record the loss and reduce the value of the investment to its fair value. Due to the nature of these investments, an impairment in value can be difficult to determine.

REIT Status

We elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, for the year ended December 31, 1994 and have not revoked such election. A corporate REIT is a legal entity which holds real estate interests and must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to stockholders. As a REIT, we generally will not be subject to corporate level federal income tax on taxable income we distribute currently to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years.

Results of Operations

Our year-over-year operating performance is primarily affected by changes in net operating income of our current operating apartment communities due to market conditions, net operating income derived from acquisitions and development completions, the loss of net operating income related to disposed communities and capital market, disposition and financing activity. A comparison of our operating results for the years 2003, 2002 and 2001 follows (dollars in thousands):

	2003	2002	\$ Change	% Change	2002	2001	\$ Change	% Change
Revenue:								
Rental and other income	\$ 608,720	\$ 587,385	\$ 21,335	3.6%	\$ 587,385	\$ 581,810	\$ 5,575	1.0%
Management, development and other fees	931	2,145	(1,214)	(56.6%)	2,145	1,386	759	54.8%
Total revenue	609,651	589,530	20,121	3.4%	589,530	583,196	6,334	1.1%
Expenses:								
Direct property operating expenses, excluding property taxes	146,647	130,293	16,354	12.6%	130,293	113,040	17,253	15.3%
Property taxes	57,555	52,269	5,286	10.1%	52,269	47,295	4,974	10.5%
Total community operating expenses	204,202	182,562	21,640	11.9%	182,562	160,335	22,227	13.9%
Net operating income	405,449	406,968	(1,519)	(0.4%)	406,968	422,861	(15,893)	(3.8%)
Other income and expenses:								
Corporate-level property management and other indirect operating expenses	31,167	30,551	616	2.0%	30,551	31,805	(1,254)	(3.9%)
Interest expense	134,911	119,666	15,245	12.7%	119,666	101,170	18,496	18.3%
Depreciation expense	151,454	134,939	16,515	12.2%	134,939	119,875	15,064	12.6%
General and administrative expense	13,734	13,449	285	2.1%	13,449	14,705	(1,256)	(8.5%)
Impairment loss	—	6,800	(6,800)	(100.0%)	6,800	—	6,800	100.0%
Total other expenses	331,266	305,405	25,861	8.5%	305,405	267,555	37,850	14.1%
Equity in income of unconsolidated entities:								
Equity in income of unconsolidated entities	25,535	55	25,480	n/a	55	856	(801)	(93.6%)
Interest income	3,440	3,978	(538)	(13.5%)	3,978	6,823	(2,845)	(41.7%)
Venture partner interest in profit-sharing	(1,688)	(857)	(831)	97.0%	(857)	1,158	(2,015)	(174.0%)
Minority interest in consolidated partnerships	(999)	(914)	(85)	9.3%	(914)	(997)	83	(8.3%)
Income before gain on sale of communities	100,471	103,825	(3,354)	(3.2%)	103,825	163,146	(59,321)	(36.4%)
Gain on sale of communities	—	—	—	—	—	62,852	(62,852)	(100.0%)
Income from continuing operations	100,471	103,825	(3,354)	(3.2%)	103,825	225,998	(122,173)	(54.1%)
Discontinued operations:								
Income from discontinued operations	10,064	20,900	(10,836)	(51.8%)	20,900	22,999	(2,099)	(9.1%)
Gain on sale of communities	160,990	48,893	112,097	229.3%	48,893	—	48,893	100.0%
Total discontinued operations	171,054	69,793	101,261	145.1%	69,793	22,999	46,794	203.5%
Net income	271,525	173,618	97,907	56.4%	173,618	248,997	(75,379)	(30.3%)
Dividends attributable to preferred stock	(10,744)	(17,896)	7,152	(40.0%)	(17,896)	(40,035)	22,139	(55.3%)
Net income available to common stockholders	\$ 260,781	\$ 155,722	\$ 105,059	67.5%	\$ 155,722	\$ 208,962	\$ (53,240)	(25.5%)

Net income available to common stockholders increased \$105,059,000 (67.5%) to \$260,781,000 for the year ended December 31, 2003. This increase is primarily attributable to gains on sales of communities, including gains reflected in equity in income of unconsolidated entities, and the absence of impairment losses in 2003, partially offset by a decline in net operating income from our Established Communities, the absence of business interruption insurance proceeds received in 2002 and increases in interest and depreciation expense. Net income available to common stockholders decreased by \$53,240,000 (25.5%) to \$155,722,000 in 2002 due to fewer gains on sales of communities in 2002 and impairment losses recognized in 2002, coupled with a decline in net operating income from our Established Communities and increases in interest and depreciation, partially offset by a decrease in dividends attributable to preferred stock.

Net operating income (“NOI”) is defined by us as total revenue less direct property operating expenses, including property taxes, and excludes corporate-level property management and other indirect operating expenses, interest income and expense, general and administrative expense, impairment losses, equity in income of unconsolidated entities, minority interest in consolidated partnerships, venture partner interest in profit-sharing, depreciation expense, gain on sale of communities and income from discontinued operations. We believe that NOI is an important and appropriate supplemental measure to net income of the operating performance of our communities 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 costs. This is more reflective of the operating performance of a community, and allows for an easier comparison of the operating performance of single assets or groups of assets. In addition, because prospective buyers of real estate have different overhead structures, with varying marginal impact to overhead by 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. NOI does not represent cash generated from operating activities in accordance with GAAP. Therefore, NOI should not be considered an alternative to net income as an indication of our performance. NOI should also not be considered an alternative to net cash flows from operating activities, as determined by GAAP, as a measure of liquidity, nor is NOI necessarily indicative of cash available to fund cash needs. A calculation of NOI for the three years ending December 31, 2003, along with a reconciliation to net income, is provided in the preceding table.

The NOI decreases of \$1,519,000 and \$15,893,000 for the years ended December 31, 2003 and 2002, respectively, as compared to the prior years consist of changes in the following categories:

	2003 Increase (Decrease)	2002 Increase (Decrease)
Established Communities	\$ (27,719,000)	\$ (34,380,000)
Other Stabilized Communities	8,870,000	(871,000)
Development and Redevelopment Communities	18,450,000	18,526,000
Non-allocated	(1,120,000)	832,000
Total	<u>\$ (1,519,000)</u>	<u>\$ (15,893,000)</u>

The NOI decreases in Established Communities were largely due to the effects of the weakened economy in many of our submarkets. The continued impact of job losses in many of our submarkets, in addition to strong single-family home sales, have aggravated a weak demand environment, causing market rental rates to decline in order to keep occupancies stable. Economic forecasts project modest job growth in our submarkets in 2004, and we therefore expect apartment market fundamentals to stabilize during the year. Although the rate of decline in the apartment market fundamentals is diminishing, which should curtail the significant declines in revenue that our Established Communities have experienced over the last two years, we expect our Established Communities revenue to decline as much as 2.0% in 2004 as compared to 2003 and operating expenses, particularly related to property taxes, to continue to increase up to 3.0% in 2004, resulting in continued year over year declines in our Established Communities NOI of up to 4.0% for 2004.

Rental and other income increased in both 2003 and 2002 due to rental income generated from communities acquired in 2002 and newly developed communities, partially offset by declines in effective rental rates and business interruption proceeds. While we expect apartment fundamentals to stabilize in 2004 with modest job growth in our markets, there is typically a three to six month lag between improvements in job growth and improvements in operating performance.

Overall Portfolio – The weighted average number of occupied apartment homes increased to 33,842 apartment homes for 2003 as compared to 31,694 apartment homes for 2002 and 31,131 in 2001. This change is primarily the result of increased homes available from communities acquired in 2002 and newly developed communities, partially offset by communities sold in 2002 and 2003. The weighted average monthly revenue per occupied apartment home decreased to \$1,496 in 2003 as compared to \$1,528 in 2002 and \$1,550 in 2001 primarily due to the weakened demand in certain of our submarkets.

Established Communities – Rental revenue decreased \$20,424,000 (4.3%) in 2003 and \$28,400,000 (6.2%) in 2002. These decreases are due to declining effective rental rates, partially offset by a slight increase in economic occupancy in 2003. For 2003, the weighted average monthly revenue per occupied apartment home decreased (4.5%) to \$1,437 compared to \$1,505 for 2002, partially due to increased concessions granted in the latter half of 2002 and during 2003. The average economic occupancy increased from 93.6% in 2002 to 93.8% in 2003. Economic occupancy takes into account the fact that apartment homes of different sizes and locations within a community have different economic impacts on a community's gross revenue. Economic occupancy is defined as gross potential revenue less vacancy loss, as a percentage of gross potential revenue. Gross potential revenue is determined by valuing occupied homes at leased rates and vacant homes at market rents. We expect rental income for Established Communities to decline as much as 2.0% in 2004 as compared to 2003.

Although most of our markets have experienced weak demand caused by job losses, low mortgage rates and shifting demographics, rental income from Established Communities has been impacted the most by significant declines in average rental rates in certain Northern California and Northeast submarkets. Northern California, which accounted for approximately 31.0% of Established Community rental revenue in 2003, experienced a decline in rental revenue (7.6%) in 2003 as compared to 2002, partially related to the continued impact of job losses in the technology sector. Although economic occupancy in Northern California increased in 2003 as compared to 2002, average rental rates dropped 8.9% from \$1,547 to \$1,410.

The Northeast region accounted for approximately 33.7% of Established Community rental revenue during 2003 and has also experienced a decline in rental revenue (3.7%) in 2003 as compared to 2002, primarily the result of job losses in the financial services sector. Average rental rates dropped 3.6% from \$1,876 to \$1,808 in 2003 as compared to 2002, and economic occupancy remained flat during those same periods.

In accordance with GAAP, cash concessions are amortized as an offset to rental revenue over the approximate lease term, which is generally one year. However, we consider rental revenue with concessions stated on a cash basis to be a supplemental measure to rental revenue in conformity with GAAP in helping investors to evaluate the impact of both current and historical concessions on GAAP based rental revenue and to more readily enable comparisons to revenue as reported by other companies. In addition, rental revenue with concessions stated on a cash basis allows an investor to understand the historical trend in cash concessions, which is an indicator of current rental market conditions. The following table reconciles total rental revenue in conformity with GAAP to total rental revenue adjusted to state concessions on a cash basis for our Established Communities for the years ended December 31, 2003 and 2002 (dollars in thousands). Information for the year ended December 31, 2001 is not presented as Established Community classification is not applicable prior to January 1, 2002. See Note 9. "Segment Reporting" of our Consolidated Financial Statements.

	For the year ended	
	12-31-03	12-31-02
Rental revenue (GAAP basis)	\$ 450,000	\$ 470,424
Concessions amortized	12,433	6,356
Concessions granted	(14,817)	(9,605)
Rental revenue adjusted to state concessions on a cash basis	\$ 447,616	\$ 467,175
Year-over-year % change — GAAP revenue	(4.3%)	n/a
Year-over-year % change — cash concession based revenue	(4.2%)	n/a

Concessions granted per move-in for Established Communities averaged \$848 during 2003, an increase of 104.8% from \$414 in 2002. Concessions granted increased during 2003 as compared to 2002 primarily due to declining market conditions and a weak demand environment. We expect the high concessionary environment to continue into 2004.

Management, development and other fees decreased during 2003 and increased during 2002 primarily due to the recognition in 2002 of \$711,000 in construction management fees in connection with the redevelopment of a community owned by a limited liability company in which we have a membership interest. In addition, we managed fewer communities in 2003 as compared to prior years.

Direct property operating expenses, excluding property taxes increased in both 2003 and 2002 due to the addition of recently developed and redeveloped apartment homes and communities acquired in 2002, coupled with increased expenses due to inclement weather, insurance and bad debt expenses. In the first half of 2003, severe winter weather, primarily in the Northeast and Mid-Atlantic, increased snow removal and utility costs by approximately \$1,440,000. In addition, insurance expense has increased over the past two years as the insurance and reinsurance markets have deteriorated, resulting in higher insurance costs for the entire real estate sector. Recently property insurance rates began to decline. To benefit from declining rates, we completed an early renewal of our property insurance policy effective July 31, 2003. Accordingly, we expect a decline in property insurance premiums, which will result in flat or declining overall insurance costs for 2004 as compared to prior year periods. Bad debt expense has increased as a direct result of the continued impact of job losses and the weakened economy.

For Established Communities, direct property operating expenses, excluding property taxes, increased \$5,724,000 (6.1%) to \$99,853,000 in 2003 due to inclement weather, insurance and bad debt discussed above. During 2002, operating expenses increased \$5,227,000 (6.5%) due to the increases in insurance, marketing and bad debt expenses. We expect expense growth to moderate in 2004 due to reduced property insurance costs and bad debt expenses.

Property taxes increased in both 2003 and 2002 due to overall higher assessments and the addition of newly developed and redeveloped apartment homes.

For Established Communities, property taxes increased in 2003 and 2002 by \$1,470,000 and \$879,000, respectively, primarily due to higher assessments throughout all regions. We expect property taxes to increase during 2004 as local jurisdictions look for additional revenue sources to balance budgets. We manage property tax increases internally and appeal increases when appropriate.

Corporate-level property management and other indirect operating expenses increased in 2003 as a result of increased legal expenses due to construction litigation relating to a community that has completed development, partially offset by the absence of costs associated with the implementation of a new property management leasing system in 2002 and a decrease in abandoned pursuit costs. During 2002, corporate-level property management and other indirect operating expenses decreased as a result of executive separation costs that were recognized in 2001 but not in 2002, partially offset by an increase in abandoned pursuit costs. Abandoned pursuit costs related to Development Rights which are not probable for future development decreased \$1,620,000 from \$2,800,000 in 2002 to \$1,180,000 in 2003. We expect corporate-level property management and other indirect operating expenses to increase in 2004 due to additional compensation costs, including growth due to the addition of newly developed communities and the expensing of options.

Interest expense increased in both 2003 and 2002 primarily due to the issuance in late 2002 of unsecured notes and higher average outstanding balances on our unsecured credit facility, partially offset by the repayment of certain unsecured notes and overall lower interest rates on both short-term and long-term borrowings.

Depreciation expense increased in both 2003 and 2002 primarily due to 2002 acquisitions and completion of development or redevelopment activities.

General and administrative expense (“G&A”) increased in 2003 primarily as a result of an increase in our directors and officers (“D&O”) insurance, which we renewed in March 2003. In the past year, the D&O market has experienced increased and high profile claim activity resulting in higher insurance premiums. G&A decreased in 2002 as a result of additional compensation expense recognized in 2001 due to the retirement of a senior executive. Unfilled positions and lower incentive compensation also contributed to the decrease in 2002. We expect G&A to increase up to 15.0% in 2004 due to higher compensation expense and additional internal audit and corporate governance costs.

Impairment loss of \$6,800,000 was recorded during 2002 related to two land parcels that were determined not likely to proceed to development and therefore were planned for disposition. No impairment losses were recorded in either 2003 or 2001.

Equity in income of unconsolidated entities increased in 2003 primarily due to our \$23,448,000 share of the gain recognized on the sale of a community accounted for under the equity method in which we held a 50% interest. During 2002, equity in income of unconsolidated entities decreased primarily due to losses recorded for an investment in a technology company accounted for under the equity method.

Interest income decreased in 2003 and 2002 due to lower average cash balances invested and lower interest rates.

Venture partner interest in profit-sharing represents the income allocated to our venture partner in a profit-sharing arrangement as discussed in Note 6, “Investments in Unconsolidated Entities,” of our Consolidated Financial Statements. The reduction in income/increase in expense in both years are due to increases in the net income of the underlying real estate as the related community moved out of the initial lease-up phase and achieved stabilization.

Income from discontinued operations represents the net income generated by communities held for sale as of December 31, 2003 and communities sold during the period from January 1, 2002 through December 31, 2003. The decreases in both years are primarily due to the sale of one community in 2002 and eleven communities in 2003.

Gain on sale of communities, including discontinued operations, of \$160,990,000, \$48,893,000 and \$62,852,000 were realized in 2003, 2002 and 2001, respectively. The amount of gains realized depends on many factors, including the number of communities sold, the size and carrying value of those communities and the market conditions in the local area. The large gains on sales of communities reflect our strategy to sell assets in a transactional market environment where buyers are offering prices that are historically high relative to current operating cash flow provided by these communities. We believe this is reflective of a broader trend in the capital markets, where investments with relatively secure yields and growth potential are being valued more highly than in prior years. A partial reversal of these trends could occur if long-term interest rates rise significantly. We expect aggregate gains on community sales to decline in 2004 as we sell fewer assets.

Dividends attributable to preferred stock decreased in both 2003 and 2002, primarily as a result of several preferred stock redemptions during 2002 and 2003. In addition, in response to the Securities and Exchange Commission clarification of Emerging Issues Task Force (“EITF”) Topic D-42, “The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock,” we have revised the presentation of our 2003 and 2001 operating results to include the initial offering costs as additional dividends of \$280,000 and \$7,538,000, respectively.

Funds from Operations (“FFO”) is considered an appropriate supplemental measure of our operating and financial performance because, by excluding gains or losses related to dispositions of property and excluding real estate depreciation, which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates, FFO can help one compare the operating performance of a company’s real estate between periods or as compared to different companies. We believe that in order to understand our operating results, FFO should be examined with net income as presented in our Consolidated Financial Statements. For a more detailed discussion and presentation of FFO, see “Selected Financial Data,” included in Item 6 of this report.

Liquidity and Capital Resources

The primary source of liquidity is our cash flows from operations. Operating cash flows have 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, source and amount of cash flows provided by financing activities and used in investing activities are sensitive to the capital markets environment, particularly to changes in interest rates. Changes in the capital markets environment, such as changes in interest rates, affect our plans for development, redevelopment, acquisition and disposition activity.

Cash and cash equivalents totaled \$7,196,000 at December 31, 2003, a decrease of \$5,715,000 from \$12,911,000 on December 31, 2002. The following discussion relates to changes in cash due to operating, investing and financing activities, which are presented in our Consolidated Statements of Cash Flows included elsewhere in this report.

Operating Activities – Net cash provided by operating activities decreased to \$239,815,000 in 2003 from \$307,810,000 in 2002, primarily due to the absence of business interruption insurance proceeds and changes in NOI from Established Communities as discussed earlier in this report, coupled with the timing of payment of our property insurance premiums.

Investing Activities – Net cash provided by investing activities of \$33,935,000 in 2003 related to proceeds from asset dispositions, partially offset by investments in assets through development and redevelopment of apartment communities. During 2003, we invested \$369,387,000 in the purchase and development of real estate and capital expenditures:

- We began the development of seven new communities. These communities, if developed as expected, will contain a total of 2,025 apartment homes, and the total capital cost, including land acquisition costs, is projected to be approximately \$399,200,000. We also completed the development of seven communities containing a total of 1,959 apartment homes for a total capital cost, including land acquisition cost, of \$372,700,000.
- We had capital expenditures relating to current communities' real estate assets of \$11,593,000 and non-real estate capital expenditures of \$274,000.

In addition, we sold twelve communities and one land parcel in 2003, including one community previously held through an equity investment, generating net proceeds of \$403,118,000. These proceeds are being used to develop new communities and to partially repay amounts outstanding under our variable rate unsecured credit facility, which is discussed below.

Financing Activities – Net cash used in financing activities totaled \$279,465,000 for the year ended December 31, 2003, primarily due to the redemption of preferred stock, dividends paid, repayment of certain unsecured notes and common stock repurchases, partially offset by an increase in borrowings under our unsecured credit facility, the issuance of mortgage notes payable and an issuance of common stock. See Note 3, “Notes Payable, Unsecured Notes and Credit Facility,” and Note 4, “Stockholders’ Equity,” of our Consolidated Financial Statements, for additional information.

We regularly review our liquidity needs, the adequacy of cash flow from operations, and other expected liquidity sources to meet these needs. We believe our principal short-term liquidity needs are to fund:

- normal recurring operating expenses;
- debt service and maturity payments;
- preferred stock dividends and DownREIT partnership unit distributions;
- the minimum dividend payments required to maintain our REIT qualification under the Internal Revenue Code of 1986;
- opportunities for the acquisition of improved property; and
- development and redevelopment activity in which we are currently engaged.

We anticipate that we can fully satisfy these needs from a combination of cash flows provided by operating activities, proceeds from asset dispositions and borrowing capacity under our variable rate unsecured credit facility.

Variable Rate Unsecured Credit Facility

We have a \$500,000,000 revolving variable rate unsecured credit facility with J.P. Morgan Chase and Fleet National Bank serving as co-agents for a syndicate of commercial banks. Under the terms of the credit facility, if we elect to increase the facility by up to an additional \$150,000,000, and one or more banks (from the syndicate or otherwise) voluntarily agree to provide the additional commitment, then we will be able to increase the facility up to \$650,000,000, and no member of the syndicate of banks can prohibit such increase; such an increase in the facility will only be effective to the extent banks (from the syndicate or otherwise) choose to commit to lend additional funds. We pay participating banks, in the aggregate, an annual facility fee of approximately \$750,000 in quarterly installments. The unsecured credit facility bears interest at varying levels based on the London Interbank Offered Rate (“LIBOR”), rating levels achieved on our unsecured notes and on a maturity schedule selected by us. The current stated pricing is LIBOR plus 0.60% per annum (1.70% on February 27, 2004). Pricing could vary if there is a change in rating by either of the two leading national rating agencies; a change in rating of one level would impact the unsecured credit facility pricing by 0.05% to 0.15%. A competitive bid option is available for borrowings of up to \$400,000,000. 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 if market conditions allow. We had \$125,000,000 outstanding under this competitive bid option at February 27, 2004 priced at LIBOR plus 0.39%, or 1.48%. We are subject to (i) certain customary covenants under the unsecured credit facility, including, but not limited to, maintaining certain maximum leverage ratios, a minimum fixed charges coverage ratio and minimum unencumbered assets and equity levels, and (ii) prohibitions on paying dividends in amounts that exceed 95% of our FFO, except as may be required to maintain our REIT status. The existing facility matures in May 2004, unless we exercise a one-year renewal at our option. We expect to renegotiate this facility prior to maturity without exercising the renewal option, however there can be no assurance that the renegotiation will occur. At February 27, 2004, \$230,100,000 was outstanding, \$22,304,000 was used to provide letters of credit and \$247,596,000 was available for borrowing under the unsecured credit facility.

Future Financing and Capital Needs – Debt Maturities

One of our principal long-term liquidity needs is the repayment of medium and long-term debt at the time that such debt matures. For unsecured notes, we anticipate that no significant portion of the principal of these notes will be repaid prior to maturity. 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 the debt. This refinancing may be accomplished by uncollateralized private or public debt offerings, additional debt financing that is collateralized by mortgages on individual communities or groups of communities, draws on our unsecured credit facility or by additional equity offerings. We also anticipate having retained cash flow available in each year so that when a debt obligation matures, a portion of each maturity can be satisfied from this retained cash. Although we believe we will have the capacity to meet our long-term 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 February 2004, \$125,000,000 in unsecured notes with an annual interest rate of 6.58% matured and was repaid with proceeds drawn under our unsecured credit facility. In addition, we repaid \$11,381,000 in fixed rate mortgage debt secured by a current community, along with any unpaid interest, prior to its scheduled maturity of August 2004. No prepayment penalties were incurred.

Also in February 2004, we had credit enhancements, including interest rate swaps, on approximately \$87,380,000 of our variable rate, tax-exempt debt that expired according to the original terms and that have not been extended. However, we have replaced the credit enhancements on this debt, including replacing the interest rate swaps with interest rate caps ranging from 6.7% to 9.0%. The underlying debt has a weighted average variable interest rate (exclusive of credit enhancement fees, facility fees, trustees' fees, etc.) of 0.9% as of February 27, 2004, which has been capped at a weighted average interest rate of 7.6% through the interest rate caps. The credit enhancements, including the interest rate caps, mature in 2014.

The following table details debt maturities for the next five years, excluding our unsecured credit facility, for debt outstanding at December 31, 2003 (dollars in thousands):

Community	All-in interest rate (1)	Principal maturity date	Balance outstanding		Scheduled maturities					
			12-31-02	12-31-03	2004	2005	2006	2007	2008	Thereafter
Tax-exempt bonds										
<i>Fixed rate</i>										
Avalon at Foxchase I	5.88%	Nov-2007	\$ 16,800	\$ 16,800(2)	\$ —	\$ —	\$ —	\$ 16,800	\$ —	\$ —
Avalon at Foxchase II	5.88%	Nov-2007	9,600	9,600(2)	—	—	—	9,600	—	—
Fairway Glen	5.88%	Nov-2007	9,580	9,580(2)	—	—	—	9,580	—	—
CountryBrook	6.30%	Mar-2012	18,124	17,628	528	562	599	638	679	14,622
Waterford	5.88%	Aug-2014	33,100	33,100(2)	—	—	—	—	—	33,100
Avalon at Mountain View	5.88%	Mar-2017	18,300	18,300(2)	—	—	—	—	—	18,300
Avalon at Dulles (5)	7.04%	Jul-2024	12,360	—	—	—	—	—	—	—
Avalon at Symphony Glen	7.00%	Jul-2024	9,780	9,780	—	—	—	—	—	9,780
Avalon View	7.55%	Aug-2024	17,743	17,345	425	455	485	518	555	14,907
Avalon at Lexington	6.56%	Feb-2025	13,784	13,477	326	347	368	391	415	11,630
Avalon at Nob Hill	5.80%	Jun-2025	19,457	19,149(2)	331	355	380	408	437	17,238
Avalon Campbell	6.48%	Jun-2025	35,749	35,065(2)	733	786	843	904	969	30,830
Avalon Pacifica	6.48%	Jun-2025	16,216	15,906(2)	332	356	382	410	440	13,986
Avalon Knoll	6.95%	Jun-2026	12,978	12,748	246	263	282	302	324	11,331
Avalon Landing	6.85%	Jun-2026	6,417	6,301	124	132	142	152	162	5,589
Avalon Fields	7.05%	May-2027	11,286	11,106	193	207	222	239	256	9,989
Avalon West	7.73%	Dec-2036	8,461	8,396	70	75	80	85	91	7,995
Avalon Oaks	7.45%	Feb-2041	17,628	17,530	104	112	120	128	138	16,928
Avalon Oaks West	7.48%	Apr-2043	—	17,336	96	103	110	117	125	16,785
			287,363	289,147	3,508	3,753	4,013	40,272	4,591	233,010
<i>Variable rate (4)</i>										
Avalon at Laguna Niguel	2.55%	Mar-2009	10,400	10,400	—	—	—	—	—	10,400
The Promenade	3.08%	Jan-2010	33,670	33,185	522	562	605	652	701	30,143
Avalon at Mission Viejo	2.33%	Jun-2025	7,151	7,039(3)	121	129	139	149	160	6,341
Avalon Devonshire (5)	—	Dec-2025	27,305	—	—	—	—	—	—	—
Avalon Greenbriar	2.40%	May-2026	18,755	18,755	—	—	—	—	—	18,755
Avalon at Fairway Hills I	2.08%	Jun-2026	11,500	11,500	—	—	—	—	—	11,500
			108,781	80,879	643	691	744	801	861	77,139
Conventional loans (6)										
<i>Fixed rate</i>										
\$50 Million unsecured notes	6.250%	Jan-2003	50,000	—	—	—	—	—	—	—
\$100 Million unsecured notes	6.500%	Jul-2003	100,000	—	—	—	—	—	—	—
\$125 Million unsecured notes	6.733%	Feb-2004	125,000	125,000	125,000	—	—	—	—	—
\$100 Million unsecured notes	6.750%	Jan-2005	100,000	100,000	—	100,000	—	—	—	—
\$50 Million unsecured notes	6.500%	Jan-2005	50,000	50,000	—	50,000	—	—	—	—
\$150 Million unsecured notes	6.926%	Jul-2006	150,000	150,000	—	—	150,000	—	—	—
\$150 Million unsecured notes	5.178%	Aug-2007	150,000	150,000	—	—	—	150,000	—	—
\$110 Million unsecured notes	7.128%	Dec-2007	110,000	110,000	—	—	—	110,000	—	—
\$50 Million unsecured notes	6.625%	Jan-2008	50,000	50,000	—	—	—	—	50,000	—
\$150 Million unsecured notes	8.374%	Jul-2008	150,000	150,000	—	—	—	—	150,000	—
\$150 Million unsecured notes	7.634%	Aug-2009	150,000	150,000	—	—	—	—	—	150,000
\$200 Million unsecured notes	7.665%	Dec-2010	200,000	200,000	—	—	—	—	—	200,000
\$300 Million unsecured notes	6.792%	Sep-2011	300,000	300,000	—	—	—	—	—	300,000
\$50 Million unsecured notes	6.314%	Sep-2011	50,000	50,000	—	—	—	—	—	50,000
\$250 Million unsecured notes	6.261%	Nov-2012	250,000	250,000	—	—	—	—	—	250,000
Avalon at Pruneyard	7.250%	May-2004	12,870	12,870	12,870	—	—	—	—	—
Avalon Walk II	8.930%	Aug-2004	11,748	11,437	11,437	—	—	—	—	—
Avalon Orchards	7.650%	Jul-2033	—	20,574	222	237	254	272	292	19,297
			2,009,618	1,879,881	149,529	150,237	150,254	260,272	200,292	969,297
<i>Variable rate (4)</i>										
Avalon on the Sound (7)	2.67%	Apr-2004	36,089	36,526	36,526	—	—	—	—	—
Total indebtedness - excluding unsecured credit facility			\$ 2,441,851	\$ 2,286,433	\$ 190,206	\$ 154,681	\$ 155,011	\$ 301,345	\$ 205,744	\$ 1,279,446

- (1) Includes credit enhancement fees, facility fees, trustees' fees, etc.
- (2) Financed by variable rate, tax-exempt debt, but interest rate is effectively fixed at December 31, 2003 at the rate indicated through a swap agreement. The weighted average maturity of these swap agreements is 2.6 years.
- (3) Financed by variable rate, tax-exempt debt, but interest rate is capped through an interest rate cap agreement. The remaining term of this interest rate cap agreement is 3.6 years.
- (4) Variable rates are given as of December 31, 2003.
- (5) Included in liabilities related to real estate assets held for sale on our Consolidated Balance Sheets as of December 31, 2002 included elsewhere in this report.
- (6) Balances outstanding do not include \$284 and \$342 as of December 31, 2003 and December 31, 2002, respectively, of debt premium reflected in unsecured notes on our Consolidated Balance Sheets included elsewhere in this report.
- (7) Variable rate construction loan matured in December 2002 and was refinanced in April 2003, extending the maturity date to April 2004, with a one-year extension available to April 2005.

Future Financing and Capital Needs – Portfolio and Other Activity

As of December 31, 2003, we had eleven new communities under construction, for which a total estimated cost of \$221,629,000 remained to be invested. In addition, we had two communities under reconstruction, for which a total estimated cost of \$5,660,000 remained to be invested. Substantially all of the capital expenditures necessary to complete the communities currently under construction and reconstruction, as well as development costs related to pursuing Development Rights, will be funded from:

- the remaining capacity under our current \$500,000,000 unsecured credit facility;
- the net proceeds from sales of existing communities;
- retained operating cash; and/or
- the issuance of debt or equity securities.

Before planned reconstruction activity or the construction of a Development Right begins, we intend to arrange 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.

We sell assets that do not meet our long-term investment criteria or when capital and real estate markets allow us to realize a portion of the value created over the past business cycle and redeploy the proceeds from those sales to develop and redevelop communities. We increased our disposition program during 2003 to a level totaling \$453,900,000. In response to real estate and capital markets conditions, as well as strong institutional demand for product in our markets, we plan to continue to sell communities into 2004, although at reduced levels. However, we cannot assure you that assets can continue to be sold on terms that we consider satisfactory or that market conditions will continue to make the sale of assets an appealing strategy. Because the proceeds from the sale of communities may not be immediately redeployed into revenue generating assets, the immediate effect of a sale of a community for a gain is to increase net income, but reduce total revenues, total expenses, NOI and FFO.

We intend to engage in discussions with a limited number of institutional investors regarding the possible formation of a discretionary fund that would acquire and operate apartment communities. This fund would serve, for a period of three years from the date of its final closing or until a significant portion of its committed capital is invested, as the exclusive vehicle through which we would acquire apartment communities, subject to certain exceptions including, among others, significant individual asset and portfolio acquisitions, properties acquired in tax-deferred transactions and acquisitions that are inadvisable or inappropriate for the fund, if any. The fund would not restrict our development activities, which would not be a part of the fund, and would terminate after a term of eight years (subject to two one-year extensions). We intend to actively pursue the formation of the fund, but there can be no assurance as to when or if such a fund will be formed or, if formed, what its size, terms or investment performance will be. We have preliminarily targeted that the fund would have approximately \$715,000,000 available for investment (consisting of approximately \$250,000,000 of fund equity, of which we would commit approximately 20% of the total, and approximately \$465,000,000 of debt financing).

We are also considering the use of several joint ventures, pursuant to which a portion of future developments would be held through a partnership vehicle. We generally employ joint ventures primarily to mitigate concentration or market risk and secondarily as a source of liquidity. Each joint venture or partnership agreement will be 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. However, we cannot assure you that we will enter into joint ventures in the future, or that, if we do, we will achieve our objectives.

We have minority interest investments in three technology companies, one of which has a remaining unfunded commitment of \$1,598,000, which we expect to be released from without payment in the first quarter of 2004. We have no other obligation to contribute additional funds to these technology investments.

Off Balance Sheet Arrangements

We own interests in unconsolidated real estate entities, with ownership interests up to 50%. One of these unconsolidated real estate entities, Avalon Terrace, LLC, has debt outstanding of \$22,500,000 as of December 31, 2003, which matures in 2005 and is payable by the unconsolidated real estate entity with operating cash flow from the underlying real estate. We have not guaranteed this debt, nor do we have any obligation to fund this debt should the unconsolidated real estate entity be unable to do so. There are no lines of credit, side agreements, financial guarantees or any other derivative financial instruments related to or between us and our unconsolidated real estate entities. In evaluating our capital structure and overall leverage, management takes into consideration our proportionate share of this unconsolidated debt. For more information regarding the operations of our unconsolidated entities see Note 6, "Investments in Unconsolidated Entities," of our Consolidated Financial Statements.

Contractual Obligations

We currently have contractual obligations consisting primarily of long-term debt obligations and lease obligations for certain land parcels and office space. Scheduled contractual obligations required for the next five years and thereafter are as follows as of December 31, 2003 (dollars in thousands):

	Payments due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-Term Debt Obligations ⁽¹⁾	\$ 2,337,533	\$ 241,306	\$ 309,692	\$ 507,089	\$ 1,279,446
Operating Lease Obligations	420,053	4,239	8,415	8,493	398,906
Total	<u>\$ 2,757,586</u>	<u>\$ 245,545</u>	<u>\$ 318,107</u>	<u>\$ 515,582</u>	<u>\$ 1,678,352</u>

(1) Includes \$51,100 outstanding under our variable rate unsecured credit facility as of December 31, 2003. The table of contractual obligations assumes repayment of this amount in 2004 — See "Liquidity and Capital Resources."

Common and Preferred Stock Activity

Stock Repurchase Program

In 2002 our Board of Directors authorized a common stock repurchase program, under which we may acquire shares of our common stock in open market or negotiated transactions. The stock repurchase program was designed so that retained cash flow, as well as the proceeds from sales of existing apartment communities and a reduction in planned acquisitions, will provide the source of funding for the program, with our unsecured credit facility providing temporary funding as needed. Through February 27, 2004, we have acquired 2,380,600 shares of common stock at an aggregate cost of \$89,566,000 under this program. We have not repurchased any shares of common stock since March 31, 2003.

Issuance of Common Stock

In August 2003, we completed a common stock offering totaling 2,804,700 shares at a public offering price of \$46.00 per share. The net proceeds from this offering, after underwriting discounts and commissions, of approximately \$127,333,000 were used to repay a portion of amounts outstanding on the unsecured credit facility and for general corporate purposes.

Shelf Registration Statement

We currently have an effective shelf registration statement on file with the Securities and Exchange Commission. The shelf registration statement originally provided \$750,000,000 of debt and equity capacity, however, \$127,333,000 has been utilized as a result of the common stock offering described above. We cannot assure you that market conditions will permit us to issue debt or equity securities on cost-effective terms or that the registration statement will remain available and effective at all times.

Redemption of Preferred Stock

In March 2003, we redeemed all 3,267,700 outstanding shares of our 8.00% Series D Cumulative Redeemable Preferred Stock at a price of \$25.00 per share, plus \$0.0167 in accrued and unpaid dividends, for an aggregate redemption price of \$81,747,000, including accrued dividends of \$54,000. The redemption price was funded by the sale of 3,336,611 shares of Series J Cumulative Redeemable Preferred Stock through a private placement to an institutional investor for a net purchase price of \$81,737,000. The dividend rate on such shares was initially equal to 2.78% per annum (three-month LIBOR plus 1.5%) of the liquidation preference. As permitted under the terms of such preferred stock, we redeemed all of the Series J Cumulative Redeemable Preferred Stock in May 2003, for an aggregate redemption price of \$82,207,000, including dividends of \$251,000.

We currently have the following series of redeemable preferred stock outstanding at a stated value of \$100,000,000. This series has no stated maturity and is not subject to any sinking fund or mandatory redemptions.

<u>Series</u>	<u>Shares outstanding February 27, 2004</u>	<u>Payable quarterly</u>	<u>Annual rate</u>	<u>Liquidation preference</u>	<u>Non-redeemable prior to</u>
H	4,000,000	March, June, September, December	8.70%	\$25.00	October 15, 2008

Inflation and Deflation

Substantially all of our apartment leases are for a term of one year or less. In the event of significant inflation, this may enable 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. In a deflationary rent environment, as is currently being experienced, we are exposed to declining rents more quickly under these shorter-term leases.

Forward-Looking Statements

This Form 10-K contains "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by our use of the words "believe," "expect," "anticipate," "intend," "estimate," "assume," "project," "plan," "may," "shall," "will"

and other similar expressions in this Form 10-K, that predict or indicate future events and trends or that do not report historical matters. These statements include, among other things, statements regarding our intent, belief or expectations with respect to:

- our potential development, redevelopment, acquisition or disposition of communities;
- the timing and cost of completion of apartment communities under construction, reconstruction, development or redevelopment;
- the timing of lease-up, occupancy and stabilization of apartment communities;
- the pursuit of land on which we are considering future development;
- the anticipated operating performance of our communities;
- cost, yield and earnings estimates;
- our declaration or payment of distributions;
- our policies regarding investments, indebtedness, acquisitions, dispositions, financings and other matters;
- our qualification as a REIT under the Internal Revenue Code;
- the real estate markets in Northern and Southern California and markets in selected states in the Mid-Atlantic, Northeast, Midwest and Pacific Northwest regions of the United States and in general;
- the availability of debt and equity financing;
- interest rates;
- general economic conditions; and
- trends affecting our financial condition or results of operations.

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. 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. 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 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 and increases in the cost of capital;
- 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 expense and construction costs and a decrease in our expected rental revenues;
- occupancy rates and market rents may be adversely affected by competition and local economic and market conditions which are beyond our control;
- financing may not be available on favorable terms or at all, and our cash flow from operations and access to cost effective capital may be insufficient for the development of our pipeline which could limit our pursuit of opportunities;
- our cash flow 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; and
- we may be unsuccessful in managing changes in our portfolio composition.

These forward-looking statements represent our estimates and assumptions only as of the date of this report. We do not undertake to update these forward-looking statements, and you should not rely upon them after the date of this report.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain financial market risks, the most predominant being fluctuations in interest rates. We monitor interest rate fluctuations as an integral part of our overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on our results of operations. The effect of interest rate fluctuations historically has been small relative to other factors affecting operating results, such as rental rates and occupancy. The specific market risks and the potential impact on our operating results are described below.

Our operating results are affected by changes in interest rates as a result of borrowings under our variable rate unsecured credit facility as well as outstanding bonds with variable interest rates. We had \$168,505,000 and \$173,840,000 in variable rate debt outstanding as of December 31, 2003 and 2002, respectively. If interest rates on the variable rate debt had been 100 basis points higher throughout 2003 and 2002, our annual interest costs would have increased by approximately \$2,665,000 and \$2,557,000, respectively, based on balances outstanding during the applicable years.

We currently use interest rate swap agreements to reduce the impact of interest rate fluctuations on certain variable rate indebtedness. Under swap agreements:

- we agree to pay to a counterparty the interest that would have been incurred on a fixed principal amount at a fixed interest rate (generally, the interest rate on a particular treasury bond on the date the agreement is entered into, plus a fixed increment), and
- the counterparty agrees to pay to us the interest that would have been incurred on the same principal amount at an assumed floating interest rate tied to a particular market index.

As of December 31, 2003, the effect of swap agreements is to fix the interest rate on approximately \$157,500,000 of our variable rate, tax-exempt debt. Furthermore, a swap agreement to fix the interest rate on approximately \$22,500,000 of unconsolidated variable rate debt existed as of December 31, 2003. The swap agreements on the consolidated variable rate, tax-exempt debt were not electively entered into by us but, rather, were a requirement of either the bond issuer or the credit enhancement provider related to certain of our tax-exempt bond financings. Because the counterparties providing the swap agreements are major financial institutions which have an A+ or better credit rating by the Standard & Poor's Ratings Group and the interest rates fixed by the swap agreements are significantly higher than current market rates for such agreements, we do not believe there is exposure at this time to a default by a counterparty provider. Had these swap agreements not been in place during 2003 and 2002, our annual interest costs would have been approximately \$6,027,000 and \$5,674,000 lower, respectively, based on balances outstanding and reported interest rates during the applicable years. However, if the variable interest rates on this debt had been 100 basis points higher throughout 2003 and 2002 and these swap agreements had not been in place, our annual interest costs would have been approximately \$4,581,000 and \$4,024,000 lower, respectively.

In addition, changes in interest rates affect the fair value of our fixed rate debt, which impacts the fair value of our aggregate indebtedness. Debt securities and notes payable (excluding our variable rate unsecured credit facility) with an aggregate carrying value of \$2,286,433,000 at December 31, 2003 had an estimated aggregate fair value of \$2,555,733,000 at December 31, 2003. Fixed rate debt represented \$2,169,028,000 of the carrying value and \$2,280,828,000 of the fair value at December 31, 2003. If interest rates had been 100 basis points higher as of December 31, 2003, the fair value of this fixed rate debt would have decreased by \$104,989,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

As discussed more fully in the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders to be held on May 5, 2004, during 2002 the Company dismissed Arthur Andersen LLP and engaged Ernst & Young LLP to be the Company's principal independent public accountant.

ITEM 9A. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures.* As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. We continue to review and document our disclosure controls and procedures, including our internal control over 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 Control Over Financial Reporting.* There was no change in our internal control over financial reporting that occurred during the fourth quarter of the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT

Information pertaining to directors and executive officers of the Company is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders to be held on May 5, 2004.

ITEM 11. EXECUTIVE COMPENSATION

Information pertaining to executive compensation is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders to be held on May 5, 2004.

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

Information pertaining to security ownership of management and certain beneficial owners of the Company's common stock is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders to be held on May 5, 2004.

The Company maintains the 1994 Stock Incentive Plan (the “1994 Plan”) and the 1996 Non-Qualified Employee Stock Purchase Plan (the “ESPP”), pursuant to which common stock or other equity awards may be issued or granted to eligible persons.

The following table gives information about equity awards under the Company’s 1994 Plan and ESPP as of December 31, 2003:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders ⁽¹⁾	3,071,103 ⁽²⁾⁽³⁾	\$ 39.57 ⁽³⁾⁽⁴⁾	2,358,393 ⁽⁵⁾
Equity compensation plans not approved by security holders ⁽⁶⁾	—	n/a	687,949
Total	<u>3,071,103</u>	<u>\$ 39.57⁽³⁾⁽⁴⁾</u>	<u>3,046,342</u>

(1) Consists of the 1994 Plan.

(2) Includes 91,838 deferred units granted under the 1994 Plan, which, subject to vesting requirements, will convert in the future to common stock on a one-for-one basis, but does not include 195,339 shares of restricted stock that are outstanding and that are already reflected in the Company’s outstanding shares.

(3) Does not include outstanding options to acquire 473,962 shares, at a weighted-average exercise price of \$37.32 per share, that were assumed, in connection with the 1998 merger of Avalon Properties, Inc. with and into the Company, under the Avalon Properties, Inc. 1995 Equity Incentive Plan and the Avalon Properties, Inc. 1993 Stock Option and Incentive Plan.

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

(5) The 1994 Plan incorporates an evergreen formula pursuant to which the aggregate number of shares reserved for issuance under the 1994 Plan will increase annually. On each January 1, the aggregate number of shares reserved for issuance under the 1994 Plan will increase by a number of shares equal to a percentage (ranging from 0.48% to 1.00%) of all outstanding shares of common stock at the end of the year. The exact percentage used is determined based on the percentage of all awards made under the 1994 Plan during the calendar year that were in the form of stock options with an exercise price equal to the fair market value of a share of common stock on the date of the grant. In accordance with this procedure, on January 1, 2004, the maximum number of shares remaining available for future issuance under the 1994 Plan was increased by 622,657 to 2,981,050.

(6) Consists of the ESPP.

The ESPP, which was adopted by the Board of Directors on October 29, 1996, has not been approved by our shareholders. A further description of the ESPP appears in Note 10, “Stock-Based Compensation Plans,” of our Consolidated Financial Statements included in this report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information pertaining to certain relationships and related transactions is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders to be held on May 5, 2004.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information pertaining to the fees paid to and services provided by the Company's principal accountant is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders to be held on May 5, 2004.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K

15(a)(1) Financial Statements

Index to Financial Statements

Consolidated Financial Statements and Financial Statement Schedule:

Report of Independent Auditors F-1

Consolidated Balance Sheets as of December 31, 2003 and 2002 F-2

Consolidated Statements of Operations and Other Comprehensive Income for the years ended December 31, 2003, 2002 and 2001 F-3

Consolidated Statements of Stockholders' Equity for the years ended December 31, 2003, 2002 and 2001 F-4

Consolidated Statements of Cash Flows for the years ended December 31, 2003, 2002 and 2001 F-5

Notes to Consolidated Financial Statements F-7

15(a)(2) Financial Statement Schedule

Schedule III - Real Estate and Accumulated Depreciation F-30

15(a)(3) Exhibits

The exhibits listed on the accompanying Index to Exhibits are filed as a part of this report.

15(b) Reports on Form 8-K

None.

INDEX TO 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-Q of the Company filed August 14, 1998.)
3(i).2	— Articles of Amendment, dated as of October 2, 1998. (Incorporated by reference to Exhibit 3.1(ii) to the Company's Current Report on Form 8-K filed October 6, 1998.)
3(i).3	— Articles Supplementary, dated as of October 13, 1998, relating to the 8.70% Series H Cumulative Redeemable Preferred Stock. (Incorporated by reference to Exhibit 1 to Form 8-A of the Company filed October 14, 1998.)
3(ii)	— Amended and Restated Bylaws of the Company, as adopted by the Board of Directors on February 13, 2003. (Incorporated by reference to Exhibit 3(ii) to Form 10-K of the Company filed March 11, 2003.)
4.1	— Indenture of Avalon Properties, Inc. (hereinafter referred to as "Avalon Properties") dated as of September 18, 1995. (Incorporated by reference to Avalon Properties' Registration Statement on Form S-3 (33-95412), filed on August 4, 1995.)
4.2	— First Supplemental Indenture of Avalon Properties dated as of September 18, 1995. (Incorporated by reference to Exhibit 4.2 to Form 10-K of the Company filed March 26, 2002.)
4.3	— Second Supplemental Indenture of Avalon Properties dated as of December 16, 1997. (Incorporated by reference to Exhibit 4.3 to Form 10-K of the Company filed March 11, 2003.)
4.4	— Third Supplemental Indenture of Avalon Properties dated as of January 22, 1998. (Incorporated by reference to Exhibit 4.4 to Form 10-K of the Company filed March 11, 2003.)
4.5	— Indenture, dated as of January 16, 1998, between the Company and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to Exhibit 4.5 to Form 10-K of the Company filed March 11, 2003.)
4.6	— First Supplemental Indenture, dated as of January 20, 1998, between the Company and the Trustee. (Incorporated by reference to Exhibit 4.6 to Form 10-K of the Company filed March 11, 2003.)
4.7	— Second Supplemental Indenture, dated as of July 7, 1998, between the Company and the Trustee. (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed July 9, 1998.)
4.8	— Amended and Restated Third Supplemental Indenture, dated as of July 10, 2000 between the Company and the Trustee, including forms of Floating Rate Note and Fixed Rate Note. (Incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed July 11, 2000.)

EXHIBIT NO.		DESCRIPTION
4.9	—	Dividend Reinvestment and Stock Purchase Plan of the Company filed September 14, 1999. (Incorporated by reference to Form S-3 of the Company, File No. 333-87063.)
4.10	—	Amendment to the Company's Dividend Reinvestment and Stock Purchase Plan filed on December 17, 1999. (Incorporated by reference to the Prospectus Supplement filed pursuant to Rule 424(b)(2) of the Securities Act of 1933 on December 17, 1999.)
10.1	—	Amended and Restated Distribution Agreement, dated August 6, 2003, among AvalonBay Communities, Inc. (the "Company") and the Agents, including Administrative Procedures, relating to the MTNs. (Filed herewith.)
10.2+	—	Employment Agreement, dated as of July 1, 2003, between the Company and Thomas J. Sargeant. (Incorporated by reference to Exhibit 10.1 to Amendment No. 3 to the Company's Registration Statement on Form S-3 (333-103755), filed July 7, 2003.)
10.3+	—	Employment Agreement, dated as of January 10, 2003, between the Company and Bryce Blair. (Incorporated by reference to Exhibit 10.5 to Form 10-K of the Company filed March 11, 2003.)
10.4+	—	Employment Agreement, dated as of February 26, 2001, between the Company and Timothy J. Naughton. (Incorporated by reference to Exhibit 10.5 to Form 10-K of the Company filed March 29, 2001.)
10.5+	—	Employment Agreement, dated as of September 10, 2001, between the Company and Leo S. Horey. (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed November 14, 2001.)
10.6+	—	Employment Agreement, dated as of December 31, 2001, between the Company and Samuel B. Fuller. (Incorporated by reference to Exhibit 10.9 to Form 10-K of the Company filed March 26, 2002.)
10.7+	—	Letter Agreement regarding departure, dated February 26, 2001, by and between the Company and Robert H. Slater. (Incorporated by reference to Exhibit 10.8 to Form 10-K of the Company filed March 29, 2001.)
10.8+	—	Mutual Release and Separation Agreement, dated as of March 24, 2000, between the Company and Gilbert M. Meyer. (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed May 15, 2000.)
10.9+	—	Retirement Agreement, dated as of March 24, 2000, between the Company and Gilbert M. Meyer. (Incorporated by reference to Exhibit 10.2 to Form 10-Q of the Company filed May 15, 2000.)
10.10+	—	Consulting Agreement, dated as of March 24, 2000, between the Company and Gilbert M. Meyer. (Incorporated by reference to Exhibit 10.3 to Form 10-Q of the Company filed May 15, 2000.)
10.11+	—	Avalon Properties, Inc. 1993 Stock Option and Incentive Plan. (Incorporated by reference to Exhibit 10.14 to Form 10-K of the Company filed March 29, 2001.)
10.12+	—	Avalon Properties, Inc. 1995 Equity Incentive Plan. (Incorporated by reference to Exhibit 10.15 to Form 10-K of the Company filed March 29, 2001.)

EXHIBIT NO.	DESCRIPTION
10.13+	— Amendment, dated May 6, 1999, to the Avalon Properties Amended and Restated 1995 Equity Incentive Plan. (Incorporated by reference to Exhibit 10.7 to Form 10-Q of the Company filed August 16, 1999.)
10.14+	— AvalonBay Communities, Inc. 1994 Stock Incentive Plan, as amended and restated in full on May 8, 2001. (Incorporated by reference to Exhibit B to the Company's Schedule 14A filed March 30, 2001.)
10.15+	— Amendment, dated May 14, 2003, to the Company's 1994 Stock Incentive Plan, as amended and restated. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on August 8, 2003.)
10.16+	— 1996 Non-Qualified Employee Stock Purchase Plan, dated June 26, 1997, as amended and restated. (Incorporated by reference to Exhibit 99.1 to Post-effective Amendment No. 1 to Form S-8 of the Company filed June 26, 1997, File No. 333-16837.)
10.17+	— 1996 Non-Qualified Employee Stock Purchase Plan — Plan Information Statement dated June 26, 1997. (Incorporated by reference to Exhibit 99.2 to Form S-8 of the company, File No. 333-16837.)
10.18 +	— Indemnification Agreements between the Company and the Directors of the Company. (Incorporated by reference to Exhibit 10.39 to Form 10-K of the Company filed March 31, 1999.)
10.19+	— The Company's Officer Severance Plan. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 11, 2000.)
10.20	— Revolving Loan Agreement, dated as of May 24, 2001, among the Company, as Borrower, The Chase Manhattan Bank, as a Bank, Co-Agent and Syndication Agent, Fleet National Bank, as a Bank and Co-Agent, Bank of America, N.A., First Union National Bank and Citicorp Real Estate, Inc., each as a Bank and Documentation Agent, the other banks signatory thereto, each as a Bank, J.P. Morgan Securities, Inc., as Sole Bookrunner and Lead Arranger, and Fleet National Bank, as Administrative Agent. (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed August 14, 2001.)
12.1	— Statements re: Computation of Ratios. (Filed herewith.)
21.1	— Schedule of Subsidiaries of the Company. (Filed herewith.)
23.1	— Consent of Ernst & Young LLP. (Filed herewith.)
31.1	— Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer). (Filed herewith.)
31.2	— Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer). (Filed herewith.)
32	— Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer and Chief Financial Officer). (Filed herewith.)

+ Management contract or compensatory plan or arrangement required to be filed or incorporated by reference as an exhibit to this Form 10-K pursuant to Item 14(c) of Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AvalonBay Communities, Inc.

Date: March 5, 2004

By: /s/ Bryce Blair
Bryce Blair, Chairman of the Board, Chief Executive Officer and President

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

Date: March 5, 2004

By: /s/ Bryce Blair
Bryce Blair, Chairman of the Board, Chief Executive Officer
and President
(Principal Executive Officer)

Date: March 5, 2004

By: /s/ Thomas J. Sargeant
Thomas J. Sargeant, Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: March 5, 2004

By: /s/ Bruce A. Choate
Bruce A. Choate, Director

Date: March 5, 2004

By: /s/ John J. Healy, Jr.
John J. Healy, Jr., Director

Date: March 5, 2004

By: /s/ Gilbert M. Meyer
Gilbert M. Meyer, Director

Date: March 5, 2004

By: /s/ Charles D. Peebler, Jr.
Charles D. Peebler, Jr., Director

Date: March 5, 2004

By: /s/ Lance R. Primis
Lance R. Primis, Director

Date: March 5, 2004

By: /s/ Allan D. Schuster
Allan D. Schuster, Director

Date: March 5, 2004

By: /s/ Amy P. Williams
Amy P. Williams, Director

Report of Independent Auditors

To the Board of Directors and Stockholders of
AvalonBay Communities, Inc.:

We have audited the accompanying consolidated balance sheets of AvalonBay Communities, Inc. (the "Company") as of December 31, 2003 and 2002, and the related consolidated statements of operations and other comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2003. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AvalonBay Communities, Inc. at December 31, 2003 and 2002, and the consolidated results of operations and cash flows for each of the three years in the period ended December 31, 2003, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2003, the Company applied the guidance of Emerging Issues Task Force Topic D-42, "The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock." In addition, as discussed in Note 1 to the consolidated financial statements, in 2002 the Company adopted Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" and as discussed in Note 5 to the consolidated financial statements, in 2001 the Company changed its method of accounting for derivative instruments and hedging activities.

/s/ Ernst & Young LLP

McLean, Virginia
January 23, 2004, except for Note 14, as to which
the date is February 27, 2004

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

	12-31-03	12-31-02
ASSETS		
Real estate:		
Land, including land held for development	\$ 908,369	\$ 867,117
Buildings and improvements	4,090,563	3,771,582
Furniture, fixtures and equipment	127,371	119,252
	5,126,303	4,757,951
Less accumulated depreciation	(694,585)	(544,959)
Net operating real estate	4,431,718	4,212,992
Construction in progress (including land)	253,183	271,213
Real estate assets held for sale, net	51,488	301,226
Total real estate, net	4,736,389	4,785,431
Cash and cash equivalents	7,196	12,911
Cash in escrow	11,825	10,228
Resident security deposits	20,891	21,839
Investments in unconsolidated real estate entities	19,735	14,591
Deferred financing costs, net	17,837	20,268
Deferred development costs	31,334	31,461
Participating mortgage note	21,483	21,483
Prepaid expenses and other assets	42,892	32,623
Total assets	\$ 4,909,582	\$ 4,950,835
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unsecured notes	\$ 1,835,284	\$ 1,985,342
Variable rate unsecured credit facility	51,100	28,970
Mortgage notes payable	451,433	417,186
Dividends payable	51,831	51,553
Payables for construction	26,912	27,243
Accrued expenses and other liabilities	85,367	88,539
Accrued interest payable	38,910	42,924
Resident security deposits	32,113	29,775
Liabilities related to real estate assets held for sale	546	45,578
Total liabilities	2,573,496	2,717,110
Minority interest of unitholders in consolidated partnerships	24,752	39,185
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.01 par value; \$25 liquidation preference; 50,000,000 shares authorized at both December 31, 2003 and 2002; 4,000,000 and 7,267,700 shares issued and outstanding at December 31, 2003 and December 31, 2002, respectively	40	73
Common stock, \$0.01 par value; 140,000,000 shares authorized at both December 31, 2003 and 2002; 70,937,526 and 68,202,926 shares issued and outstanding at December 31, 2003 and December 31, 2002, respectively	709	682
Additional paid-in capital	2,322,581	2,273,668
Deferred compensation	(5,808)	(7,855)
Dividends less than (in excess of) accumulated earnings	2,024	(59,388)
Accumulated other comprehensive loss	(8,212)	(12,640)
Total stockholders' equity	2,311,334	2,194,540
Total liabilities and stockholders' equity	\$ 4,909,582	\$ 4,950,835

See accompanying notes to Consolidated Financial Statements.

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

	For the year ended		
	12-31-03	12-31-02	12-31-01
Revenue:			
Rental and other income	\$ 608,720	\$ 587,385	\$ 581,810
Management, development and other fees	931	2,145	1,386
Total revenue	<u>609,651</u>	<u>589,530</u>	<u>583,196</u>
Expenses:			
Operating expenses, excluding property taxes	177,814	160,844	144,845
Property taxes	57,555	52,269	47,295
Interest expense	134,911	119,666	101,170
Depreciation expense	151,454	134,939	119,875
General and administrative expense	13,734	13,449	14,705
Impairment loss	—	6,800	—
Total expenses	<u>535,468</u>	<u>487,967</u>	<u>427,890</u>
Equity in income of unconsolidated entities	25,535	55	856
Interest income	3,440	3,978	6,823
Venture partner interest in profit-sharing	(1,688)	(857)	1,158
Minority interest in consolidated partnerships	(999)	(914)	(997)
Income before gain on sale of communities	100,471	103,825	163,146
Gain on sale of communities	—	—	62,852
Income from continuing operations	100,471	103,825	225,998
Discontinued operations:			
Income from discontinued operations	10,064	20,900	22,999
Gain on sale of communities	160,990	48,893	—
Total discontinued operations	<u>171,054</u>	<u>69,793</u>	<u>22,999</u>
Net income	271,525	173,618	248,997
Dividends attributable to preferred stock	(10,744)	(17,896)	(40,035)
Net income available to common stockholders	<u>\$ 260,781</u>	<u>\$ 155,722</u>	<u>\$ 208,962</u>
Other comprehensive income (loss):			
Cumulative effect of change in accounting principle	—	—	(6,412)
Unrealized gain (loss) on cash flow hedges	4,428	(4,157)	(2,071)
Comprehensive income	<u>\$ 265,209</u>	<u>\$ 151,565</u>	<u>\$ 200,479</u>
Earnings per common share — basic:			
Income from continuing operations (net of dividends attributable to preferred stock)	\$ 1.32	\$ 1.24	\$ 2.72
Discontinued operations	2.48	1.02	0.36
Net income available to common stockholders	<u>\$ 3.80</u>	<u>\$ 2.26</u>	<u>\$ 3.08</u>
Earnings per common share — diluted:			
Income from continuing operations (net of dividends attributable to preferred stock)	\$ 1.30	\$ 1.23	\$ 2.66
Discontinued operations	2.43	1.00	0.36
Net income available to common stockholders	<u>\$ 3.73</u>	<u>\$ 2.23</u>	<u>\$ 3.02</u>

See accompanying notes to Consolidated Financial Statements.

AVALONBAY COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in thousands, except share data)

	Shares issued		Amount		Additional paid-in capital	Deferred compensation	Dividends less than (in excess of) accumulated earnings	Accumulated other comprehensive loss	Stockholders' equity
	Preferred stock	Common stock	Preferred stock	Common stock					
Balance at December 31, 2000	18,322,700	67,191,542	\$ 183	\$ 672	\$ 2,493,033	\$ (3,550)	\$ (47,845)	\$ —	\$ 2,442,493
Cumulative effect of change in accounting principle	—	—	—	—	—	—	—	(6,412)	(6,412)
Net income	—	—	—	—	—	—	248,997	—	248,997
Unrealized loss on cash flow hedges	—	—	—	—	—	—	—	(2,071)	(2,071)
Dividends declared to common and preferred stockholders	—	—	—	—	—	—	(204,649)	—	(204,649)
Issuance of common stock	—	1,521,842	—	15	59,116	(7,545)	—	—	51,586
Redemption of preferred stock	(8,755,000)	—	(87)	—	(211,370)	—	(7,538)	—	(218,995)
Amortization of deferred compensation	—	—	—	—	—	3,606	—	—	3,606
Balance at December 31, 2001	9,567,700	68,713,384	96	687	2,340,779	(7,489)	(11,035)	(8,483)	2,314,555
Net income	—	—	—	—	—	—	173,618	—	173,618
Unrealized loss on cash flow hedges	—	—	—	—	—	—	—	(4,157)	(4,157)
Dividends declared to common and preferred stockholders	—	—	—	—	—	—	(209,996)	—	(209,996)
Issuance of common stock, net of withholdings	—	771,142	—	8	28,795	(4,463)	(508)	—	23,832
Repurchase of common stock, including repurchase costs	—	(1,281,600)	—	(13)	(38,281)	—	(11,467)	—	(49,761)
Issuance of preferred stock, net of issuance costs	592,000	—	6	—	14,387	—	—	—	14,393
Redemption of preferred stock	(2,892,000)	—	(29)	—	(72,012)	—	—	—	(72,041)
Amortization of deferred compensation	—	—	—	—	—	4,097	—	—	4,097
Balance at December 31, 2002	7,267,700	68,202,926	73	682	2,273,668	(7,855)	(59,388)	(12,640)	2,194,540
Net income	—	—	—	—	—	—	271,525	—	271,525
Unrealized gain on cash flow hedges	—	—	—	—	—	—	—	4,428	4,428
Dividends declared to common and preferred stockholders	—	—	—	—	—	—	(202,694)	—	(202,694)
Issuance of common stock, net of withholdings	—	3,833,600	—	38	162,674	(1,383)	(114)	—	161,215
Issuance of stock options	—	—	—	—	754	(754)	—	—	—
Repurchase of common stock, including repurchase costs	—	(1,099,000)	—	(11)	(32,841)	—	(7,025)	—	(39,877)
Issuance of preferred stock, net of issuance costs	3,336,611	—	33	—	81,704	—	—	—	81,737
Redemption of preferred stock	(6,604,311)	—	(66)	—	(163,378)	—	(280)	—	(163,724)
Amortization of deferred compensation	—	—	—	—	—	4,184	—	—	4,184
Balance at December 31, 2003	4,000,000	70,937,526	\$ 40	\$ 709	\$ 2,322,581	\$ (5,808)	\$ 2,024	\$ (8,212)	\$ 2,311,334

See accompanying notes to Consolidated Financial Statements.

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

	For the year ended		
	12-31-03	12-31-02	12-31-01
Cash flows from operating activities:			
Net income	\$ 271,525	\$ 173,618	\$ 248,997
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation expense	151,454	134,939	119,875
Depreciation expense from discontinued operations	2,342	9,538	10,204
Amortization of deferred financing costs and debt premium/discount	3,850	3,913	3,716
Amortization of deferred compensation	4,184	4,097	3,606
Income allocated to minority interest in consolidated partnerships including discontinued operations	1,388	1,713	1,755
Income allocated to venture partner interest in profit-sharing	1,688	857	(1,158)
Gain on sale of communities, net of impairment loss on planned dispositions	(160,990)	(42,093)	(62,852)
Gain on sale of joint venture community	(23,448)	—	—
Decrease (increase) in cash in operating escrows	(557)	(134)	41
Decrease (increase) in resident security deposits, accrued interest receivable on participating mortgage note, prepaid expenses and other assets	(7,025)	18,311	(8,581)
Increase (decrease) in accrued expenses, other liabilities and accrued interest payable	(4,596)	3,051	4,925
Net cash provided by operating activities	<u>239,815</u>	<u>307,810</u>	<u>320,528</u>
Cash flows from investing activities:			
Development/redevelopment of real estate assets including land acquisitions and deferred development costs	(357,520)	(426,830)	(353,351)
Acquisition of real estate assets	—	(106,300)	(129,300)
Capital expenditures – existing real estate assets	(11,593)	(10,930)	(9,649)
Capital expenditures – non-real estate assets	(274)	(1,142)	(4,183)
Proceeds from sale of communities and land, net of selling costs	403,118	78,454	238,545
Increase (decrease) in payables for construction	(331)	(9,353)	19,121
Decrease (increase) in cash in construction escrows	(1,040)	39,830	(33,273)
Decrease (increase) in investments in unconsolidated real estate entities	1,575	475	(2,851)
Net cash provided by (used in) investing activities	<u>33,935</u>	<u>(435,796)</u>	<u>(274,941)</u>
Cash flows from financing activities:			
Issuance of common stock	146,934	22,296	50,912
Repurchase of common stock	(39,877)	(49,761)	—
Issuance of preferred stock, net of related costs	81,737	14,393	—
Redemption of preferred stock and related costs	(163,724)	(72,041)	(218,995)
Dividends paid	(202,416)	(207,450)	(203,214)
Net borrowings under unsecured credit facility	22,130	28,970	—
Issuance of mortgage notes payable	38,829	—	75,110
Repayments of mortgage notes payable	(4,582)	(24,818)	(22,265)
Issuance (repayment) of unsecured notes	(150,000)	350,342	300,000
Payment of deferred financing costs	(1,477)	(4,026)	(8,808)
Redemption of units for cash by minority partners	(600)	(1,663)	(864)
Contributions from minority and profit-sharing partners	—	17,275	—
Distributions to DownREIT partnership unitholders	(2,152)	(2,477)	(1,588)
Distributions to joint venture and profit-sharing partners	(4,267)	(3,032)	(197)
Net cash provided by (used in) financing activities	<u>(279,465)</u>	<u>68,008</u>	<u>(29,909)</u>
Net increase (decrease) in cash and cash equivalents	(5,715)	(59,978)	15,678
Cash and cash equivalents, beginning of year	12,911	72,889	57,211
Cash and cash equivalents, end of year	<u>\$ 7,196</u>	<u>\$ 12,911</u>	<u>\$ 72,889</u>
Cash paid during year for interest, net of amount capitalized	<u>\$ 131,266</u>	<u>\$ 108,903</u>	<u>\$ 88,996</u>

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Supplemental disclosures of non-cash investing and financing activities (dollars in thousands):

During the year ended December 31, 2003:

- As described in Note 4, "Stockholders' Equity," 114,895 shares of common stock were issued in connection with stock grants of which 80% were restricted, 37,124 shares were withheld to satisfy employees' tax withholding and other liabilities and 12,102 shares were forfeited, for a net value of \$2,419.
- 328,731 units of limited partnership, valued at \$13,245, were presented for redemption to the DownREIT partnerships that issued such units and were acquired by the Company in exchange for an equal number of shares of the Company's common stock.
- The Company sold two communities that were subject to mortgage notes payable of \$39,665 in the aggregate, that were assumed by the buyers as part of the total sales price.
- \$260 of deferred stock units were converted into 6,989 shares of common stock.
- The Company recorded a reduction to other liabilities and a corresponding gain to other comprehensive income of \$4,428 to adjust the Company's Hedged Derivatives (as defined in Note 5, "Derivative Instruments and Hedging Activities") to their fair value.
- Common and preferred dividends declared but not paid totaled \$51,831.

During the year ended December 31, 2002:

- 144,718 shares of common stock were issued in connection with stock grants of which 80% were restricted, 34,876 shares were withheld to satisfy employees' tax withholding and other liabilities and 2,818 shares were forfeited, for a net value of \$5,999.
- The Company issued 102,756 units of limited partnership in DownREIT partnerships valued at \$5,000 in connection with the formation of a DownREIT partnership and the acquisition by that partnership of land.
- The Company assumed \$33,900 in variable rate, tax-exempt debt related to the acquisition of one community.
- \$140 of deferred stock units were converted into 3,410 shares of common stock.
- The Company recorded a liability and a corresponding charge to other comprehensive loss of \$4,157 to adjust the Company's Hedged Derivatives to their fair value.
- Common and preferred dividends declared but not paid totaled \$51,553.

During the year ended December 31, 2001:

- 186,877 shares of common stock were issued in connection with stock grants of which 80% were restricted, and 19,646 shares were forfeited, for a net value of \$8,219.
- The Company issued 619 units of limited partnership in DownREIT partnerships valued at \$30 as consideration for acquisitions of apartment communities that were acquired pursuant to the terms of a forward purchase contract agreed to in 1997 with an unaffiliated party. In addition, the Company issued 256,940 units of limited partnership in DownREIT partnerships valued at \$12,274 in connection with the formation of a DownREIT partnership and the acquisition by that partnership of land.
- 762 units of limited partnership, valued at \$36, were presented for redemption to the DownREIT partnerships that issued such units and were acquired by the Company in exchange for an equal number of shares of the Company's common stock.
- \$67 of deferred stock units were converted into 1,803 shares of common stock.
- The Company recorded a liability and a corresponding charge to other comprehensive loss of \$8,483 to adjust the Company's Hedged Derivatives to their fair value.
- Common and preferred dividends declared but not paid totaled \$49,007.

AVALONBAY COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share data)

1. Organization and Significant Accounting Policies

Organization

AvalonBay Communities, Inc. (the "Company," which term, unless the context otherwise requires, refers to AvalonBay Communities, Inc. together with its subsidiaries) is a Maryland corporation that has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended. The Company focuses on the ownership and operation of apartment communities in high barrier-to-entry markets of the United States. These markets are located in the Northeast, Mid-Atlantic, Midwest, Pacific Northwest, and Northern and Southern California regions of the country.

At December 31, 2003, the Company owned or held a direct or indirect ownership interest in 131 operating apartment communities containing 38,504 apartment homes in ten states and the District of Columbia, of which two communities containing 1,089 apartment homes were under reconstruction. In addition, the Company owned or held a direct or indirect ownership interest in eleven communities under construction that are expected to contain an aggregate of 3,493 apartment homes when completed. The Company also owned a direct or indirect ownership interest in rights to develop an additional 40 communities that, if developed in the manner expected, will contain an estimated 10,070 apartment homes.

Principles of Consolidation

The Company is the surviving corporation from the merger (the "Merger") of Bay Apartment Communities, Inc. ("Bay") and Avalon Properties, Inc. ("Avalon") on June 4, 1998, in which Avalon shareholders received 0.7683 of a share of common stock of the Company for each share owned of Avalon common stock. The Merger was accounted for under the purchase method of accounting, with the historical financial statements for Avalon presented prior to the Merger. At that time, Avalon ceased to legally exist, and Bay as the surviving legal entity adopted the historical financial statements of Avalon. Consequently, Bay's assets were recorded in the historical financial statements of Avalon at an amount equal to Bay's debt outstanding at that time plus the value of capital stock retained by the Bay stockholders, which approximates fair value. In connection with the Merger, the Company changed its name from Bay Apartment Communities, Inc. to AvalonBay Communities, Inc.

The Company accounts for joint venture partnerships and subsidiary partnerships structured as DownREITs in accordance with Statement of Position ("SOP") 78-9, "Accounting for Investments in Real Estate Ventures." Under SOP 78-9, the Company consolidates joint venture and DownREIT partnerships when the Company controls the major operating and financial policies of the partnership through majority ownership or in its capacity as general partner. The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly-owned partnerships and certain joint venture partnerships in addition to subsidiary partnerships structured as DownREITs. All significant intercompany balances and transactions have been eliminated in consolidation.

In each of the partnerships structured as DownREITs, either the Company or one of the Company's wholly-owned subsidiaries is the general partner, and there are one or more limited partners whose interest in the partnership is represented by units of limited partnership interest. For each DownREIT partnership, limited partners are entitled to receive an initial distribution before any distribution is made to the general partner. Although the partnership agreements for each of the DownREITs are different, generally the distributions per unit paid to the holders of units of limited partnership interests have approximated the Company's current common stock dividend per share. Each DownREIT partnership has been structured so that it is unlikely the limited partners will be entitled to a distribution greater than the initial distribution provided for in the partnership agreement. The holders of units of limited partnership interest have the right to present each unit of limited partnership interest for redemption for cash equal to the fair market value of a share of the Company's common stock on the date of redemption. In lieu of a cash redemption by the partnership of a limited partner's unit, the Company may elect to acquire any unit presented for redemption for one share of common stock or for such cash amount.

The Company accounts for investments in unconsolidated entities in accordance with SOP 78-9 and Accounting Principles Board (“APB”) Opinion No. 18, “The Equity Method of Accounting for Investments in Common Stock.” The Company uses the equity method to account for investments in which it owns greater than 20% of the equity value or has significant and disproportionate influence over that entity. Investments in which the Company owns 20% or less of the equity value and does not have significant and disproportionate influence are accounted for using the cost method. If there is an event or change in circumstance that indicates a loss in the value of an investment, the Company’s policy is to record the loss and reduce the value of the investment to its fair value. A loss in value would be indicated if the Company could not recover the carrying value of the investment or if the investee could not sustain an earnings capacity that would justify the carrying amount of the investment. The Company did not recognize an impairment loss on any of its investments in unconsolidated entities during the years ended December 31, 2003 or 2002. However, during the year ended December 31, 2001, the Company recorded an impairment loss of \$934 related to a technology investment in which the Company no longer owns an equity interest.

Revenue Recognition

Rental income related to leases is recognized on an accrual basis when due from residents in accordance with Securities and Exchange Commission (“SEC”) Staff Accounting Bulletin No. 104, “Revenue Recognition” and Statement of Financial Accounting Standards (“SFAS”) No.13, “Accounting for Leases.” In accordance with the Company’s standard lease terms, rental payments are generally due on a monthly basis. Any cash concessions given at the inception of the lease are amortized over the approximate life of the lease, which is generally one year.

Real Estate

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

The Company’s policy with respect to capital expenditures is generally to capitalize only non-recurring expenditures. Improvements and upgrades are capitalized only if the item exceeds \$15, extends the useful life of the asset and is not related to making an apartment home ready for the next resident. Purchases of personal property, such as computers and furniture, are capitalized only if the item is a new addition and exceeds \$2.5. The Company generally expenses purchases of personal property made for replacement purposes.

The capitalization of costs during the development of assets (including interest and related loan fees, property taxes and other direct and indirect costs) begins when active development commences and ends when the asset, or a portion of an asset, is delivered and is ready for its intended use, which is generally indicated by the issuance of a certificate of occupancy. Cost capitalization during redevelopment of apartment homes (including interest and related loan fees, property taxes and other direct and indirect costs) begins when an apartment home is taken out-of-service for redevelopment and ends when the apartment home redevelopment is completed and the apartment home is available for a new resident.

In accordance with SFAS No. 67, “Accounting for Costs and Initial Rental Operations of Real Estate Projects,” 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 availability of capital. 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, deeming future development no longer probable, any capitalized pre-development costs are written-off with a charge to expense.

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

Lease terms for apartment homes are generally one year or less. Rental income and operating costs incurred during the initial lease-up or post-redevelopment lease-up period are fully recognized as they accrue.

If there is an event or change in circumstance that indicates an impairment in the value of an operating community, the Company's policy is to assess any impairment in value by making a comparison of the current and projected operating cash flows of the community over its remaining useful life, on an undiscounted basis, to the carrying amount of the community. If the carrying amount is in excess of the estimated projected operating cash flows of the community, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value. The Company has not recognized an impairment loss in the years ended December 31, 2003, 2002 or 2001 on any of its operating communities. However, the Company recognized an impairment loss in 2002 related to two land parcels.

Income Taxes

The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, for the year ended December 31, 1994 and has not revoked such election. A corporate REIT is a legal entity which holds real estate interests and must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to stockholders. As a REIT, the Company generally will not be subject to corporate level federal income tax on taxable income it distributes currently to its stockholders. Management believes that all such conditions for the avoidance of income taxes have been met for the periods presented. Accordingly, no provision for federal and state income taxes has been made. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. In addition, taxable income from non-REIT activities managed through taxable REIT subsidiaries is subject to federal, state and local income taxes.

The following reconciles net income available to common stockholders to taxable net income for the years ended December 31, 2003, 2002 and 2001:

	2003 Estimate	2002 Actual	2001 Actual
Net income available to common stockholders	\$ 260,781	\$ 155,722	\$ 208,962
Dividends attributable to preferred stock, not deductible for tax	10,744	17,896	40,035
GAAP gain on sale of communities less than (in excess of) tax gain	(1,965)	5,164	(21,223)
Depreciation/Amortization timing differences on real estate	(4,272)	(4,461)	(4,899)
Tax compensation expense in excess of GAAP	(5,061)	(8,568)	(11,129)
Other adjustments	(5,752)	916	(124)
Taxable net income	<u>\$ 254,475</u>	<u>\$ 166,669</u>	<u>\$ 211,622</u>

The following summarizes the tax components of the Company's common and preferred dividends declared for the years ended December 31, 2003, 2002 and 2001:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
Ordinary income	11%	74%	80%
20% capital gain	15%	23%	14%
15% capital gain	56%	—	—
Unrecaptured §1250 gain	18%	3%	6%

Deferred Financing Costs

Deferred financing costs include fees and costs incurred to obtain debt financing and are amortized on a straight-line basis, which approximates the effective interest method, over the shorter of the term of the loan or the related credit enhancement facility, if applicable. Unamortized financing costs are written-off when debt is retired before the maturity date. Accumulated amortization of deferred financing costs was \$19,346 at December 31, 2003 and \$15,496 at December 31, 2002.

Cash, Cash Equivalents and Cash in Escrow

Cash and cash equivalents include all cash and liquid investments with an original maturity of three months or less from the date acquired. The majority of the Company's cash, cash equivalents and cash in escrows is held at major commercial banks.

Interest Rate Contracts

The Company utilizes derivative financial instruments to manage interest rate risk and has designated these financial instruments as hedges under the guidance of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and SFAS No. 138, "Accounting for Certain Instruments and Certain Hedging Activities, an Amendment of Statement No. 133." For fair value hedge transactions, changes in the fair value of the derivative instrument and changes in the fair value of the hedged item due to the risk being hedged are recognized in current period earnings. For cash flow hedge transactions, changes in the fair value of the derivative instrument are reported in other comprehensive income. For cash flow hedges where the changes in the fair value of the derivative exceed the change in fair value of the hedged item, the ineffective portion is recognized in current period earnings. Derivatives which are not part of a hedge relationship are recorded at fair value through earnings. As of December 31, 2003, the Company had approximately \$165,000 in variable rate, tax-exempt debt subject to cash flow hedges. See Note 5, "Derivative Instruments and Hedging Activities."

Comprehensive Income

Comprehensive income, which is defined as all changes in equity during each period except for those resulting from investments by or distributions to shareholders, is displayed in the accompanying Consolidated Statements of Stockholders' Equity. Accumulated other comprehensive loss reflects the changes in the fair value of effective cash flow hedges.

Earnings per Common Share

In accordance with the provisions of SFAS No. 128, "Earnings per Share," basic earnings per share is computed by dividing earnings available to common stockholders by the weighted average number of shares outstanding during the period. 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:

	For the year ended		
	12-31-03	12-31-02	12-31-01
Basic and diluted shares outstanding			
Weighted average common shares – basic	68,559,657	68,772,139	67,842,752
Weighted average DownREIT units outstanding	893,279	988,747	682,134
Effect of dilutive securities	750,531	913,325	1,256,833
Weighted average common shares – diluted	<u>70,203,467</u>	<u>70,674,211</u>	<u>69,781,719</u>
Calculation of Earnings per Share – basic			
Net income available to common stockholders	\$ 260,781	\$ 155,722	\$ 208,962
Weighted average common shares – basic	<u>68,559,657</u>	<u>68,772,139</u>	<u>67,842,752</u>
Earnings per common share–basic	<u>\$ 3.80</u>	<u>\$ 2.26</u>	<u>\$ 3.08</u>
Calculation of Earnings per Share – diluted			
Net income available to common stockholders	\$ 260,781	\$ 155,722	\$ 208,962
Add: Minority interest of DownREIT unitholders in consolidated partnerships, including discontinued operations	1,263	1,601	1,559
Adjusted net income available to common stockholders	<u>\$ 262,044</u>	<u>\$ 157,323</u>	<u>\$ 210,521</u>
Weighted average common shares – diluted	<u>70,203,467</u>	<u>70,674,211</u>	<u>69,781,719</u>
Earnings per common share – diluted	<u>\$ 3.73</u>	<u>\$ 2.23</u>	<u>\$ 3.02</u>

Certain options to purchase shares of common stock in the amounts of 1,348,738, 1,410,397 and 18,269 were outstanding during the years ended December 31, 2003, 2002 and 2001, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares for the period and therefore, are anti-dilutive.

Stock-Based Compensation

Prior to 2003, the Company applied the intrinsic value method as provided in APB Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations, in accounting for its employee stock options. No stock-based employee compensation cost related to employee stock options is reflected in net income for the years ended December 31, 2002 and 2001, as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Effective January 1, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," as amended by SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure – an amendment of FASB Statement No. 123," prospectively to all employee awards granted, modified, or settled on or after January 1, 2003. Awards under the Company's stock option plans vest over periods ranging from one to three years. Therefore, the cost related to stock-based employee compensation for employee stock options included in the determination of net income for the year ended December 31, 2003 is less than that which would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS No. 123.

The following table illustrates the effect on net income available to common stockholders and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each period based on the fair market value as determined on the date of grant:

	For the year ended		
	12-31-03	12-31-02	12-31-01
Net income available to common stockholders, as reported	\$ 260,781	\$ 155,722	\$ 208,962
Add: Actual compensation expense recorded under fair value based method, net of related tax effects	246	—	—
Deduct: Total compensation expense determined under fair value based method, net of related tax effects	(2,335)	(2,904)	(3,576)
Pro forma net income available to common stockholders	<u>\$ 258,692</u>	<u>\$ 152,818</u>	<u>\$ 205,386</u>
Earnings per share:			
Basic — as reported	\$ 3.80	\$ 2.26	\$ 3.08
Basic — pro forma	<u>\$ 3.77</u>	<u>\$ 2.22</u>	<u>\$ 3.03</u>
Diluted — as reported	\$ 3.73	\$ 2.23	\$ 3.02
Diluted — pro forma	<u>\$ 3.70</u>	<u>\$ 2.18</u>	<u>\$ 2.97</u>

Insured Loss

During 2000, a fire occurred at one of the Company's development communities, which was under construction and unoccupied at the time. The Company had property damage and insurance for lost rental income which covered this event. Insurance proceeds totaling \$30,300 were received, of which \$22,000 was disbursed to rebuild the community for property damage. Insurance proceeds for lost rental income of \$5,800 and \$2,500 are included in rental and other income in the accompanying Consolidated Statements of Operations and Other Comprehensive Income for the years ended December 31, 2002 and 2001, respectively.

Executive Separation Costs

In February 2001, the Company announced certain management changes including the departure of a senior executive who became entitled to severance benefits in accordance with the terms of his employment agreement with the Company. The Company recorded a charge of approximately \$2,500 in the first quarter of 2001 related to the costs associated with such departure.

In December 2001, a senior executive of the Company retired from his management position. Upon retirement, the Company recognized compensation expense of approximately \$784, relating to the accelerated vesting of restricted stock grants.

Recently Issued Accounting Standards

In April 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities," which clarifies the accounting and reporting for derivative instruments, including derivative instruments that are embedded in contracts. This statement is effective for contracts entered into or modified after June 30, 2003. The Company adopted this pronouncement on July 1, 2003. The adoption of this statement did not have a material impact on the Company's financial condition or results of operations.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for the classification and measurement of financial instruments that possess characteristics similar to both liability and equity instruments. SFAS No. 150 also addresses the classification of certain financial instruments that include an obligation to issue equity shares. This statement is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is

effective at the beginning of the first interim period beginning after June 15, 2003. The Company adopted this pronouncement as specified above. The adoption of this statement did not have a material impact on the Company's financial condition or results of operations.

In July 2003, the SEC clarified Emerging Issues Task Force Topic D-42, "The Effect on the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock." The clarification of Topic D-42 was effective in the first fiscal period ending after September 15, 2003 and was to be applied retroactively. As such, the Company has included in its results of operations for the year ended December 31, 2003 the initial offering costs as additional dividends attributable to preferred stock of \$280. In addition, the Company has revised its historical results of operations for the year ended December 31, 2001 to reflect the initial offering costs as additional dividends attributable to preferred stock of \$7,538, which reduced earnings per common share-diluted by \$0.10 from the amount previously reported. No revision was required during the year ended December 31, 2002.

In December 2003, the FASB issued the revised Interpretation No. ("FIN") 46R, "Consolidation of Variable Interest Entities," which changes the guidelines for consolidation of and disclosure related to unconsolidated entities, if those unconsolidated entities qualify as variable interest entities, as defined in FIN 46R. The Company has adopted the provisions of FIN 46R for variable interest entities created after January 31, 2003. However, the Company has deferred the adoption of FIN 46R for variable interest entities created on or before January 31, 2003 until March 31, 2004. Although the Company is still evaluating the impact of FIN 46R on entities created on or before January 31, 2003, the Company anticipates the consolidation of one entity from which the Company holds a participating mortgage loan. The Company does not expect the final adoption of FIN 46R, including the potential consolidation of this variable interest entity, to have a material impact on the Company's consolidated financial condition or results of operations taken as a whole.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles ("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.

Discontinued Operations

On January 1, 2002, the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which requires that the assets and liabilities and the results of operations of any communities which have been sold since January 1, 2002, or otherwise qualify as held for sale, be presented as discontinued operations in the Company's Consolidated Financial Statements in both current and prior periods presented. The community specific components of net income that are presented as discontinued operations include net operating income, depreciation expense, minority interest expense and interest expense. In addition, the net gain or loss (including any impairment loss) on the eventual disposal of communities held for sale will be presented as discontinued operations when recognized. A change in presentation for discontinued operations will not have any impact on the Company's financial condition or results of operations. Real estate assets held for sale are measured at the lower of the carrying amount or the fair value less the cost to sell, and are presented separately in the accompanying Consolidated Balance Sheets. Subsequent to classification of a community as held for sale, no further depreciation is recorded on the assets.

Reclassifications

Certain reclassifications have been made to amounts in prior years' financial statements to conform with current year presentations.

2. Interest Capitalized

Capitalized interest associated with communities under development or redevelopment totaled \$24,709, \$29,937 and \$27,635 for the years ended December 31, 2003, 2002 and 2001, respectively.

3. Notes Payable, Unsecured Notes and Credit Facility

The Company's mortgage notes payable, unsecured notes and variable rate unsecured credit facility as of December 31, 2003 and 2002 are summarized as follows:

	12-31-03	12-31-02
Fixed rate unsecured notes(1)	\$ 1,835,284	\$ 1,985,342
Fixed rate mortgage notes payable – conventional and tax-exempt	334,028	311,981
Variable rate mortgage notes payable – tax-exempt(2)	80,879	108,781
Total notes payable and unsecured notes	<u>2,250,191</u>	<u>2,406,104</u>
Variable rate secured short-term construction loan	36,526	36,089
Variable rate unsecured credit facility	51,100	28,970
Total mortgage notes payable, unsecured notes and unsecured credit facility	<u>\$ 2,337,817</u>	<u>\$ 2,471,163</u>

(1) Balances at December 31, 2003 and 2002 include \$284 and \$342, respectively, of debt premium received at issuance of unsecured notes.

(2) Balance at December 31, 2002 includes \$39,665 related to real estate assets sold in 2003.

During the year ended December 31, 2003, the Company issued \$17,404 in fixed rate, tax-exempt debt and \$20,680 in fixed rate, conventional debt related to two operating communities. In addition, the Company transferred \$12,360 in fixed rate, tax-exempt debt and \$27,305 in variable rate, tax-exempt debt in connection with the sale of two communities to the respective purchasers. In the aggregate, mortgage notes payable mature at various dates from May 2004 through April 2043 and are collateralized by certain apartment communities. As of December 31, 2003, the Company has guaranteed approximately \$145,500 of mortgage notes payable held by subsidiaries; all such mortgage notes payable are consolidated for financial reporting purposes. The weighted average interest rate of the Company's fixed rate mortgage notes payable (conventional and tax-exempt) was 6.7% at December 31, 2003 and 6.6% at December 31, 2002. The weighted average interest rate of the Company's variable rate mortgage notes payable and its unsecured credit facility (as discussed below), including the effect of certain financing related fees, was 3.5% at both December 31, 2003 and December 31, 2002. As of December 31, 2003, the Company had approximately \$165,000 of variable rate debt effectively fixed through Hedged Derivatives, as described in Note 5, "Derivative Instruments and Hedging Activities." The Hedged Derivatives on approximately \$87,380 of this variable rate, tax-exempt debt mature in 2004. The Company is currently negotiating the refinancing of this debt and, as part of the refinancing of the Company may elect to put new Hedged Derivatives in place.

During the year ended December 31, 2003, the Company repaid \$150,000 of previously issued unsecured notes, along with any unpaid interest, pursuant to their scheduled maturity, and no prepayment fees were incurred. The Company's unsecured notes contain a number of financial and other covenants with which the Company must comply, including, but not limited to, limits on the aggregate amount of total and secured indebtedness the Company may have on a consolidated basis and limits on the Company's required debt service payments.

Scheduled payments and maturities of mortgage notes payable and unsecured notes outstanding at December 31, 2003 are as follows:

Year	Secured notes payments	Secured notes maturities	Unsecured notes maturities	Interest rate of unsecured notes
2004	\$ 4,570	\$ 60,636	\$ 125,000	6.580%
2005	4,681	—	100,000 50,000	6.625% 6.500%
2006	5,011	—	150,000	6.800%
2007	5,365	35,980	110,000 150,000	6.875% 5.000%
2008	5,744	—	50,000 150,000	6.625% 8.250%
2009	6,151	10,400	150,000	7.500%
2010	5,771	29,388	200,000	7.500%
2011	6,176	—	300,000 50,000	6.625% 6.625%
2012	5,948	12,095	250,000	6.125%
Thereafter	157,326	96,191	—	
	<u>\$206,743</u>	<u>\$244,690</u>	<u>\$1,835,000</u>	

The Company has a \$500,000 revolving variable rate unsecured credit facility with J.P. Morgan Chase and Fleet National Bank serving as co-agents for a syndicate of commercial banks, which had \$51,100 outstanding and \$19,901 in letters of credit on December 31, 2003 and \$28,970 outstanding and \$79,999 in letters of credit on December 31, 2002. Under the terms of the unsecured credit facility, if the Company elects to increase the facility by up to an additional \$150,000, and one or more banks (from the syndicate or otherwise) voluntarily agree to provide the additional commitment, then the Company will be able to increase the facility up to \$650,000, and no member of the syndicate of banks can prohibit such increase; such an increase in the facility will only be effective to the extent banks (from the syndicate or otherwise) choose to commit to lend additional funds. The Company pays participating banks, in the aggregate, an annual facility fee of approximately \$750 in quarterly installments. The unsecured credit facility bears interest at varying levels based on the London Interbank Offered Rate (“LIBOR”), rating levels achieved on the Company’s unsecured notes and on a maturity schedule selected by the Company. The current stated pricing is LIBOR plus 0.60% per annum (1.72% on December 31, 2003). Pricing could vary if there is a change in rating by either of the two leading national rating agencies; a change in rating of one level would impact the unsecured credit facility pricing by 0.05% to 0.15%. In addition, the unsecured credit facility includes a competitive bid option, which allows banks that are part of the lender consortium to bid to make loans to the Company at a rate that is lower than the stated rate provided by the unsecured credit facility for up to \$400,000. The competitive bid option may result in lower pricing if market conditions allow. The Company had no outstanding balance under this competitive bid option at December 31, 2003. The Company is subject to (i) certain customary covenants under the unsecured credit facility, including, but not limited to, maintaining certain maximum leverage ratios, a minimum fixed charges coverage ratio and minimum unencumbered assets and equity levels and (ii) prohibitions on paying dividends in amounts that exceed 95% of the Company’s Funds from Operations, as defined therein, except as may be required to maintain the Company’s REIT status. The existing facility matures in May 2004, unless the Company exercises a one-year renewal option. The Company expects to renegotiate the facility prior to maturity without exercising the renewal option, however there can be no assurance that the renegotiation will occur.

4. Stockholders' Equity

As of both December 31, 2003 and 2002, the Company had authorized for issuance 140,000,000 and 50,000,000 shares of common and preferred stock, respectively. Dividends on the preferred stock are cumulative from the date of original issue and are payable quarterly in arrears on or before the 15th day of each month as stated in the table below. The preferred stock is not redeemable prior to the date stated in the table below, but on or after the stated date, may be redeemed for cash at the option of the Company in whole or in part at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends, if any.

In March 2003, the Company redeemed all 3,267,700 outstanding shares of its 8.00% Series D Cumulative Redeemable Preferred Stock at a price of \$25.00 per share, plus \$0.0167 in accrued and unpaid dividends, for an aggregate redemption price of \$81,747, including accrued dividends of \$54. The redemption price was funded by the sale of 3,336,611 shares of Series J Cumulative Redeemable Preferred Stock through a private placement to an institutional investor for a net purchase price of \$81,737. The dividend rate on such shares was initially equal to 2.78% per annum (three-month LIBOR plus 1.5%) of the liquidation preference. As permitted under the terms of such preferred stock, the Company redeemed all of the Series J Cumulative Redeemable Preferred Stock in May 2003, for an aggregate redemption price of \$82,207, including dividends of \$251.

As of December 31, 2003 the Company has the following series of redeemable preferred stock outstanding at a stated value of \$100,000. This series has no stated maturity and is not subject to any sinking fund or mandatory redemptions.

Series	Shares outstanding December 31, 2003	Payable quarterly	Annual rate	Liquidation preference	Non-redeemable prior to
H	4,000,000	March, June, September, December	8.70%	\$25.00	October 15, 2008

During the year ended December 31, 2003, the Company completed a common stock offering totaling 2,804,700 shares at a public offering price of \$46.00 per share. The net proceeds from this offering, after underwriting discounts and commissions, of approximately \$127,333 were used to repay a portion of amounts outstanding on the unsecured credit facility and for general corporate purposes.

In addition, during the year ended December 31, 2003, the Company (i) issued 620,107 shares of common stock in connection with stock options exercised, (ii) issued 328,731 shares of common stock in exchange for the redemption of an equal number of DownREIT limited partnership units, (iii) issued 14,393 shares of common stock to employees under the Employee Stock Purchase Plan, (iv) issued 114,895 common shares in connection with stock grants to employees of which 80% are restricted, (v) had forfeitures of 12,102 shares of restricted stock grants to employees and (vi) withheld 37,124 shares to satisfy employees' tax withholding and other liabilities.

In 2002 the Company's Board of Directors authorized a common stock repurchase program, under which the Company may acquire shares of its common stock in open market or negotiated transactions. The stock repurchase program was designed so that retained cash flow, as well as the proceeds from sales of existing apartment communities and a reduction in planned acquisitions, will provide the source of funding for the program, with the Company's unsecured credit facility providing temporary funding as needed. As of December 31, 2003, the Company had repurchased a total of 2,380,600 shares of common stock at an aggregate cost of \$89,566 through this program. The Company has not repurchased any shares of common stock since March 31, 2003.

Dividends per common share for the years ended December 31, 2003, 2002 and 2001 were \$2.80, \$2.80 and \$2.56 per share, respectively. In 2003, average dividends for preferred shares redeemed during the year were \$0.27 per share and average dividends for all non-redeemed preferred shares were \$2.18 per share. In 2002, average dividends for preferred shares redeemed during the period were \$0.92 per share and average dividends for all non-redeemed preferred shares were \$2.10 per share. In 2001, average dividends for preferred shares redeemed during the year were \$1.41 per share and average dividends for all non-redeemed preferred shares were \$2.10 per share.

5. Derivative Instruments and Hedging Activities

The Company has historically used interest rate swap and cap agreements (collectively, the “Hedged Derivatives”) to reduce the impact of interest rate fluctuations on its variable rate, tax-exempt bonds. The Company has not entered into any interest rate hedge agreements or treasury locks for its conventional unsecured debt and does not hold interest rate hedge agreements for trading or other speculative purposes. As of December 31, 2003, the Hedged Derivatives fix approximately \$157,500 of the Company’s tax-exempt debt at a weighted average interest rate of 6.1% and cap approximately \$7,000 at a weighted average interest rate of 6.0%. These Hedged Derivatives have maturity dates ranging from 2004 to 2010. In addition, one of the Company’s unconsolidated real estate investments (see Note 6, “Investments in Unconsolidated Entities”) has \$22,500 in variable rate debt outstanding as of December 31, 2003, which is subject to an interest rate swap. This debt is not recourse to or guaranteed by the Company. The Hedged Derivatives are accounted for in accordance with SFAS No. 133, which as amended, was adopted by the Company on January 1, 2001. SFAS No. 133 requires that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value, with changes in fair value recognized currently in earnings unless specific hedge accounting criteria are met.

The Company has determined that its Hedged Derivatives qualify as effective cash-flow hedges under SFAS No. 133, resulting in the Company recording all changes in the fair value of the Hedged Derivatives in other comprehensive income. Amounts recorded in other comprehensive income will be reclassified into earnings in the period in which earnings are affected by the hedged cash flows. At January 1, 2001, in accordance with the transition provisions of SFAS No. 133, the Company recorded a cumulative effect adjustment of \$6,412 to other comprehensive loss to recognize at fair value all of the derivatives that are designated as cash flow hedging instruments. To adjust the Hedged Derivatives to their fair value, the Company recorded an unrealized gain to other comprehensive income of \$4,428 in the year ended December 31, 2003 and unrealized losses of \$4,157 and \$2,599 in the years ended December 31, 2002 and 2001, respectively. In addition, a Hedged Derivative with a fair value of \$528 was transferred in connection with the sale of a community during the first quarter of 2001. The estimated amount, included in accumulated other comprehensive income as of December 31, 2003, expected to be reclassified into earnings within the next twelve months to offset the variability of cash flows during this period is not material.

The Company assesses, both at inception and on an on-going basis, the effectiveness of all hedges in offsetting cash flows of hedged items. Hedge ineffectiveness did not have a material impact on earnings and the Company does not anticipate that it will have a material effect in the future. The fair values of the obligations under the Hedged Derivatives are included in accrued expenses and other liabilities on the accompanying Consolidated Balance Sheets.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Company exposes itself to credit risk and market risk. The credit risk is the risk of a counterparty not performing under the terms of the Hedged Derivatives. The counterparties to these Hedged Derivatives are major financial institutions which have an A+ or better credit rating by the Standard & Poor’s Ratings Group. The Company monitors the credit ratings of counterparties and the amount of the Company’s debt subject to Hedged Derivatives with any one party. Therefore, the Company believes the likelihood of realizing material losses from counterparty non-performance is remote. Market risk is the adverse effect of the value of financial instruments that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by the establishment and monitoring of parameters that limit the types and degree of market risk that may be undertaken. These risks are managed by the Company’s Chief Financial Officer and Senior Vice President – Finance.

6. Investments in Unconsolidated Entities

Investments in Unconsolidated Real Estate Entities

As of December 31, 2003, the Company had investments in the following unconsolidated real estate entities, which are accounted for under the equity method of accounting, except as described below:

- *Town Run Associates* was formed as a general partnership in November 1994 to develop, own and operate Avalon Run, a 426 apartment-home community located in Lawrenceville, New Jersey. Since formation of this venture, the Company has invested \$1,803 and, following a preferred return on all contributed equity (which was achieved in 2003), has a 40% ownership and cash flow interest with a 49% residual economic interest. The Company is responsible for the day-to-day operations of the Avalon Run community and is the management agent subject to the terms of a management agreement. The development of Avalon Run was funded entirely through equity contributions from Avalon as well as the other venture partner, and therefore Avalon Run is not subject to any outstanding debt as of December 31, 2003.
- *Town Grove, LLC* was formed as a limited liability corporation in December 1997 to develop, own and operate Avalon Grove, a 402 apartment-home community located in Stamford, Connecticut. Since formation of this venture, the Company has invested \$14,653 and, following a preferred return on all contributed equity (which was achieved in 2003), has a 50% ownership and a 50% cash flow and residual economic interest. The Company is responsible for the day-to-day operations of the Avalon Grove community and is the management agent subject to the terms of a management agreement. The development of Avalon Grove was funded through contributions from the Company and the other venture partner, and therefore Avalon Grove is not subject to any outstanding debt as of December 31, 2003.
- *Avalon Terrace, LLC* – The Company acquired Avalon Bedford, a 388 apartment-home community located in Stamford, Connecticut in December 1998. In May 2000, the Company transferred Avalon Bedford to Avalon Terrace, LLC and subsequently admitted a joint venture partner, while retaining a 25% ownership interest in this limited liability company for an investment of \$5,394 and a right to 50% of cash flow distributions after achievement of a threshold return (which was not achieved in 2003). The Company is responsible for the day-to-day operations of the Avalon Bedford community and is the management agent subject to the terms of a management agreement. As of December 31, 2003, Avalon Bedford has \$22,500 in variable rate debt outstanding, which came due in November 2002, but was extended until November 2005. The interest rate on this debt is fixed through a Hedged Derivative as discussed in Note 5, “Derivative Instruments and Hedging Activities.”
- *Arna Valley View Limited Partnership* – In connection with the municipal approval process for the development of two consolidated communities, the Company agreed to participate in the formation of a limited partnership in February 1999 to develop, finance, own and operate Arna Valley View, a 101 apartment-home community located in Arlington, Virginia. This community has affordable rents for 100% of apartment homes related to the tax-exempt bond financing and tax credits used to finance construction of the community. A subsidiary of the Company is the general partner of the partnership with a 0.01% ownership interest. The Company is responsible for the day-to-day operations of the community and is the management agent subject to the terms of a management agreement. As of December 31, 2003, Arna Valley View has \$6,026 of variable rate, tax-exempt bonds outstanding, which mature in June 2032. In addition, Arna Valley View has \$4,583 of 4% fixed rate county bonds outstanding that mature in December 2030. Due to the Company’s limited ownership and investment in this venture, it is accounted for using the cost method.

In September 2003, Falkland Chase, a 450 apartment home community located in Silver Spring, MD, was sold by Falkland Partners, LLC, in which the Company has held a 50% membership interest since 1993. The Company’s share of the \$58,500 sales price for this community was \$29,250, resulting in net proceeds to the Company of

\$16,729. The Company's share of the GAAP gain reported by Falkland Partners, LLC is \$21,816 and is included in equity in income of unconsolidated entities on the Company's Consolidated Statements of Operations and Other Comprehensive Income. The Company recognized an additional gain in accordance with GAAP of \$1,632 in conjunction with the liquidation of the limited liability company's assets, which is also included in equity in income of unconsolidated entities on the Company's Consolidated Statements of Operations and Other Comprehensive Income. The combined summaries of financial position and operating results presented below have been revised to exclude the financial information of the Falkland Chase community.

The following is a combined summary of the financial position of the entities accounted for using the equity method, as of the dates presented:

	(Unaudited)	
	12-31-03	12-31-02
Assets:		
Real estate, net	\$ 119,339	\$ 122,577
Other assets	2,605	2,544
Total assets	<u>\$ 121,944</u>	<u>\$ 125,121</u>
Liabilities and partners' equity:		
Mortgage notes payable	\$ 22,500	\$ 22,500
Other liabilities	2,158	3,369
Partners' equity	97,286	99,252
Total liabilities and partners' equity	<u>\$ 121,944</u>	<u>\$ 125,121</u>

The following is a combined summary of the operating results of the entities accounted for using the equity method, for the periods presented:

	For the year ended (unaudited)		
	12-31-03	12-31-02	12-31-01
Rental income	\$ 20,939	\$ 21,863	\$ 23,030
Operating and other expenses	(8,038)	(7,396)	(6,926)
Interest expense, net	(1,688)	(1,783)	(1,740)
Depreciation expense	(3,986)	(3,847)	(3,218)
Net income	<u>\$ 7,227</u>	<u>\$ 8,837</u>	<u>\$ 11,146</u>

The Company also holds a 25% limited liability company membership interest in the limited liability company that owns Avalon on the Sound. The Company, which originally owned 100% of the limited liability company, sold a 75% controlling interest in the limited liability company to a third-party in 2000. As part of the sale, the Company retained an option to repurchase the 75% interest. The Company believes it is unlikely that the repurchase option will be exercised. This repurchase option will terminate in 2005. In accordance with SFAS No. 66, "Accounting for Sales of Real Estate," the sale of the 75% interest is not recognized due to the existence of the repurchase option, and therefore the Company accounts for Avalon on the Sound as a profit-sharing arrangement. As a result, the revenues and expenses, and assets and liabilities of Avalon on the Sound are included in the Company's Consolidated Financial Statements, with the 75% interest presented as part of accrued expenses and other liabilities on the Company's Consolidated Balance Sheets. A reclassification has been made in prior years to move the 75% interest from minority interest to accrued expenses and other liabilities on the Company's Consolidated Balance Sheets to conform with current year presentation. The income allocated to the controlling partner is shown as venture partner interest in profit-sharing on the Company's Consolidated Statements of Operations and Other Comprehensive Income. These reclassifications did not have any impact on total assets, net income or any other supplemental measure of operating performance.

Investments in Unconsolidated Non-Real Estate Entities

At December 31, 2003, the Company held minority interest investments in three non-real estate entities, all of which are technology companies. Based on ownership and control criteria, the Company accounts for one of these investments using the equity method, with the remaining non-real estate investments accounted for at cost. During the years ended December 31, 2003, 2002 and 2001, the Company recorded losses of \$115, \$3,166 and \$1,730, respectively, related to Realeum, Inc., the investment accounted for under the equity method, bringing the carrying value of the investment to zero as of both December 31, 2003 and 2002. The aggregate carrying value of the Company's investment in unconsolidated non-real estate entities was \$1,456 and \$1,855 as of December 31, 2003 and December 31, 2002, respectively.

The following is a summary of the Company's equity in income of unconsolidated entities for the years presented:

	For the year ended		
	12-31-03	12-31-02	12-31-01
Town Grove, LLC	\$ 1,158	\$ 1,391	\$ 1,977
Falkland Partners, LLC	24,255	1,058	924
Town Run Associates	214	481	606
Avalon Terrace, LLC	(21)	253	(3)
Realeum, Inc.	(115)	(3,166)	(1,730)
Other unconsolidated non-real estate entities	44	38	(918)
Total	\$ 25,535	\$ 55	\$ 856

7. Discontinued Operations – Real Estate Assets Sold or Held for Sale

During the year ended December 31, 2003, the Company sold eleven communities, five comprising the entire Minneapolis, Minnesota portfolio and six single asset sales, and one land parcel, resulting in a gain calculated in accordance with GAAP of \$160,990. Details regarding the community asset sales are summarized below:

Community Name	Location	Period of sale	Apartment homes	Debt	Gross sales price	Net proceeds
Avalon Westside Terrace	Los Angeles, CA	1Q03	363	\$ —	\$ 46,700	\$ 46,422
Avalon Huntington Beach	Huntington Beach, CA	2Q03	400	—	58,200	57,565
Avalon at Woodbury	Woodbury, MN	2Q03	224	—	25,100	24,868
Avalon at Town Centre	Eagan, MN	2Q03	248	—	21,625	21,473
Avalon at Edinburgh	Brooklyn Park, MN	2Q03	198	—	19,550	19,482
Avalon at Town Square	Plymouth, MN	2Q03	160	—	13,000	12,899
Avalon at Devonshire	Bloomington, MN	2Q03	498	27,305	47,950	20,136
Amberway	Anaheim, CA	3Q03	272	—	33,500	32,954
Avalon at Fair Lakes	Fairfax, VA	4Q03	234	—	48,500	48,310
Avalon Crest	Fort Lee, NJ	4Q03	351	—	84,000	82,231
Avalon at Dulles	Sterling, VA	4Q03	236	12,360	26,525	13,449
Total of all 2003 asset sales			3,184	\$39,665	\$424,650	\$379,789
Total of all 2002 asset sales			277	\$ —	\$ 80,100	\$ 78,454
Total of all 2001 asset sales			2,551	\$ 8,145	\$241,130	\$230,400

In addition, as of December 31, 2003, the Company had one community that qualified as held for sale under the provisions of SFAS No. 144. As required under SFAS No. 144, the operations for any communities sold from January 1, 2002 through December 31, 2003 and communities held for sale as of December 31, 2003 have been presented as discontinued operations in the accompanying Consolidated Financial Statements.

Accordingly, certain reclassifications have been made in prior years to reflect discontinued operations consistent with current year presentation. The following is a summary of income from discontinued operations for the years presented:

	For the year ended (unaudited)		
	12-31-03	12-31-02	12-31-01
Rental income	\$ 23,843	\$ 50,554	\$ 53,642
Operating and other expenses	(9,942)	(17,601)	(17,648)
Interest expense, net	(1,106)	(1,716)	(2,033)
Minority interest expense	(389)	(799)	(758)
Depreciation expense	(2,342)	(9,538)	(10,204)
Income from discontinued operations	<u>\$ 10,064</u>	<u>\$ 20,900</u>	<u>\$ 22,999</u>

The Company's Consolidated Balance Sheets include other assets (excluding net real estate) of \$684 and \$1,949, mortgage notes payable of \$0 and \$39,665 and other liabilities of \$546 and \$5,913 as of December 31, 2003 and 2002, respectively, relating to real estate assets sold or held for sale. The estimated proceeds less anticipated costs to sell the real estate assets held for sale as of December 31, 2003 are greater than the carrying values as of December 31, 2003, and therefore no provisions for possible losses were recorded.

The Company sold a land parcel in 2003, which was originally owned by the Company in connection with a development right in Oakland, California, for which net proceeds of approximately \$6,600 were received upon sale.

8. Commitments and Contingencies

Employment Agreements and Arrangements

As of December 31, 2003, the Company had employment agreements with five executive officers. The employment agreements provide for severance payments and generally provide for accelerated vesting of stock options and restricted stock in the event of a termination of employment (except for a termination by the Company with cause or a voluntary termination by the employee). The current term of these agreements ends on dates that vary between December 2004 and November 2006. The employment agreements provide for one-year automatic renewals (two years in the case of the Chief Executive Officer ("CEO")) after the initial term unless an advance notice of non-renewal is provided by either party. Upon a notice of non-renewal by the Company, each of the officers may terminate his employment and receive a severance payment. Upon a change in control, the agreements provide for an automatic extension of up to three years from the date of the change in control. The employment agreements provide for base salary and incentive compensation in the form of cash awards, stock options and stock grants subject to the discretion of, and attainment of performance goals established by, the Compensation Committee of the Board of Directors.

During the fourth quarter of 1999, the Company adopted an Officer Severance Program (the "Program") for the benefit of those officers of the Company who do not have employment agreements. Under the Program, in the event an officer who is not otherwise covered by a severance arrangement is terminated (other than for cause) within two years of a change in control (as defined) of the Company, such officer will generally receive a cash lump sum payment equal to the sum of such officer's base salary and cash bonus, as well as accelerated vesting of stock options and restricted stock.

Legal Contingencies

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are frequently covered by insurance. If it has been determined that a loss is probable to occur, the estimated amount of the loss is expensed in the financial statements. While the resolution of these matters cannot be predicted with certainty, management believes the final outcome of such matters will not have a material adverse effect on the financial position or results of operations of the Company.

Lease Obligations

The Company owns six apartment communities which are located on land subject to land leases expiring between July 2029 and March 2142. In addition, the Company leases certain office space. These leases are accounted for as operating leases in accordance with SFAS No. 13, "Accounting for Leases."

The following table details the future minimum lease payments under the Company's current operating leases:

Payments due by period					
2004	2005	2006	2007	2008	Thereafter
\$4,239	\$4,208	\$4,207	\$4,251	\$4,242	\$398,906

9. Segment Reporting

The Company's reportable operating segments include Established Communities, Other Stabilized Communities, and Development/Redevelopment Communities. Annually as of January 1st, the Company determines which of its communities fall into each of these categories and maintains that classification throughout the year for the purpose of reporting segment operations.

- *Established Communities* (also known as Same Store Communities) are communities where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year. For the year ended December 31, 2003, the Established Communities are communities that had stabilized occupancy and operating expenses as of January 1, 2002, are not conducting or planning to conduct substantial redevelopment activities and are not held for sale or planned for disposition 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* includes all other completed communities that have stabilized occupancy, as defined above. Other Stabilized Communities do not include communities that are conducting or planning to conduct substantial redevelopment activities within the current year.
- *Development/Redevelopment Communities* consists of communities that are under construction and have not received a final certificate of occupancy, communities where substantial redevelopment is in progress or is planned to begin during the current year and communities under lease-up, that had not reached stabilized occupancy, as defined above, as of January 1, 2003.

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

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing such segments' performance. The Company's chief operating decision maker is comprised of several members of its executive management team who use Net Operating Income ("NOI") as the primary financial measure for Established and Other Stabilized Communities. NOI is defined by the Company as total revenue less direct property operating expenses, including property taxes, and excludes corporate-level property management and other indirect operating expenses, interest income and expense, general and administrative expense, equity in income of unconsolidated entities, minority interest in consolidated partnerships, venture partner interest in profit-sharing, depreciation expense, impairment loss, gain on sale of communities and income from discontinued operations. Although the Company considers NOI a useful measure of a community's or communities' operating performance, NOI should not be considered an alternative to net income or net cash flow from operating activities, as determined in accordance with GAAP.

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. The segments are classified based on the individual community's status as of the beginning of the given calendar year. Therefore, each year the composition of communities within each business segment is adjusted. Accordingly, the amounts between years are not directly comparable. The accounting policies applicable to the operating segments described above are the same as those described in Note 1, "Organization and Significant Accounting Policies."

	Total revenue	NOI (1)	% NOI change from prior year	Gross real estate (2)
For the year ended December 31, 2003				
Established				
Northeast	\$ 151,902	\$ 100,016	(8.9%)	\$ 885,966
Mid-Atlantic	69,343	48,719	(4.2%)	388,674
Midwest	16,141	8,553	(16.7%)	140,631
Pacific Northwest	27,342	16,817	(11.4%)	297,653
Northern California	139,698	99,425	(10.5%)	1,344,010
Southern California	45,704	31,691	(1.0%)	325,541
Total Established	450,130	305,221	(8.3%)	3,382,475
Other Stabilized	81,962	54,889	n/a	750,822
Development/Redevelopment	76,362	44,142	n/a	1,144,413
Land Held for Future Development	n/a	n/a	n/a	81,358
Non-allocated (3)	1,197	1,197	n/a	20,418
Total	\$ 609,651	\$ 405,449	(0.4%)	\$ 5,379,486

For the year ended December 31, 2002				
Established				
Northeast	\$ 142,333	\$ 98,516	(7.8%)	\$ 784,877
Mid-Atlantic	70,489	50,862	(2.9%)	387,590
Midwest	17,082	10,269	(8.2%)	140,248
Pacific Northwest	10,567	6,551	(12.7%)	96,738
Northern California	150,422	110,334	(17.5%)	1,340,846
Southern California	42,386	30,399	2.6%	303,464
Total Established	433,279	306,931	(10.1%)	3,053,763
Other Stabilized	78,137	53,291	n/a	772,713
Development/Redevelopment	75,796	44,428	n/a	1,102,210
Land Held for Future Development	n/a	n/a	n/a	78,688
Non-allocated (3)	2,318	2,318	n/a	21,790
Total	\$ 589,530	\$ 406,968	(3.8%)	\$ 5,029,164

For the year ended December 31, 2001				
Established				
Northeast	\$ 112,808	\$ 81,364	7.8%	\$ 570,551
Mid-Atlantic	74,225	54,887	8.2%	402,683
Midwest	7,847	5,391	(2.2%)	60,299
Pacific Northwest	6,705	4,945	2.4%	60,426
Northern California	156,458	121,410	6.5%	1,216,489
Southern California	33,423	23,734	8.6%	236,239
Total Established	391,466	291,731	7.1%	2,546,687
Other Stabilized	131,382	92,451	n/a	877,417
Development/ Redevelopment	58,862	37,193	n/a	973,934
Land Held for Future Development	n/a	n/a	n/a	66,608
Non-allocated (3)	1,486	1,486	n/a	20,652
Total	\$ 583,196	\$ 422,861	12.0%	\$ 4,485,298

(1) Does not include corporate-level property management and other indirect operating expenses of \$31,167, \$30,551 and \$31,805 for the years ended December 31, 2003, 2002 and 2001, respectively.

(2) Does not include gross real estate from assets held for sale of \$52,271, \$340,290 and \$352,571 as of December 31, 2003, 2002 and 2001, respectively.

(3) Revenue and NOI amounts represent third-party management, accounting and developer fees which are not allocated to a reportable segment.

Segment information for the years ending December 31, 2003, 2002 and 2001 has been adjusted for the communities that were designated as held for sale as of December 31, 2003 or sold from January 1, 2002 through

December 31, 2003 as described in Note 7, “Discontinued Operations – Real Estate Assets Sold or Held for Sale.”

10. Stock-Based Compensation Plans

The Company has a stock incentive plan (the “1994 Plan”), which was amended and restated on March 31, 2001. Individuals who are eligible to participate in the 1994 Plan include officers, other associates, outside directors and other key persons of the Company and its subsidiaries who are responsible for or contribute to the management, growth or profitability of the Company and its subsidiaries. The 1994 Plan authorizes (i) the grant of stock options that qualify as incentive stock options under Section 422 of the Internal Revenue Code (“ISOs”), (ii) the grant of stock options that do not so qualify, (iii) grants of shares of restricted and unrestricted common stock, (iv) grants of deferred stock awards, (v) performance share awards entitling the recipient to acquire shares of common stock and (vi) dividend equivalent rights.

Shares of common stock of 2,358,393, 2,084,207 and 2,126,335 were available for future option or restricted stock grant awards under the 1994 Plan as of December 31, 2003, 2002 and 2001, respectively. On each January 1, the maximum number available for issuance under the 1994 Plan is increased by between 0.48% and 1.00% of the total number of shares of common stock and DownREIT units actually outstanding on such date. Notwithstanding the foregoing, the maximum number of shares of stock for which ISOs may be issued under the 1994 Plan shall not exceed 2,500,000 and no awards shall be granted under the 1994 Plan after May 11, 2011. Options and restricted stock granted under the 1994 Plan vest and expire over varying periods, as determined by the Compensation Committee of the Board of Directors.

Before the Merger, Avalon had adopted its 1995 Equity Incentive Plan (the “Avalon 1995 Incentive Plan”). Under the Avalon 1995 Incentive Plan, a maximum number of 3,315,054 shares (or 2,546,956 shares as adjusted for the Merger) of common stock were issuable, plus any shares of common stock represented by awards under Avalon’s 1993 Stock Option and Incentive Plan (the “Avalon 1993 Plan”) that were forfeited, canceled, reacquired by Avalon, satisfied without the issuance of common stock or otherwise terminated (other than by exercise). Options granted to officers, non-employee directors and associates under the Avalon 1995 Incentive Plan generally vested over a three-year term, expire ten years from the date of grant and are exercisable at the market price on the date of grant.

In connection with the Merger, the exercise prices and the number of options under the Avalon 1995 Incentive Plan and the Avalon 1993 Plan were adjusted to reflect the equivalent Bay shares and exercise prices based on the 0.7683 share conversion ratio used in the Merger. Officers, non-employee directors and associates with Avalon 1995 Incentive Plan or Avalon 1993 Plan options may exercise their adjusted number of options for the Company’s common stock at the adjusted exercise price. As of June 4, 1998, the date of the Merger, options and other awards ceased to be granted under the Avalon 1993 Plan or the Avalon 1995 Incentive Plan. Accordingly, there were no options to purchase shares of common stock available for grant under the Avalon 1995 Incentive Plan or the Avalon 1993 Plan at December 31, 2003, 2002 or 2001.

Information with respect to stock options granted under the 1994 Plan, the Avalon 1995 Incentive Plan and the Avalon 1993 Plan is as follows:

	1994 Plan shares	Weighted average exercise price per share	Avalon 1995 and Avalon 1993 Plan shares	Weighted average exercise price per share
Options Outstanding, December 31, 2000	2,425,957	\$ 32.96	1,484,345	\$ 35.94
Exercised	(367,652)	33.05	(487,312)	35.79
Granted	946,612	45.90	—	—
Forfeited	(111,639)	40.34	(4,836)	36.61
Options Outstanding, December 31, 2001	2,893,278	\$ 36.91	992,197	\$ 36.03
Exercised	(281,206)	31.65	(350,157)	37.39
Granted	719,198	45.63	—	—
Forfeited	(165,263)	42.72	(1,534)	39.86
Options Outstanding, December 31, 2002	3,166,007	\$ 39.05	640,506	\$ 35.27
Exercised	(454,843)	32.36	(165,264)	29.39
Granted	425,101	37.14	—	—
Forfeited	(157,000)	43.45	(1,280)	34.07
Options Outstanding, December 31, 2003	2,979,265	\$ 39.57	473,962	\$ 37.32
Options Exercisable:				
December 31, 2001	1,537,194	\$ 33.58	976,830	\$ 35.99
December 31, 2002	2,003,395	\$ 35.95	640,506	\$ 35.27
December 31, 2003	2,069,704	\$ 38.51	473,962	\$ 37.32

For options outstanding at December 31, 2003 under the 1994 Plan, 84,600 options had exercise prices ranging between \$18.37 and \$29.99 and a weighted average contractual life of 1.8 years, 1,481,427 options had exercise prices ranging between \$30.00 and \$39.99 and a weighted average contractual life of 6.0 years, and 1,413,238 options had exercise prices ranging between \$40.00 and \$49.90 and a weighted average contractual life of 7.6 years. Options outstanding at December 31, 2003 for the Avalon 1993 and Avalon 1995 Plans had exercise prices ranging from \$27.33 to \$39.70 and a weighted average contractual life of 3.8 years.

Effective January 1, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123 prospectively to all employee awards granted, modified, or settled on or after January 1, 2003. The effect on net income available to common stockholders and earnings per share if the fair value based method had been applied to all outstanding and unvested awards in each year based on the fair market value as determined on the date of grant is reflected in Note 1, "Organization and Significant Accounting Policies."

The weighted average fair value of the options granted during 2003 is estimated at \$1.94 per share on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 7.56%, volatility of 18.68%, risk-free interest rates of 3.31% and an expected life of approximately 7 years. The weighted average fair value of the options granted during 2002 is estimated at \$4.52 per share on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 6.15%, volatility of 18.90%, risk-free interest rates of 4.81% and an expected life of approximately 7 years. The weighted average fair value of the options granted during 2001 is estimated at \$4.83 per share on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 5.58%, volatility of 16.47%, risk-free interest rates of 5.07% and an expected life of approximately 7 years. The cost related to stock-based employee compensation for employee stock options included in the determination of net income is based on actual forfeitures for the given year.

In October 1996, the Company adopted the 1996 Non-Qualified Employee Stock Purchase Plan (as amended, the "ESPP"). Initially 1,000,000 shares of common stock were reserved for issuance under this plan. There are currently 687,949 shares remaining available for issuance under the plan. Full-time employees of the Company generally are eligible to participate in the ESPP if, as of the last day of the applicable election period, they have been employed by the Company for at least one month. All other employees of the Company are eligible to participate provided that as of the applicable election period they have been employed by the Company for twelve months. Under the ESPP, eligible employees are permitted to acquire shares of the Company's common stock through payroll deductions, subject to maximum purchase limitations. The purchase period is a period of seven months beginning each May 1 and ending each November 30. The purchase price for common stock purchased under the plan is 85% of the lesser of the fair market value of the Company's common stock on the first day of the applicable purchase period or the last day of the applicable purchase period. The offering dates, purchase dates and duration of purchase periods may be changed by the Board of Directors, if the change is announced prior to the beginning of the affected date or purchase period. The Company issued 14,393 shares, 29,345 shares and 14,917 shares under the ESPP for 2003, 2002 and 2001, respectively.

11. Fair Value of Financial Instruments

Cash and cash equivalent balances are held with various financial institutions and may at times exceed the applicable Federal Deposit Insurance Corporation limit. 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 from the excess of cash and cash equivalent balances over insurance limits is remote.

The following estimated fair values of financial instruments were determined by management using available market information and established valuation methodologies, including discounted cash flows. Accordingly, the estimates presented are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

- Cash equivalents, rents receivable, accounts payable and accrued expenses, and other liabilities are carried at their face amounts, which reasonably approximate their fair values.
- Bond indebtedness and notes payable with an aggregate carrying value of approximately \$2,286,000 and \$2,442,000 had an estimated aggregate fair value of \$2,556,000 and \$2,639,000 at December 31, 2003 and 2002, respectively.

12. Related Party Arrangements

Purchase of Mortgage Loan

The Company's Chairman and CEO is a partner of an entity that is the general partner of Arbor Commons Associates Limited Partnership ("Arbor Commons Associates"). Arbor Commons Associates owns Avalon Arbor, a 302 apartment home community in Shrewsbury, Massachusetts. Concurrently with its initial public offering in November 1993, Avalon Properties, Inc. ("Avalon"), a predecessor entity, purchased an existing participating mortgage loan made to Arbor Commons Associates that was originated by CIGNA Investments, Inc. The mortgage loan is secured by Arbor Commons Associates' interest in Avalon Arbor. This loan accrues interest at a fixed rate of 10.2% per annum, payable at 9.0% per annum. The balance of the note receivable at both December 31, 2003 and December 31, 2002 was \$21,483. The balance of accrued interest on the note receivable as of December 31, 2003 and December 31, 2002, respectively, was \$5,834 and \$4,965, and is included in other assets on the accompanying Consolidated Balance Sheets. Related interest income of \$3,168, \$3,091 and \$3,081 was recorded for the years ended December 31, 2003, 2002 and 2001, respectively. Under the terms of the loan, the Company (as successor to Avalon) receives (as contingent interest) 50% of the cash flow after the 10.2% accrual rate is paid and 50% of the residual profits upon the sale of the community.

Unconsolidated entities

The Company manages several unconsolidated real estate joint venture entities for which it receives management fee revenue. From these entities the Company received management fee revenue of \$851, \$1,019 and \$1,011 in the years ended December 31, 2003, 2002 and 2001 respectively.

Indebtedness of Management

The Company had a recourse loan program under which the Company lent amounts to or on behalf of employees (“Stock Loans”) equivalent to the estimated employees’ tax withholding liabilities related to the vesting of restricted stock under the 1994 Plan. In accordance with the Sarbanes-Oxley Act of 2002, no loans to senior officers were renewed after January 1, 2003 and all were repaid in full by March 31, 2003. The Company has phased out the Stock Loan program for all other participants, with all loans to be repaid by March 1, 2004. The principal balance outstanding under the Stock Loans was \$104 and \$1,133 as of December 31, 2003 and 2002, respectively. Each Stock Loan was made for a one-year term, is a full personal recourse obligation of the borrower and is secured by a pledge to the Company of the stock that vested and gave rise to the tax withholding liability for which the loan was made. In addition, dividends on the pledged stock are automatically remitted to the Company and applied toward repayment of the Stock Loan.

Consulting Agreement with Mr. Meyer

In March 2000, the Company and Gilbert M. Meyer announced that Mr. Meyer would retire as Executive Chairman of the Company in May 2000. Although Mr. Meyer ceased his day-to-day involvement with the Company as an executive officer, he continues to serve as a director. In addition, pursuant to a consulting agreement which terminated in May 2003, Mr. Meyer agreed to serve as a consultant to the Company for three years following his retirement for an annual fee of \$1,395. In such capacity he responded to requests for assistance or information concerning business matters with which he became familiar while employed and he provided business advice and counsel to the Company with respect to business strategies and acquisitions, dispositions, development and redevelopment of multifamily rental properties.

Director Compensation

The Company’s 1994 Plan provides that directors of the Company who are also employees receive no additional compensation for their services as a director. In accordance with the Company’s 1994 Plan, as then in effect, on the fifth business day following each of the Company’s May 2003 and May 2002 Annual Meetings of Stockholders, each of the Company’s non-employee directors automatically received options to purchase 7,000 shares of common stock at the last reported sale price of the common stock on the New York Stock Exchange (“NYSE”) on such date, and a restricted stock grant (or, in lieu thereof, a deferred stock award) of 2,500 shares of common stock. The Company recorded compensation expense relating to the restricted stock grants, deferred stock awards and stock options in the amount of \$824, \$743 and \$624 in the years ended December 31, 2003, 2002 and 2001, respectively. Deferred compensation relating to these restricted stock grants, deferred stock awards and stock options was \$722 and \$757 on December 31, 2003 and 2002, respectively. On May 14, 2003, the Company’s Board of Directors approved an amendment to the 1994 Plan pursuant to which, in lieu of the stock and option awards described above, each non-employee director would receive, following the 2004 Annual Meeting of Stockholders and each annual meeting thereafter, (i) a number of shares of restricted stock (or deferred stock awards) having a value of \$100 based on the last reported sale price of the common stock on the NYSE on the fifth business day following the prior year’s annual meeting and (ii) \$30 cash, payable in quarterly installments of \$7.5. A non-employee director may elect to receive all or a portion of such cash payment in the form of a deferred stock award.

Investment in Realeum, Inc.

As an employee incentive and retention mechanism, the Company arranged for officers of the Company to hold direct or indirect economic interests in Realeum, Inc. Realeum, Inc. is a company involved in the development and deployment of a property management and leasing automation system in which the Company invested \$2,300 in January 2002. The Company currently utilizes this property management and leasing automation system and has

paid \$471, \$480 and \$80 to Realeum, Inc. under the terms of its licensing arrangements during the years ended December 31, 2003, 2002 and 2001, respectively.

13. Quarterly Financial Information (Unaudited)

The following summary represents the quarterly results of operations for the years ended December 31, 2003 and 2002:

	For the three months ended			
	3-31-03	6-30-03	9-30-03	12-31-03
Total revenue	\$ 149,681	\$ 151,033	\$ 153,148	\$ 155,790
Net income available to common stockholders	\$ 33,700	\$ 73,762	\$ 55,212	\$ 98,108
Net income per common share – basic	\$ 0.50	\$ 1.10	\$ 0.80	\$ 1.39
Net income per common share – diluted	\$ 0.49	\$ 1.07	\$ 0.79	\$ 1.36

	For the three months ended			
	3-31-02	6-30-02	9-30-02	12-31-02
Total revenue	\$ 145,886	\$ 146,392	\$ 147,924	\$ 149,329
Net income available to common stockholders	\$ 35,690	\$ 32,315	\$ 24,685	\$ 63,033
Net income per common share – basic	\$ 0.52	\$ 0.47	\$ 0.36	\$ 0.92
Net income per common share – diluted	\$ 0.51	\$ 0.46	\$ 0.35	\$ 0.91

14. Subsequent Events

In January 2004, Arbor Commons Associates was unable to make its mortgage note payment, resulting in a default on the note receivable held by the Company as discussed in Note 12, "Related Party Arrangements." In February 2004, Arbor Commons Associates remedied this default by paying the outstanding payment. The Company believes that the carrying amount of its note receivable from Arbor Commons Associates is fully recoverable.

In February 2004, the Company repaid \$125,000 of previously issued unsecured notes, along with any unpaid interest, pursuant to their scheduled maturity. Also in February 2004, the Company repaid \$11,381 in fixed rate mortgage debt secured by a current community, along with any unpaid interest, prior to its scheduled maturity of August 2004. No prepayment penalties were incurred.

In February 2004, the Company entered into a joint venture agreement with an unrelated third-party for the development of Avalon Chrystie Place I, located in New York, NY. Avalon Chrystie Place I, when completed, is expected to contain 361 apartment homes for a total capital cost of approximately \$149,900. The construction of this community will be partially funded through the issuance of \$117,000 in variable rate, tax-exempt debt, \$58,500 of which closed in February 2004, with the remainder expected to close in the fourth quarter of 2004. The Company holds a 20% equity interest in this joint venture entity.

Also in February 2004, the Company had credit enhancements, including Hedged Derivatives in the form of interest rate swaps, on approximately \$87,380 of its variable rate, tax-exempt debt that expired according to the original terms and that have not been extended. However, the Company has replaced the credit enhancements on this debt, including Hedged Derivatives in the form of interest rate caps ranging from 6.7% to 9.0%. The underlying debt has a weighted average variable interest rate (exclusive of credit enhancement fees, facility fees, trustees' fees, etc.) of 0.9% as of February 27, 2004, which has been capped at a weighted average interest rate of 7.6% through Hedged Derivatives. The credit enhancements, including the Hedged Derivatives, mature in 2014.

As of February 27, 2004, one community previously held for operating purposes was classified as held for sale under SFAS No. 144. This community has a net real estate carrying value of \$29,973 and debt of \$18,755 as of December 31, 2003. The Company is actively pursuing the disposition of the community and expects to close during the second quarter of 2004.

AVALONBAY COMMUNITIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2003
(Dollars in thousands)

	Initial Cost			Total Cost			Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Encumbrances	Year of Completion / Acquisition
	Land	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land	Building / Construction in Progress & Improvements	Total				
Current Communities										
Avalon at Center Place	\$ —	\$ 26,816	\$ 945	\$ —	\$ 27,761	\$ 27,761	\$ 6,331	\$ 21,430	\$ —	1991/1997
Avalon at Faxon Park	1,136	14,019	167	1,136	14,186	15,322	2,979	12,343	—	1998
Avalon at Flanders Hill	3,572	33,070	—	3,572	33,070	36,642	1,518	35,124	—	2003
Avalon at Lexington	2,124	12,599	725	2,124	13,324	15,448	4,266	11,182	13,477	1994
Avalon at Newton Highlands	9,121	46,000	—	9,121	46,000	55,121	438	54,683	—	2003
Avalon at Prudential Center	25,811	103,233	25,621	25,811	128,854	154,665	21,350	133,315	—	1968/1998
Avalon Essex	5,230	15,483	906	5,230	16,389	21,619	2,223	19,396	—	2000
Avalon Estates	1,972	18,167	183	1,972	18,350	20,322	2,049	18,273	—	2001
Avalon Ledges	2,627	32,900	489	2,627	33,389	36,016	1,842	34,174	—	2002
Avalon Oaks	2,129	18,640	166	2,129	18,806	20,935	3,256	17,679	17,530	1999
Avalon Oaks West	3,303	13,316	180	3,303	13,496	16,799	944	15,855	17,336	2002
Avalon Orchards	2,975	17,860	175	2,975	18,035	21,010	1,157	19,853	20,574	2002
Avalon Summit	1,743	14,654	466	1,743	15,120	16,863	4,054	12,809	—	1986/1996
Avalon West	943	9,881	259	943	10,140	11,083	2,564	8,519	8,396	1996
Avalon at Greyrock Place	13,819	55,846	651	13,819	56,497	70,316	3,067	67,249	—	2002
Avalon Corners	6,305	24,179	1,326	6,305	25,505	31,810	3,871	27,939	—	2000
Avalon Gates	4,414	31,305	806	4,414	32,111	36,525	7,304	29,221	—	1997
Avalon Glen	5,956	23,993	1,491	5,956	25,484	31,440	8,412	23,028	—	1991
Avalon Haven	1,264	11,762	740	1,264	12,502	13,766	1,622	12,144	—	2000
Avalon Lake	3,314	13,139	597	3,314	13,736	17,050	2,271	14,779	—	1999
Avalon New Canaan	4,835	19,420	30	4,835	19,450	24,285	1,176	23,109	—	2002
Avalon on Stamford Harbor	10,836	51,620	9	10,836	51,629	62,465	2,592	59,873	—	2003
Avalon Springs	2,116	14,512	430	2,116	14,942	17,058	3,524	13,534	—	1996
Avalon Valley	2,277	22,424	1,358	2,277	23,782	26,059	3,937	22,122	—	1999
Avalon Walk I & II	9,102	48,796	1,305	9,102	50,101	59,203	16,051	43,152	11,437	1992/1994
Avalon Commons	4,679	28,552	91	4,679	28,643	33,322	6,494	26,828	—	1997
Avalon Court	9,228	48,920	1,193	9,228	50,113	59,341	8,736	50,605	—	1997/2000
Avalon Towers	3,118	12,709	1,480	3,118	14,189	17,307	4,022	13,285	—	1990/1995
Avalon at Edgewater	14,529	60,061	170	14,529	60,231	74,760	4,647	70,113	—	2002
Avalon at Florham Park	6,647	34,639	286	6,647	34,925	41,572	4,016	37,556	—	2001
Avalon Cove	8,760	82,356	1,131	8,760	83,487	92,247	19,669	72,578	—	1997
The Tower at Avalon Cove	3,738	45,755	256	3,738	46,011	49,749	7,348	42,401	—	1999
Avalon at Freehold	4,116	30,191	127	4,116	30,318	34,434	2,215	32,219	—	2002

AVALONBAY COMMUNITIES, INC.
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	Initial Cost			Total Cost			Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Encumbrances	Year of Completion / Acquisition
	Land	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land	Building / Construction in Progress & Improvements	Total				
Avalon Run East	1,579	14,669	46	1,579	14,715	16,294	3,783	12,511	—	1996
Avalon Watch	5,585	22,394	2,002	5,585	24,396	29,981	8,425	21,556	—	1988
Avalon Riverview I	4,724	89,669	—	4,724	89,669	94,393	4,413	89,980	—	2002
Avalon Gardens	8,428	45,706	340	8,428	46,046	54,474	9,686	44,788	—	1998
Avalon Green	1,820	10,525	289	1,820	10,814	12,634	3,216	9,418	—	1995
Avalon on the Sound	717	89,501	1,380	717	90,881	91,598	7,812	83,786	36,526	2001
Avalon View	3,529	14,140	825	3,529	14,965	18,494	5,021	13,473	17,345	1993
Avalon Willow	6,207	39,852	998	6,207	40,850	47,057	5,981	41,076	—	2000
The Avalon	2,889	28,273	65	2,889	28,338	31,227	4,449	26,778	—	1999
Avalon at Fairway Hills I & II	8,612	34,463	2,016	8,612	36,479	45,091	10,362	34,729	11,500	1987/1996
Avalon at Symphony Glen	1,594	6,384	1,241	1,594	7,625	9,219	2,785	6,434	9,780	1986
Avalon Landing	1,849	7,409	623	1,849	8,032	9,881	2,451	7,430	6,301	1984/1995
Autumn Woods	6,096	24,400	526	6,096	24,926	31,022	6,255	24,767	—	1989/1996
Avalon at Arlington Square	22,041	90,253	—	22,041	90,253	112,294	7,240	105,054	—	2001
Avalon at Ballston — Vermont & Quincy Towers	9,340	37,360	788	9,340	38,148	47,488	9,048	38,440	—	1990/1997
Avalon at Ballston — Washington Towers	7,291	29,177	995	7,291	30,172	37,463	9,953	27,510	—	1990
Avalon at Cameron Court	10,292	32,931	23	10,292	32,954	43,246	6,948	36,298	—	1998
Avalon at Decoverly	6,157	24,800	863	6,157	25,663	31,820	7,336	24,484	—	1991/1995
Avalon at Foxhall	6,848	27,614	8,811	6,848	36,425	43,273	9,039	34,234	—	1982
Avalon at Fox Mill	2,713	16,678	124	2,713	16,802	19,515	2,594	16,921	—	2000
Avalon at Gallery Place I	12,893	39,378	—	12,893	39,378	52,271	783	51,488	—	2003
Avalon at Providence Park	2,152	8,907	242	2,152	9,149	11,301	2,160	9,141	—	1988/1997
Avalon at Rock Spring	988	44,846	—	988	44,846	45,834	1,442	44,392	—	2003
Avalon Crescent	13,851	43,401	87	13,851	43,488	57,339	10,295	47,044	—	1996
Avalon Crossing	2,207	11,683	5	2,207	11,688	13,895	3,018	10,877	—	1996
Avalon Fields I & II	4,047	18,553	99	4,047	18,652	22,699	4,818	17,881	11,106	1998
Avalon Knoll	1,528	6,136	1,033	1,528	7,169	8,697	2,823	5,874	12,748	1985
200 Arlington Place	9,728	39,527	743	9,728	40,270	49,998	4,268	45,730	—	1987/2000
Avalon at Danada Farms	7,535	30,444	475	7,535	30,919	38,454	6,437	32,017	—	1997

AVALONBAY COMMUNITIES, INC.
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	Land	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land	Building / Construction in Progress & Improvements	Total				
Avalon at Stratford Green	4,326	17,569	97	4,326	17,666	21,992	3,679	18,313	—	1997
Avalon at West Grove	5,149	20,657	4,381	5,149	25,038	30,187	5,312	24,875	—	1967
Avalon at Bear Creek	6,786	27,035	640	6,786	27,675	34,461	5,402	29,059	—	1998
Avalon Bellevue	6,664	23,908	77	6,664	23,985	30,649	2,548	28,101	—	2001
Avalon Belltown	5,644	12,453	268	5,644	12,721	18,365	1,095	17,270	—	2001
Avalon Brandemoor	8,630	36,679	17	8,630	36,696	45,326	3,613	41,713	—	2001
Avalon Greenbriar	3,808	21,239	11,250	3,808	32,489	36,297	6,324	29,973	18,755	1987
Avalon HighGrove	7,569	32,035	22	7,569	32,057	39,626	3,544	36,082	—	2000
Avalon ParcSquare	3,789	15,093	252	3,789	15,345	19,134	1,936	17,198	—	2000
Avalon Redmond Place	4,558	17,504	4,002	4,558	21,506	26,064	4,760	21,304	—	1991/1997
Avalon RockMeadow	4,777	19,671	155	4,777	19,826	24,603	2,509	22,094	—	2000
Avalon WildReed	4,253	18,676	27	4,253	18,703	22,956	2,324	20,632	—	2000
Avalon WildWood	6,268	26,597	28	6,268	26,625	32,893	2,589	30,304	—	2001
Avalon Wylhaven	11,412	41,142	37	11,412	41,179	52,591	4,101	48,490	—	2001
Avalon at Union Square	4,249	16,820	1,012	4,249	17,832	22,081	3,513	18,568	—	1973/1996
Avalon at Willow Creek	6,581	26,583	1,386	6,581	27,969	34,550	5,542	29,008	—	1985/1994
Avalon Dublin	5,276	19,642	1,870	5,276	21,512	26,788	4,202	22,586	—	1989/1997
Avalon Fremont	15,016	60,681	1,942	15,016	62,623	77,639	12,409	65,230	—	1994
Avalon Pleasanton	11,610	46,552	2,602	11,610	49,154	60,764	9,897	50,867	—	1988/1994
Waterford	11,324	45,717	2,418	11,324	48,135	59,459	9,809	49,650	33,100	1985/1986
Avalon at Cedar Ridge	4,230	9,659	11,794	4,230	21,453	25,683	4,398	21,285	—	1972/1997
Avalon at Diamond Heights	4,726	19,130	780	4,726	19,910	24,636	3,933	20,703	—	1972/1994
Avalon at Mission Bay North	2,336	77,026	62	2,336	77,088	79,424	2,176	77,248	—	2003
Avalon at Nob Hill	5,403	21,567	598	5,403	22,165	27,568	4,301	23,267	19,149	1990/1995
Avalon Sunset Towers	3,561	21,321	3,500	3,561	24,821	28,382	5,343	23,039	—	1961/1996
Avalon Foster City	7,852	31,445	3,757	7,852	35,202	43,054	6,624	36,430	—	1973/1994
Avalon Pacifica	6,125	24,796	494	6,125	25,290	31,415	4,936	26,479	15,906	1971/1995
Avalon Towers by the Bay	9,155	57,630	137	9,155	57,767	66,922	8,607	58,315	—	1999
Crowne Ridge	5,982	16,885	8,720	5,982	25,605	31,587	5,027	26,560	—	1973/1996
Avalon at Blossom Hill	11,933	48,313	710	11,933	49,023	60,956	9,663	51,293	—	1995
Avalon at Cahill Park	4,760	47,354	238	4,760	47,592	52,352	2,445	49,907	—	2002
Avalon at Creekside	6,546	26,301	10,119	6,546	36,420	42,966	6,557	36,409	—	1962/1997

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	Land	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land	Building / Construction in Progress & Improvements	Total				
Avalon at Foxchase	11,340	45,532	2,423	11,340	47,955	59,295	9,534	49,761	26,400	1988/1987
Avalon at Parkside	7,406	29,823	693	7,406	30,516	37,922	5,957	31,965	—	1991/1996
Avalon at Pruneyard	3,414	15,469	12,996	3,414	28,465	31,879	5,684	26,195	12,870	1968/1997
Avalon at River Oaks	8,904	35,126	960	8,904	36,086	44,990	6,957	38,033	—	1990/1996
Avalon Campbell	11,830	47,828	377	11,830	48,205	60,035	9,371	50,664	35,065	1995
Avalon Cupertino	9,099	39,926	84	9,099	40,010	49,109	8,139	40,970	—	1999
Avalon Mountain View	9,755	39,393	1,549	9,755	40,942	50,697	8,030	42,667	18,300	1986
Avalon on the Alameda	6,119	50,164	149	6,119	50,313	56,432	8,628	47,804	—	1999
Avalon Rosewalk	15,814	62,028	419	15,814	62,447	78,261	11,644	66,617	—	1997/1999
Avalon Silicon Valley	20,713	99,304	1,123	20,713	100,427	121,140	19,392	101,748	—	1997
Avalon Sunnyvale	6,786	27,388	901	6,786	28,289	35,075	5,534	29,541	—	1987/1995
Avalon Towers on the Peninsula	9,560	56,021	111	9,560	56,132	65,692	3,635	62,057	—	2002
CountryBrook	9,384	34,794	4,051	9,384	38,845	48,229	7,595	40,634	17,628	1985/1996
Fairway Glen	3,341	13,338	614	3,341	13,952	17,293	2,770	14,523	9,580	1986
San Marino	6,607	26,673	916	6,607	27,589	34,196	5,435	28,761	—	1984/1988
Avalon at Media Center	22,483	28,104	25,232	22,483	53,336	75,819	9,223	66,596	—	1961/1997
Avalon at Warner Center	7,045	12,986	6,414	7,045	19,400	26,445	4,351	22,094	—	1979/1998
Avalon at Glendale	1,280	38,640	—	1,280	38,640	39,920	384	39,536	—	2003
Avalon Woodland Hills	23,828	40,372	7,662	23,828	48,034	71,862	10,630	61,232	—	1989/1997
The Promenade	14,052	56,820	131	14,052	56,951	71,003	3,020	67,983	33,185	1988/2002
Avalon Laguna Niguel	656	16,588	3,751	656	20,339	20,995	4,240	16,755	10,400	1988/1998
Avalon at Pacific Bay	4,871	19,745	7,331	4,871	27,076	31,947	5,228	26,719	—	1971/1997
Avalon at South Coast	4,709	16,063	4,065	4,709	20,128	24,837	4,119	20,718	—	1973/1996
Avalon Mission Viejo	2,517	9,257	1,524	2,517	10,781	13,298	2,168	11,130	7,039	1984/1996
Avalon Newport	1,975	3,814	4,324	1,975	8,138	10,113	1,639	8,474	—	1956/1996
Avalon Santa Margarita	4,607	16,911	2,437	4,607	19,348	23,955	3,872	20,083	—	1990/1997
Avalon at Cortez Hill	2,768	20,134	11,499	2,768	31,633	34,401	5,744	28,657	—	1973/1998
Avalon at Mission Bay	9,922	40,633	15,504	9,922	56,137	66,059	10,297	55,762	—	1968/1997
Avalon at Mission Ridge	2,710	10,924	8,041	2,710	18,965	21,675	3,862	17,813	—	1960/1997
Avalon at Penasquitos Hills	2,760	9,391	2,202	2,760	11,593	14,353	2,337	12,016	—	1982/1997
	\$811,532	\$ 3,876,759	\$ 269,273	\$811,532	\$ 4,146,032	\$4,957,564	\$ 677,323	\$ 4,280,241	\$ 451,433	

AVALONBAY COMMUNITIES, INC.
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December 31, 2003
(Dollars in thousands)

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	Land	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land	Building / Construction in Progress & Improvements	Total				
Development Communities										
Avalon at Crane Brook	—	26,029	—	—	26,029	26,029	—	26,029	—	N/A
Avalon at Glen Cove South	—	49,731	—	—	49,731	49,731	—	49,731	—	N/A
Avalon at Grosvenor Station	10,641	58,977	—	10,641	58,977	69,618	215	69,403	—	N/A
Avalon at Steven's Pond	7,959	45,213	—	7,959	45,213	53,172	383	52,789	—	N/A
Avalon at The Pinehills I	—	4,834	—	—	4,834	4,834	—	4,834	—	N/A
Avalon Darien	4,285	32,928	—	4,285	32,928	37,213	231	36,982	—	N/A
Avalon at Traville	3,902	42,153	—	3,902	42,153	46,055	122	45,933	—	N/A
Avalon Milford I	—	14,926	—	—	14,926	14,926	—	14,926	—	N/A
Avalon Run East II	—	19,014	—	—	19,014	19,014	—	19,014	—	N/A
Avalon Pines I	—	11,127	—	—	11,127	11,127	—	11,127	—	N/A
Avalon Chrystie Place I	—	25,194	—	—	25,194	25,194	—	25,194	—	N/A
	\$ 26,787	\$ 330,126	\$ —	\$ 26,787	\$ 330,126	\$ 356,913	\$ 951	\$ 355,962	\$ —	
Land held for development	81,358	—	—	81,358	—	81,358	—	81,358	—	
Corporate overhead	1,585	16,162	18,175	1,585	34,337	35,922	17,094	18,828	—	
	\$921,262	\$ 4,223,047	\$ 287,448	\$921,262	\$ 4,510,495	\$5,431,757	\$ 695,368	\$ 4,736,389	\$ 451,433	

AVALONBAY COMMUNITIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION

December 31, 2003
(Dollars in thousands)

Amounts include real estate assets held for sale.

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

Building - 30 years

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

The aggregate cost of total real estate for Federal income tax purposes was approximately \$5,432,000 at December 31, 2003.

The changes in total real estate assets for the years ended December 31, 2003, 2002 and 2001 are as follows:

	Years ended December 31,		
	2003	2002	2001
Balance, beginning of period	\$5,369,453	\$4,837,869	\$4,535,969
Acquisitions, construction costs and improvements	369,818	575,879	496,908
Dispositions, including impairment loss on planned dispositions	(307,514)	(44,295)	(195,008)
Balance, end of period	<u>\$5,431,757</u>	<u>\$5,369,453</u>	<u>\$4,837,869</u>

The changes in accumulated depreciation for the years ended December 31, 2003, 2002 and 2001, are as follows:

	Years ended December 31,		
	2003	2002	2001
Balance, beginning of period	\$584,022	\$447,026	\$336,010
Depreciation, including discontinued operations	153,796	144,477	126,984
Dispositions	(42,450)	(7,481)	(15,968)
Balance, end of period	<u>\$695,368</u>	<u>\$584,022</u>	<u>\$447,026</u>

AvalonBay Communities, Inc.

Medium-Term Notes

Due Nine Months Or More From Date Of Issue

Amended & Restated Distribution Agreement

August 6, 2003

Banc Of America Securities LLC

Citigroup Global Markets Inc.

Fleet Securities, Inc.

J.P. Morgan Securities Inc.

Lehman Brothers Inc.

Morgan Stanley & Co. Incorporated

Wachovia Capital Markets, llc.

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AVALONBAY COMMUNITIES INC.

MEDIUM-TERM NOTES

DUE NINE MONTHS OR MORE FROM DATE OF ISSUE

AMENDED AND RESTATED DISTRIBUTION AGREEMENT

August 6, 2003

Banc of America Securities LLC
100 No. Tryon Street, 7th Floor
Charlotte, NC 28255

Citigroup Global Markets Inc.
Medium-Term Note Department
388 Greenwich Street
New York, NY 10013

Fleet Securities, Inc.
100 Federal Street, MADE 10012H
Boston, MA 02110

J.P. Morgan Securities Inc.
270 Park Avenue, 7th Floor
New York, NY 10017
Attention: Transaction Execution Group

Lehman Brothers Inc.
745 Seventh Avenue
New York, NY 10019
Attention: Fixed Income Syndicate/Medium Term Note Desk

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, NY 10036

Wachovia Capital Markets, LLC
301 So. College Street, DC-8
One Wachovia Center
Charlotte, NC 28288

Ladies and Gentlemen:

AvalonBay Communities, Inc., a Maryland corporation (the "Company"), confirms its agreement with Banc of America Securities LLC, Citigroup Global Markets Inc., Fleet Securities, Inc., J.P. Morgan Securities Inc., Lehman Brothers Inc., Morgan Stanley & Co. Incorporated, and Wachovia Capital Markets, LLC, (each, an "Agent" and collectively, the

“Agents”), with respect to the issue and sale from time to time by the Company of its Medium-Term Notes Due Nine Months or More From Date of Issue (the “Notes”), as follows:

Capitalized terms used but not otherwise defined herein shall have the meanings given to those terms in the Prospectus (as defined herein).

1. Description of Notes. The Company proposes to issue the Notes under that certain Indenture, dated as of January 16, 1998 (the “Original Indenture”), as supplemented by that certain First Supplemental Indenture, dated as of January 20, 1998, that certain Second Supplemental Indenture, dated as of July 7, 1998, and that certain Amended and Restated Third Supplemental Indenture, dated as of July 10, 2000 (collectively and together with the Original Indenture and any additional indentures supplemental thereto entered into after the date hereof, the “Indenture”) between the Company and US Bank, National Association (as successor to State Street Bank and Trust Company), as trustee (the “Trustee”). As of the date of this agreement (this “Distribution Agreement”), the Company has authorized the issuance and sale of up to U.S. \$750,000,000 aggregate initial offering price (or its equivalent, based upon the applicable exchange rate at the time of issuance, in such foreign or composite currencies as the Company shall designate at the time of issuance) of Notes to or through the Agents pursuant to the terms of this Distribution Agreement, as such amount may be reduced by the aggregate initial offering price of any other debt securities issued by the Company, whether within or without the United States, pursuant to the registration statement referred to below. It is understood, however, that the Company may from time to time authorize the issuance of additional Notes and that such additional Notes may be sold to or through the Agents or through or to other agents pursuant to the terms of this Distribution Agreement, all as though the issuance of such Notes were authorized as of the date hereof.

This Distribution Agreement provides both for the sale of Notes by the Company to one or more Agents as principal for resale to investors and other purchasers and for the sale of Notes by the Company directly to investors (as may from time to time be agreed to by the Company and the applicable Agent), in which case the applicable Agent will act as an agent of the Company in soliciting offers for the purchase of Notes.

The Company has filed with the Securities and Exchange Commission (the “Commission”) a registration statement on Form S-3 (File No. 333-103755) for the registration of debt securities, including the Notes, under the Securities Act of 1933, as amended (the “Securities Act”), and the offering thereof from time to time in accordance with Rule 430A or Rule 415 of the rules and regulations of the Commission thereunder (the “Securities Act Rules and Regulations”). Such registration statement has been declared effective by the Commission. Such registration statement (and any further registration statements which may be filed by the Company for the purpose of registering additional Notes and in connection with which this Distribution Agreement is included or incorporated by reference as an exhibit) and the prospectus constituting a part thereof (including in each case the information, if any, deemed to be part thereof pursuant to Rule 430A(b) of the Securities Act Rules and Regulations), and any prospectus supplement and pricing supplement relating to the Notes, including all documents incorporated therein by reference, as from time to time amended or supplemented by the filing of documents pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or the Securities Act or otherwise, is referred to herein as the “Registration Statement.” A

prospectus supplement (the "Prospectus Supplement") setting forth the terms of the offer of the Notes contemplated by this Distribution Agreement, and additional information concerning the Company has been or will be prepared and will be filed by the Company pursuant to Rule 424(b) of the Securities Act Rules and Regulations, on or before the second business day after it is first used in connection with the offer and sale of Notes under this Distribution Agreement (or such earlier time as may be required by the Securities Act Rules and Regulations). The final form of prospectus included in the Registration Statement, as supplemented by the Prospectus Supplement (including any supplement to the Prospectus that sets forth the purchase price, interest rate or formula, maturity date and other terms of a particular issue of Notes and all documents incorporated therein by reference (each, a "Pricing Supplement")), is referred to herein as the "Prospectus," except that if any revised prospectus, whether or not such revised prospectus is required to be filed by the Company pursuant to Rule 424(b) of the Securities Act Rules and Regulations, shall be provided to the Agents by the Company for use in connection with the offer and sale of any of the Notes under this Distribution Agreement, the term "Prospectus" shall refer to such revised prospectus from and after the time such documents are first provided to the Agents for such use. If the Company elects to rely on Rule 434 promulgated pursuant to the Securities Act, all references to the Prospectus shall be deemed to include, without limitation, the form of prospectus and the term sheet, taken together, provided to the Agents by the Company in reliance on such Rule 434. Any registration statement (including any supplement thereto or information which is deemed part thereof) filed by the Company under Rule 462(b) of the Securities Act Rules and Regulations (a "Rule 462(b) Registration Statement") shall be deemed to be part of the Registration Statement. Any prospectus (including any amendment or supplement thereto or information which is deemed part thereof) included in the Rule 462(b) Registration Statement shall be deemed to be part of the Prospectus. For purposes of this Distribution Agreement, all references to the Registration Statement, the Prospectus, any preliminary prospectus or any amendment or supplement thereto shall be deemed to include any copy filed with the Commission pursuant to its Electronic Data Gathering Analysis and Retrieval System (EDGAR), and such copy shall be identical (except to the extent permitted by Regulation S-T) to any Prospectus delivered to any Agent for use in connection with the offering of the Notes by the Company.

2. Appointment as Agent.

(a) *Appointment.* Subject to the terms and conditions stated herein and subject to the reservation by the Company of the right to solicit, sell or accept offers for Notes directly on its own behalf, the Company hereby appoints the Agents as its exclusive agents (except as described below), for the purpose of soliciting and receiving offers to purchase Notes from the Company by others and, on the basis of the representations and warranties herein contained, but subject to the terms and conditions herein set forth, each Agent agrees to use reasonable efforts to solicit and receive offers to purchase Notes upon terms acceptable to the Company at such times and in such amounts as the Company shall from time to time specify. The Company agrees that Notes will be sold exclusively to or through the Agents except as otherwise described below. The Company may accept offers to purchase Notes through an agent other than an Agent (and, in connection therewith, may respond to inquiries and requests for information from any such agents), provided that (i) the Company and such agent shall have executed an agreement with respect to such purchases having terms and conditions (including, without limitation, commission rates) with respect to such purchases substantially the same as

the terms and conditions that would apply to such purchases under this Distribution Agreement if such agent were an Agent (which may be accomplished by incorporating by reference in such agreement the terms and conditions of this Distribution Agreement) and (ii) the Company shall provide the Agents with a copy of such agreement promptly following the execution thereof.

(b) *Sale of Notes.* The Company shall not sell or approve the solicitation of offers for the purchase of Notes in excess of the amount which shall be authorized by the Company from time to time or in excess of the aggregate initial offering price of Notes registered pursuant to the Registration Statement. The Agents shall have no responsibility for maintaining records with respect to the aggregate initial offering price of Notes sold, or of otherwise monitoring the availability of Notes for sale, under the Registration Statement.

(c) *Purchases as Principal.* The Agents shall not have any obligation to purchase Notes from the Company as principal, but one or more Agents may agree from time to time to purchase Notes as principal for resale to investors and other purchasers determined by such Agent or Agents. Any such purchase of Notes by an Agent or Agents as principal shall be made in accordance with Section 4(a) hereof.

(d) *Solicitations as Agent.* If agreed upon by an Agent and the Company, such Agent, acting solely as agent for the Company and not as principal, will solicit offers for the purchase of Notes. Such Agent will communicate to the Company, orally, each offer to purchase Notes solicited by it on an agency basis, other than those offers rejected by such Agent. Such Agent shall have the right, in its discretion reasonably exercised, to reject any proposed purchase of Notes, in whole or in part, and any such rejection shall not be deemed a breach of its agreement contained herein. The Company shall have the right to withdraw, cancel or modify any offer hereunder without notice and the sole right to accept offers to purchase the Notes and may reject any such offer in whole or in part and any such rejection shall not be deemed a breach of its agreements contained herein. Such Agent shall make reasonable efforts to assist the Company in obtaining performance by each purchaser whose offer to purchase Notes has been solicited by it and accepted by the Company. Such Agent shall not have any liability to the Company in the event that any such purchase is not consummated for any reason. If the Company shall default on its obligation to deliver Notes to a purchaser whose offer it has accepted, the Company shall (i) hold such Agent harmless against any loss, claim or damage arising from or as a result of such default by the Company and (ii) notwithstanding such default, pay to such Agent any commission to which it would otherwise be entitled.

(e) *Reliance.* The Company and the Agents agree that any Notes purchased by one or more Agents as principal shall be purchased, and any Notes the placement of which an Agent arranges as agent shall be placed by such Agent, in reliance on the representations, warranties, covenants and agreements of the Company contained herein and on the terms and conditions and in the manner provided herein.

3. Representations and Warranties of the Company. The Company represents and warrants to and agrees with each Agent as of the date hereof, as of the date of each acceptance by the Company of an offer for the purchase of Notes (whether to an Agent as principal or through an Agent as agent), as of the date of each delivery of Notes (whether to an Agent as principal or through an Agent as agent (each a "Delivery Date")) (the date of each such

delivery to an Agent as principal being hereafter referred to as a “Settlement Date”), and as of any time that the Registration Statement or the Prospectus shall be amended or supplemented (it being understood that such representations, warranties and agreements shall be deemed to relate to the Registration Statement and the Prospectus as amended or supplemented to each such time) as follows:

(a) *Effectiveness of Registration Statement; Filing of Prospectus.* The Company has filed with the Commission a registration statement on Form S-3 (File No. 333-103755) for the registration of debt securities, including the Notes, under the Securities Act, and the offering thereof from time to time in accordance with Rule 430A or Rule 415 of the Securities Act Rules and Regulations. Such registration statement has been declared effective by the Commission. The Prospectus Supplement setting forth the terms of the offer of the Notes contemplated by this Distribution Agreement, and additional information concerning the Company has been or will be prepared and will be filed by the Company pursuant to Rule 424(b) of the Securities Act Rules and Regulations, on or before the second business day after it is first used in connection with the offer and sale of Notes under this Distribution Agreement (or such earlier time as may be required by the Securities Act Rules and Regulations).

(b) *Compliance with Securities Act.* Each part of the Registration Statement, when such part became or becomes effective, and the Prospectus and any amendment or supplement to such Registration Statement or such Prospectus, on the date of filing thereof with the Commission and as of the date hereof, complied or will comply in all material respects with the requirements of the Securities Act and the Securities Act Rules and Regulations; the Indenture, on the date of filing thereof with the Commission and as of the date hereof complied or will comply in all material respects with the requirements of the Trust Indenture Act of 1939, as amended, and the rules and regulations of the Commission thereunder (the “TIA”); each part of the Registration Statement, when such part became or becomes effective did not or will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; the Prospectus and any amendment or supplement thereto, on the date of filing thereof with the Commission and as of the date hereof did not or will not include an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; except that the foregoing shall not apply to (i) that part of the Registration Statement which constitutes the Statement of Eligibility and Qualification under the TIA and (ii) statements in, or omissions from, any such document in reliance upon, and in conformity with, information concerning the Agents that was furnished to the Company by the Agents specifically for use in the preparation thereof. The Company acknowledges that the only information furnished to the Company by the Agents on or before the date hereof specifically for inclusion in the Registration Statement or the Prospectus is the information set forth in Schedule I hereto.

(c) *Incorporated Documents.* The documents incorporated by reference in the Registration Statement, the Prospectus and any amendment or supplement to such Registration Statement or such Prospectus, when they became or become effective under the Securities Act or were or are filed with the Commission under the Exchange Act, as the case may be, conformed or will conform in all material respects with the requirements of the Securities Act, the Securities

Act Rules and Regulations, the Exchange Act and the rules and regulations of the Commission thereunder (the “Exchange Act Rules and Regulations”), as applicable.

(d) *Organization, Power and Authority of Company.* The Company has been duly organized and is validly existing as a corporation in good standing under the laws of the State of Maryland with the power and authority to conduct all the activities conducted by it, to own or lease all the assets owned or leased by it and otherwise to conduct its business as described in the Registration Statement and Prospectus. The Company is duly licensed or qualified to do business and in good standing in each jurisdiction in which the nature of the activities conducted by it or the character of the assets owned or leased by it makes such licensing or qualification necessary except where the failure to be so qualified, considering all such cases in the aggregate, will not have a material adverse effect on the business, properties, business prospects, condition (financial or otherwise) or results of operations of the Company and its Subsidiaries (as hereinafter defined), taken as a whole.

(e) *Organization, Power and Authority and Capitalization of Subsidiaries.* As of the date of this Agreement, the only subsidiaries (as defined in the Securities Act Rules and Regulations) of the Company are the entities listed on Schedule II, attached hereto. Each of the Company’s subsidiaries is an entity duly organized or formed, as the case may be, and, in the case of each such subsidiary that is a corporation, limited partnership or limited liability company (each a “Subsidiary” and, collectively, the “Subsidiaries”) is validly existing and in good standing under the laws of its respective jurisdiction of organization or incorporation. Each of the Company’s subsidiaries has full power and authority to conduct all the activities conducted by it, to own or lease all the assets owned or leased by it and otherwise to conduct its business as described in the Registration Statement and the Prospectus. Each of the Subsidiaries is duly licensed or qualified to do business in good standing as a corporation, limited partnership or limited liability company, as the case may be, in all jurisdictions in which the nature of the activities conducted by it or the character of the assets owned or leased by it makes such licensing or qualification necessary except where the failure to be so qualified, considering all such cases in the aggregate, will not have a material adverse effect on the business, properties, business prospects, condition (financial or otherwise) or results of operations of the Company and its Subsidiaries, taken as a whole. Except for the stock or other interests in the subsidiaries and as disclosed in the Registration Statement, the Company does not own, directly or indirectly, any shares of stock or any other equity or long-term debt securities of any corporation or have any equity interest in any firm, partnership, joint venture, trust, association or other entity. Complete and correct copies of the charter of the Company, as amended through the date hereof (collectively, the “Charter”), and the bylaws of the Company, as amended through the date hereof (the “Bylaws”), and the charter documents of each of its subsidiaries and all amendments thereto have been delivered to counsel for the Agents. Except as otherwise described in the Registration Statement or the Prospectus, or as described in Schedule II, all of the issued and outstanding capital stock of each corporate Subsidiary of the Company has been duly authorized and will be, as of the Closing Date, validly issued, fully paid and non-assessable and owned by the Company.

(f) *Capital Stock Matters.* The outstanding securities of the Company, including the outstanding shares of common stock, \$0.01 par value (the “Common Stock”), and the outstanding shares of each series of preferred stock (the “Preferred Stock”) have been duly

authorized and are validly issued, fully paid and nonassessable by the Company and conform to the description thereof in the Prospectus. Except as set forth in the Registration Statement or the Prospectus, the Company does not have outstanding any option to purchase, or any rights or warrants to subscribe for, or any securities or obligations convertible into, or any contracts or commitments to issue or sell, any of its securities or any shares of capital stock of any subsidiary or any such warrants, convertible securities or obligations, except for shares of Common Stock to be issued to certain employees in connection with the deferment of income, shares of Common Stock issuable pursuant to awards granted or to be granted under the Company's 1994 Stock Incentive Plan, as amended and restated, shares of Common Stock issuable under the Company's 1996 Non-Qualified Employee Stock Purchase Plan, shares of Common Stock issuable under the Company's Dividend Reinvestment and Stock Purchase Plan and shares of Common Stock issuable upon redemption or conversion of units of limited partnership interests.

(g) *Financial Statements.* The financial statements and schedules included or incorporated by reference in the Registration Statement and the Prospectus set forth fairly the financial condition of the respective entity or entities presented as of the dates indicated and the results of operations and changes in financial position for the periods therein specified in conformity with generally accepted accounting principles consistently applied throughout the periods involved (except as otherwise stated therein and except to the extent that Avalon Properties, Inc. applied different principles than the Company prior to its merger with and into the Company and except, in the case of interim periods, for the notes thereto and normal year-end adjustment). The pro forma financial statements of the Company included in the Registration Statement and the Prospectus comply in all material respects with the applicable requirements of Rule 11-02 of Regulation S-X of the Commission and the pro forma adjustments have been properly applied to the historical amounts in the compilation of such statements. No other financial statements (or schedules) of the Company or any predecessor of the Company are required by the Securities Act or the Securities Act Rules and Regulations to be included in the Registration Statement or the Prospectus. Ernst & Young LLP (together with any other nationally recognized accounting firm that the Company may from time to time engage, the "Accountants"), who have reported on the financial statements and schedules which are audited, are independent accountants with respect to the Company as required by the Securities Act and the Securities Act Rules and Regulations. The statements included in the Registration Statement with respect to the Accountants pursuant to Rule 509 of Regulation S-K of the Securities Act Rules and Regulations are true and correct in all material respects.

(h) *Company's Internal Accounting System.* The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that: (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets and financial and corporate books and records is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(i) *Notes.* The Notes are as of the date hereof duly authorized by the Company for issuance and sale pursuant to this Distribution Agreement and the Indenture; and

when duly authenticated and delivered by the Trustee in accordance with the terms of the Indenture (assuming the due authorization, execution and delivery of the Indenture by the Trustee), against payment of the consideration therefor, the Notes will be valid and legally binding obligations of the Company entitled to the benefit of the Indenture and will be enforceable against the Company in accordance with their terms, subject, as to enforcement, to (i) applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors' rights and remedies generally, (ii) general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or law), (iii) the discretion of the court before which any proceeding therefor may be brought, (iv) requirements that a claim with respect to any Notes payable in a foreign or composite currency (or a foreign or composite currency judgment in respect of such claim) be converted into U.S. dollars at a rate of exchange prevailing on a date determined pursuant to applicable law and (v) governmental authority to limit, delay or prohibit the making of payments outside the United States (collectively, the "Enforceability Limitations") and authorization of the Notes did not, and the execution, delivery and performance of the Notes will not, constitute a breach or violation of, or a default under, or conflict with, or give any other party a right to terminate any of its obligations under, or result in the acceleration of any obligation under, or result in the creation or imposition of any lien, charge or encumbrance upon the Communities or any of the other assets of the Company or any of its subsidiaries pursuant to the terms or provisions of, the Charter or Bylaws of the Company, the articles or certificate of incorporation or bylaws or partnership agreement or operating agreement of any of the Company's subsidiaries or any Contract (as defined herein) or any judgment, ruling, decree, order, law, statute, rule or regulation of any court or other governmental agency or body applicable to the Communities or the business or properties of the Company or any of its subsidiaries, except as disclosed in the Prospectus or except for such instances as, individually or in the aggregate, do not involve a material risk to the business, properties, condition (financial or otherwise) or results of operations of the Company and its subsidiaries, taken as a whole; the Indenture has been duly qualified under the TIA and prior to the issuance of the Notes will be duly authorized, executed and delivered by the Company, and assuming due authorization, execution and delivery thereof by the Trustee, will constitute a valid and legally binding obligation of the Company, enforceable against the Company in accordance with its terms, except to the extent that enforcement thereof may be limited by the Enforceability Limitations; the Notes and the Indenture will conform in all material respects to the statements relating thereto contained in the Prospectus; and the Notes are, in all material respects, in the form contemplated by the Indenture. Upon payment of the purchase price and delivery of the Notes in accordance with this Distribution Agreement, each of the purchasers thereof will receive good, valid and marketable title to such Notes, free and clear of all liens, charges and encumbrances.

(j) *Distribution Agreement and Indenture.* The Company has the corporate power and authority to enter into this Distribution Agreement, the Indenture, the Notes and each Terms Agreement (as defined herein). This Distribution Agreement and the Indenture have been duly authorized, executed and delivered by the Company and constitute valid and binding agreements of the Company, enforceable against the Company in accordance with the terms hereof and thereof, except to the extent that enforcement thereof may be limited by the Enforceability Limitations. The execution, delivery and the performance of this Distribution Agreement, the Indenture and each Written Terms Agreement (as defined herein) and the entry into, and the performance of, each non-written Terms Agreement and the consummation of the transactions contemplated herein and therein did not and will not constitute a breach or violation

of, or a default under, or conflict with, or give any other party a right to terminate any of its obligations under, or result in the acceleration of any obligation under, or result in the creation or imposition of any lien, charge or encumbrance upon the Communities or any of the other assets of the Company or any of its subsidiaries pursuant to the terms or provisions of, the Charter or Bylaws of the Company, the articles or certificate of incorporation or bylaws or partnership agreement or operating agreement of any of the Company's subsidiaries or any material contract, lease or other instrument to which the Company or any of its subsidiaries is a party or by which any of their property may be bound or any judgment, ruling, decree, order, law, statute, rule or regulation of any court or other governmental agency or body applicable to the Communities or the business or properties of the Company or any of its subsidiaries, except as disclosed in the Prospectus or except for such instances as, individually or in the aggregate, do not involve a material risk to the business, properties, condition (financial or otherwise) or results of operations of the Company and its subsidiaries, taken as a whole.

(k) *Rating.* At the time of each Settlement Date, the Notes will be rated at least Baa1 by Moody's Investors Service, Inc. ("Moody's") and at least BBB+ by Standard & Poor's Ratings Service ("S&P" and, together with Moody's, the "Rating Agencies"), or such other rating as to which the Company shall have most recently notified the Agents pursuant to Section 5(b)(iv) hereof.

(l) *No Material Adverse Change.* Except as contemplated in the Prospectus, subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, the Company and its subsidiaries, taken as a whole, have not incurred any liabilities or obligations, direct or contingent, or entered into any transactions, not in the ordinary course of business, that are material to the Company and its subsidiaries taken as a whole, and there has not been any material change in the capital stock, short-term debt or long-term debt of the Company, or any material adverse change, or any development involving a prospective material adverse change, in the condition (financial or other), business, prospects, net worth or results of operations of the Company and its subsidiaries taken as a whole.

(m) *Company Not an Investment Company.* The Company is not an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended (the "1940 Act").

(n) *No Material Actions or Proceedings.* Except as set forth in the Registration Statement and the Prospectus, there is no pending or, to the knowledge of the Company, threatened any action, suit or proceeding against or affecting the Company or any of its subsidiaries or any of their respective directors, partners or officers in their capacity as such, or any of the Current Communities, the Development Communities or the Redevelopment Communities (each as defined in the Prospectus and collectively, the "Communities") before or by any Federal or state court, commission, regulatory body, administrative agency or other governmental body, domestic or foreign, wherein an unfavorable ruling, decision or finding might, individually or in the aggregate, have a material adverse effect on the business, properties, business prospects, condition (financial or otherwise) or results of operations of the Company and its subsidiaries, taken as a whole.

(o) *Filing and Enforceability of Contracts.* There are no contracts or documents of a character required to be described in the Prospectus or to be filed as exhibits to the Registration Statement by the Securities Act or the Securities Act Rules and Regulations that have not been so described or filed (the “Contracts”). All Contracts executed and delivered on or before the date hereof to which the Company or any subsidiary of the Company is a party have been duly authorized, executed and delivered by the Company or such subsidiary and, assuming due authorization, execution and delivery thereof by the other parties thereto, constitute valid and binding agreements of the other parties thereto, enforceable against such parties in accordance with the terms thereof, subject to the Enforceability Limitations.

(p) *Compliance With Law.* Each of the Company and its subsidiaries has complied in all material respects with all laws, regulations and orders applicable to it or their respective businesses and properties where the failure to comply would, individually or in the aggregate, have a material adverse effect on the business, properties, business prospects, condition (financial or otherwise) or results of operations of the Company and its subsidiaries, taken as a whole; neither the Company nor any of its subsidiaries is, and upon consummation of each sale of a Note, none of them will be, in default under any Contract, the violation of which would individually or in the aggregate have a material adverse effect on the Company and its subsidiaries taken as a whole, and no other party under any such Contract to which the Company or any of its subsidiaries is a party is, to the knowledge of the Company, in default in any material respect thereunder; the Company is not in violation of its Charter or Bylaws; except as disclosed in the Prospectus, the Company and each of its subsidiaries have or, upon each Delivery Date, will have all governmental licenses (including, without limitation, a California real estate brokerage license and a California general contractor’s license, if applicable), permits, consents, orders, approvals and other authorizations required to carry on its business as contemplated in the Prospectus, and none of them has received any notice of proceedings relating to the revocation or modification of any such governmental license, permit, consent, order, approval or other authorization which, individually or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the business, properties, business prospects, condition (financial or otherwise) or results of operations of the Company and its subsidiaries, taken as a whole.

(q) *No Further Consents Required.* No consent, approval, authorization or order of, or filing with, any court or governmental agency or body is required for the consummation of the transactions contemplated by this Distribution Agreement and the Indenture in connection with the issuance or sale of the Notes by the Company, except such as may be required under the Securities Act, the Exchange Act, the TIA or state securities or blue sky laws; and the Company has full power and authority to authorize, issue and sell the Notes as contemplated by this Distribution Agreement and the Indenture, free of any preemptive or similar rights.

(r) *Title to Properties.* The Company, or its subsidiaries, as applicable, has good and marketable title to the Communities, and the Communities are not subject to any liens or encumbrances except for monetary liens as set forth in the Prospectus or the Registration Statement, non-delinquent property taxes, utility easements and other immaterial non-monetary liens or encumbrances of record. All liens, charges, encumbrances, claims or restrictions on or affecting the Communities which are required to be disclosed in the Prospectus are disclosed

therein. Except as is disclosed in the Registration Statement or the Prospectus and except as would not, in the aggregate, have a material adverse effect on the business, properties, business prospects, condition (financial or otherwise) or results of operations of the Company and its subsidiaries, taken as a whole, (i) each of the Company and each of its subsidiaries has valid, subsisting and enforceable leases with its tenants for the properties described in the Prospectus as leased by it, (ii) no tenant under any of the leases pursuant to which the Company or any subsidiary leases its properties has an option or right of first refusal to purchase the premises demised under such lease, (iii) the use and occupancy of each of the properties of the Company and its subsidiaries complies in all material respects with all applicable codes and zoning laws and regulations, (iv) the Company has no knowledge of any pending or threatened condemnation or zoning change that will in any material respect affect the size of, use of, improvements of, construction on, or access to any of the properties of the Company or its subsidiaries, and (v) the Company has no knowledge of any pending or threatened proceeding or action that will in any manner affect the size of, use of, improvements on, construction on, or access to any of the properties of the Company or its subsidiaries.

(s) *Mortgages; Community Matters.* Except as disclosed in the Registration Statement, the mortgages and deeds of trust encumbering the Communities are not convertible nor will the Company or any of its subsidiaries hold a participating interest therein and such mortgages and deeds of trust are not cross-defaulted or cross-collateralized to any property not to be owned directly or indirectly by the Company. To the knowledge of the Company (i) the present use and occupancy of each of the Communities complies with all applicable codes and zoning laws and regulations, if any, except for such failures to comply which would not individually or in the aggregate have a material adverse effect on the condition, financial or otherwise, or on the earnings, business affairs or business prospects of the Company and its subsidiaries taken as a whole; and (ii) there is no pending or, to the Company's knowledge, threatened condemnation, zoning change, environmental or other proceeding or action that will in any material respect affect the size of, use of, improvements on, construction on, or access to the Communities, except for such proceedings or actions that would not individually or in the aggregate have a material adverse effect on the condition, financial or otherwise, or on the earnings, business affairs or business prospects of the Company and its subsidiaries taken as a whole.

(t) *Title Insurance.* Title insurance in favor of the mortgagee, the Company or its Subsidiaries is maintained with respect to each of the Communities, in an amount at least equal to the greater of (i) the cost of acquisition of such property and (ii) the cost of construction by the Company and its subsidiaries of the improvements located on such property (measured at the time of such construction), except, in each case, where the failure to maintain such title insurance would not have a material adverse effect on the condition, financial or otherwise, or the earnings, business affairs or business prospects of the Company and its subsidiaries taken as a whole.

(u) *Accuracy of Company's Statements.* No statement, representation, warranty or covenant made by the Company in this Distribution Agreement or made in any certificate or document required by this Distribution Agreement to be delivered to the Agents was or will be, when made, inaccurate, untrue or incorrect.

(v) *No Price Stabilization or Manipulation.* Except as stated in the Prospectus, neither the Company nor any of its directors, officers or controlling persons has taken, nor will it take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Notes to facilitate the sale or resale of the Notes.

(w) *No Labor Disputes.* No labor dispute with the employees of the Company or any subsidiary exists or, to the knowledge of the Company after due inquiry and investigation, is threatened, which, in either case, would have a material adverse effect on the business, properties, business prospects, condition (financial or otherwise) or results of operations of the Company and its subsidiaries, taken as a whole.

(x) *No Unlawful Contributions.* Neither the Company nor any of its subsidiaries nor, to the Company's knowledge, any employee or agent of the Company of any subsidiary has made any payment of funds of the Company or any subsidiary or received or retained any funds in violation of any law, rule or regulation or of a character required to be disclosed in the Prospectus which has not been so disclosed.

(y) *Compliance With Environmental Laws.* As of each Delivery Date the Company, and each of its subsidiaries (i) will be in compliance in all material respects with any and all applicable foreign, Federal, state and local laws and regulations relating to the protection of human health and safety, the Hazardous Materials (as defined below), or hazardous or toxic wastes, pollutants or contaminants (the "Environmental Laws"); (ii) will have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses; and (iii) will be in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals are otherwise disclosed in the Prospectus or would not, individually or in the aggregate, have a material adverse effect on the Company and its subsidiaries taken as a whole.

(z) *Hazardous Materials.*

(i) None of the Company or any partnership or other subsidiary that owns a Community (each a "Partnership") has at any time, and, to the best knowledge of the Company after due inquiry and investigation, no other party has, at any time, handled, buried, stored, retained, refined, transported, processed, manufactured, generated, produced, spilled, allowed to seep, leak, escape or leach, or be pumped, poured, emitted, emptied, discharged, released, injected, dumped, transferred or otherwise disposed of or dealt with, Hazardous Materials (as hereinafter defined) on, to, above under, in, into or from the Communities, except as disclosed in the environmental reports previously delivered to the Agents or referred to in the Prospectus, or such as would not individually or in the aggregate have a material adverse effect on the Company and its subsidiaries, taken as a whole. Neither the Company nor its subsidiaries intends to use the Communities or any subsequently acquired properties described in the Prospectus for the purpose of handling, burying, storing, retaining, refining, transporting, processing, manufacturing, generating, producing, spilling, seeping, leaking, escaping, leaching,

pumping, pouring, emitting, emptying, discharging, releasing, injecting, dumping, transferring or otherwise disposing of or dealing with Hazardous Materials, except for the use, storage and transportation of small quantities of substances that are regularly used as office supplies, household cleaning supplies, gardening supplies, or pool maintenance supplies in compliance with applicable Environmental Laws and in accordance with prudent business practices and good hazardous materials storage and handling practices.

(ii) None of the Company or the Partnerships, to the best knowledge of the Company after due inquiry and investigation, knows of any seepage, leak, escape, leach, discharge, injection, release, emission, spill, pumping, pouring, emptying or dumping of Hazardous Materials into waters on, under or adjacent to the Communities or onto lands from which such hazardous or toxic waste or substances might seep, flow or drain into such waters, except as disclosed in the environmental reports previously delivered to the Agents or referred to in the Prospectus or such as would not individually or in the aggregate have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(iii) None of the Company or the Partnerships to the best knowledge of the Company after due inquiry and investigation, has received notice of, or has knowledge of any occurrence or circumstance which, with notice or passage of time or both, would give rise to, any claim under or pursuant to any Environmental Law pertaining to Hazardous Materials, hazardous or toxic waste or substances on or originating from the Communities arising out of the conduct of any such party, including, without limitation, pursuant to any Environmental Law, except as disclosed in the environmental reports previously delivered to the Agents or referred to in the Prospectus or such as would not individually or in the aggregate have a material adverse effect on the Company and its subsidiaries, taken as a whole.

As used herein, "Hazardous Material" shall include, without limitation, any flammable materials or explosives, petroleum or petroleum-based products, radioactive materials, hazardous materials, hazardous wastes, hazardous or toxic substances, or related materials, asbestos or any material as defined by any Federal, state or local environmental law, ordinance, rule, or regulation including, without limitation, Environmental Laws, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. Section 9601, et seq.) ("CERCLA"), the Hazardous Materials Transportation Act, as amended (49 U.S.C. Section 1801, et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Section 9601, et seq.), and in the regulations adopted and publications promulgated pursuant to each of the foregoing or by any Federal, state or local governmental authority having or claiming jurisdiction over the Communities as described in the Prospectus.

(aa) *Periodic Review of Costs of Environmental Compliance.* In the ordinary course of its business, each of the Company and the Partnerships conducts a periodic review of the effect of Environmental Laws on its business, operations and properties in the course of which it identifies and evaluates associated costs and liabilities (including, without limitation, any capital or operating expenditures required for investigation, clean-up, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties). On the basis of such review

and on the basis of the reviews conducted by the Company in connection with the Communities, the Company has reasonably concluded that such associated costs and liabilities would not individually or in the aggregate, have a material adverse effect on the Company and its subsidiaries taken as a whole.

(bb) *Property and Casualty Insurance.* The Company and its subsidiaries maintain property and casualty insurance (other than earthquake insurance) in favor of the Company and its subsidiaries with respect to each of the Communities, in an amount and on such terms as is reasonable for businesses of the type proposed to be conducted by the Company and its subsidiaries. The Company maintains earthquake insurance on the Communities to the extent described in the Prospectus. Neither the Company nor any subsidiary has received from any insurance company notice of any material defects or deficiencies affecting the insurability of any of the Communities (other than with respect to seismic activities).

(cc) *REIT Status.* The Company has elected to be taxed as a REIT under the Code and will use its best efforts to continue to be organized and will continue to operate in a manner so as to qualify as a “real estate investment trust” (“REIT”) under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the “Code”), unless the Board of Directors determines that it is no longer in the best interest of the Company to continue to be so qualified.

(dd) *No Plan Assets.* Neither the assets of the Company nor its subsidiaries constitute, nor will such assets, as of the Closing Date, constitute, “plan assets” under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”).

(ee) *Distribution of Offering Materials.* The Company has not distributed and, prior to the later to occur of (i) the Closing Date and (ii) completion of the distribution of the Notes, will not distribute any offering material in connection with the offering and sale of the Notes other than the Registration Statement, the Prospectus or other materials, if any, permitted by the Securities Act.

(ff) *Form S-3 Eligibility.* The Company satisfies all conditions and requirements for the use of a Registration Statement on Form S-3 under the Securities Act and the Securities Act Rules and Regulations.

4. Purchases as Principal; Solicitations as Agent.

(a) *Purchases as Principal.* If so agreed by one or more of the Agents and the Company in each instance, Notes may be purchased by such Agent or Agents as principal. An Agent’s commitment to purchase Notes as principal shall be deemed to have been made on the basis of the representations and warranties of the Company herein contained and shall be subject to the terms and conditions herein set forth. In addition, in connection with each such sale, the Company and such Agent or Agents will enter into a supplemental agreement (a “Terms Agreement”) that will provide for the terms of the sale of such Notes to, and the purchase thereof by, such Agent or Agents (which terms, unless otherwise agreed, shall, to the extent applicable, include those terms specified in Exhibit A hereto). Each Terms Agreement shall take the form of either (i) an oral agreement between such Agent or Agents and the Company, with written

confirmation prepared by such Agent or Agents and mailed to the Company, or (ii) a written agreement between such Agent or Agents and the Company (a "Written Terms Agreement"). Unless the context otherwise requires, references herein to this "Distribution Agreement" shall include the applicable Terms Agreement of one or more Agents to purchase Notes from the Company as principal. Each purchase of Notes, unless otherwise agreed, shall be at a discount from the principal amount of each such Note equivalent to the applicable commission set forth in Schedule III hereto. The Agents may engage the services of any other broker or dealer in connection with the resale of the Notes purchased by them as principal and may allow any portion of the discount received in connection with such purchases from the Company to such brokers and dealers. At the time of each purchase of Notes by one or more Agents as principal, the Company and such Agent or Agents shall agree in the Terms Agreement whether any stand-off provision (as referred to in Section 5(r) hereof) or any officers' certificate, opinion of counsel or comfort letter (as referred to in Sections 8(b), 8(c) and 8(d) hereof) will be required. If the Company and two or more Agents enter into an agreement pursuant to which such Agents agree to purchase Notes from the Company as principal and one or more of such Agents shall fail at the Settlement Date to purchase the Notes which it or they are obligated to purchase (the "Defaulted Notes"), then the nondefaulting Agents shall have the right, within 24 hours thereafter, to make arrangements for one of them or one or more other Agents or underwriters to purchase all, but not less than all, of the Defaulted Notes in such amounts as may be agreed upon and upon the terms herein set forth; provided, however, that if such arrangements shall not have been completed within such 24-hour period, then:

(i) if the aggregate principal amount of Defaulted Notes does not exceed 10% of the aggregate principal amount of Notes to be so purchased by all of such Agents on the Settlement Date, the nondefaulting Agents shall be obligated, severally and not jointly, to purchase the full amount thereof in the proportions that their respective initial underwriting obligations bear to the underwriting obligations of all nondefaulting Agents; or

(ii) if the aggregate principal amount of Defaulted Notes exceeds 10% of the aggregate principal amount of Notes to be so purchased by all of such Agents on the Settlement Date, such agreement shall terminate without liability on the part of any nondefaulting Agent.

No action taken pursuant to this paragraph shall relieve any defaulting Agent from liability in respect of its default. In the event of any such default which does not result in a termination of such agreement, either the nondefaulting Agents or the Company shall have the right to postpone the Settlement Date for a period not exceeding seven days in order to effect any required changes in the Registration Statement or the Prospectus or in any other documents or arrangements.

Unless otherwise specified in a Terms Agreement, if an Agent or Agents are purchasing Notes as principal, it or they, as the case may be, may resell such Notes to other dealers. Any such sales may be at a discount, which shall not exceed the amount set forth in the Prospectus Supplement relating to such Notes.

(b) *Solicitations as Agent.* On the basis of the representations and warranties herein contained, but subject to the terms and conditions herein set forth, when agreed by the Company and an Agent, such Agent, as an agent of the Company, will use its reasonable efforts to solicit offers to purchase the Notes upon the terms and conditions set forth herein and in the Prospectus. The Agents are not authorized to appoint sub-agents with respect to Notes sold through them as agents. All Notes sold through an Agent as agent will be sold at 100% of their principal amount unless otherwise agreed to by the Company and such Agent.

The Company reserves the right, in its sole discretion, to suspend solicitation of offers for the purchase of Notes through an Agent, as agent, commencing at any time for any period of time or permanently. As soon as practicable, but not later than one business day, after receipt of instructions from the Company, such Agent will suspend solicitation of offers for the purchase of Notes from the Company until such time as the Company has advised such Agent that such solicitation may be resumed. During the period of time that such solicitation is suspended, the Company shall not be required to deliver, or cause to be delivered, any opinions, letters, or certificates in accordance with Section 8 hereof; provided that if the Registration Statement or Prospectus is amended or supplemented during the period of suspension (other than by an amendment or supplement providing solely for a change in the interest rates, redemption provisions, amortization schedules or maturities offered for the Notes or for a change that the Agents deem to be immaterial), no Agent shall be required to resume soliciting offers to purchase Notes until the Company have delivered, or cause to be delivered, such opinions, letters and certificates in accordance with Section 8 hereof or as such Agent may reasonably request.

Upon settlement, the Company agrees to pay to each Agent, as consideration for the sale of each Note resulting from a solicitation made or an offer to purchase received by such Agent, a commission, in the form of a discount from the purchase price of such Note equal to the applicable percentage of the principal amount of such Note as set forth in Schedule III hereto.

(c) *Administrative Procedures.* The purchase price, interest rate or formula, maturity date and other terms of the Notes (as applicable) specified in Exhibit A hereto shall be agreed upon by the Company and the applicable Agent or Agents and specified in a Pricing Supplement to the Prospectus to be prepared by the Company in connection with each sale of Notes. Except as otherwise specified in the applicable Pricing Supplement, the Notes will be issued in denominations of U.S. \$1,000 or any larger amount that is an integral multiple of U.S. \$1,000. Administrative procedures with respect to the issuance and sale of Notes shall be agreed upon from time to time by the Company, the Agents and the Trustee (the "Procedures"), and initially such Procedures shall be as set forth in Exhibit B hereto. The Agents and the Company agree to perform, and the Company agrees to cause the Trustee to agree to perform, their respective duties and obligations specifically provided to be performed by them in the Procedures.

(d) *Agents' Obligations Several and Not Joint.* The Company acknowledges that the obligations of the Agents under this Agreement are several and not joint.

5. Covenants of the Company. The Company covenants and agrees with the Agents as follows:

(a) *Amendments and Supplements.* During the period in which a prospectus relating to the Notes is required to be delivered under the Securities Act, the Company shall (i) notify the Agents promptly of the time when any subsequent amendment to the Registration Statement has become effective or any supplement to the Prospectus has been filed and of any request by the Commission for any amendment or supplement to the Registration Statement or Prospectus or for additional information, (ii) prepare and file with the Commission, promptly upon your request, any amendments or supplements to the Registration Statement or Prospectus that, in your opinion, may be necessary or advisable in connection with your distribution of the Notes, and (iii) file no amendment or supplement to the Registration Statement or Prospectus (other than any document required to be filed under the Exchange Act that upon filing is deemed to be incorporated by reference therein) to which the Agents or your counsel shall reasonably object by notice to the Company after having been furnished a copy a reasonable time prior to the filing.

(b) *Notification Upon Certain Events.* The Company shall advise you, promptly after it receives notice or otherwise learns, (i) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement, (ii) of the suspension of the qualification or registration of the Notes for offering or sale in any jurisdiction, (iii) of the initiation or threatening (in writing) of any proceeding for any such purpose or (iv) of any change in the rating assigned by the Rating Agencies or any other “nationally recognized statistical rating organization,” as such term is defined for purposes of Rule 436(g)(2) under the Securities Act, to any debt securities (including the Notes) of the Company, or the public announcement by any nationally recognized statistical rating organization that it has under surveillance or review, with possible negative implications, its rating of any such debt securities, or the withdrawal by any nationally recognized statistical rating organization of its rating of such debt securities; and the Company will promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such a stop order should be issued.

(c) *Compliance With Securities Laws.* The Company shall comply with all requirements imposed upon it by the Securities Act, the Securities Act Rules and Regulations, the Exchange Act, the Exchange Act Rules and Regulations and the TIA as from time to time in force, so far as is necessary to permit the continuance of sales of, or dealings in, the Notes as contemplated by the provisions hereof and the Prospectus. If during such period any event occurs as a result of which, in the opinion of counsel to the Agents, the Registration Statement contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading or the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances then existing, not misleading, or if during such period it is necessary to amend or supplement the Registration Statement or Prospectus to comply with the Securities Act, the Company will promptly notify the Agents and will amend or supplement the Registration Statement or Prospectus (at the expense of the Company) so as to correct such statement or omission or effect such compliance.

(d) *Copies of Offering Documents.* The Company shall furnish to the Agents copies of the Registration Statement, the Prospectus (including all documents incorporated by reference therein) and all amendments and supplements to the Registration Statement and the

Prospectus that are filed with the Commission during the period in which a prospectus relating to the Notes is required to be delivered under the Securities Act (including all documents filed with the Commission during such period that are deemed to be incorporated by reference therein), in each case as soon as available and in such quantities as the Agents may from time to time reasonably request.

(e) *Copies of Securities Filings and Distributions.* The Company shall furnish the Agents with copies of filings of the Company under the Securities Act and Exchange Act and with all other financial statements and reports it distributes generally to the holders of any class of its capital stock during the period of five years commencing on the date upon which the Prospectus Supplement is filed pursuant to Rule 424(b) of the Securities Act Rules and Regulations.

(f) *Earnings Statements.* The Company shall make generally available to its security holders and to the Agents as soon as practicable after each sale of Notes, earning statements (which need not be audited) that satisfy the provisions of Section 11(a) of the Securities Act and the Securities Act Rules and Regulations (including, without limitation, Rule 158 of the Securities Act Rules and Regulations) with respect to each sale of Notes.

(g) *Payment of Expenses.* The Company shall pay, or reimburse if paid by you, whether or not the transactions contemplated by this Distribution Agreement are consummated or this Distribution Agreement is terminated, all costs and expenses incident to the performance of the obligations of the Company under this Distribution Agreement, including but not limited to costs and expenses of or relating to (i) the preparation, printing and filing of the Registration Statement and exhibits thereto, the Prospectus and any amendment or supplement to the Registration Statement or the Prospectus, (ii) the word processing and reproduction of the Indenture and the Notes and the delivery of the Notes, (iii) the costs incurred by the Company in furnishing (including costs of shipping, mailing and courier) such copies of the Registration Statement, the Prospectus and all amendments and supplements thereto, as may be requested for use in connection with the offering and sale of the Notes by the Agents or by dealers to whom Notes may be sold, (iv) the filing fees and the fees and expenses of counsel to the Agents in connection with any filings required to be made with the National Association of Securities Dealers or its subsidiary NASD Regulation Inc., (v) any registration or qualification of the Notes for offer and sale under the securities or blue sky laws of such jurisdictions designated by you, including the reasonable fees, disbursements and other charges of your counsel in connection therewith, and the preparation of any blue sky or legal investment memoranda, (vi) the fees charged by each of the Rating Agencies for the rating of the Notes at the request of the Company, (vii) counsel (including local and special counsel) to the Company and any surveyors, engineers, appraisers, photographers, accountants and other professionals engaged by the Company, (viii) the transfer agent for the Notes, (ix) the costs and expenses of the Trustee under the Indenture, (x) Ernst & Young LLP or such other nationally-recognized accountants as may be engaged by the Company in connection with the offering of the Notes (the "Accountants") and (xi) the reasonable fees and disbursements of counsel to the Agents incurred in connection with the establishment of the program relating to the Notes and incurred from time to time in connection with the transactions contemplated hereby.

(h) *Blue Sky Qualification.* The Company shall qualify the notes for offering and sale under the applicable securities laws and real estate syndication laws of such states and other jurisdictions of the United States or Canada as the Agents may designate, and will maintain such qualifications in effect for as long as may be required for the distribution of the Notes; *provided, however,* that the Company shall not be obligated to file any general consent to service of process or to qualify as a foreign corporation in any jurisdiction in which it is not so qualified. The Company will file such statements and reports as may be required by the laws of each jurisdiction in which the Notes have been qualified as above provided. The Company will promptly advise the Agents of the receipt by the Company of any notification with respect to the suspension of the qualification of the Notes for sale in any such state or jurisdiction or the initiating or threatening of any proceeding for such purpose.

(i) *No Price Stabilization or Manipulation.* The Company shall not take, at any time, directly or indirectly, other than in connection with this Distribution Agreement, any action designed to stabilize, or which might reasonably be expected to cause or result in, or which has constituted or which might reasonably be expected to constitute the stabilization of, the price of the Notes.

(j) *Rating Agency Matters.* The Company shall take all reasonable action necessary to enable the Rating Agencies to provide their respective credit ratings of the Notes.

(k) *Establishing Terms of Notes.* The Company shall execute and deliver a Supplemental Indenture or officer's certificate, as applicable, designating the Notes as the debt securities to be offered, and establishing the applicable terms and provisions of each Note in accordance with the provisions of the Indenture and any applicable Terms Agreement.

(l) *Use of Proceeds.* The Company shall apply the net proceeds to the Company from the sale of the Notes by the Company as set forth under the caption "Use of Proceeds" in the Prospectus.

(m) *Preparation of Pricing Supplements.* The Company shall prepare, with respect to any Notes to be sold to or through an Agent or Agents pursuant to this Distribution Agreement, a Pricing Supplement with respect to such Notes in a form previously approved by such Agent or Agents. The Company will deliver such Pricing Supplement no later than 11:00 a.m., New York City time, on the business day following the date of the Company's acceptance of the offer for the purchase of such Notes and will file such Pricing Supplement pursuant to Rule 424(b)(3) under the Securities Act not later than the close of business of the Commission on the fifth business day after the date on which such Pricing Supplement is first used.

(n) *Unaudited Financial Information.* The Company shall furnish to the Agents, within two business days following the date on which such information is first released to the general public, interim financial statement information related to the Company with respect to each of the first three quarters of any fiscal year and preliminary financial statement information with respect to any fiscal year; and the Company shall cause the Prospectus to be amended or supplemented to include or incorporate by reference financial information with respect thereto and corresponding information for the comparable period of the preceding fiscal year, as well as such other information and explanations as shall be necessary for an

understanding thereof and as shall be required by the Securities Act or the Securities Act Rules and Regulations.

(o) *Audited Financial Information.* The Company shall furnish to the Agents, within two business days following the date on which such information is first released to the general public, financial information included in or derived from the audited financial statements of the Company for the preceding fiscal year; and the Company shall cause the Registration Statement and the Prospectus to be amended, whether by the filing of documents pursuant to the Exchange Act or the Securities Act or otherwise, to include or incorporate by reference such audited financial statements and the report or reports, and consent or consents to such inclusion or incorporation by reference, of the independent accountants with respect thereto, as well as such other information and explanations as shall be necessary for an understanding of such financial statements and as shall be required by the Securities Act or the Securities Act Rules and Regulations.

(p) *REIT Status.* Unless the Board of Directors of the Company determines in its reasonable business judgment and pursuant the Charter that continued qualification as a “real estate investment trust” under the Code is not in the Company’s best interest, the Company will use its best efforts to, and will continue to meet the requirements to, qualify as a “real estate investment trust” under the Code.

(q) *Market Stand-Off Pending Settlement.* Between the date of any Terms Agreement and the Settlement Date with respect to such Terms Agreement, the Company will not, without such Agent’s prior consent, offer, sell, contract to sell or otherwise dispose of any debt securities of the Company substantially similar to such Notes (other than (i) the Notes that are to be sold pursuant to such Terms Agreement, (ii) Notes previously agreed to be sold by the Company, and (iii) commercial paper and short-term bank loans issued in the ordinary course of business (collectively, the “Market Stand-Off Exceptions”)), except as may otherwise be provided in such Terms Agreement.

(r) *Market Stand-Off Generally.* If requested by any Agent in connection with a purchase by it of Notes as principal in accordance with Section 4(a) hereof, the Company shall cause such transaction to be subject to the terms of such market stand-off provision as shall be agreed upon by the Company and such Agent at the time of such agreement to purchase Notes as principal.

6. Conditions of Agents’ Obligations at the Closing. The obligations of the Agents to purchase Notes as principal and to solicit offers for the purchase of Notes as agent of the Company, and the obligations of any purchasers of the Notes sold through an Agent as agent, shall be subject to the accuracy of the representations and warranties of the Company herein, to the accuracy of the statements of the officers of the Company made in any certificate furnished pursuant to the provisions hereof, to the performance and observance by the Company of all of its covenants and agreements contained herein and to the following additional conditions precedent:

(a) *Opinion of Company Counsel.* On the Commencement Date and, if called for by any Terms Agreement, on the corresponding Settlement Date, the relevant Agents shall

have received the opinion of Goodwin Procter llp, counsel for the Company, dated the date of its delivery, to the effect set forth in Exhibit C.

(b) *Opinion of Company Tax Counsel.* On the Commencement Date and, if called for by any Terms Agreement, on the corresponding Settlement Date, the relevant Agents shall have received the opinion of Goodwin Procter llp, tax counsel to the Company, dated the date of its delivery, to the effect that, subject to the assumptions and qualifications historically included by such counsel in opinions rendered in recent public offerings by AvalonBay Communities, Inc., commencing with the taxable year ending December 31, 1994, the form of organization of the Company and its operations are such as to enable the Company to qualify as a “real estate investment trust” under the applicable provisions of the Code.

(c) *Opinion of Counsel to the Agents.* On the Commencement Date and, if called for by any Terms Agreement, on the corresponding Settlement Date, the relevant Agents shall have received from O’Melveny & Myers llp, counsel to the Agents, such opinion or opinions, dated the date of its delivery, with respect to the organization of each of the Company, the validity of the Indenture, the Notes, the Registration Statement, the Prospectus and other related matters as the Agents reasonably may request, and such counsel shall have received such documents and information as they request to enable them to pass upon such matters.

(d) *Comfort Letter.* On the Commencement Date and, if called for by any Terms Agreement, on the corresponding Settlement Date, the relevant Agents shall have received a letter from the Accountants, dated the date of its delivery, containing information of the type ordinarily included in accountants’ “comfort letters” delivered according to *Statement of Auditing Standards No. 72* (or any successor bulletin) published by the American Institute of Certified Public Accountants, including, without limitation, statements to the effect that:

(i) They are independent public accountants with respect to the Company and the Subsidiaries within the meaning of the Securities Act and the Securities Act Rules and Regulations, and no information concerning their relationship with or interest in either of the Company is required by Item 10 of the Registration Statement.

(ii) In their opinion, the financial statements and supporting schedules examined by them and included or incorporated by reference in the Registration Statement and Prospectus and audited by them and covered by their opinions therein comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the Securities Act Rules and Regulations with respect to registration statements on Form S-3 and the Exchange Act and the Exchange Act Rules and Regulations.

(iii) They have performed limited procedures, not constituting an audit, including a reading of the latest available unaudited interim consolidated financial statements of the Company, a reading of the minute books of the Company, inquiries of certain officials of the Company who have responsibility for financial and accounting matters and such other inquiries and procedures as may be specified in such letter, and on the basis of such limited review and procedures nothing came to their attention that caused them to believe that:

(A) the unaudited financial statements of the Company included in the Registration Statement, or incorporated by reference therein, do not comply as to form in all material respects with the applicable accounting requirements of the Securities Act and the Securities Act Rules and Regulations and the Exchange Act and the Exchange Act Rules and Regulations, or material modifications are required for them to be presented in conformity with generally accepted accounting principles;

(B) the operating data and balance sheet data included or incorporated by reference in the Prospectus were not determined on a basis substantially consistent with that used in determining the corresponding amounts in the audited financial statements included or incorporated by reference in the Registration Statement;

(C) the pro forma financial information included or incorporated by reference in the Registration Statement was not determined on a basis substantially consistent with that of the audited financial statements included or incorporated by reference in the Registration Statement; or

(D) at a specified date not more than five days prior to the date hereof, there had been any change in the capital stock of the Company or the Subsidiaries, or any increase in the debt of the Company or the Subsidiaries or any decrease in the net assets of the Company or the Subsidiaries, as compared with the amounts shown in the most recent consolidated balance sheet of the Company and the Subsidiaries, included in the Registration Statement or incorporated by reference therein, or, during the period from the date of the most recent consolidated statement of operations included in the Registration Statement or incorporated by reference therein to a specified date not more than five days prior to the date hereof, there were any decreases, as compared with the corresponding period in the preceding year, in revenues, net income or funds from operations of the Company and the Subsidiaries, except in all instances for changes, increases or decreases which the Registration Statement and the Prospectus disclose have occurred or may occur.

(iv) In addition to the examination referred to in their report included in the Registration Statement and the Prospectus and the limited procedures referred to in clause (iii) above, they have carried out certain other specified procedures, not constituting an audit, with respect to certain amounts, percentages and financial information which are included in the Registration Statement and the Prospectus and which are specified by the Agents, and have found such amounts, percentages and financial information to be in agreement with the relevant accounting, financial and other records of the Company and the Subsidiaries identified in such letter.

(e) *Officers' Certificate.* On the Commencement Date and, if called for by any Terms Agreement, on the corresponding Settlement Date, the Agents shall have received from the Company a certificate, dated the date of its delivery, signed by each of the Chief

Executive Officer and the Chief Financial Officer of the Company, in form and substance satisfactory to the Agents, to the effect that:

(i) No stop order suspending the effectiveness of the Registration Statement has been issued and, to the best of such officers' information and belief, no proceeding for that purpose is pending or threatened by the Commission;

(ii) No order suspending the effectiveness of the Registration Statement or the qualification or registration of the Notes under the securities or Blue Sky laws of any jurisdiction is in effect and, to the best of such officers' information and belief, no proceeding for such purpose is pending before or threatened or contemplated by the Commission or the authorities of any such jurisdiction;

(iii) Any request for additional information on the part of the staff of the Commission or any such authorities has been complied with to the satisfaction of the staff of the Commission or such authorities;

(iv) Each signer of such certificate has carefully examined the Registration Statement and the Prospectus (including any documents filed under the Exchange Act and deemed to be incorporated by reference into the Prospectus) and (A) as of the date of such certificate, such documents, taken together, are true and correct in all material respects and do not omit to state a material fact required to be stated therein or necessary in order to make the statements therein not untrue or misleading and (B) no event has occurred as a result of which it is necessary to amend or supplement the Prospectus in order (1) to make the statements therein not untrue or misleading in any material respect or (2) to otherwise comply with the disclosure requirements of Form S-3. There has been no document required to be filed under the Exchange Act and the Exchange Act Rules and Regulations that upon such filing would be deemed to be incorporated by reference into the Prospectus that has not been so filed;

(v) Each of the representations and warranties of the Company contained in this Distribution Agreement was, when originally made, and is, at the time such certificate is delivered, true and correct in all material respects;

(vi) Each of the covenants required to be performed by the Company herein on or prior to the delivery of such certificate has been duly, timely and fully performed in all material respects, and each condition herein required to be complied with by the Company on or prior to the date of such certificate has been duly, timely and fully complied with, in all material respects; and

(vii) Subsequent to the execution and delivery of the Distribution Agreement and the date of the most recent Terms Agreement through the date of such certificate, there has not occurred any downgrading in the rating accorded the Notes or any other debt securities of the Company by any Rating Agency nor has any notice been given to the Company of (A) any intended or potential downgrading by any Rating Agency in such securities, or (B) any review or possible change by any Rating

Agency that does not indicate a stable, positive or improving rating accorded such securities.

(f) *No Stop Orders or Unmet Commission Requests.* (i) No stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall be pending or threatened by the Commission, (ii) no order suspending the effectiveness of the Registration Statement or the qualification or registration of the Notes under the securities or Blue Sky laws of any jurisdiction shall be in effect and no proceeding for such purpose shall be pending before or threatened or contemplated by the Commission or the authorities of any such jurisdiction, (iii) any request for additional information on the part of the staff of the Commission or any such authorities shall have been complied with to the satisfaction of the staff of the Commission or such authorities, and (iv) after the date hereof no amendment or supplement to the Registration Statement or the Prospectus (other than any document required to be filed under the Exchange Act that upon filing is deemed to be incorporated by reference therein) shall have been filed unless a copy thereof was first submitted to the Agents and the Agents did not object thereto in good faith.

(g) *No Material Adverse Change.* Since the respective dates as of which information is given in the Registration Statement and the Prospectus, (i) there shall not have been a material adverse change in the general affairs, business, business prospects, properties, management, condition (financial or otherwise) or results of operations of the Company and its subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business, in each case other than as set forth in or contemplated by the Registration Statement and the Prospectus, (ii) there shall not have been any material change on a consolidated basis, in the equity capitalization or long-term debt of the Company, or any adverse change in the rating assigned to any securities of the Company, in each case other than as set forth in or contemplated by the Registration Statement and the Prospectus, and (iii) neither the Company nor any of its subsidiaries shall have sustained any material loss or interference with its business or properties from fire, explosion, flood or other casualty, whether or not covered by insurance, or from any labor dispute or any court or legislative or other governmental action, order or decree, which is not set forth in the Registration Statement and the Prospectus, if in the judgment of the Agents any such development makes it impracticable or inadvisable to offer or deliver the Notes on the terms and in the manner contemplated in the Prospectus.

(h) *No Material Litigation Commenced.* Since the respective dates as of which information is given in the Registration Statement and the Prospectus, there shall have been no litigation or other proceeding instituted against the Company or any of its subsidiaries or any of their respective officers or directors in their capacities as such, before or by any Federal, state or local court, commission, regulatory body, administrative agency or other governmental body, domestic or foreign, in which litigation or proceeding an unfavorable ruling, decision or finding would materially and adversely affect the business, properties, business prospects, condition (financial or otherwise) or results of operations of the Company and its subsidiaries taken as a whole.

(i) *Accuracy of Representations and Warranties; Observance of Covenants.* At each Delivery Date, each of the representations and warranties of the Company contained herein shall be true and correct in all material respects, as if made at such Delivery Date, and all

covenants and agreements contained herein to be performed on the part of the Company and all conditions contained herein to be fulfilled or complied with by the Company at or prior to such Delivery Date, shall have been duly performed, fulfilled or complied with.

(j) *Blue Sky Qualification.* The Notes shall be qualified for sale in the jurisdictions designated pursuant to Section 5(h), each such qualification shall be in effect and not subject to any stop order or other proceeding.

(k) *Other Documents.* On the Commencement Date and on each Delivery Date, counsel to the Agents shall have been furnished with such other documents and opinions as such counsel may reasonably require for the purpose of enabling such counsel to pass upon the issuance and sale of Notes as herein contemplated and related proceedings, or in order to evidence the accuracy and completeness of any of the representations and warranties, or the fulfillment of any of the conditions, herein contained; and all proceedings taken by the Company in connection with the issuance and sale of Notes as herein contemplated shall be satisfactory in form and substance to the Agents and to counsel to the Agents.

(l) *Special Conditions for Agents' Purchases as Principal.* The obligations of the Agents to purchase Notes as principal will be subject to the following further conditions: (i) the rating assigned by each of the Rating Agencies, or any other nationally recognized securities rating agency, to any debt securities of the Company as of the date of the agreement to purchase Notes as principal shall not have been lowered and no such rating agency shall have publicly announced that it has under surveillance or review, with possible negative implications, its ratings of any debt securities of the Company since that date and (ii) there shall not have come to the attention of any Agent any facts that would cause such Agent to believe that the Prospectus, at the time it was required to be delivered to a purchaser of the Notes, contained an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at such time, not misleading.

The documents required to be delivered by this Section 6 as a condition precedent to each Agent's obligation to begin soliciting offers to purchase Notes as an agent of the Company were originally delivered to the Agents at the San Francisco office of O'Melveny & Myers llp, counsel for the Agents, on December 21, 1998. The date of delivery of such documents is referred to herein as the "Commencement Date."

All such opinions, certificates, letters and other documents will be in compliance with the provisions hereof only if they are reasonably satisfactory in form and substance to the Agents and their counsel. The Company will furnish the Agents with such conformed copies of such opinions, certificates, letters and other documents as the Agents shall reasonably request.

If any condition specified in this Section 6 shall not have been fulfilled when and as required to be fulfilled, this Distribution Agreement may be terminated by any Agent in accordance with Section 13 below (such termination to be effective only with respect to such Agent) and any such termination shall be without liability of any party to any other party, except that the covenant regarding provision of an earnings statement set forth in Section 5(f) hereof, the indemnity and contribution agreements set forth in Section 9 hereof, the provisions concerning payment of expenses under Section 10 hereof, the provisions concerning the

representations, warranties and agreements to survive delivery of Section 11 hereof, the provisions relating to parties set forth in Section 15 and the provisions relating to governing law set forth in Section 16 hereof shall remain in effect.

7. Delivery of and Payment for Notes Sold through the Agents. Delivery of Notes sold through any Agent as agent shall be made by the Company to such Agent for the account of any purchaser only against payment therefor in immediately available funds. In the event that a purchaser shall fail either to accept delivery of or to make payment for a Note on the date fixed for settlement, such Agent shall promptly notify the Company and deliver such Note to the Company and, if such Agent has theretofore paid the Company for such Note, the Company will promptly return such funds to such Agent unless the failure arose from the gross negligence or willful misconduct of such Agent or from a default by such Agent in the performance of its obligations hereunder. If such failure occurred for any reason other than the gross negligence or willful misconduct of such Agent or from a default by such Agent in the performance of its obligations hereunder, the Company will reimburse such Agent on an equitable basis for its loss of the use of the funds for the period such funds were credited to the Company's account.

8. Additional Covenants of the Company. The Company covenants and agrees with the Agents that:

(a) *Reaffirmation of Representations and Warranties.* Each acceptance by the Company of an offer for the purchase of Notes (whether to an Agent as principal or through an Agent as agent), and each delivery of Notes (whether to an Agent as principal or through an Agent as agent), shall be deemed to be an affirmation that the representations and warranties of the Company contained in this Distribution Agreement and in the most recent certificate (for each type of certificate) theretofore delivered to any Agent pursuant hereto (and if the applicable Agent has not received a copy of such certificate, one shall be supplied) are true and correct in all material respects at the time of such acceptance or sale, as the case may be, and an undertaking that such representations and warranties will be true and correct at the time of delivery to such Agent or to the purchaser, as the case may be, of the Note or Notes relating to such acceptance or sale, as the case may be, as though made at and as of each such time (and it is understood that such representations and warranties shall relate to the Registration Statement and Prospectus as amended and supplemented to each such time).

(b) *Subsequent Delivery of Certificates.* Upon the written request of any Agent within 45 days of the Company's filing with the Commission of any Quarterly Report on Form 10-Q or Annual Report on Form 10-K incorporated by reference into the Prospectus, and otherwise only (i) as may be required in connection with a sale pursuant to Section 4(a) or (ii) at such times as may be reasonably requested by an Agent following the occurrence of any event that such Agent reasonably considers to be a material adverse change to the business, prospects, properties, financial position or results of operations of the Company and its subsidiaries, taken as a whole, the Company shall furnish or cause to be furnished to the Agents forthwith a certificate, dated the date of filing with the Commission of such document, the date of such sale or the date requested by such Agent, as applicable, in form reasonably satisfactory to such Agent, to the effect that the statements contained in the certificate referred to in Section 6(e) hereof which were last furnished to the Agents are true and correct at the time of such filing, as though

made at and as of such time (except that such statements shall be deemed to relate to the Registration Statement and the Prospectus as amended and supplemented to such time) or, in lieu of such certificate, a certificate substantially similar to the certificate referred to in Section 6(e) hereof, modified as necessary to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such certificate.

(c) *Subsequent Delivery of Legal Opinions.* Upon the written request of any Agent within 45 days of the Company's filing with the Commission of any Quarterly Report on Form 10-Q or Annual Report on Form 10-K incorporated by reference into the Prospectus, and otherwise only (i) as may be required in connection with a sale pursuant to Section 4(a) or (ii) at such times as may be reasonably requested by an Agent following the occurrence of any event that such Agent reasonably considers to be material adverse change to the business, prospects, properties, financial position or results of operations of the Company taken as a whole, the Company shall furnish or cause to be furnished forthwith, and in any case promptly upon request, to the Agents and to counsel to the Agents the written opinions of counsel to the Company, dated the date of filing with the Commission of such document, the date of such sale or the date requested by such Agent, as applicable, to the effect of the opinions and statements referred to in Sections 6(a) and 6(b) and in form and substance reasonably satisfactory to the Agents, which opinions may include such reductions or limitations as shall be reasonably satisfactory to the Agents, and shall be modified, as necessary, to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such opinion or, in lieu of such opinion, counsel last furnishing such opinion to the Agents may furnish the Agents with a letter substantially to the effect that the Agents may rely on such last opinion to the same extent as though it were dated the date of such letter authorizing reliance (except that statements in such last opinion shall be deemed to relate to the Registration Statement and the Prospectus as amended and supplemented to the time of delivery of such letter authorizing reliance).

(d) *Subsequent Delivery of Comfort Letters.* Upon the written request of any Agent within 45 days of the Company's filing with the Commission of any Quarterly Report on Form 10-Q or Annual Report on Form 10-K incorporated by reference into the Prospectus, and otherwise only (i) as may be required in connection with a sale pursuant to Section 4(a) or (ii) at such times as may be reasonably requested by an Agent following the occurrence of any event that such Agent reasonably believes may have caused a material adverse change to the financial position or results of operations of the Company and its consolidated subsidiaries, taken as a whole, the Company shall cause the Accountants forthwith to furnish the Agents a letter, dated the date of the filing of such document with the Commission, the date of such sale or the date requested by such Agent, as applicable, in form and substance reasonably satisfactory to the Agents, substantially similar to the portions of the letter referred to in clauses (i) and (ii) of Section 6(d) hereof (but modified to relate to the Registration Statement and Prospectus as amended and supplemented to the date of such letter) and substantially similar to the portions of the letter referred to in clauses (iii) and (iv) of said Section 6(d) with such changes as may be necessary to reflect changes in the financial statements and other information derived from the accounting records of the Company.

9. Indemnification and Contribution.

(a) *Indemnification of the Agents by the Company.* The Company will indemnify and hold harmless the Agents and their directors, officers, employees and agents and each person, if any, who controls any Agent within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act from and against any and all losses, claims, liabilities, expenses and damages (including, but not limited to, any and all investigative, legal and other expenses reasonably incurred in connection with, and any and all amounts paid in settlement of, any action, suit or proceeding between any of the indemnified parties and any indemnifying parties or between any indemnified party and any third party, or otherwise, or any claim asserted), as and when incurred, to which an Agent, or any such person, may become subject under the Securities Act, the Exchange Act or other federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, liabilities, expenses or damages arise out of or are based on (i) any untrue statement or alleged untrue statement of a material fact contained in any preliminary prospectus, the Registration Statement or the Prospectus or any amendment or supplement to the Registration Statement or the Prospectus or in any documents filed under the Exchange Act and deemed to be incorporated by reference into the Prospectus, or in any application or other document executed by or on behalf of the Company or based on written information furnished by or on behalf of the Company filed in any jurisdiction in order to qualify the Notes under the securities laws thereof or filed with the Commission, (ii) the omission or alleged omission to state in such document a material fact required to be stated in it or necessary to make the statements in it not misleading or (iii) any act or failure to act or any alleged act or failure to act by an Agent in connection with, or relating in any manner to, the Notes or the offering contemplated hereby, and which is included as part of or referred to in any loss, claim, liability, expense or damage arising out of or based upon matters covered by clause (i) or (ii) above (*provided* that the Company shall not be liable under this clause (iii) to the extent it is finally judicially determined by a court of competent jurisdiction that such loss, claim, liability, expense or damage resulted directly from any such acts or failures to act undertaken or omitted to be taken by an Agent through gross negligence or willful misconduct); *provided* that the Company will not be liable to the extent that such loss, claim, liability, expense or damage arises from the sale of the Notes to any person by an Agent and is based on an untrue statement or omission or alleged untrue statement or omission made in reliance on and in conformity with information relating to an Agent furnished in writing to the Company by such Agent expressly for inclusion in the Registration Statement, any preliminary prospectus or the Prospectus.

(b) *Indemnification of the Company and its Directors, Certain Officers and Control Persons by the Agents.* The Agents will indemnify and hold harmless the Company and each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act, each director of the Company and each officer of the Company who signs the Registration Statement to the same extent as the foregoing indemnity from the Company to the each Agent, but only insofar as losses, claims, liabilities, expenses or damages arise out of or are based on any untrue statement or omission or alleged untrue statement or omission made in reliance on and in conformity with information relating to an Agent furnished in writing to the Company by such Agent expressly for use in the Registration Statement, any preliminary prospectus or the Prospectus. This indemnity will be in addition to any liability that an Agent might otherwise have; *provided, however*, that in no case shall an Agent be liable or responsible for any amount in excess of the total discount or

commission received by such Agent in connection with the offering of the Notes that were the subject of the claim for indemnification.

(c) *Procedures.* Any party that proposes to assert the right to be indemnified under this Section 9 will, promptly after receipt of notice of commencement of any action against such party in respect of which a claim is to be made against an indemnifying party or parties under this Section 9, notify each such indemnifying party of the commencement of such action, enclosing a copy of all papers served, but the omission so to notify such indemnifying party will not relieve it from any liability that it may have to any indemnified party under the foregoing provisions of this Section 9 unless, and only to the extent that, such omission results in the forfeiture of substantive rights or defenses by the indemnifying party. If any such action is brought against any indemnified party and it notifies the indemnifying party of its commencement, the indemnifying party will be entitled to participate in and, to the extent that it elects by delivering written notice to the indemnified party promptly after receiving notice of the commencement of the action from the indemnified party, jointly with any other indemnifying party similarly notified, to assume the defense of the action, with counsel satisfactory to the indemnified party, and after notice from the indemnifying party to the indemnified party of its election to assume the defense, the indemnifying party will not be liable to the indemnified party for any legal or other expenses except as provided below and except for the reasonable costs of investigation subsequently incurred by the indemnified party in connection with the defense. The indemnified party will have the right to employ its own counsel in any such action, but the fees, expenses and other charges of such counsel will be at the expense of such indemnified party unless (i) the employment of counsel by the indemnified party has been authorized in writing by the indemnifying party, (ii) the indemnified party has reasonably concluded (based on advice of counsel) that there may be legal defenses available to it or other indemnified parties that are different from or in addition to those available to the indemnifying party, (iii) a conflict or potential conflict exists (based on advice of counsel to the indemnified party) between the indemnified party and the indemnifying party (in which case the indemnifying party will not have the right to direct the defense of such action on behalf of the indemnified party) or (iv) the indemnifying party has not in fact employed counsel to assume the defense of such action within a reasonable time after receiving notice of the commencement of the action, in each of which cases the reasonable fees, disbursements and other charges of counsel will be at the expense of the indemnifying party or parties. It is understood that the indemnifying party or parties shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees, disbursements and other charges of more than one separate firm admitted to practice in such jurisdiction at any time for all such indemnified party or parties. All such fees, disbursements and other charges will be reimbursed by the indemnifying party promptly as they are incurred. An indemnifying party will not be liable for any settlement of any action or claim effected without its written consent (which consent will not be unreasonably withheld). No indemnifying party shall, without the prior written consent of each indemnified party, settle or compromise or consent to the entry of any judgment in any pending or threatened claim, action or proceeding relating to the matters contemplated by this Section 9 (whether or not any indemnified party is a party thereto), unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising or that may arise out of such claim, action or proceeding.

(d) *Contribution.* In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in the foregoing paragraphs of this Section 9 is applicable in accordance with its terms but for any reason is held to be unavailable from the Company or the Agents, the Company and any applicable Agent will contribute to the total losses, claims, liabilities, expenses and damages (including any investigative, legal and other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted, but after deducting any contribution received by the Company from persons other than an Agent, such as persons who control the Company within the meaning of the Securities Act and officers of the Company who signed the Registration Statement, who also may be liable for contribution) to which the Company and any applicable Agent may be subject in such proportion as shall be appropriate to reflect the relative benefits received by the Company on the one hand and any applicable Agent on the other. The relative benefits received by the Company on the one hand and any applicable Agent on the other shall be deemed to be in the same proportion as the total net proceeds from the offering of any Notes (before deducting expenses) received by the Company bear to the total commissions received by applicable Agent or Agents. If, but only if, the allocation provided by the foregoing sentence is not permitted by applicable law, the allocation of contribution shall be made in such proportion as is appropriate to reflect not only the relative benefits referred to in the foregoing sentence but also the relative fault of the Company, on the one hand, and any applicable Agent, on the other, with respect to the statements or omissions which resulted in such loss, claim, liability, expense or damage, or action in respect thereof, as well as any other relevant equitable considerations with respect to such offering. Such relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or an Agent, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by an indemnified party as a result of the loss, claim, liability, expense or damage, or action in respect thereof, referred to above in this Section 9(d) shall be deemed to include, for purpose of this Section 9(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 9(d), no Agent shall be required to contribute any amount in excess of the commissions and other compensation received by such Agent and no person found guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) will be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 9(d), any person who controls a party to this Distribution Agreement within the meaning of the Securities Act will have the same rights to contribution as that party, and each officer of the Company who signed the Registration Statement will have the same rights to contribution as the Company, subject in each case to the provisions hereof. Any party entitled to contribution, promptly after receipt of notice of commencement of any action against such party in respect of which a claim for contribution may be made under this Section 9(d), will notify any such party or parties from whom contribution may be sought but the omission so to notify will not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have under this Section 9(d). No party will be liable for contribution with respect to any action or claim settled without its written consent (which consent will not be unreasonably withheld).

(e) *Survival of Indemnity and Contribution Provisions.* The indemnity and contribution agreements contained in this Section 9 and the representations and warranties of the Company contained in this Distribution Agreement shall remain operative and in full force and effect regardless of (i) any investigation made by an Agent or on its behalf, (ii) acceptance of any of the Notes and payment therefore or (iii) any termination of this Distribution Agreement.

10. Reimbursement of Agents' Expenses. If the Company shall fail to perform any agreement on its part to be performed hereunder, or if any condition of the Agents' obligations hereunder required to be fulfilled by the Company is not fulfilled, the Company will reimburse any applicable Agent for all reasonable out-of-pocket expenses (including fees and disbursements of counsel) incurred by such Agent in connection with this Distribution Agreement, and upon demand the Company shall pay the full amount thereof to such Agent. If this Distribution Agreement is terminated pursuant to Section 13 by reason of the default of any Agent, the Company shall not be obligated to reimburse such Agent on account of those expenses.

11. Representations and Agreements to Survive Delivery. All representations, warranties and agreements contained in this Distribution Agreement or in certificates of officers of the Company submitted pursuant hereto shall remain operative and in full force and effect, regardless of any investigation made by or on behalf of any Agent or any con-trolling person of such Agent, or by or on behalf of the Company or of any of its Subsidiaries, and shall survive each delivery of and payment for any of the Notes.

12. Role of Agents. In acting under this Agreement and in connection with the sale of any Notes by the Company (other than Notes sold to an Agent as principal), each Agent is acting solely as agent of the Company and does not assume any obligation towards or relationship of agency or trust with any purchaser of Notes. An Agent shall make reasonable efforts to assist the Company in obtaining performance by each purchaser whose offer to purchase Notes has been solicited by such Agent and accepted by the Company, but such Agent shall not have any liability to the Company in the event any such purchase is not consummated for any reason. If the Company shall default in its obligations to deliver Notes to a purchaser whose offer it has accepted, the Company shall hold the relevant Agent harmless against any loss, claim, damage or liability arising from or as a result of such default and shall, in particular, pay to such Agent the commission it would have received had such sale been consummated.

13. Termination. The Company shall have the right to terminate this Distribution Agreement with respect to any or all of the Agents at any time by giving notice hereunder to the Agents as hereinafter specified. Each Agent shall have the right by giving notice as hereinafter specified to terminate this Distribution Agreement and/or any Terms Agreement hereunder at any time, provided that if such termination would occur on or after the date of such Terms Agreement and prior to the Settlement Date with respect to such Terms Agreement, any Agent may terminate this Distribution Agreement and such Terms Agreement only if (i) the Company shall have failed, refused or been unable, at any time, to perform any agreement on its part to be performed hereunder, (ii) any other condition of the Agents' obligations hereunder is not fulfilled when due, (iii) the rating assigned by either of the Rating Agencies to the Company or the Notes as of or subsequent to the date of this Distribution Agreement shall have been lowered since that date or if either of the Rating Agencies shall have publicly announced that it has under

surveillance or review for the purpose of considering lowering such rating, its rating of the Company or the Notes, (iv) trading in any of the equity securities of the Company shall have been suspended by the Commission, the NASD, by an exchange that lists such equity securities or by the Nasdaq Stock Market, (v) trading in securities generally on the New York Stock Exchange or the Nasdaq Stock Market shall have been suspended or limited or minimum or maximum prices shall have been generally established on such exchange or over the counter market, or additional material governmental restrictions, not in force on the date of this Agreement, shall have been imposed upon trading in securities generally by such exchange or by order of the Commission or the NASD or any court or other governmental authority, (vi) a general banking moratorium shall have been declared by either Federal or New York State authorities, (vii) any material adverse change in the financial or securities markets in the United States or in political, financial or economic conditions in the United States or any outbreak or material escalation of hostilities or declaration by the United States of a national emergency or war or other calamity or crisis shall have occurred the effect of any of which is such as to make it, in the sole judgment of the Agents, impracticable or inadvisable to market the Shares on the terms and in the manner contemplated by the Prospectus, or (viii) if there shall have come to the attention of the Agents any facts that would cause them to believe that the Prospectus, at the time it was required to be delivered to a purchaser of Notes, included an untrue statement of a material fact or omitted to state a material fact necessary in order to make the statements therein, in light of the circumstances existing at the time of such delivery, not misleading. Any such termination notice shall be effective only with respect to such Agent. As used in this Section 13, the term "Prospectus" means the Prospectus in the form first provided to the Agents for use in confirming sales of the related Notes. In the event of any such termination, neither party will have any liability to the other party hereto, except that (i) an Agent shall be entitled to any commission earned in accordance with the third paragraph of Section 4(b) hereof, (ii) if at the time of termination (a) such Agent shall own any Notes purchased by it as principal with the intention of reselling them or (b) an offer to purchase any of the Notes has been accepted by the Company but the time of delivery to the purchaser or his agent of the Note or Notes relating thereto has not occurred, the covenants set forth in Sections 5 and 8 hereof shall remain in effect until such Notes are so resold or delivered, as the case may be, and (iii) the covenant set forth in Section 5(f) hereof, the provisions of Section 10 hereof, the indemnity and contribution agreements set forth in Section 9 hereof, and the provisions of Sections 11, 15 and 16 hereof shall remain in effect.

14. Notices. All notices or communications hereunder shall be in writing and shall be mailed, delivered or telecopied and confirmed (a) if to the Company, to:

AvalonBay Communities, Inc.
2900 Eisenhower Avenue, Suite 300
Alexandria, Virginia 22314
Attention: Thomas J. Sargeant
Telephone: 703-317-4635
Telecopy: 703-329-0060

with a copy to:

Goodwin Procter llp
Exchange Place
53 State Street
Boston, Massachusetts 02109-2881
Attention: Gilbert G. Menna, P.C.
Telephone: 617-570-1433
Telecopy: 617-523-1231

(b) and if to the Agents to:

Banc of America Securities LLC
100 N. Tryon Street, 7th Floor
Charlotte, NC 28255
Mail Code: NC 1007-07-01
Telecopy: (704) 388-9939

Citigroup Global Markets Inc.
Medium-Term Note Department
388 Greenwich Street
New York, NY 10013
Telephone: (212) 816-5831
Telecopy: (212) 816-0949

Fleet Securities, Inc.
100 Federal Street, MADE 10012H
Boston, MA 02110
Attention: John Crees
Telephone: (617) 434-5983
Telecopy: (617) 434-8702

J.P. Morgan Securities Inc.
270 Park Avenue, 7th Floor
New York, NY 10017
Attention: Transaction Execution Group
Telephone: (212) 834-5710
Telecopy: (212) 834-6702

Lehman Brothers Inc.
745 Seventh Avenue
New York, NY 10019
Attention: Fixed Income Syndicate/Medium Term Notes Desk
Telephone: (212) 526-9664
Telecopy: (212) 526-0943

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, NY 10036
Attention: Legal Department
Telephone: (212) 761-4000
Telecopy: (212) 761-0783

Wachovia Capital Markets, LLC
301 So. College Street, DC-8
One Wachovia Center
Charlotte, NC 28288
Attention: Corporate Syndicate Desk
Telephone: (704) 383-7727
Telecopy: (704) 383-9165

with a copy to:

O'Melveny & Myers llp
275 Battery Street, Suite 2600
San Francisco, CA 94111-3305
Attention: Peter T. Healy, Esq.
Telephone: (415) 984-8833
Telecopy: (415) 984-8701

Morgan Stanley & Co. Incorporated
1585 Broadway
New York, NY 10036
Attention: Debt Syndicate Desk
Telephone: (212) 761-2000

Any party to this Distribution Agreement may change such address for notices by sending to the other parties to this Distribution Agreement written notice of a new address for such purpose.

15. Parties. This Distribution Agreement shall inure to the benefit of and be binding upon the Agents and the Company and their respective successors. Nothing expressed or mentioned in this Distribution Agreement is intended, or shall be construed, to give any person, firm or corporation, other than the parties hereto and their respective successors and the controlling persons and officers and directors referred to in Section 9 hereof and their heirs and legal representatives, any legal or equitable right, remedy or claim under or in respect of this Distribution Agreement or any provision herein contained. This Distribution Agreement and all conditions and provisions hereof are intended to be for the sole and exclusive benefit of the parties hereto and respective successors and said controlling persons and officers and directors and their heirs and legal representatives, and for the benefit of no other person, firm or corporation. No purchaser of Notes shall be deemed to be a successor by reason merely of such purchase.

16. Governing Law. THIS DISTRIBUTION AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO THE CONFLICT OF LAWS PRINCIPLES OF SUCH STATE.

17. Counterparts. This Distribution Agreement may be executed in one or more counterparts, signature pages may be detached from such separately executed counterparts and reattached to other counterparts and, in each such case, the executed counterparts hereof shall constitute a single instrument. Signature pages may be delivered by telecopy.

18. Enforceability. In case any provision of this Distribution Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

19. Waiver of Rights to Trial by Jury. The Company and the Agents each hereby irrevocably waive any right they may have to a trial by jury in respect of any claim based upon or arising out of this Distribution Agreement or the transactions contemplated hereby.

20. Amendments and Modifications. This Distribution Agreement may not be amended or otherwise modified or any provision hereof waived except by an instrument in writing signed by the Agents and the Company.

[Signature page follows]

If the foregoing correctly sets forth the understanding between the Company and the several Agents, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between the Company and the several Agents.

AvalonBay Communities, Inc.

By: /s/ Thomas J. Sargeant _____
Name: Thomas J. Sargeant
Title: Executive Vice President and
Chief Executive Officer

ACCEPTED as of the date first above written:

Banc of America Securities LLC

By: /s/ Lily Chang _____
Name: Lily Chang
Title: Principal

Citigroup Global Markets Inc.

By: /s/ Douglas Sesler _____
Name: Douglas Sesler
Title: Managing Director

Fleet Securities, Inc.

By: /s/ John Crees _____
Name: John Crees
Title: Managing Director

J.P. Morgan Securities Inc.

By: /s/ Carl J. Mehdau, Jr. _____
Name: Carl J. Mehdau, Jr.
Title: Vice President

Lehman Brothers Inc.

By: /s/ Martin Goldberg _____
Name: Martin Goldberg
Title: Senior Vice President

MORGAN STANLEY & CO. INCORPORATED

By: /s/ Michael Fusco
Name: Michael Fusco
Title: Executive Director

Wachovia Capital Markets, LLC

By: /s/ William Ingram
Name: William Ingram
Title: Managing Director

EXHIBIT A

Terms of Notes

The following terms, if applicable, shall be agreed to by an Agent or Agents and the Company in connection with each sale of Notes:

Principal Amount: \$ _____
Net Proceeds to Issuer: \$ _____
Stated Maturity Date: _____
Original Issue Date: _____
Interest Payment Dates: _____ and _____

Issue Price (Public Offering Price): _____%
Agents' Discount Commission: _____%
Interest Rate: _____%
CUSIP: _____
First Interest Payment Date: _____

Redemption:

- The Notes cannot be redeemed prior to the Stated Maturity Date at the option of the issuer.
 - The Notes may be redeemed prior to the Stated Maturity Date at the option of the issuer.
- Initial Redemption Date:
Initial Redemption Percentage/Redemption Price:
Annual Redemption Percentage Reduction:

Optional Repayment:

- The Notes cannot be required to be repaid prior to the Stated Maturity Date at the option of the Holder of the Notes.
 - The Notes can be repaid prior to the Stated Maturity Date at the option of the Holder of the Notes.
- Optional Repayment Dates:
Repayment Price: _____%

Currency:

Specified Currency:
(If other than U.S. Dollars, see attached)
Minimum Denominations:
(Applicable only if Specified Currency is other than U.S. Dollars)

Original Issue Discount ("OID"): Yes No
Total Amount of OID:
Yield to Maturity:
Initial Accrual Period:

Form: Book-Entry Certificated

Agent: Banc of America Securities LLC Lehman Brothers Inc.
 Citigroup Global Markets Inc. Morgan Stanley & Co. Incorporated
 Fleet Securities, Inc. Wachovia Capital Markets, LLC
 J.P. Morgan Securities Inc. Other (names):

Agent acting in the capacity as indicated below:

- Agent Principal

If as Principal:

- The Notes are being offered at varying prices related to prevailing market prices at the time of resale.
 The Notes are being offered at a fixed initial public offering price of ____% of principal amount.

If as Agent:

The Notes are being offered at a fixed initial public offering price of __% of Principal Amount.

Exchange Rate Agent:

Additional/Other Terms:

Also, in connection with the purchase of Notes by an Agent as principal, agreement as to whether the following will be required:

- Officers' Certificate pursuant to Section 8(b) of the Distribution Agreement.
 Legal Opinions of Company Counsel pursuant to Section 8(c) of the Distribution Agreement.
 Legal Opinion of Agents Counsel pursuant to Section 6(c) of the Distribution Agreement.
 Comfort Letter pursuant to Section 8(d) of the Distribution Agreement.
 Stand-off Agreement pursuant to Section 5(r) of the Distribution Agreement.

EXHIBIT B

Administrative Procedures Agreement

AVALONBAY COMMUNITIES, INC.
MEDIUM-TERM NOTE PROGRAM

ADMINISTRATIVE PROCEDURES

The Medium-Term Notes Due Nine Months or More from Date of Issue (the “Notes”) are to be offered on a continuous basis by AvalonBay Communities, Inc., a Maryland corporation (the “Issuer”). Banc of America Securities LLC, Citigroup Global Markets Inc., Fleet Securities, Inc., J.P. Morgan Securities Inc., Lehman Brothers Inc., Morgan Stanley & Co. Incorporated, and Wachovia Capital Markets, LLC, (the “Agents”), have each agreed to use their best efforts to solicit purchases of the Notes. The Issuer reserves the right to sell Notes directly or indirectly on its own behalf to investors (other than broker-dealers). The Agents will not be obligated to, but may from time to time, purchase Notes as principal for their own account. The Notes are being sold pursuant to a Distribution Agreement dated August 6, 2003 (the “Agency Agreement”), among the Issuer, and the Agents, and will be issued pursuant to an indenture dated as of January 16, 1998 and all indentures supplemental thereto, including that certain First Supplemental Indenture, dated as of January 20, 1998, that certain Second Supplemental Indenture, dated as of July 7, 1998, and that certain Amended and Restated Third Supplemental Indenture, dated as of July 10, 2000 (collectively, the “Indenture”), between the Issuer and US Bank, National Association (as successor to State Street Bank and Trust Company), as Trustee (the “Trustee”). Capitalized terms used herein and not defined herein shall have the meanings ascribed to such terms in the Agency Agreement. The Notes have been registered under the Securities Act of 1933, as amended (the “Act”).

Each Note will be represented by either a Global Security (as defined in the Indenture), such Global Security, for purposes hereof either a global note (a “Global Note”) or a master note (a “Master Note”), registered in the name of a nominee of The Depository Trust Company, as Depository (“DTC”) (a “Book-Entry Note”), or a certificate issued in definitive form (a “Certificated Note”). It is currently contemplated that both Notes that bear interest at a fixed rate (a “Fixed Rate Note”) and Notes that bear interest at a variable rate (a “Floating Rate Note”) and that are denominated and payable in U.S. dollars may be issued as Book-Entry Notes.

Administrative procedures and specific terms of the offering are explained below. The Issuer will advise the Agents in writing of those persons handling administrative responsibilities with whom the Agents are to communicate regarding offers to purchase Notes and the details of their delivery. Administrative procedures may be modified from time to time as reflected in the applicable Pricing Supplement (as defined below) or elsewhere.

PART I

ADMINISTRATIVE PROCEDURES FOR CERTIFICATED NOTES AND GENERALLY APPLICABLE ADMINISTRATIVE PROCEDURES

- Issue/Authentication Date: Each Note shall be dated as of the date of its authentication by the Trustee or an agent designated by the Issuer for such purpose (the “Designated Agent”). Each Note will also bear an original issue date (the “Issue Date”) which, with respect to any Note (or portion thereof), shall mean the date of its original issuance (i.e., the settlement date) and shall be specified therein. The issue date will remain the same for all Notes subsequently issued upon transfer, exchange or substitution of an original Note regardless of their dates of authentication.
- Maturities: Each Note shall mature on a Business Day, selected by the purchaser and agreed to by the Issuer, which shall be nine months or more from the date of issue.
- Price to Public: Each Note shall be issued at 100% of principal amount unless otherwise specified in a supplement to the Prospectus (a “Pricing Supplement”).
- Denominations: The denominations of the Notes shall be \$1,000 and integral multiples of \$1,000 in excess thereof. (Any Notes denominated other than in U.S. dollars will be issuable in denominations as set forth in such Notes.)
- Registration: Notes shall be issued only in fully registered form.
- Minimum Purchase: The minimum aggregate amount of Notes denominated and payable in U.S. dollars which may be offered to any purchaser will be \$1,000.
- Interest: General. Each Note shall bear interest in accordance with its terms, as described in the Prospectus Supplement (as defined in the Agency Agreement), as supplemented by the applicable Pricing Supplement.
- Calculation of Interest: Interest on Fixed Rate Notes and interest rates on Floating Rate Notes will be determined as set forth in the form of Notes. With respect to Floating Rate Notes, the Calculation Agent shall determine the interest rate for each Interest Reset Date and communicate such interest rate to the Issuer, and the Issuer will promptly notify the Trustee, or the

Designated Agent, and the Paying Agent of each such determination.

Payments of Interest and Principal:

All interest payments (excluding interest payments made at maturity) will be made by check mailed to the person entitled thereto; *provided, however*; that if a holder of one or more Notes of like tenor and terms with an aggregate principal amount equal to or greater than U.S. \$10,000,000 (or the equivalent thereof in foreign currencies or currency units) shall designate in writing to the Paying Agent at its corporate trust office in The City of New York on or prior to the Regular Record Date relating to the Interest Payment Date an appropriate account with a bank, the Paying Agent will, subject to applicable laws and regulations and until it receives notice to the contrary, make such payment and all succeeding payments to such person by wire transfer to the designated account. If a payment cannot be made by wire transfer because the information received by the Paying Agent is incomplete, a notice will be mailed to the holder at its registered address requesting such information. Upon presentation of the relevant Note, the Trustee, or the Designated Agent, (or any duly appointed Paying Agent) will pay in immediately available funds the principal amount of such Note at maturity and accrued interest, if any, due at maturity; *provided* that the Note is presented to the Trustee, or the Designated Agent, (or any such Paying Agent) to make payments in accordance with its normal procedures. The Issuer will provide the Trustee, or the Designated Agent, (and any such Paying Agent) with funds available for such purpose. Notes presented to the Trustee, or the Designated Agent, at maturity for payment will be canceled and destroyed by the Trustee, or the Designated Agent, and a certificate of destruction will be delivered to the Issuer. On the fifth Business Day (as defined below) immediately preceding each interest payment date, the Trustee, or the Designated Agent, will furnish to the Issuer a statement showing the total amount of the interest payments to be made on such interest payment date. The Trustee, or the Designated Agent, will provide monthly to the Issuer a list of the principal and interest to be paid on Notes maturing in the next succeeding six months. The Trustee, or the Designated Agent, will assume required by law.

Acceptance of Offers

The Agents will promptly advise the Issuer of each reasonable offer to purchase Notes received by it, other than those rejected by the Agents. The Agents may, in their discretion reasonably exercised, without notice to the Issuer, reject any offer received by it, in whole or in part. The Issuer will have the right to withdraw, cancel or modify such offer without notice and will have the sole right to accept offers to purchase Notes and may reject any such offer, in whole or in part. If the Issuer rejects an offer, the Issuer will promptly notify the Agents.

Settlement:

All offers accepted by the Issuer will be settled on the third Business Day next succeeding the date of acceptance unless otherwise agreed by any purchaser, the Agents and the Issuer. The settlement date shall be specified upon receipt of an offer. Prior to 3:00 p.m., New York City time, on the business day prior to the settlement date, the Issuer will instruct the Trustee, or the Designated Agent, to authenticate and deliver the Notes pursuant to the terms communicated by the Presenting Agent (as defined below) pursuant to the next succeeding section no later than 2:15 p.m., New York City time, on that day.

Details for Settlement

For each offer accepted by the Issuer, the Agent who presented the offer (the "Presenting Agent") shall communicate to the Issuer, Attention: Thomas J. Sargeant, CFO (Fax No.: (703) 329-0060) who will provide a copy to the Trustee, Attention: Ward Spooner (Fax No.: (212) 361-6153) and the Designated Agent, if any, by facsimile transmission or other acceptable means the following information (the "Purchase Information"):

- Exact name in which the Note or Notes are to be registered ("registered owner").
- Exact address of registered owner.
- Taxpayer identification number of registered owner.
- Principal amount of each Note to be delivered to the registered owner.
- Specified Currency and, if other than U.S. dollar, denominations.

- In the case of a Fixed Rate Note, the interest rate or, in the case of a Floating Rate Note, the interest rate formula, the Initial Interest Rate (if known at such time), Index Maturity, Interest Reset Period, Interest Reset Dates, Spread or Spread Multiplier (if any), minimum interest rate (if any) and maximum interest rate (if any).
- Interest Payment Period and Interest Payment Dates.
- Maturity Date of Notes.
- Issue Price of Notes.
- Settlement date for Notes.
- Presenting Agent's commission (to be paid in the form of a discount from the proceeds remitted to the Issuer upon settlement).
- Redemption provisions, if any.
- Repayment provisions, if any.
- Original issue discount provisions, if any.
- In the case of Currency Indexed Notes, the above-listed information, as applicable and the Base Exchange Rate(s), Base Interest Rate and Indexed Currencies.
- In the case of Dual Currency Notes, the above listed information, as applicable, and the Optional Payment Currency, Designated Exchange Rate and Option Election Dates.

The issue date of, and the settlement date for, Notes will be the same. Before accepting any offer to purchase Notes to be settled in less than three days, the Issuer shall verify that the Trustee, or the Designated Agent, will have adequate time to prepare and authenticate the Notes. Prior to preparing the Notes for delivery, the Trustee, or the Designated Agent, will confirm the Purchase Information by telephone with the Presenting Agent and the Issuer.

Confirmation:

For each accepted offer, the Presenting Agent will issue a confirmation, in writing, telephonically or through any other commonly used method of communication to the purchaser and a confirmation to the Issuer, Attention: Thomas J. Sargeant, CFO (Fax No.: (703) 329-0060).

Note Deliveries and Cash Payment:

Upon the receipt of appropriate documentation and instructions from the Issuer and verification thereof, the Trustee, or the Designated Agent, will cause the Notes to be prepared and authenticated and hold the Notes for delivery against payment.

The Trustee, or the Designated Agent, will deliver the Notes, in accordance with instructions from the Issuer, to the Presenting Agent, as the Issuer's agent, for the benefit of the purchaser only against payment in immediately available funds in an amount equal to the face amount of the Notes less the Presenting Agent's commission plus any premium or less any discount; *provided, however*, that the Trustee, or the Designated Agent, may deliver Notes to the Presenting Agent against receipt therefor and, later the same day, receipt of such funds in such amount. Upon receipt of such payment, the Trustee, or the Designated Agent, shall pay promptly an amount equal thereto to the Issuer in immediately available funds by wire transfer to the following account of the Issuer:

Bank Name:	Bank of America
Account Name:	AvalonBay Communities, Inc. Concentration Account
Account Number:	3752291106
ABA Number:	111000012

The Presenting Agent, as the Issuer's agent, will deliver the Notes (with the written confirmation provided for above) to the purchaser thereof against payment by such purchaser in immediately available funds. Delivery of any confirmation or Note will be made in compliance with "Delivery of Prospectus" below.

Failure of Purchaser:

In the event that a purchaser shall fail to accept delivery of and make payment for a Note on the settlement date, the Presenting Agent will notify the Trustee or the Designated Agent and the Issuer, by telephone, confirmed in writing. If the Note has been delivered to the Presenting Agent, as the Issuer's agent, the Presenting Agent shall return such Note

to the Trustee, or the Designated Agent. If funds have been advanced for the purchase of such Note, the Trustee, or the Designated Agent, will, immediately upon receipt of such Note contact the Issuer to the attention of Thomas J. Sargeant, CFO (Fax No.: (703) 329-0060) advising the Issuer of such failure. At such time, the Issuer will refund the payment previously made by the Presenting Agent in immediately available funds. Such payments will be made on the settlement date, if possible, and in any event not later than the business day following the settlement date. If such failure shall have occurred for any reason other than the failure of the Presenting Agent to provide the Purchase Information to the Issuer or to provide a confirmation to the purchaser, the Issuer will reimburse the Presenting Agent on an equitable basis for its loss of the use of funds during the period when they were credited to the account of the Issuer.

Immediately upon receipt of the Note in respect of which the failure occurred, the Trustee, or the Designated Agent, will cause the Security Registrar to make appropriate entries to reflect the fact that the Note was never issued and will destroy the Note.

Procedure for Rate Changes:

The Issuer and the Agents will discuss from time to time the price of, and the rates to be borne by, the Notes that may be sold as a result of the solicitation of offers by the Agent. Once an Agent has recorded any indication of interest in Notes upon certain terms, and communicated with the Issuer, if the Issuer plans to accept an offer to purchase Notes upon such terms, it will prepare a Pricing Supplement to the Prospectus, as then amended or supplemented, reflecting the terms of such Notes and will arrange to transmit such Pricing Supplement to the Commission for filing in accordance with and within the time prescribed by the applicable paragraph of Rule 424(b) under the Act. The Issuer will supply at least two copies of the Prospectus as then amended or supplemented, and bearing such Pricing Supplement, to the Presenting Agent. The Issuer shall use its reasonable best efforts to send such Pricing Supplement by telecopy or overnight express (for delivery by the close of business on the applicable trade date, but in no event later than 11:00 a.m. New York City time, on the Business Day following the applicable trade date) to the Presenting Agent and the Trustee at the

following applicable address:

If to:
to both: Banc of America Securities LLC
Continuously Offered Products
100 No. Tryon Street
Charlotte, NC 28255
Mail Code: NC 1007-07-01
Telecopy Number: (704) 388-9939¹

and

Syndicate Operations
100 North Tryon Street
Charlotte, NC 28255
Mail Code: NC 1007-07-01
Telecopy Number: (704) 388-9212²

if to:
to: Citigroup Global Markets Inc.
Attention: Annabelle Avila
Brooklyn Army Terminal
140 58th Street, 8th Floor
Brooklyn, NY 11220
Telephone Number: (718) 765-6725
Telecopy Number: (718) 765-6734

if to:
to: Fleet Securities, Inc.
Attention: John Crees
100 Federal Street MADE 10012H
Boston, MA 02110
Telephone Number: (617) 434-5983
Telecopy Number: (617) 434-8702

if to:
to: J.P. Morgan Securities Inc.
Attention: Medium-Term Note Desk
270 Park Avenue, 8th Floor
New York, NY 10017
Telephone Number: (212) 834-4421
Telecopy Number: (212) 834-6081³

if to:
to: Lehman Brothers Inc.
Attention: Fixed Income Syndicate/

¹ Please send by telecopy rather than mail.

² Please send by telecopy rather than mail.

³ Please send by telecopy with original to follow by mail.

Medium Term Notes Desk
745 Seventh Avenue
New York, NY 10019
Telephone Number: (212) 526-9664
Telecopy Number: (212) 526-0943

with a copy to:

ADP Prospectus Services
For Lehman Brothers Inc.
Attention: Client Services Desk
1155 Long Island Avenue
Edgewood, NY 11717
Telecopy Number: (631) 254-7268

if to:
to: Morgan Stanley & Co. Incorporated
Attention: Legal Department
1585 Broadway
New York, NY 10036
Telephone Number: (212) 761-4000
Telecopy Number: (212) 761-0783

with a copy to:

Morgan Stanley & Co. Incorporated
Attention: Debt Syndicate Desk
1585 Broadway
New York, NY 10036
Telephone Number: (212) 761-2000

if to:
to: Wachovia Capital Markets, LLC
Attention: Corporate Syndicate Desk
301 South College St., DC-8
One Wachovia Center
Charlotte, NC 28288
Telephone Number: 704-383-7727
Telecopy Number: 704-383-9165

if to:
to: US Bank, National Association (the Trustee)
Attention: Ward Spooner
100 Wall Street
New York, NY 10005
Telephone Number: (212) 361-6175
Telecopy Number: (212) 361-6153

and to: the Designated Agent, if any.

For record keeping purposes, one copy of such Pricing Supplement shall also be mailed to:

O'Melveny & Myers LLP
275 Battery Street, Suite 2600
San Francisco, CA 94111-3305
Attention: Peter T. Healy, Esq.
Telecopy Number: (415) 984-8701

and

Goodwin Procter LLP
Exchange Place
53 State Street
Boston, MA 02109-2281
Attention: Gilbert G. Menna, P.C.
Telephone Number: (617) 570-1433
Telecopy Number: (617) 523-1231

In each instance that a Pricing Supplement is prepared, the Presenting Agent will provide a copy of such Pricing Supplement to each investor or purchaser of the relevant Notes or its agent. Pursuant to Rule 434 of the Securities Act of 1933, as amended, the Pricing Supplement may be delivered separately from the Prospectus. No settlements with respect to Notes upon such terms may occur prior to such transmitting and such Agent will not, prior to such transmitting, mail confirmations to customers who have offered to purchase Notes upon such terms. After such transmitting, sales, mailing of confirmations and settlements may occur with respect to Notes upon such terms, subject to the provisions of "Delivery of Prospectus" below.

Outdated Pricing Supplements and copies of the Prospectus to which they are attached (other than those retained for files), will be destroyed.

Suspension of Solicitation; Amendment or Supplement:

As provided in the Agency Agreement, the Issuer may suspend solicitation of purchases at any time and, upon receipt of notice from the Issuer, the Agents will, as promptly as practicable, but in no event later than one business day following such notice, suspend solicitation until such time as the Issuer has advised them that

solicitation of purchases may be resumed. If the Agents receive the notice from the Issuer contemplated by Section 4(b) of the Agency Agreement, they will promptly suspend solicitation and will only resume solicitation as provided in the Agency Agreement. If the Issuer decides to amend or supplement the Registration Statement or the Prospectus relating to the Notes, it will promptly advise the Agents and will furnish the Agents with the proposed amendment or supplement in accordance with the terms of the Agency Agreement. The Issuer will promptly file or mail to the Commission for filing such amendment or supplement, provide the Agents with copies of any such amendment or supplement, confirm to the Agents that such amendment or supplement has been filed with the Commission and advise the Agents that solicitation may be resumed. Any such suspension shall not affect the Issuer's obligations under the Agency Agreement; and in the event that at the time the Issuer suspends solicitation of purchases there shall be any offers already accepted by the Issuer outstanding for settlement, the Issuer will have the sole responsibility for fulfilling such obligations; the Agents will make reasonable efforts to assist the Issuer to fulfill such obligations, but the Agents will not be obligated to fulfill such obligations. The Issuer will in addition promptly advise the Agents and the Trustee, or the Designated Agent, if such offers are not to be settled and if copies of the Prospectus as in effect at the time of the suspension may not be delivered in connection with the settlement of such offers.

Delivery of Prospectus:

A copy of the Prospectus, as most recently amended or supplemented on the date of delivery thereof (except as provided below), must be delivered to a purchaser prior to or together with the earlier of delivery of (i) the written confirmation provided for above, and (ii) any Note purchased by such purchaser at the following address:

If to: Banc of America Securities LLC
to both: Continuously Offered Products
100 No. Tryon Street
Charlotte, NC 28255
Mail Code: NC 1007-07-01
Telecopy Number: (704) 388-9939⁴

⁴ Please send by telecopy rather than mail.

and

Syndicate Operations
100 North Tryon Street
Charlotte, NC 28255
Mail Code: NC 1007-07-01
Telecopy Number: (704) 388-9212⁵

if to: Citigroup Global Markets Inc.
to: Attention: Annabelle Avila
Brooklyn Army Terminal
140 58th Street, 8th Floor
Brooklyn, NY 11220
Telephone Number: (718) 765-6725
Telecopy Number: (718) 765-6734

if to: Fleet Securities, Inc.
to: Attention: John Crees
100 Federal Street MADE 10012H
Boston, MA 02110
Telephone Number: (617) 434-5983
Telecopy Number: (617) 434-8702

if to: J.P. Morgan Securities Inc.
to: Attention: Medium-Term Note Desk
270 Park Avenue, 8th Floor
New York, NY 10017
Telephone Number: (212) 834-4421
Telecopy Number: (212) 834-6081⁶

if to: Lehman Brothers Inc.
to: Attention: Fixed Income Syndicate/
Medium Term Notes Desk
745 Seventh Avenue
New York, NY 10019
Telephone Number: (212) 526-9664
Telecopy Number: (212) 526-0943

with a copy to:

ADP Prospectus Services
For Lehman Brothers Inc.

⁵ Please send by telecopy rather than mail.

⁶ Please send by telecopy with original to follow by mail.

Attention: Client Services Desk
1155 Long Island Avenue
Edgewood, NY 11717
Telecopy Number: (631) 254-7268

if to: Morgan Stanley & Co. Incorporated
to: Attention: Legal Department
1585 Broadway
New York, NY 10036
Telephone Number: (212) 761-4000
Telecopy Number: (212) 761-0783

with a copy to:

Morgan Stanley & Co. Incorporated
Attention: Debt Syndicate Desk
1585 Broadway
New York, NY 10036
Telephone Number: (212) 761-2000

if to: Wachovia Capital Markets, LLC
to: Attention: Corporate Syndicate Desk
301 South College St., DC-8
One Wachovia Center
Charlotte, NC 28288
Telephone Number: 704-383-7727
Telecopy Number: 704-383-9165

if to: US Bank, National Association (the Trustee)
to: Attention: Ward Spooner
100 Wall Street
New York, NY 10005
Telephone Number: (212) 361-6175
Telecopy Number: (212) 361-6153

and to: the Designated Agent, if any.

For record keeping purposes, one copy of such Pricing
Supplement shall also be mailed to:

O'Melveny & Myers LLP
275 Battery Street, Suite 2600
San Francisco, CA 94111-3305
Attention: Peter T. Healy, Esq.
Telecopy Number: (415) 984-8701

and

Goodwin Procter llp
Exchange Place
53 State Street
Boston, MA 02109-2281
Attention: Gilbert G. Menna, P.C.
Telephone Number: (617) 570-1433
Telecopy Number: (617) 523-1231

The Issuer shall ensure that the Presenting Agent receives copies of the Prospectus and each amendment or supplement thereto (including appropriate Pricing Supplements) in such quantities and within such time limits as will enable the Presenting Agent to deliver such confirmation or Note to a purchaser as contemplated by these procedures and in compliance with the preceding sentence. If, since the date of acceptance of a purchaser's offer, the Prospectus shall have been supplemented solely to reflect any sale of Notes on terms different from those agreed to between the Issuer and such purchaser or a change in posted rates not applicable to such purchaser, such purchaser shall not receive the Prospectus as supplemented by such new supplement, but shall receive the Prospectus as supplemented to reflect the terms of the Notes being purchased by such purchaser and otherwise as most recently amended or supplemented on the date of delivery of the Prospectus.

Authenticity of Signatures:

The Issuer will cause the Trustee, or the Designated Agent, to furnish the Agent from time to time with the specimen signatures of each of the officers, employees or agents of the Trustee, or the Designated Agent, who have been authorized by the Trustee, or the Designated Agent, respectively, to authenticate Notes, but the Agent will have no obligation or liability to the Issuer or the Trustee, or the Designated Agent, in respect of the authenticity of the signature of any officer, employee or agent of the Issuer or the Trustee, or the Designated Agent, on any Note.

Advertising Cost:

The Issuer and the Company will determine with the Agent the amount of advertising that may be appropriate in offering the Notes.

Business Day:

“Business Day” means any day (other than a Saturday, Sunday or legal holiday) on which banking institutions in The City of New York are open for business (and, (i) with respect to LIBOR Notes which is also a day on which dealings in the Specified Currency, or if no currency is so specified, in deposits in U.S. dollars, are transacted in the London interbank market, and (ii) with respect to Notes denominated in a Specified Currency other than U.S. dollars, on which banking institutions in the principal financial center of the country of the Specified Currency are open for business).

PART II

ADMINISTRATIVE PROCEDURES FOR GLOBAL NOTE METHOD OF BOOK-ENTRY NOTES

The following explains the administrative procedures for the Global Note method of the DTC book-entry system. Any reference to “Book-Entry Notes” in this Part II refers to the Global Note method (for a discussion of the Master Note method of the DTC book-entry system, see Part III below). Certain generally applicable administrative procedures are set forth in Part I above (See “Issue/Authentication Date,” “Price to Public,” “Minimum Purchase,” “Authenticity of Signatures,” “Advertising Cost,” and “Business Day”). In connection with the qualification of the Book-Entry Notes for eligibility in the book-entry system maintained by DTC, the Trustee will perform the custodial, document control and administrative functions described below, in accordance with its respective obligations under a Letter of Representations (the “Letter”) from the Issuer and the Trustee to DTC dated December 21, 1998, and a Medium-Term Note Certificate Agreement between the Trustee and DTC and its obligations as a participant in DTC, including DTC’s Same-Day Funds Settlement System (“SDFS”). Both Fixed and Floating Rate Notes denominated and payable in U.S. dollars may be issued in book-entry form. Single and Multi-Indexed Notes may also be issued in book-entry form.

Issuance: On any date of settlement (as defined under “Settlement” below) for one or more Book-Entry Notes, the Issuer will issue a single global security in fully registered form without coupons (a “Global Note”) representing up to \$150,000,000 principal amount of all such Notes that have the same Stated Maturity, redemption provisions, if any, repayment provisions, if any, Interest Payment Dates, Original Issue Date, original issue discount provisions, if any, and, in the case of Fixed Rate Notes, interest rate, or in the case of Floating Rate Notes, interest rate formula, initial interest rate, Index Maturity, Interest Reset Period, Interest Reset Dates, Spread or Spread Multiplier (if any), minimum interest rate (if any) and maximum interest rate (if any) and, in the case of Fixed Rate Notes or Floating Rate Notes that are also Currency Indexed Notes, Specified Currency, Indexed Currency, Face Amount and Base Exchange Rate and the Base Interest Rate, if any, or that are also other Indexed Notes, the same terms (all of the foregoing are collectively referred to as the “Terms”). Each Global Note will be dated and issued as of the date of its settlement date, which will be (i) with respect to an original Global Note (or any portion thereof), its original issue date, and (ii) following a consolidation of Global Notes, the most recent Interest Payment Date to which interest has been paid or duly provided for on the predecessor Global Notes, regardless of the date of authentication of such subsequently

issued Global Note. Each Book-Entry Note will be deemed to have been dated and issued as of the settlement date, which date shall be the Original Issue Date. No Global Note will represent any Certificated Note.

Identification
Numbers:

The Issuer has arranged with the CUSIP Service Bureau of Standard & Poor's Ratings Services (the "CUSIP Service Bureau") for the reservation of a series of CUSIP numbers consisting of approximately 900 CUSIP numbers relating to Book-Entry Notes. The Trustee, the Issuer and DTC have obtained from the CUSIP Service Bureau a written list of such reserved CUSIP numbers. The Trustee will assign CUSIP numbers to Global Notes as described below under Settlement Procedure "B". DTC will notify the CUSIP Service Bureau periodically of the CUSIP numbers that the Trustee has assigned to Global Notes. The Trustee will notify the Issuer at any time when fewer than 100 of the reserved CUSIP numbers remain unassigned to Global Notes, and, if it deems necessary, the Issuer will reserve additional CUSIP numbers for assignment to Global Notes representing Book Entry Notes. Upon obtaining such additional CUSIP numbers, the Issuer shall deliver a list of such additional CUSIP numbers to the Trustee and DTC.

Registration:

Each Global Note will be issued only in fully registered form without coupons. Each Global Note will be registered in the name of Cede & Co., as nominee for DTC, on the Securities Register maintained under the Indenture. The beneficial owner of a Book-Entry Note (or one or more indirect participants in DTC designated by such owner) will designate one or more participants in DTC (with respect to such Note, the "Participants") to act as agent or agents for such owner in connection with the book-entry system maintained by DTC, and DTC will record in book-entry form, in accordance with instructions provided by such Participants, a credit balance with respect to such Note in the account of such Participants. The ownership interest of such beneficial owner in such Note will be recorded through the records of such Participants or through the separate records of such Participants and one or more indirect participants in DTC.

Transfers:

Transfers of a Book-Entry Note will be accomplished by book entries made by DTC and, in turn, by Participants (and, in certain cases, one or more indirect participants in DTC acting on behalf of beneficial transferors and transferees of such

Note).

Exchanges:

The Trustee may deliver to DTC and the CUSIP Service Bureau at any time a written notice of consolidation (a copy of which shall be attached to the Global Note resulting from such consolidation) specifying (i) the CUSIP numbers set forth on two or more outstanding Global Notes that represent Book-Entry Notes having the same Terms and for which interest has been paid to the same date, (ii) a date, occurring at least thirty days after such written notice is delivered and at least thirty days before the next Interest Payment Date for such Book-Entry Notes, on which such Global Notes shall be exchanged for a single replacement Global Note and (iii) a new CUSIP number to be assigned to such replacement Global Note. Upon receipt of such a notice, DTC will send to its Participants (including the Trustee) a written reorganization notice to the effect that such exchange will occur on such date. Prior to the specified exchange date, the Trustee will deliver to the CUSIP Service Bureau a written notice setting forth such exchange date and the new CUSIP number and stating that, as of such exchange date, the CUSIP numbers of the Global Notes to be exchanged will no longer be valid. On the specified exchange date, the Trustee will exchange such Global Notes for a single Global Note bearing the new CUSIP number and a new Original Issue Date and the CUSIP numbers of the exchanged Global Notes will, in accordance with CUSIP Service Bureau procedures, be canceled and not immediately reassigned. Notwithstanding the foregoing, if the Global Notes to be exchanged exceed \$150,000,000 in aggregate principal amount, one Global Note will be authenticated and issued to represent each \$150,000,000 of principal amount of the exchanged Global Notes and an additional Global Note will be authenticated and issued to represent any remaining principal amount of such Global Notes (see “Denominations” below).

Maturities:

Each Book-Entry Note will mature on a Business Day nine months or more from the settlement date for such Note.

Notice of Repayment Terms:

With respect to each Book-Entry Note that is repayable at the option of the Holder, the Trustee will furnish DTC on the settlement date pertaining to such Book-Entry Note a notice setting forth the terms of such repayment option. Such terms shall include the start date and end dates of the first exercise period, the purchase date following such exercise period, the frequency that such exercise periods occur (*e.g.*, quarterly,

semiannually, annually, etc.) and if the repayment option expires before maturity, the same information (except frequency) concerning the last exercise period. It is understood that the exercise period shall be at least 15 calendar days long and that the purchase date shall be at least seven calendar days after the last day of the exercise period.

Redemption and Repayment:

The Trustee will comply with the terms of the Letter with regard to redemptions and repayments of the Notes. If a Global Note is to be redeemed or repaid in part, the Trustee will exchange such Global Note for two Global Notes, one of which shall represent the portion of the Global Note being redeemed or repaid and shall be canceled immediately after issuance and the other of which shall represent the remaining portion of such Global Note and shall bear the CUSIP number of the surrendered Global Note.

Denominations:

Book Entry Notes will be issued in principal amounts of \$1,000 or any amount in excess thereof that is an integral multiple of \$1,000. Global Notes will be denominated in principal amounts not in excess of \$150,000,000. If one or more Book Entry Notes having an aggregate principal amount in excess of \$150,000,000 would, but for the preceding sentence, be represented by a single Global Note, then one Global Note will be issued to represent each \$150,000,000 principal amount of such Book-Entry Note or Notes and an additional Global Note will be issued to represent any remaining principal amount of such Book-Entry Note or Notes. In such a case, each of the Global Notes representing such Book-Entry Note or Notes shall be assigned the same CUSIP number.

Interest:

General. Interest on each Book-Entry Note will begin to accrue from the Original Issue Date of the Global Note representing such Note or from the most recent date to which interest has been paid, as the case may be, in accordance with the terms of the Note, as described in the Prospectus Supplement (as defined in the Agency Agreement), as supplemented by the applicable Pricing Supplement. Standard & Poor's Ratings Services will use the information received in the pending deposit message described under the Settlement Procedure "C" below in order to include the amount of any interest payable and certain other information regarding the related Global Note in the appropriate weekly bond report published by Standard & Poor's Ratings Services.

Notice of Interest Payment and Regular Record Dates:

On the first Business Day of January, April, July and October of each year, the Trustee will deliver to the Issuer and DTC a written list of Regular Record Dates and Interest Payment Dates that will occur with respect to Book-Entry Notes during the six-month period beginning on such first Business Day. Promptly after each Interest Determination Date or Calculation Date, as applicable (as defined in or pursuant to the applicable Note) for Floating Rate Notes, the Issuer, upon receiving notice thereof, will notify Standard & Poor's Ratings Services of the interest rate determined on such Interest Determination Date or Calculation Date, as applicable.

Calculation of Interest:

Interest on Fixed Rate Book-Entry Notes (including interest for partial periods) and interest rates on Floating Rate Book-Entry Notes will be determined as set forth in the form of Notes. With respect to Floating Rate Book-Entry Notes, the Calculation Agent shall determine the interest for each Interest Reset Date and communicate such interest rate to the Issuer and the Issuer will promptly notify the Trustee and the Paying Agent of each such determination.

Payments of Principal and Interest:

Promptly after each Regular Record Date, the Trustee will deliver to the Issuer and DTC a written notice specifying by CUSIP number the amount of interest to be paid on each Global Note on the following Interest Payment Date (other than an Interest Payment Date coinciding with maturity) and the total of such amounts. The Issuer will confirm with the Trustee the amount payable on each Global Note on such Interest Payment Date. DTC will confirm the amount payable on each Global Note on such Interest Payment Date by reference to the daily or weekly bond reports published by Standard & Poor's Ratings Services. The Issuer will pay to the Trustee, as paying agent, the total amount of interest due on such Interest Payment Date (other than at maturity), and the Trustee will pay such amount to DTC at the times and in the manner set forth below under "Manner of Payment".

Payments at Maturity:

On or about the first Business Day of each month, the Trustee will deliver to the Issuer and DTC a written list of principal and interest to be paid on each Global Note maturing either at Stated Maturity or on a Redemption or Repayment Date in the following month. The Issuer, the Trustee and DTC will confirm the amounts of such principal and interest payments with respect to each such Global Note on or about the fifth Business Day preceding the maturity of such Global Note. The Issuer will pay to the Trustee, as paying agent, the

principal amount of such Global Note, together with interest due at such maturity. The Trustee will pay such amounts to DTC at the times and in the manner set forth below under “Manner of Payment.” Promptly after payment to DTC of the principal and interest due at the maturity of such Global Note, the Trustee will cancel and destroy such Global Note in accordance with the terms of the Indenture and deliver a certificate of destruction to the Issuer.

Manner of Payment:

The total amount of any principal and interest due on Global Notes on any Interest Payment Date or at maturity shall be paid by the Issuer to the Trustee in funds available for use by the Trustee as of 9:30 A.M. (New York City time), or as soon as practicable thereafter on such date. The Issuer will confirm instructions regarding payment in writing to the Trustee. Prior to 10:00 A.M. (New York City time) on each Maturity Date or as soon as possible thereafter, following receipt of such funds from the Issuer, the Trustee will pay by separate wire transfer (using Fedwire message entry instructions in a form previously specified by DTC) to an account at the Federal Reserve Bank of New York previously specified by DTC, in funds available for immediate use by DTC, each payment of principal (together with interest thereon) due on Global Notes on any Maturity Date. On each Interest Payment Date, interest payments shall be made to DTC in same-day funds in accordance with existing arrangements between the Trustee and DTC. Thereafter, on each such date, DTC will pay, in accordance with its SDFS operating procedures then in effect, such amounts in funds available for immediate use to the respective Participants in whose names the Book-Entry Notes represented by such Global Notes are recorded in the book-entry system maintained by DTC. Neither the Issuer nor the Trustee shall have any direct responsibility or liability for the payment by DTC to such Participants of the principal of and interest on the Book-Entry Notes.

Withholding Taxes:

The amount of any taxes required under applicable law to be withheld from any interest payment on a Book-Entry Note will be determined and withheld by the Participant, indirect participant in DTC or other Person responsible for forwarding payments and materials directly to the beneficial owner of such Note.

Acceptance of Offers:

Each Agent will promptly advise the Issuer of each reasonable offer to purchase Notes received by it, other than those rejected by such Agent. Each Agent may, in its discretion

reasonably exercised, without notice to the Issuer, reject any offer received by it, in whole or in part. The Issuer will have the right to withdraw, cancel or modify such offer without notice and will have the sole right to accept offers to purchase Notes and may reject any such offer, in whole or in part. If the Issuer rejects an offer, the Issuer will promptly notify such Agent.

Settlement:

The receipt by the Issuer of immediately available funds in payment for a Book-Entry Note and the authentication and issuance of the Global Note or Global Notes representing such Note shall constitute “settlement” with respect to such Note. All orders accepted by the Issuer will be settled on the third Business Day from the date of the sale pursuant to the timetable for settlement set forth below unless the Issuer and the purchaser agree to settlement on another day which shall be no earlier than the next Business Day.

Settlement Procedures:

Settlement Procedures with regard to each Book-Entry Note sold by the For Issuer through an Agent as agent, shall be as follows:

For each offer accepted by the Issuer, the Presenting Agent shall communicate to the Issuer, Attention: Thomas J. Sargeant, CFO (Fax No.: (703) 329-0060), who will provide a copy to the Trustee, Attention: Ward Spooner (Fax No.: (212) 361-6153) and the Designated Agent, if any, by facsimile transmission or other acceptable means, the information set forth below:

- Principal amount.
- Maturity Date of Notes.
- In the case of a Fixed Rate Book-Entry Note, the interest rate or, in the case of a Floating Rate Book-Entry Note, the Interest Rate Formula, the Initial Interest Rate (if known at such time), Index Maturity, Interest Reset Period, Interest Reset Dates, Spread or Spread Multiplier (if any), Minimum Interest Rate (if any) and Maximum Interest Rate (if any).
- Interest Payment Period and Interest Payment Dates.
- Redemption provisions, if any.

- Repayment provisions, if any.
- Settlement date (Original Issue Date).
- Price to public of the Note (expressed as a percentage).
- Agent's commission (to be paid in the form of a discount from the proceeds remitted to the Issuer upon settlement).
- Original issue discount provisions if any.
- In the case of Currency Indexed Notes, the above-listed information, as applicable, and the Base Exchange Rate(s), Base Interest Rate and Indexed Currencies.
- In the case of Dual Currency Notes, the above-listed information, as applicable, and the Optional Payment Currency, Designated Exchange Rate and Optional Election Dates.

Net proceeds to the Issuer.

The Trustee will confirm the information set forth in Settlement Procedure "A" above by telephone with such Agent and the Issuer.

The Trustee will assign a CUSIP number to the Global Note representing such Note and will telephone the Issuer and advise the Issuer of such CUSIP number. The Trustee will enter a pending deposit message through DTC's Participant Terminal System, providing the following settlement information to DTC (which shall route such information to Standard & Poor's Ratings Services) and the Presenting Agent:

- The applicable information set forth in Settlement Procedure "A".
- Identification as a Fixed Rate Book-Entry Note or a Floating Rate Book-Entry Note.
- Initial Interest Payment Date for such Note, number of days by which such date succeeds the related DTC Record Date (which, in the case of Floating Rate Notes which reset daily or weekly shall be the date five

calendar days immediately preceding the applicable Interest Payment Date and in the case of all other Notes shall be the Regular Record Date as defined in the Note), the amount of interest payable on such Interest Payment Date per \$1,000 principal amount of Notes at Maturity, and amount of interest payable per \$1,000 principal amount of Notes in the case of Fixed Rate Notes.

- CUSIP number of the Global Note representing such Note.
- Whether such Global Note will represent any other Book-Entry Note (to the extent known at such time).

To the extent the Issuer has not already done so, the Issuer will deliver to the Trustee a Pricing Supplement in a form that has been approved by the Issuer and the Agents. The Issuer will also deliver to the Trustee a Global Note representing such Note.

The Trustee will complete and authenticate the Global Note representing such Note.

DTC will credit such Note to the Trustee's participant account at DTC.

The Trustee will enter an SDFS deliver order through DTC's Participant Terminal System instructing DTC to (i) debit such Note to the Trustee's participant account and credit such Note to such Agent's participant account and (ii) debit such Agent's settlement account and credit the Trustee's settlement account for an amount equal to the price of such Note less such Agent's commission. The entry of such a deliver order shall constitute a representation and warranty by the Trustee to DTC that (i) the Global Note representing such Book-Entry Note has been executed, delivered and authenticated and (ii) the Trustee is holding such Global Note pursuant to the relevant Medium-Term Note Certificate Agreement between the Trustee and DTC.

An Agent will enter an SDFS deliver order through DTC's Participant Terminal System instructing DTC (i) to debit such Note to such Agent's participant account and credit such Note to the participant accounts of the Participants with respect to such Note and (ii) to debit the settlement accounts of such

Participants and credit the settlement account of such Agent for an amount equal to the price of such Note.

Transfers of funds in accordance with SDFS deliver orders described in Settlement Procedures "G" and "H" will be settled in accordance with SDFS operating procedures in effect on the settlement date.

The Trustee, upon confirming receipt of such funds in accordance with Settlement Procedure "G," will wire transfer to the following account of the Issuer:

Bank Name:	Bank of America
Account Name	AvalonBay Communities, Inc.
	Concentration Account
Account Number:	3752291106
ABA Number:	111000012

in funds available for immediate use, the amount transferred to the Trustee in accordance with Settlement Procedure "G."

An Agent will confirm the purchase of such Note to the purchaser either by transmitting to the Participants with respect to such Note a confirmation order or orders through DTC's institutional delivery system or by mailing a written confirmation to such purchaser.

Settlement
Procedure Timetable:

For orders of Book-Entry Notes solicited by the Agent, as agent, and accepted by the Issuer for settlement on the first Business Day after the sale date, Settlement Procedures "A" through "K" set forth above shall be completed as soon as possible but not later than the respective times (New York City time) set forth below:

<u>Settlement</u>	<u>Procedure Time</u>
A	11:00 a.m. on the sale date
B	12:00 noon on the sale date
C	2:00 p.m. on the sale date
D	3:00 p.m. on the day before settlement
E	9:00 a.m. on settlement date
F	10:00 a.m. on settlement date
G-H	2:00 p.m. on settlement date
I	4:45 p.m. on settlement date
J-K	5:00 p.m. on settlement date

If a sale is to be settled two Business Days after the sale date,

Settlement Procedures “A,” “B” and “C” shall be completed as soon as practicable but not later than 11:00 a.m., 12:00 noon and 2:00 p.m., as the case may be, on the first Business Day after the sale date.

If a sale is to be settled more than two Business Days after the sale date, Settlement Procedure “A” shall be completed as soon as practicable but no later than 11:00 a.m. on the first Business Day after the sale date and Settlement Procedures “B” and “C” shall be completed as soon as practicable but no later than 12:00 noon and 2:00 p.m., as the case may be, on the second Business Day before the settlement date. If the initial interest rate for a Floating Rate Book-Entry Note has not been determined at the time that Settlement Procedure “A” is completed, Settlement Procedures “B” and “C” shall be completed as soon as such rate has been determined but not later than 12:00 noon and 2:00 p.m., respectively, on the Business Day before the settlement date. Settlement Procedure “I” is subject to extension in accordance with any extension of Fedwire closing deadlines and in the other events specified in the SDFS operating procedures in effect on the settlement date.

If settlement of a Book-Entry Note is rescheduled or canceled, the Trustee, upon receipt of notice from the Issuer, will deliver to DTC, through DTC’s Participant Terminal System, a cancellation message to such effect by no later than 2:00 p.m. on the Business Day immediately preceding the scheduled settlement date.

Failure to Settle:

If an Agent or Trustee fails to enter an SDFS deliver order with respect to a Book-Entry Note pursuant to Settlement Procedure “G,” the Trustee may deliver to DTC, through DTC’s Participant Terminal System, as soon as practicable, a withdrawal message instructing DTC to debit such Note to the Trustee’s participant account. DTC will process the withdrawal message, provided that the Trustee’s participant account contains a principal amount of the Global Note representing such Note that is at least equal to the principal amount to be debited. If a withdrawal message is processed with respect to all the Book-Entry Notes represented by a Global Note, the Trustee will mark such Global Note “canceled”, make appropriate entries in its records and send such canceled Global Note to the Issuer. The CUSIP number assigned to such Global Note shall, in accordance with CUSIP Service Bureau procedures, be canceled and not immediately

reassigned. If a withdrawal message is processed with respect to one or more, but not all, of the Book-Entry Notes represented by a Global Note, the Trustee will exchange such Global Note for two Global Notes, one of which shall represent such Book-Entry Note or Notes and shall be canceled immediately after issuance and the other of which shall represent the remaining Book-Entry Notes previously represented by the surrendered Global Note and shall bear the CUSIP number of the surrendered Global Note.

If the purchase price for any Book-Entry Note is not timely paid to the Participants with respect to such Note by the beneficial purchaser thereof (or a person, including an indirect participant in DTC, acting on behalf of such purchaser), such Participants and, in turn, the Presenting Agent may enter SDFS deliver orders through DTC's Participant Terminal system reversing the orders entered pursuant to Settlement Procedures "G" and "H," respectively. Thereafter, the Trustee will deliver the withdrawal message and take the applicable related actions described in the preceding paragraph. If such failure shall have occurred for any reason other than the failure of the Presenting Agent to provide the Purchase Information to the Issuer or to provide a confirmation to the purchaser, the Issuer will reimburse the Presenting Agent on an equitable basis for its loss of the use of funds during the period when they were credited to the account of the Issuer.

Notwithstanding the foregoing, upon any failure to settle with respect to a Book-Entry Note, DTC may take any actions in accordance with its SDFS operating procedures then in effect. In the event of a failure to settle with respect to one or more, but not all, of the Book-Entry Notes to have been represented by a Global Note, the Trustee will provide, in accordance with Settlement Procedures "D" and "E," for the authentication and issuance of a Global Note representing the other Book-Entry Notes to have been represented by such Global Note and will make appropriate entries in its records.

Procedure for Rate Changes:

The Issuer and each Agent will discuss from time to time the price of, and the rates to be borne by, the Notes that may be sold as a result of the solicitation of offers by any Agent. Once an Agent has recorded any indication of interest in Notes upon certain terms, and communicated with the Issuer, if the Issuer plans to accept an offer to purchase Notes upon such terms, it will prepare a Pricing Supplement to the Prospectus, as then amended or supplemented, reflecting the terms of such

Notes and will arrange to transmit such Pricing Supplement to the Commission for filing in accordance with and within the time prescribed by the applicable paragraph of Rule 424(b) under the Act. The Issuer will supply at least two copies of the Prospectus as then amended or supplemented, and bearing such Pricing Supplement, to the Presenting Agent. The Issuer shall use its reasonable best efforts to send such Pricing Supplement by telecopy or overnight express (for delivery by the close of business on the applicable trade date, but in no event later than 11:00 a.m. New York City time, on the Business Day following the applicable trade date) to the Presenting Agent and the Trustee at the following applicable address:

If to:
to both: Banc of America Securities LLC
Continuously Offered Products
100 No. Tryon Street
Charlotte, NC 28255
Mail Code: NC 1007-07-01
Telecopy Number: (704) 388-9939⁷

and

Syndicate Operations
100 North Tryon Street
Charlotte, NC 28255
Mail Code: NC 1007-07-01
Telecopy Number: (704) 388-9212⁸

if to:
to: Citigroup Global Markets Inc.
Attention: Annabelle Avila
Brooklyn Army Terminal
140 58th Street, 8th Floor
Brooklyn, NY 11220
Telephone Number: (718) 765-6725
Telecopy Number: (718) 765-6734

if to:
to: Fleet Securities, Inc.
Attention: John Crees
100 Federal Street MADE 10012H
Boston, MA 02110
Telephone Number: (617) 434-5983

⁷ Please send by telecopy rather than mail.

⁸ Please send by telecopy rather than mail.

Telecopy Number: (617) 434-8702

if to: J.P. Morgan Securities Inc.
to: Attention: Medium-Term Note Desk
270 Park Avenue, 8th Floor
New York, NY 10017
Telephone Number: (212) 834-4421
Telecopy Number: (212) 834-6081⁹

if to: Lehman Brothers Inc.
to: Attention: Fixed Income Syndicate/
Medium Term Notes Desk
745 Seventh Avenue
New York, NY 10019
Telephone Number: (212) 526-9664
Telecopy Number: (212) 526-0943
with a copy to:

ADP Prospectus Services
For Lehman Brothers Inc.
Attention: Client Services Desk
1155 Long Island Avenue
Edgewood, NY 11717
Telecopy Number: (631) 254-7268

if to: Morgan Stanley & Co. Incorporated
to: Attention: Legal Department
1585 Broadway
New York, NY 10036
Telephone Number: (212) 761-4000
Telecopy Number: (212) 761-0783

with a copy to:

Morgan Stanley & Co. Incorporated
Attention: Debt Syndicate Desk
1585 Broadway
New York, NY 10036
Telephone Number: (212) 761-2000

if to: Wachovia Capital Markets, LLC
to: Attention: Corporate Syndicate Desk
301 South College St., DC-8

⁹ Please send by telecopy with original to follow by mail.

One Wachovia Center
Charlotte, NC 28288
Telephone Number: 704-383-7727
Telecopy Number: 704-383-9165

if to: US Bank, National Association (the Trustee)
to: Attention: Ward Spooner
100 Wall Street
New York, NY 10005
Telephone Number: (212) 361-6175
Telecopy Number: (212) 361-6153

and to: the Designated Agent, if any.

For record keeping purposes, one copy of such Pricing Supplement shall also be mailed to:

O'Melveny & Myers LLP
275 Battery Street, Suite 2600
San Francisco, CA 94111-3305
Attention: Peter T. Healy, Esq.
Telecopy Number: (415) 984-8701

and

Goodwin Procter Iip
Exchange Place
53 State Street
Boston, MA 02109-2281
Attention: Gilbert G. Menna, P.C.
Telephone Number: (617) 570-1433
Telecopy Number: (617) 523-1231

In each instance that a Pricing Supplement is prepared, the Presenting Agent will provide a copy of such Pricing Supplement to each investor or purchaser of the relevant Notes or its agent. Pursuant to Rule 434 of the Securities Act of 1933, as amended, the Pricing Supplement may be delivered separately from the Prospectus. No settlements with respect to Notes upon such terms may occur prior to such transmitting and such Agent will not, prior to such transmitting, mail confirmations to customers who have offered to purchase Notes upon such terms. After such transmitting, sales, mailing of confirmations and settlements may occur with respect to Notes upon such terms, subject to the provisions of "Delivery of Prospectus" below. Outdated Stickers, and copies of the

Prospectus to which they are attached (other than those retained for files), will be destroyed.

Suspension of Solicitation; Amendment or Supplement:

As provided in the Agency Agreement, the Issuer may suspend solicitation of purchase at any time, and, upon receipt of notice from the Issuer, the Agents will as promptly as practicable, but in no event later than one Business Day following such notice, suspend solicitation until such time as the Issuer has advised them that solicitation of purchases may be resumed.

If the Agents receive the notice from the Issuer contemplated by Section 4(b) of the Agency Agreement, they will promptly suspend solicitation and will only resume solicitation as provided in the Agency Agreement. If the Issuer decides to amend or supplement the Registration Statement or the Prospectus relating to the Notes, it will promptly advise the Agents and will furnish the Agents with the proposed amendment or supplement in accordance with the terms of the Agency Agreement. The Issuer will promptly file or mail to the Commission for filing such amendment or supplement, provide the Agents with copies of any such amendment or supplement, confirm to the Agents that such amendment or supplement has been filed with the Commission and advise the Agents that solicitation may be resumed. Any such suspension shall not affect the Issuer's obligations under the Agency Agreement; and in the event that at the time the Issuer suspends solicitation of purchases there shall be any offers already accepted by the Issuer outstanding for settlement, the Issuer will have the sole responsibility for fulfilling such obligations; the Agents will make reasonable efforts to assist the Issuer to fulfill such obligations, but the Agents will not be obligated to fulfill such obligations. The Issuer will in addition promptly advise the Agents and the Trustee if such offers are not to be settled and if copies of the Prospectus as in effect at the time of the suspension may not be delivered in connection with the settlement of such offers.

Delivery of Prospectus:

A copy of the Prospectus, as most recently amended or supplemented on the date of delivery thereof (except as provided below), must be delivered to a purchaser prior to or together with the earlier of delivery of (i) the written confirmation provided for above, and (ii) any Note purchased by such purchaser at the following address:

If to:
to both: Banc of America Securities LLC
Continuously Offered Products
100 No. Tryon Street
Charlotte, NC 28255
Mail Code: NC 1007-07-01
Telecopy Number: (704) 388-9939¹⁰
and

Syndicate Operations
100 North Tryon Street
Charlotte, NC 28255
Mail Code: NC 1007-07-01
Telecopy Number: (704) 388-9212¹¹

if to:
to: Citigroup Global Markets Inc.
Attention: Annabelle Avila
Brooklyn Army Terminal
140 58th Street, 8th Floor
Brooklyn, NY 11220
Telephone Number: (718) 765-6725
Telecopy Number: (718) 765-6734

if to:
to: Fleet Securities, Inc.
Attention: John Crees
100 Federal Street MADE 10012H
Boston, MA 02110
Telephone Number: (617) 434-5983
Telecopy Number: (617) 434-8702

if to:
to: J.P. Morgan Securities Inc.
Attention: Medium-Term Note Desk
270 Park Avenue, 8th Floor
New York, NY 10017
Telephone Number: (212) 834-4421
Telecopy Number: (212) 834-6081¹²

if to:
to: Lehman Brothers Inc.
Attention: Fixed Income Syndicate/
Medium Term Notes Desk
745 Seventh Avenue

¹⁰ Please send by telecopy rather than mail.

¹¹ Please send by telecopy rather than mail.

¹² Please send by telecopy with original to follow by mail.

New York, NY 10019
Telephone Number: (212) 526-9664
Telecopy Number: (212) 526-0943

with a copy to:

ADP Prospectus Services
For Lehman Brothers Inc.
Attention: Client Services Desk
1155 Long Island Avenue
Edgewood, NY 11717
Telecopy Number: (631) 254-7268

if to:
to: Morgan Stanley & Co. Incorporated
Attention: Legal Department
1585 Broadway
New York, NY 10036
Telephone Number: (212) 761-4000
Telecopy Number: (212) 761-0783

with a copy to:

Morgan Stanley & Co. Incorporated
Attention: Debt Syndicate Desk
1585 Broadway
New York, NY 10036
Telephone Number: (212) 761-2000

if to:
to: Wachovia Capital Markets, LLC
Attention: Corporate Syndicate Desk
301 South College St., DC-8
One Wachovia Center
Charlotte, NC 28288
Telephone Number: 704-383-7727
Telecopy Number: 704-383-9165

if to:
to: US Bank, National Association (the Trustee)
Attention: Ward Spooner
100 Wall Street
New York, New York 10005
Telephone Number: (212) 361-6175
Telecopy Number: (212) 361-6153

and to: the Designated Agent, if any.

For record keeping purposes, one copy of such Pricing Supplement shall also be mailed to:

O'Melveny & Myers LLP
275 Battery Street, Suite 2600
San Francisco, CA 94111-3305
Attention: Peter T. Healy, Esq.
Telecopy Number: (415) 984-8701

and

Goodwin Procter llp
Exchange Place
53 State Street
Boston, MA 02109-2281
Attention: Gilbert G. Menna, P.C.
Telephone Number: (617) 570-1433
Telecopy Number: (617) 523-1231

The Issuer shall ensure that the Presenting Agent receives copies of the Prospectus and each amendment or supplement thereto (including appropriate Pricing Supplements) in such quantities and within such time limits as will enable the Presenting Agent to deliver such confirmation or Note to a purchaser as contemplated by these procedures and in compliance with the preceding sentence. If, since the date of acceptance of a purchaser's offer, the Prospectus shall have been supplemented solely to reflect any sale of Notes on terms different from those agreed to between the Issuer and such purchaser or a change in posted rates not applicable to such purchaser, such purchaser shall not receive the Prospectus as supplemented by such new supplement, but shall receive the Prospectus as supplemented to reflect the terms of the Notes being purchased by such purchaser and otherwise as most recently amended or supplemented on the date of delivery of the Prospectus.

PART III

ADMINISTRATIVE PROCEDURES FOR MASTER NOTE METHOD OF BOOK-ENTRY NOTES

The following explains the administrative procedures for the Master Note method of the DTC book-entry system. Any reference to “Book-Entry Notes” in this Part III refers to the Master Note method (for a discussion of the Global Note method of the book-entry system, see Part II above). (Certain generally applicable administrative procedures are set forth in Part I above. See “Issue/Authentication Date,” “Price to Public,” “Minimum Purchase,” “Authenticity of Signatures,” “Advertising Cost,” and “Business Day”). In connection with the qualification of the Book-Entry Notes for eligibility in the book-entry system maintained by DTC, the Trustee will perform the custodial, document control and administrative functions described below, in accordance with its respective obligations under a Letter of Representations (the “Letter”) from the Issuer and the Trustee to DTC dated as of December 21, 1998, and a Medium-Term Note Certificate Agreement between the Trustee and DTC and its obligations as a participant in DTC, including DTC’s Same-Day Funds Settlement System (“SDFS”). Both Fixed and Floating Rate Notes denominated and payable in U.S. dollars may be issued in book-entry form. Single and Multi-Indexed Notes may also be issued in book-entry form.

Issuance: On or before any date of settlement (as defined under “Settlement” below) for one or more Book-Entry Notes represented by one or more Master Notes, the Issuer will deliver one or more Pricing Supplements (with a Prospectus and a Prospectus Supplement attached thereto unless previously delivered to the Trustee) to the Trustee identifying each issue of Book-Entry Notes that have the same Stated Maturity, redemption provisions, if any, Interest Payment Dates, Original Issue Date, original issue discount provisions, if any, and, in the case of Fixed Rate Notes, interest rate, or, in case of Floating Rate Notes, interest rate formula, initial interest rate, Index Maturity, Interest Reset Period, Interest Reset Dates, Spread or Spread Multiplier (if any), minimum interest rate (if any) and maximum interest rate (if any) and, in the case of Fixed Rate Notes or Floating Rate Notes that are also Currency Indexed Notes, Specified Currency, Indexed Currency, Face Amount and Base Exchange Rate and the Base Interest Rate, if any, or that are also Other Indexed Notes, the same terms (all of the foregoing are collectively referred to as the “Terms”). Each Pricing Supplement shall be accompanied by a letter from the

Issuer (i) advising the Trustee that as of the date of such letter, the Issuer has issued Notes pursuant to the Indenture having the Terms specified in such Pricing Supplement, (ii) confirming that such Notes are debt obligations of the Issuer referred to and evidenced by the Master Note registered in the name of Cede & Co., as nominee for DTC and (iii) requesting the Trustee to make an appropriate entry identifying such debt obligations on the records of the Issuer maintained by the Trustee. Each Book-Entry Note will be deemed to have been dated and issued as of the settlement date, which date shall be the Original Issue Date. No Master Note will represent any Certificated Note.

Identification Numbers:

The Issuer has arranged with the CUSIP Service Bureau of Standard & Poor's Ratings Services (the "CUSIP Service Bureau") for the reservation of a series of CUSIP numbers, consisting of approximately 900 CUSIP numbers relating to Book-Entry Notes. The Trustee, the Issuer and DTC have obtained from the CUSIP Service Bureau a written list of such reserved CUSIP numbers. The Trustee will assign CUSIP numbers to each issue of Book-Entry Notes identified by a Pricing Supplement as described below under Settlement Procedure "B." DTC will notify the CUSIP Service Bureau periodically of the CUSIP numbers that the Trustee has assigned to each issue of Book-Entry Notes. The Trustee will notify the Issuer at any time when fewer than 100 of the reserved CUSIP numbers remain unassigned to issue of Book-Entry Notes, and, if it deems necessary, the Issuer will reserve additional CUSIP numbers for assignment to issues of Book-Entry Notes. Upon obtaining such additional CUSIP numbers, the Issuer shall deliver a list of such additional CUSIP numbers to the Trustee and DTC.

Registration:

The Master Note representing the Book-Entry Notes will be issued only in fully registered form without coupons. The Master Note will be registered in the name of Cede & Co., as nominee for DTC, on the Securities Register maintained under the Indenture. The beneficial owner of a Book-Entry Note (or one or more indirect participants in DTC designated by such owner) will designate one or more direct participants in DTC (with respect to such Book-Entry Note, the “Participants”) to act as agent or agents for such owner in connection with the book-entry system maintained by DTC, and DTC will record in book-entry form, in accordance with instructions provided by such Participants, a credit balance with respect to such Note in the account of such Participants. The ownership interest of such beneficial owner in such Book-Entry Note will be recorded through the records of such Participants or through the separate records of such Participants and one or more indirect participants in DTC.

Transfers:

Transfers of a Book-Entry Note will be accomplished by book entries made by DTC and, in turn, by Participants (and, in certain cases, one or more indirect participants in DTC) acting on behalf of beneficial transferors and transferees of such Note.

Exchanges:

The Trustee may deliver to DTC and the CUSIP Service Bureau at any time a written notice of consolidation specifying (i) the CUSIP numbers set forth on two or more Pricing Supplements that identify issues of Book-Entry Notes having the same Terms and for which interest has been paid to the same date, (ii) a date, occurring at least thirty days after such written notice is delivered and at least thirty days before the next Interest Payment Date for such issues of Book-Entry Notes, and (iii) a new CUSIP number to be assigned to such issues of Book-Entry Notes having the same terms. Upon receipt of such a notice, DTC will send to its Participants (including the Trustee) a written reorganization notice to the effect that such exchange will occur on such date. Prior to the specified exchange date, the Trustee will deliver to the CUSIP Service Bureau a written notice setting forth such exchange date and the new CUSIP number and

stating that, as of such exchange date, the CUSIP numbers of the relevant issues of Book-Entry Notes will no longer be valid. On the specified exchange date, the CUSIP numbers of the relevant issues of Book-Entry Notes will, in accordance with CUSIP Service Bureau procedures, be canceled and not immediately reassigned.

Maturities: Each Issue of Book-Entry Notes will mature on a Business Day nine months or more from the settlement date for such issue of Book-Entry Notes.

Notice of Repayment: With respect to each Book-Entry Note that is repayable at the option of the Holder the Trustee will furnish DTC on the settlement date pertaining to such Book-Entry Note a notice setting forth the terms of such repayment option. Such terms shall include the start date and end dates of the first exercise period, the purchase date following such exercise period, the frequency that such exercise periods occur (*e.g.*, quarterly, semiannually, annually, etc.) and if the repayment option expires before maturity, the same information (except frequency) concerning the last exercise period. It is understood that the exercise period shall be at least 15 calendar days long and that the purchase date shall be at least seven calendar days after the last day of the exercise period.

Redemption and Repayment: The Trustee will comply with the terms of the Letter with regard to redemptions and repayments of the Notes. If an issue of Book-Entry Notes is to be redeemed or repaid in part, the Trustee will make appropriate entries in its records to reflect the remaining portion of such issue of Book Entry Notes, which portion shall bear the same CUSIP number as prior to the redemption or repayment, as the case may be.

Denominations: Book-Entry Notes will be issued in principal amounts of \$1,000 or any amount in excess thereof that is an integral multiple of \$1,000.

Interest:

General. Interest on each Book-Entry Note will begin to accrue from the Original Issue Date of an issue of Book-Entry Notes or from the most recent date to which interest has been paid, as the case may be, and will be calculated and paid in the manner described in the Prospectus Supplement (as defined in the Agency Agreement), as supplemented by the applicable Pricing Supplement. Standard & Poor's Ratings Services will use the information received in the pending deposit message described under the Settlement Procedure "C" below in order to include the amount of any interest payable and certain other information regarding the related issue of Book-Entry Notes in the appropriate weekly bond report published by Standard & Poor's Ratings Services.

Notice of Interest Payment and Regular Record Dates:

On the first Business Day of January, April, July and October of each year, the Trustee will deliver to the Issuer and DTC a written list of Regular Record Dates and Interest Payment Dates that will occur with respect to Book-Entry Notes during the six-month period beginning on such first Business Day. Promptly after each Interest Determination Date or Calculation Date, as applicable (as set forth in the Prospectus Supplement, as supplemented by the applicable Pricing Supplement and pursuant to the applicable Note) for Floating Rate Notes, the Issuer, upon receiving notice thereof, will notify Standard & Poor's Ratings Services of the interest rate determined on such Interest Determination Date or Calculation Date, as applicable.

Calculation of Interest:

Interest on Fixed Rate Book-Entry Notes (including interest for partial periods) and interest rates on Floating Rate Book-Entry Notes will be determined as set forth in the Prospectus Supplement, as supplemented by the applicable Pricing Supplement, and pursuant to the applicable form of Notes. With respect to Floating Rate Book-Entry Notes, the Calculation Agent shall determine the interest for each Interest Reset Date and communicate such interest rate to the Issuer and the Issuer will promptly notify the Trustee and the Paying Agent of each such determination.

Payments of Principal and Payment of Interest Only Interest:

Promptly after each Regular Record Date, the Trustee will deliver to the Issuer and DTC a written notice specifying by CUSIP number the amount of interest to be paid on each issue of Book-entry Notes on the following Interest Payment Date (other than an Interest Payment Date coinciding with maturity) and the total of such amounts. The Issuer will confirm with the Trustee the amount payable on each issue of Book-Entry Notes on such Interest Payment Date. DTC will confirm the amount payable on each issue of Book-Entry Notes on such Interest Payment Date by reference to the daily or weekly bond reports published by Standard & Poor's Ratings Services. The Issuer will pay to the Trustee, as paying agent, the total amount of interest due on such Interest Payment Date (other than the maturity), and the Trustee will pay such amount to DTC at the times and in the manner set forth below under "Manner of Payment."

Payments at Maturity:

On or about the first Business Day of each month, the Trustee will deliver to the Issuer and DTC a written list of principal and interest to be paid on each issue of Book-Entry Notes represented by a single CUSIP number maturing either at Stated Maturity or on a Redemption or Repayment Date in the following month. The Issuer, the Trustee and DTC will confirm the amounts of such principal and interest payments with respect to each such issue of Book-Entry Notes on or about the fifth Business Day preceding the maturity of such issue of Book-Entry Notes. The Issuer will pay to the Trustee, as paying agent, the principal amount of each issue of Book-Entry Notes identified by a single CUSIP number, together with interest due at such maturity. The Trustee will pay such amounts to DTC at the times and in the manner set forth below under "Manner of Payment". Promptly after payment to DTC of the principal and interest due at the maturity of each issue of Book-Entry Notes, the Trustee will reduce the principal amount of the Master Note representing the issue of Book-Entry Notes and so advise the Issuer.

Manner of Payment:

The total amount of any principal and interest due on each issue of Book-Entry Notes identified by a single CUSIP number on any Interest Payment Date or at maturity shall be paid by the Issuer to the Trustee in funds available for use by the Trustee as of 9:30 A.M. (New York City time), or as soon as practicable thereafter on such date. The Issuer will confirm instructions regarding payment in writing to the Trustee. Prior to 10:00 A.M. (New York City time) on each Maturity Date or as soon as possible thereafter, following receipt of such funds from the Issuer, the Trustee will pay by separate wire transfer (using Fedwire message entry instructions in a form previously specified by DTC) to an account at the Federal Reserve Bank of New York previously specified by DTC, in funds available for immediate use by DTC, each payment of principal (together with interest thereon) due on each issue of Book-Entry Notes on any Maturity Date. On each Interest Payment Date, interest payments shall be made to DTC in same-day funds in accordance with existing arrangements between the Trustee and DTC. Thereafter, on each such date, DTC will pay, in accordance with its SDFS operating procedures then in effect, such amounts in funds available for immediate use to the respective Participants in whose names the Book-Entry represented by the Master Note are recorded in the book-entry system maintained by DTC. Neither the Issuer nor the Trustee shall have any direct responsibility or liability for the payment by DTC to such Participants of the principal of and interest on the Book-Entry Notes.

Withholding Taxes:

The amount of any taxes required under applicable law to be withheld from any interest payment on a Book-Entry Note will be determined and withheld by the Participant, indirect participant in DTC or other Person responsible for forwarding payments and materials directly to the beneficial owner of such Note.

Acceptance of Offers:

Each Agent will promptly advise the Issuer of each reasonable offer to purchase Notes received by it, other than those rejected by the Agent. Such Agent may, in its discretion reasonably exercised, without notice to the Issuer, reject any offer received by it, in whole or in part. The Issuer will have the sole right to accept offers to purchase Notes and may reject any such offer, in whole or in part. If the Issuer rejects an offer, the Issuer will promptly notify such Agent.

Settlement:

The receipt by the Issuer of immediately available funds in payment for a Book-Entry Note and receipt by the Trustee of a property completed by the Trustee of a properly completed Pricing Supplement shall constitute "settlement" with respect to such Book-Entry Note. All orders accepted by the Issuer will be settled on the third Business Day from the date of the sale pursuant to the timetable for settlement set forth below unless the Issuer and the purchaser agree to settlement on another day which shall be no earlier than the next Business Day.

Settlement Procedures:

Settlement Procedures with regard to each Book-Entry Note sold by the Issuer through an Agent as agent, shall be as follows:

For each offer accepted by the Issuer, the Presenting Agent shall communicate to the Issuer, Attention: Thomas J. Sargeant, CFO (Fax No.: (703) 329-0060) who will provide a copy to the Trustee, Attention: Ward Spooner (Fax No.: (212) 361-6153) and the Designated Agent, if any, by facsimile transmission or other acceptable means, the information set forth below:

- Principal amount.
- Maturity Date of Notes.

- In the case of a Fixed Rate Book-Entry Note, the interest rate or, in the case of a Floating Rate Book-Entry Note, the interest rate formula, the Initial Interest Rate (if known at such time), Index Maturity, Interest Reset Period, Interest Reset Dates, Spread or Spread Multiplier (if any), minimum interest rate (if any) and maximum interest rate (if any).
- Interest Payment Period and Interest Payment Dates.
- Redemption provisions, if any.
- Repayment provisions, if any.
- Settlement date (Original Issue Date).
- Price to public of the Note (expressed as a percentage).
- Agent's commission (to be paid in the form of a discount from the proceeds remitted to the Issuer upon settlement).
- Original issue discount provisions if any.
- In the case of Currency Indexed Notes, the above-listed information, as applicable, and the Base Exchange Rate(s), Base Interest Rate and Indexed Currencies.
- In the case of Dual Currency Notes, the above-listed information, as applicable, and the Optional Payment Currency, Designated Exchange Rate and Optional Election Dates.
- Net proceeds to the Issuer.

The Trustee will confirm the information set forth in Settlement Procedure "A" above by telephone with such Agent and the Issuer.

The Trustee will assign a CUSIP number to the issue of Book-Entry Notes and will telephone the Issuer and notify the Issuer of such CUSIP number. The Trustee will enter a pending deposit message through DTC's Participant Terminal System, providing the following settlement information to DTC (which shall route such information to Standard & Poor's Ratings Services) and the Presenting Agent:

- The applicable information set forth in Settlement Procedure "A."
- Identification as a Fixed Rate Book-Entry Note or a Floating Rate Book-Entry Note.
- Initial Interest Payment Date for each issue of Book-Entry Notes of days by which such date succeeds the related DTC Record Date (which, in the case of Floating Rate Notes which reset daily or weekly shall be the date five calendar days immediately preceding the applicable Interest Payment Date and in the case of all other Notes shall be the Regular Record Date as defined in the Prospectus Supplement), the amount of interest payable on such Interest Payment Date per \$1,000 principal amount of Notes at Maturity, and amount of interest payable per \$1,000 principal amount of Notes in the case of Fixed Rate Notes.
- CUSIP number of the such issue of Book-Entry Notes.
- Whether such CUSIP number will identify any other issue of Book-Entry Notes (to the extent known at such time).

To the extent the Issuer has not already done so, the Issuer will deliver to the Trustee a Pricing Supplement in a form that has been approved by the Issuer and the Agents and a letter advising of the relevant Issuance.

DTC will credit such Book-Entry Notes to the Trustee's participant account at DTC.

The Trustee will enter an SDFS deliver order through DTC's Participant Terminal System instructing DTC to (i) debit such Book-Entry Notes to the Trustee's participant account and credit such Book-Entry Notes to such Agent's participant account and (ii) debit such Agent's settlement account and credit the Trustee's settlement account for an amount equal to the price of such Book-Entry Notes less such Agent's commission. The entry of such a deliver order shall constitute a representation and warranty by the Trustee to DTC that (i) such Book-Entry Notes have been executed, delivered and authenticated and (ii) the Trustee is holding the Master Note representing such Book-Entry Notes pursuant to the relevant Medium-Term Note Certificate Agreement between the Trustee and DTC.

An Agent will enter an SDFS deliver order through DTC's Participant Terminal System instructing DTC (i) to debit such Note to such Agent's participant account and credit such Note to the participant accounts of the Participants with respect to such Note and (ii) to debit the settlement accounts of such Participants and credit the settlement account of such Agent for an amount equal to the price of such Note.

Transfers of funds in accordance with SDFS deliver orders described in Settlement Procedures "F" and "G" will be settled in accordance with SDFS operating procedures in effect on the settlement date.

The Trustee, upon confirming receipt of such funds in accordance with Settlement Procedure "F," will wire transfer to the following account of the Issuer:

Bank Name:	Bank of America
Account Name:	AvalonBay Communities, Inc.
Account Number:	Concentration Account
ABA Number:	3752291106
	111000012

in funds available for immediate use, the amount transferred to the Trustee in accordance with Settlement Procedure "F."

An Agent will confirm the purchase of such Note to the purchaser either by transmitting to the Participants with respect to such Note a confirmation order or orders through DTC's institutional delivery system or by mailing a written confirmation to such purchaser.

Settlement Procedures
Timetable:

For orders of Book-Entry Notes solicited by an Agent, as agent, and accepted by the Issuer for settlement on the first Business Day after the sale date, Settlement Procedures "A" through "J" set forth above shall be completed as soon as possible but not later than the respective times (New York City time) set forth below:

<u>Settlement</u> <u>Procedure</u>	<u>Time</u>
A	11:00 a.m. on the sale date
B	12:00 noon on the sale date
C	2:00 p.m. on the sale date
D	3:00 p.m. on the day before settlement
E	9:00 a.m. on settlement date
F-G	2:00 p.m. on settlement date
H	4:45 p.m. on settlement date
I-J	5:00 p.m. on settlement date

If a sale is to be settled two Business Days after the sale date, Settlement Procedure "A," "B" and "C" shall be completed as soon as practicable but not later than 11:00 a.m., 12:00 noon and 2:00 p.m., as the case may be, on the first Business Day after the sale date.

If a sale is to be settled more than two Business Days after the sale date, Settlement Procedure "A" shall be completed as soon as practicable but no later than 11:00 a.m. on the first Business Day after the sale date and Settlement Procedures "B" and "C" shall be completed as soon as practicable but no later than 12:00 noon and 2:00 p.m., as the case may be, on the second Business Day before the settlement date. If the initial interest rate for a Floating Rate Book-Entry Note has not been determined at the time that Settlement Procedure "A" is completed, Settlement Procedures "B" and "C" shall be completed as soon as such rate has been determined but not later than 12:00 noon and 2:00 p.m., respectively, on the Business Day before the settlement date. Settlement Procedure "H" is subject to extension in accordance with any extension of Fedwire closing deadlines and in the other events specified in the SDFS operating procedures in effect on the settlement date.

If settlement of a Book-Entry Note is rescheduled or canceled, the Trustee, upon receipt of notice from the Issuer, will deliver to DTC, through DTC's Participant Terminal System, a cancellation message to such effect by no later than 2:00 p.m. on the Business Day immediately preceding the scheduled settlement date.

Failure to Settle:

If an Agent or Trustee fails to enter an SDFS deliver order with respect to a Book-Entry Note pursuant to Settlement Procedure "F," the Trustee may deliver to DTC, through DTC's Participant Terminal System, as soon as practicable, a withdrawal message instructing DTC to debit such note to the Trustee's participant account. DTC will process the withdrawal message, provided that the Trustee's participant account contains a principal amount of Book-Entry Notes represented by the Master Note that is at least equal to the principal amount to be debited. If a withdrawal message is processed with respect to all the Book-Entry Notes identified by a single CUSIP number, the Trustee will advise the Issuer and will make appropriate entries in its records. The CUSIP number assigned to such issue of Book-Entry Notes shall, in accordance with CUSIP Service Bureau procedures, be canceled and not immediately reassigned. If a

withdrawal message is processed with respect to one or more, but not all, of the issue of Book-Entry Notes identified by a single CUSIP number, the Trustee will advise the Issuer and will make appropriate entries in its records.

If the purchase price for any Book-Entry Note is not timely paid to the Participants with respect to such Note by the beneficial purchaser thereof (or a person, including an indirect participant in DTC, acting on behalf of such purchaser), such Participants and, in turn, the Presenting Agent may enter SDFS deliver orders through DTC's Participant Terminal system reversing the orders entered pursuant to Settlement Procedures "F" and "G," respectively. Thereafter, the Trustee will deliver the withdrawal message and take the applicable related actions described in the preceding paragraph. If such failure shall have occurred for any reason other than the failure by the Presenting Agent to provide the Purchase Information to the Issuer or to provide a confirmation to the purchaser, the Issuer will reimburse the Presenting Agent on an equitable basis for its loss of the use of the funds during the period when they were credited to the account of the Issuer.

Notwithstanding the foregoing, upon any failure to settle with respect to a Book-Entry Note, DTC may take any actions in accordance with its SDFS operating procedures then in effect.

Periodically, the Trustee will send to the Issuer a statement setting forth the principal amount of Book-Entry Notes outstanding as of that date and setting forth a brief description of any sales of Book-Entry Notes of which the Issuer has advised the Trustee but which have not yet been settled.

Periodic Statements
from the Trustee:

Procedure for Rate Changes:

The Issuer and each Agent will discuss from time to time the price of, and the rates to be borne by, the Notes that may be sold as a result of the solicitation of offers by any Agent. Once an Agent has recorded any indication of interest in Notes upon certain terms, and communicated with the Issuer, if the Issuer plans to accept an offer to purchase Notes upon such terms, it will prepare a Pricing Supplement to the Prospectus, as then amended or supplemented, reflecting the terms of such Notes and will arrange to transmit such Pricing Supplement to the Commission for filing in accordance with and within the time prescribed by the applicable paragraph of Rule 424(b) under the Act. The Issuer will supply at least two copies of the Prospectus as then amended or supplemented, and bearing such Pricing Supplement, to the Presenting Agent. No settlements with respect to Notes upon such terms may occur prior to such transmitting and such Agent will not, prior to such transmitting, mail confirmations to customers who have offered to purchase Notes upon such terms. After such transmitting, sales and mailing of confirmations and settlements may occur with respect to Notes upon such terms, subject to the provisions of "Delivery of Prospectus" below.

Outdated Stickers, and copies of the Prospectus to which they are attached (other than those retained for files), will be destroyed.

Suspension of Solicitation; Amendment or Supplement:

As provided in the Agency Agreement, the Issuer may suspend solicitation of purchase at any time, and, upon receipt of notice from the Issuer, the Agents will as promptly as practicable, but in no event later than one Business Day following such notice, suspend solicitation until such time as the Issuer has advised them that solicitation of purchases may be resumed.

If the Agents receive the notice from the Issuer contemplated by Section 4(b) of the Agency Agreement, they will promptly suspend solicitation and will only resume solicitation as provided in the Agency Agreement. If the Issuer decides to amend or supplement the Registration Statement or the Prospectus relating to the Notes, it will promptly advise the Agents and will furnish the Agents with the proposed amendment or supplement in accordance with the terms of the Agency Agreement. The Issuer will promptly file or mail to the Commission for filing such amendment or supplement, provide the Agents with copies of any such amendment or supplement, confirm to the Agents that such amendment or supplement has been filed with the Commission and advise the Agents that solicitation may be resumed. Any such suspension shall not affect the Issuer's obligations under the Agency Agreement; and in the event that at the time the Issuer suspends solicitation of purchases there shall be any offers already accepted by the Issuer outstanding for settlement, the Issuer will have the sole responsibility for fulfilling such obligations; the Agents will make reasonable efforts to assist the Issuer to fulfill such obligations, but the Agents will not be obligated to fulfill such obligations. The Issuer will in addition promptly advise the Agents and the Trustee if such offers are not to be settled and if copies of the Prospectus as in effect at the time of the suspension may not be delivered in connection with the settlement of such offers.

Delivery of Prospectus:

A copy of the Prospectus, as most recently amended or supplemented on the date of delivery thereof (except as provided below), must be delivered to a purchaser prior to or together with the earlier of delivery of (i) the written confirmation provided for above, and (ii) any Note purchased by such purchaser at the following address:

If to: Banc of America Securities LLC
to both: Attn: Continuously Offered Products
100 No. Tryon Street
Charlotte, NC 28255
Mail Code: NC 1007-07-01

Telecopy Number: (704) 388-9939¹³

and

Syndicate Operations
100 No. Tryon Street
Charlotte, NC 28255
Mail Code: NC 1007-07-01
Telecopy Number: (704) 388-92122¹⁴

if to: Citigroup Global Markets Inc.
to: Attention: Annabelle Avila
Brooklyn Army Terminal
140 58th Street, 8th Floor
Brooklyn, NY 11220
Telephone Number: (718) 765-6725
Telecopy Number: (718) 765-6734

if to: Fleet Securities, Inc.
to: Attention: John Crees
100 Federal Street MADE 10012H
Boston, MA 02110
Telephone Number: (617) 434-5983
Telecopy Number: (617) 434-8702

if to: J.P. Morgan Securities Inc.
to: Attention: Medium-Term Note Desk
270 Park Avenue, 8th Floor
New York, NY 10017
Telephone Number: (212) 834-4421
Telecopy Number: (212) 834-60813¹⁵

if to: Lehman Brothers Inc.
to: Attention: Fixed Income Syndicate/
Medium Term Notes Desk
745 Seventh Avenue
New York, NY 10019
Telephone Number: (212) 526-9664
Telecopy Number: (212) 526-0943

¹³ Please send by telecopy rather than mail.

¹⁴ Please send by telecopy rather than mail.

¹⁵ Please send by telecopy with original to follow by mail.

with a copy to:

ADP Prospectus Services
For Lehman Brothers Inc.
Attention: Client Services Desk
1155 Long Island Avenue
Edgewood, NY 11717
Telecopy Number: (631) 254-7268

if to: Morgan Stanley & Co. Incorporated
to: Attention: Legal Department
1585 Broadway
New York, NY 10036
Telephone Number: (212) 761-4000
Telecopy Number: (212) 761-0783

with a copy to:

Morgan Stanley & Co. Incorporated
Attention: Debt Syndicate Desk
1585 Broadway
New York, NY 10036
Telephone Number: (212) 761-2000

if to: Wachovia Capital Markets, LLC
to: Attention: Corporate Syndicate Desk
301 South College St., DC-8
One Wachovia Center
Charlotte, NC 28288
Telephone Number: 704-383-7727
Telecopy Number: 704-383-9165

if to: US Bank, National Association (the Trustee)
to: Attention: Ward Spooner
100 Wall Street
New York, New York 10005
Telephone Number: (212) 361-6175
Telecopy Number: (212) 361-6153

and to: the Designated Agent, if any.

For record keeping purposes, one copy of such Pricing Supplement shall also be mailed to:

O'Melveny & Myers LLP
275 Battery Street, Suite 2600
San Francisco, CA 94111-3305
Attention: Peter T. Healy, Esq.
Telecopy Number: (415) 984-8701

and

Goodwin Procter LLP
Exchange Place
53 State Street
Boston, MA 02109-2281
Attention: Gilbert G. Menna, P.C.
Telephone Number: (617) 570-1433
Telecopy Number: (617) 523-1231

The Issuer shall ensure that the Presenting Agent receives copies of the Prospectus and each amendment or supplement thereto (including appropriate Pricing Supplements) in such quantities and within such time limits as will enable the Presenting Agent to deliver such confirmation or Note to a purchaser as contemplated by these procedures and in compliance with the preceding sentence. If, since the date of acceptance of a purchaser's offer, the Prospectus shall have been supplemented solely to reflect any sale of Notes on terms different from those agreed to between the Issuer and such purchaser or a change in posted rates not applicable to such purchaser, such purchaser shall not receive the Prospectus as supplemented by such new supplement, but shall receive the Prospectus as supplemented to reflect the terms of the Notes being purchased by such purchaser and otherwise as most recently amended or supplemented on the date of delivery of the Prospectus.

EXHIBIT C

**Form of Opinion of
Counsel to the Company.**

In rendering the following opinion, counsel may rely, to the extent they deem such reliance proper, on the opinions (in form and substance reasonably satisfactory to counsel to the Agents) of other counsel reasonably acceptable to counsel to the Agents as to matters governed by the laws of jurisdictions other than the United States, and as to matters of fact, upon certificates of officers of the Company and of government officials; *provided* that counsel to the Company shall state that the opinion of any such other counsel is in form satisfactory to counsel to the Company and, in the opinion of counsel to the company, counsel to the Company and the Agents are justified in relying on such opinions of other counsel. Copies of all such opinions and certificates shall be furnished to counsel to the Agents.

* * * *

1. The Registration Statement has been declared effective under the 1933 Act. The Prospectus Supplement has been filed with the Commission pursuant to Rule 424(b) under the 1933 Act. To our knowledge (based solely on an oral confirmation of a member of the Commission's staff), no stop order suspending the effectiveness of the Registration Statement has been issued under the 1933 Act and no proceeding for that purpose has been instituted or threatened by the Commission.

2. Each part of the Registration Statement, when such part became effective, and the Prospectus, on the date of filing thereof with the Commission and as of the date hereof, complied as to form in all material respects with the requirements of the 1933 Act and the rules and regulations thereunder (other than (i) the financial statements and supporting schedules and other financial and statistical information and data included therein or omitted therefrom, and (ii) any documents incorporated by reference into the Registration Statement, as to which we express no opinion) it being understood that, in passing upon compliance as to the form of the Registration Statement, we assume that the statements made therein are correct and complete.

3. The descriptions in the Registration Statement (other than the documents incorporated by reference) and the Prospectus of statutes are accurate in all material respects and fairly present the information required to be disclosed therein. We do not know of any statutes or legal or governmental proceedings required to be described in the Prospectus that are not described as required, or of any contracts or documents of a character required to be described in the Registration Statement or Prospectus or to be filed as exhibits to the Registration Statement that are not so described or filed.

4. The Company is not and, after giving effect to the offering and sale of the Notes and the application of the proceeds therefrom as described in the Prospectus, will

not be an “investment company” as such term is defined in the Investment Company Act of 1940, as amended.

5. The Company is a corporation validly existing and in good standing under the laws of the State of Maryland with corporate power under its organizational documents and the applicable statutory law necessary to conduct its business as described in the Registration Statement and the Prospectus.

6. Each of the Subsidiaries that owns a Current Community or Development Community (as such terms are defined in the Company’s Quarterly Report on Form 10-Q for the quarterly period ended , 200 , filed with the Commission on , 200) is a corporation, limited partnership, or limited liability company, as the case may be, that has corporate or other power under its organizational documents and the applicable statutory law necessary to conduct its business as described in the Registration Statement and the Prospectus.

7. Subject to the completion of the exchange of the common stock of Avalon Properties, Inc. (“Avalon”) for the Common Stock of the Company in connection with the merger of Avalon with and into the Company as of June 4, 1998 (the “Merger”), all of the outstanding shares of Common Stock and Preferred Stock identified in the Prospectus that were issued in (a) the Merger and (b) offerings for cash registered under the 1933 Act and sold to underwriters or through agents in transactions in which we acted as counsel for the Company, have been duly authorized and are validly issued, fully paid and nonassessable and conform to the description thereof in the Prospectus.

8. The Notes are in substantially the forms annexed to the Amended and Restated Third Supplemental Indenture as Exhibit A or Exhibit B thereto. The issuance of the Notes has been duly authorized by the Company and, assuming (i) the due execution of the Notes on behalf of the Company, (ii) the due authentication of the Notes by the Trustee in accordance with the terms of the Indenture, and (iii) the delivery of the Notes and payment therefor in full by the purchasers of the Notes, (A) the Notes will be valid and binding obligations of the Company entitled to the benefits provided by the Indenture and enforceable against the Company in accordance with their terms, subject, as to enforcement, to (i) applicable bankruptcy, insolvency, reorganization, moratorium and similar laws affecting creditors’ rights and remedies generally, (ii) general principles of equity (regardless of whether enforcement is sought in a proceeding in equity or law), (iii) the discretion of the court before which any proceeding therefor may be brought, (iv) requirements that a claim with respect to any Notes payable in a foreign or composite currency (or a foreign or composite currency judgment in respect of such claim) be converted into U.S. dollars at a rate of exchange prevailing on a date determined pursuant to applicable law and (v) governmental authority to limit, delay or prohibit the making of payments outside the United States (collectively, the “Enforceability Limitations”), and (B) the Indenture and the Notes conform in all material respects to the descriptions thereof in the Registration Statement and the Prospectus.

9. The Company has full corporate power and authority to enter into the Indenture. The Indenture has been duly authorized, executed and delivered by the

Company and constitutes a valid and binding agreement of the Company enforceable against the Company in accordance with its terms, subject to the Enforceability Limitations.

10. The Indenture has been duly qualified under the Trust Indenture Act of 1939, as amended (the "TIA").

11. The Company has full corporate power and authority to enter into the Distribution Agreement, the Terms Agreement and each Appointment Agreement, and each of the Distribution Agreement, the Terms Agreement and each Appointment Agreement has been duly authorized, executed and delivered by the Company. The execution, delivery and performance of the Indenture, the Distribution Agreement, the Terms Agreement and the Appointment Agreements and the issuance and sale of the Notes on the terms contemplated in the Distribution Agreement and the Terms Agreement will not (alone or with the giving of notice or the passage of time or both) (A) to our knowledge, result in the creation or imposition of any lien, charge or encumbrance upon any of the assets of the Company or any of the Subsidiaries, pursuant to the terms or provisions of any Contract (i) which we have prepared or negotiated on behalf of the Company and (ii) to which any of the Subsidiaries is a party or by or pursuant to which any of them or their respective properties is bound, affected or financed or (B) result in a breach or violation of any of the terms or provisions of, or constitute a default or result in the acceleration of any obligation under, (i) the Charter or Bylaws of the Company, (ii) the articles or certificate of incorporation, bylaws, limited partnership agreements or other organizational documents of any of the Subsidiaries, (iii) to our knowledge, any Contract to which the Company or any of the Subsidiaries is a party or by or pursuant to which any of them or their respective properties is bound, affected or financed or (iv) any statute, rule or regulation or judgment, ruling, decree or order, known to us, of any court or other governmental agency or body applicable to the business or properties of the Company or any of the Subsidiaries (except that we express no opinion as to the securities or "Blue Sky" laws of any jurisdiction other than the United States), in each case where such violation or default, individually or in the aggregate, might have a material adverse effect on the business, properties, business prospects, condition (financial or otherwise) or results of operations of the Company and the Subsidiaries taken as a whole.

12. To our knowledge, no consent, approval, authorization or order of, or filing with, any court or governmental agency or body is required in connection with the issuance or sale of the Notes by the Company, except (i) such as have been obtained under the 1933 Act, the Securities Exchange Act of 1934, as amended, or the TIA, or (ii) such as may be required under state securities laws or the bylaws or rules of the NASD in connection with the purchase and distribution of the Notes through or by the Agents.

The limitations inherent in the independent verification of factual matters and the character of determinations involved in the registration process are such that we are not passing upon and do not assume any responsibility for the accuracy, completeness or fairness of the statements contained in or incorporated by reference into the Registration Statement or the Prospectus and we make no representation that we have

independently verified the accuracy, completeness or fairness of such statements. Without limiting the foregoing, we assume no responsibility for, and have not independently verified, the accuracy, completeness or fairness of the financial statements or notes thereto, financial schedules and other financial and statistical data contained in or incorporated by reference into the Registration Statement, and we have not examined the accounting, financial or statistical records from which such statements and notes, schedules and data are derived. However, in the course of our acting as counsel to the Company in connection with the preparation of the Registration Statement and the Prospectus and the public offering of the Notes, we have conferred with representatives of the Company, independent accountants for the Company, your representatives and representatives of O'Melveny & Myers LLP, your counsel, during which conferences and conversations the contents of the Registration Statement and the Prospectus and related matters were discussed. In addition, we reviewed certain documents made available to us by the Company or otherwise in our possession.

Based on our participation in the above-mentioned conferences and conversations, our review of the documents described above and our understanding of applicable law, we advise you that:

(a) No facts have come to our attention which cause us to believe that the Registration Statement (excluding the financial statements and notes thereto, financial schedules and other financial or statistical information and data included therein or omitted therefrom and the Trustee's Statement of Eligibility and Qualification on Form T-1 (the "Form T-1"), as to which we express no opinion), at the time it became effective, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading.

(b) No facts have come to our attention which cause us to believe that the Prospectus (excluding the financial statements and notes thereto, financial schedules and other financial or statistical information and data included therein or omitted therefrom and the Form T-1, as to which we express no opinion), as of its date or the date hereof, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

Such opinion shall also state that it is being rendered to the agents at the request of the Company and shall authorize the reliance of O'Melveny & Myers LLP with respect to matters governed by the MGCL for the sole purpose of rendering their opinion to the Agents under the Distribution Agreement.

SCHEDULE I

Information in the Prospectus

Furnished by any Agent

The following information appearing in the prospectus supplement relating to the Notes, if any, and the Prospectus has been furnished by the Agents in writing specifically for use in the preparation of such preliminary prospectus and the Prospectus:

1. The names of the Agents on the front and back covers.
2. The following information under the caption "Supplemental Plan of Distribution:"
 - a. the names of the Agents;
 - b. the information regarding transactions among the Company and the Agents and/or affiliates of the Agents (it being understood that each Agent has supplied only the information relating to such Agent and its affiliates); and
 - c. the information concerning stabilization and other syndicate activities in which the Agents may engage.

SCHEDULE III

Commissions

As compensation for the services of an Agent hereunder, the Company shall pay such Agent, on a discount basis, a commission for the sale of each Note equal to the principal amount of such Note multiplied by the appropriate percentage set forth below:

MATURITY RANGES	PERCENT OF PRINCIPAL AMOUNT
From 9 months to less than 1 year	.125%
From 1 year to less than 18 months	.150%
From 18 months to less than 2 years	.200%
From 2 years to less than 3 years	.250%
From 3 years to less than 4 years	.350%
From 4 years to less than 5 years	.450%
From 5 years to less than 6 years	.500%
From 6 years to less than 7 years	.550%
From 7 years to less than 10 years	.600%
From 10 years to less than 15 years	.625%
From 15 years to less than 20 years	.700%
From 20 years to 30 years	.750%
Greater than 30 years	*

* As agreed to by the Company and such Agent at the time of sale.

Exhibit 12.1

AVALONBAY COMMUNITIES, INC.
RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
Income before gain on sale of communities and extraordinary item	\$ 100,471	\$ 103,825	\$ 163,146	\$ 149,502	\$ 110,575
(Plus) Minority interest in consolidated partnerships	999	914	997	1,086	1,231
Earnings before fixed charges	\$ 101,470	\$ 104,739	\$ 164,143	\$ 150,588	\$ 111,806
(Plus) Fixed charges:					
Portion of rents representative of the interest factor	\$ 503	\$ 527	\$ 472	\$ 461	\$ 526
Interest expense	134,911	119,666	101,170	81,071	72,461
Interest capitalized	24,709	29,937	27,635	18,328	21,888
Preferred dividend	10,744	17,896	40,035	39,779	39,779
Total fixed charges (1)	\$ 170,867	\$ 168,026	\$ 169,312	\$ 139,639	\$ 134,654
(Less):					
Interest capitalized	24,709	29,937	27,635	18,328	21,888
Preferred dividend	10,744	17,896	32,497	39,779	39,779
Earnings (2)	\$ 236,884	\$ 224,932	\$ 273,323	\$ 232,120	\$ 184,793
Ratio (2 divided by 1)	1.39	1.34	1.61	1.66	1.37

Exhibit 12.1 (continued)

AVALONBAY COMMUNITIES, INC.
RATIOS OF EARNINGS TO FIXED CHARGES

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999
Income before gain on sale of communities and extraordinary item	\$ 100,471	\$ 103,825	\$ 163,146	\$ 149,502	\$ 110,575
(Plus) Minority interest in consolidated partnerships	999	914	997	1,086	1,231
Earnings before fixed charges	\$ 101,470	\$ 104,739	\$ 164,143	\$ 150,588	\$ 111,806
(Plus) Fixed charges:					
Portion of rents representative of the interest factor	\$ 503	\$ 527	\$ 472	\$ 461	\$ 526
Interest expense	134,911	119,666	101,170	81,071	72,461
Interest capitalized	24,709	29,937	27,635	18,328	21,888
Total fixed charges (1)	\$ 160,123	\$ 150,130	\$ 129,277	\$ 99,860	\$ 94,875
(Less):					
Interest capitalized	24,709	29,937	27,635	18,328	21,888
Earnings (2)	\$ 236,884	\$ 224,932	\$ 265,785	\$ 232,120	\$ 184,793
Ratio (2 divided by 1)	1.48	1.50	2.06	2.32	1.95

SUBSIDIARY LIST (BY JURISDICTION)**California**

230 Bay Place, L.P.
Bay Rincon, L.P.
Foxchase Drive San Jose Partners II, L.P.
San Francisco Bay Partners II, Ltd.
San Francisco Bay Partners III, L.P.
Toyon Road San Jose Partners, L.P.

Connecticut

Bronxville West, LLC
Forestbroad LLC
Hollow Tree Road Development, LLC
Smithtown Galleria Associates Limited Partnership
Town Close Associates Limited Partnership
Town Grove, LLC

Delaware

AVB Class A Holdings LLC
AVB Realeum Employee LLC
Avalon Ballston II, L.P.
Avalon DownREIT V, L.P.
Avalon Grosvenor, L.P.
Avalon Park Tower, LLC
Avalon Riverview I, LLC
Avalon Riverview II, LLC
Avalon Riverview III, LLC
Avalon Terrace LLC
Avalon Upper Falls Limited Partnership
Avalon Upper Falls, LLC
AvalonBay Redevelopment LLC
Bay Countrybrook L.P.
Bay Pacific Northwest, L.P.
CVP Development, LLC
CVP I, LLC
Chrystie Venture Partners, LLC
Downtown Manhattan Residential LLC
Falkland Partners, LLC
Glen Cove Development LLC
Glen Cove II Development LLC

District of Columbia

4100 Massachusetts Avenue Associates, L.P.

Maryland

AVB Service Provider, Inc.
AVB Trillium Holdings, Inc.
Avalon 4100 Massachusetts Avenue, Inc.
Avalon BFG, Inc.
Avalon Ballston II, Inc.
Avalon Chase Glen, Inc.
Avalon Chase Grove, Inc.
Avalon Chase Heritage, Inc.
Avalon Chestnut Hill, Inc.

Maryland (continued)

Avalon Cohasset, Inc.
Avalon Collateral, Inc.
Avalon Commons, Inc.
Avalon Discoverly, Inc.
Avalon Development Services, Inc.
Avalon DownREIT V, Inc.
Avalon Fairway Hills I Associates
Avalon Fairway Hills II Associates
Avalon Fairway II, Inc.
Avalon Grosvenor LLC
Avalon Mills, Inc.
Avalon Oaks West, Inc.
Avalon Oaks, Inc.
Avalon Promenade, Inc.
Avalon Rock Spring Associates, LLC
Avalon Sharon, Inc.
Avalon Town Green II, Inc.
Avalon Town Meadows, Inc.
Avalon Town View, Inc.
Avalon University Station I, LLC
Avalon University Station II, LLC
Avalon Upper Falls Limited Dividend Corporation
Avalon Village North, Inc.
Avalon Village South, Inc.
Avalon Wilson Blvd, Inc.
Avalon at Great Meadow, Inc.
Avalon at St. Clare, Inc.
AvalonBay Arna Valley, Inc.
AvalonBay Cable I, Inc.
AvalonBay Communities, Inc.
AvalonBay Construction Services, Inc.
AvalonBay Grosvenor, Inc.
AvalonBay Ledges, Inc.
AvalonBay NYC Development, Inc.
AvalonBay Orchards, Inc.
AvalonBay Parking, Inc.
AvalonBay Services I, Inc.
AvalonBay Services II, Inc.
AvalonBay Traville, LLC
Bay Asset Group, Inc.
Bay Development Partners, Inc.
Bay GP, Inc.
Bay Waterford, Inc.
JP Construction in Milford, Inc.
Lexington Ridge-Avalon, Inc.
Shady Grove Road Development, LLC
Shady Grove Road Property, LLC
Traville Senior Living, LLC

Massachusetts

AvalonBay BFG Limited Partnership

Minnesota

AvalonBay Devonshire L.L.C.
AvalonBay Edinburgh L.L.C.

New Jersey

Quakerbridge Road Development, LLC
Town Cove II Jersey City Urban Renewal, Inc.
Town Cove Jersey City Urban Renewal, Inc.
Town Run Associates

Virginia

Arna Valley View Limited Partnership
Avalon Decoverly Associates Limited Partnership

Exhibit 23.1

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statements on Form S-8 No. 333-16837, Form S-8 No. 333-56089, Form S-3 No. 333-87063, Form S-3 No. 333-15407, Form S-3 No. 333-62855, Form S-3 No. 333-87219, Form S-3 No. 333-103755 and Form S-3 No. 333-107413 of AvalonBay Communities, Inc. and in the related Prospectuses of our report dated January 23, 2004, (except for Note 14, as to which the date is February 27, 2004) with respect to the consolidated financial statements and schedule of AvalonBay Communities, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2003.

/s/ Ernst & Young LLP

McLean, Virginia
March 4, 2004

CERTIFICATION

I, Bryce Blair, certify that:

1. I have reviewed this annual report on Form 10-K of AvalonBay Communities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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: March 5, 2004

/s/ Bryce Blair

Bryce Blair
Chief Executive Officer and President

CERTIFICATION

I, Thomas J. Sargeant, certify that:

1. I have reviewed this annual report on Form 10-K of AvalonBay Communities, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (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: March 5, 2004

/s/ Thomas J. Sargeant

Thomas J. Sargeant
Chief Financial Officer

CERTIFICATION

The undersigned officers of AvalonBay Communities, Inc. (the "Company") hereby certify that the Company's annual report on Form 10-K to which this certification is attached (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: March 5, 2004

/s/ Bryce Blair

Bryce Blair
Chief Executive Officer and President

/s/ Thomas J. Sargeant

Thomas J. Sargeant
Chief Financial Officer

This certification is being furnished and not filed, and shall not be incorporated into any document for any purpose, under the Securities Exchange Act of 1934 or the Securities Act of 1933.