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, 2006

Commission file number 1-12672

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

Maryland	77-0404318
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

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

(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
8.70% Series H Cumulative Redeemable Preferred Stock, par value $.01 per share	New York Stock Exchange
(Title of each class)	*(Name of each exchange on which registered)*

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

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

Yes x No o

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

Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No o

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. o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

Yes o No x

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, 2006 was $8,231,895,376.

The number of shares of the registrant's Common Stock, par value $.01 per share, outstanding as of January 31, 2007 was 79,344,557.

Documents Incorporated by Reference

Portions of AvalonBay Communities, Inc.'s Proxy Statement for the 2007 annual meeting of stockholders, a definitive copy of which will be filed with the SEC within 120 days after the year end of the year covered by this Form 10-K, are incorporated by reference herein as portions of Part III of this Form 10-K.

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PART I

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Our actual results could differ materially from those set forth in each forward-looking statement. Certain factors that might cause such a difference are discussed in this report, including in the section entitled "Forward-Looking Statements" on page 65 of this Form 10-K. You should also review Item 1a., "Risk Factors," for a discussion of various risks that could adversely affect us.

ITEM 1. BUSINESS

General

AvalonBay Communities, Inc. (the "Company," which term, unless the context otherwise requires, refers to AvalonBay Communities, Inc. together with its subsidiaries) is a Maryland corporation that has elected to be treated as a real estate investment trust, or REIT, for federal income tax purposes. We engage in the development, redevelopment, acquisition, ownership and operation of multifamily communities in high barrier-to-entry markets of the United States. 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 focus on these markets 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. In addition to increasing the rental revenues of our operating assets, we believe these market attributes will increase the value of our operating assets and enable us to create additional value through the development and selective acquisition of multifamily housing.

At January 31, 2007, we owned or held a direct or indirect ownership interest in:

- 151 operating apartment communities containing 43,533 apartment homes in ten states and the District of Columbia, of which six communities containing 2,381 apartment homes were under reconstruction;
- 17 communities under construction that are expected to contain an aggregate of 5,153 apartment homes when completed; and
- rights to develop an additional 54 communities that, if developed in the manner expected, will contain an estimated 14,185 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 transportation, 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 are consolidated for financial reporting purposes and 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 during the current year, but that 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 and high for-sale housing costs, (iii) selectively sell apartment communities that no longer meet our long-term strategy or when opportunities are presented to realize a portion of the value created through our investment and redeploy the proceeds from those sales, and (iv) endeavor to maintain a capital structure that is aligned with our business risks 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, which generally command among the highest rents in their markets. However, we also pursue the ownership and operation of apartment communities that target a variety of customer segments and price points, consistent with our goal of offering a broad range of products and services.

During the three years ended December 31, 2006, we acquired two apartment communities whose financial results are consolidated for financial reporting purposes, disposed of 16 apartment communities, and completed the development of 20 apartment communities and the redevelopment of six apartment communities. In anticipation of continued improvement in apartment fundamentals and to help position us for future growth, we increased our construction volume during 2006 (as measured by total projected capitalized cost at completion) and continued to secure new development opportunities, including the acquisition of land for future development. We also increased our investments in apartment communities through an institutional discretionary investment fund, AvalonBay Value Added Fund, L.P. (the "Fund"), which we manage and in which we own approximately a 15% interest. The Fund acquired communities that we believe we can redevelop or reposition, or take advantage of market cycle timing and improved operating performance, to create value. Since its inception in March 2005, the Fund has acquired 13 communities. A more detailed description of the Fund and its investment activity can be found in Financing Activities and Note 6, "Investments in Unconsolidated Entities" of the Consolidated Financial Statements in Item 8 of this report. As a result of strong capital flows to the industry, we also continued to dispose of assets at prices that enabled significant realized gains on cost.

In 2007, we expect additional new development activity to be in the range of $1,000,000,000 to $1,300,000,000, and we expect the Fund will continue to selectively acquire additional communities. We also anticipate asset sales, dependent on strategic and value realization opportunities. The level of development, acquisition and disposition activity, however, is heavily influenced by capital market conditions, including prevailing interest rates. A further discussion of our development, redevelopment, disposition, acquisition, property management and related strategies follows.

Development Strategy. We select land for development and follow established procedures that we believe minimize both the cost and the risks of development. As one of the largest developers of multifamily 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 office in Alexandria, Virginia, we also maintain regional offices and administrative or specialty offices in or near the following cities:

- Boston, Massachusetts;
- Chicago, Illinois;
- Long Island, New York;
- Los Angeles, California;
- New York, New York;
- Newport Beach, California;
- San Jose, California;
- Seattle, Washington;
- Shelton, Connecticut; 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 and preserves capital. However, we will acquire and hold land when business conditions warrant. Due to increased competition for land based on current market conditions, we have, at times, acquired land earlier in the development cycle or acquired land zoned for uses other than residential with the potential for rezoning. 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 (although we may use a wholly-owned subsidiary) both for ourselves and for the joint ventures and partnerships of which we are a member or a partner. We believe 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 operating phase.

As competition for desirable development opportunities has increased in recent years, we will in some cases be engaged in more complicated development pursuits. For example, at times we have acquired and may in the future acquire existing commercial buildings with the intent to pursue rezoning, tenant terminations or expirations and demolition of the existing structures. Generally, during the period that we hold these buildings for future development, the net revenue from these operations, which we consider to be incidental, is accounted for as a reduction in our investment in the development pursuit and not as net income. We have also participated, and may in the future participate, in master planned or other large multi-use developments where we commit to build infrastructure (such as roads) to be used by other participants or commit to act as construction manager or general contractor in building structures or spaces for third parties (such as municipal garages or parks). Costs we incur in connection with these activities may be accounted for as additional invested capital in the community or we may earn fee income for providing these services. Particularly with large scale, urban in-fill developments, we may engage in significant environmental remediation efforts to prepare a site for construction.

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

Redevelopment Strategy. When we undertake the redevelopment of a community, our goal is to renovate and/or rebuild an existing community so that our total investment is generally below replacement cost and the community is well positioned in the market to achieve attractive returns on our capital. We have 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 through our investments, and provides additional liquidity. We are then able to redeploy the net proceeds from our dispositions in lieu of raising that amount of capital externally 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. Acquisitions allow us to achieve rapid penetration into markets in which we desire an increased presence. Acquisitions (and dispositions) also help us achieve our desired product mix or rebalance our portfolio. In 2005 we formed the Fund, which during its investment period (ending no later than March 2008) will be the principal vehicle for us to acquire additional investments in apartment communities, subject to certain exceptions. Through the Fund’s investment period (or until fully invested), we expect to continue our acquisition activity through the Fund, focusing in particular on communities in our markets that can benefit from redevelopment, repositioning or market cycle opportunities.

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; and
- managing community occupancy for optimal rental revenue levels.

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 in a variety of ways, which include the following, among others:

- we use purchase order controls, acquiring goods and services from pre-approved vendors;
- we purchase supplies in bulk where possible;
- we bid third-party contracts on a volume basis;
- we strive to retain residents through high levels of service in order to eliminate the cost of preparing an apartment home for a new resident and to reduce marketing and vacant apartment utility costs;
- we perform turnover work in-house or hire third parties, generally depending upon the least costly alternative;
- we undertake preventive maintenance regularly to maximize resident satisfaction and property and equipment life; and
- we 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 use and continuously seek ways to improve technology applications to help manage our communities, believing that the accurate collection of financial and resident data will enable us to maximize revenue and control costs through careful leasing decisions, maintenance decisions and financial management.

We generally manage the operation and leasing activity of our communities directly (although we may use a wholly-owned subsidiary) both for ourselves and the joint ventures and partnerships of which we are a member or a partner.

From time to time, we also pursue or arrange ancillary services for our residents to provide additional revenue sources or increase resident satisfaction. 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 or share in the revenue from such services if we do so through a "taxable REIT subsidiary," which is a subsidiary that is treated as a "C corporation" and is therefore subject to federal income taxes.

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. For the year ended December 31, 2006, our fixed charge ratio on an incurred and expensed basis was 1.90 and 2.68, respectively. We believe that fixed charge coverage is an important measure of balance sheet strength, as it measures our ability to service fixed payment obligations from operating cash flow. At December 31, 2006, our debt-to-total market capitalization was 22.3%, and our long-term floating rate debt was 3.4% 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 believe that debt-to-total market capitalization can be one useful measure of a real estate operating company's long-term liquidity and balance sheet strength, because it shows an approximate relationship between a company's total debt and the current total market value of its assets based on the current price at which the company's common stock trades. However, because debt-to-total market capitalization changes with fluctuations in our stock price, which occur regularly, our debt-to-total market capitalization may change even when our earnings and debt levels remain stable.

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.

We have entered into, and may continue in the future to enter into, joint ventures (including limited liability companies) or partnerships through which we would own an indirect economic interest of less than 100% of the community or communities owned directly by such joint 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 factors 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. Investments in joint ventures or partnerships are not 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.

We have invested in the Fund, a private, discretionary investment vehicle that acquires and operates apartment communities in our markets. The Fund will serve, until March 16, 2008 or until 80% of its committed capital is invested, as the principal vehicle through which we will invest in the acquisition of apartment communities, subject to certain exceptions. These exceptions include significant individual asset and portfolio acquisitions, properties acquired in tax-deferred transactions and acquisitions that are inadvisable or inappropriate for the Fund. The Fund will not restrict our development activities, and will terminate after a term of eight years, subject to two one-year extensions. The Fund has nine institutional investors, including us, with a combined equity capital commitment of $330,000,000. A significant portion of the investments made in the Fund by its investors are being made through AvalonBay Value Added Fund, Inc., a Maryland corporation that qualifies as a REIT under the Internal Revenue Code (the "Fund REIT"). A wholly-owned subsidiary of the Company is the general partner of the Fund and has committed $50,000,000 to the Fund and the Fund REIT (of which approximately $22,944,000 has been invested as of January 31, 2007) representing a 15.2% combined general partner and limited partner equity interest. Under the Fund documents, the Fund has the ability to employ leverage through debt financings up to 65% on a portfolio basis, which, if achieved, would enable the Fund to invest up to $940,000,000. We currently expect that leverage of less than 65% will be employed, reducing the projected investment value to between $850,000,000 and $900,000,000 (of which approximately $514,000,000 has been invested as of January 31, 2007).

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.

Other Strategies and Activities. While we emphasize equity real estate investments in rental apartment communities, we have the ability to invest in other types of real estate, mortgages (including participating or convertible mortgages), securities of other REITs or real estate operating companies, or securities of technology companies that relate to our real estate operations or of companies that provide services to us or our residents, in each case consistent with our qualification as a REIT. 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, 2006, we had a total of 327,010 square feet of rentable retail space that produced gross rental revenue in 2006 of $5,258,000 (0.7% of total revenue). If we secure a development right and believe that its best use, in whole or in part, is to develop the real estate with the intent to sell rather than hold the asset, we may, through a taxable REIT subsidiary, develop real estate for sale. At present, we expect to develop with the intent to sell, directly through a taxable REIT subsidiary or indirectly through a joint venture partnership, one or more land parcels. Any investment in securities of other entities, and any development of real estate for sale, is subject to the percentage of ownership limitations, gross income tests, and other limitations that must be observed for REIT qualification.

We have not engaged in trading, underwriting or agency distribution or sale of securities of other issuers and do not intend to do so. At all times we intend to make investments in a manner so as to qualify as a REIT unless, because of circumstances or changes to the Internal Revenue Code (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 apartment leases are for a term of one year or less. In an inflationary environment, this may allow us to realize increased rents upon renewal of existing leases or the beginning of new leases. Short-term leases generally minimize our risk from the adverse effects of inflation, although these leases generally permit residents to leave at the end of the lease term and therefore expose us to the effect of a decline in market rents. In a deflationary rent environment, we may be exposed to declining rents more quickly under these shorter-term leases.

Tax Matters

We filed an election with our 1994 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. While we believe that we are organized and qualified as a REIT and we intend to operate in a manner that will allow us to continue to qualify as a REIT, there can be no assurance that we will be successful in this regard. Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code for which there are limited judicial and administrative interpretations and involves the determination of a variety of factual matters and circumstances not entirely within our control.

Competition

We face competition from other real estate investors, including insurance companies, pension and investment funds, partnerships and investment companies and other 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 for both real estate assets and potential residents.

Environmental and Related Matters

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

Other Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our SEC filings are also available to the public from the SEC's website at www.sec.gov. In addition, you may read our SEC fillings at the offices of the New York Stock Exchange ("NYSE"), which is located at 20 Board Street, New York, New York 10005. Our SEC filings are available at the NYSE because our common stock and an outstanding series of preferred stock are listed on the NYSE.

We maintain a website at www.avalonbay.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934 are available free of charge in the "Investor Relations" section of our website as soon as reasonably practicable after the reports are filed with or furnished to the SEC. In addition, the charters of our Board's Nominating and Corporate Governance Committee, Audit Committee and Compensation Committee, as well as our Corporate Governance Guidelines and Code of Conduct, are available free of charge in that section of our website or by writing to AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Chief Financial Officer.

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, 2006, we had 1,767 employees.

ITEM 1a. RISK FACTORS

Our operations involve various risks that could have adverse consequences, including those described below. This Item 1a includes forward-looking statements. You should refer to our discussion of the qualifications and limitations on forward-looking statements on page 65.

Development, redevelopment and construction risks could affect our profitability.

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

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

We project construction costs based on market conditions at the time we prepare our budgets, and our projections include changes that we anticipate but cannot predict with certainty. Construction costs have been increasing, particularly for materials such as steel, concrete and lumber, and, for some of our Development Communities and Development Rights, the total construction costs may be higher than the original budget. Total capitalized cost includes all capitalized costs projected to be incurred to develop or redevelop a community, determined in accordance with United States Generally Accepted Accounting Principles (“GAAP”), including:

- land and/or property acquisition costs;
- construction or reconstruction costs;
- costs of environmental remediation;
- 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 or redevelopment communities complete lease-up will be sufficient to fully offset the effects of any increased construction or reconstruction costs.

Unfavorable changes in market and economic conditions could hurt occupancy or rental rates.

Local conditions in our markets significantly affect occupancy or rental rates at our communities. The risks that may adversely affect conditions in those markets include the following:

- plant closings, industry slowdowns and other factors that adversely affect the local economy;
- an oversupply of, or a reduced demand for, apartment homes;
- a decline in household formation or employment or lack of employment growth;
- the inability or unwillingness of residents to pay rent increases; and
- rent control or rent stabilization laws, or other laws regulating housing, that could prevent us from raising rents to offset increases in operating costs.

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

We must operate our communities in compliance with numerous federal, state and local laws and regulations, including landlord tenant laws and other laws generally applicable to business operations. Noncompliance with laws could expose us to liability.

Compliance with changes in (i) laws increasing the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions, (ii) rent control or rent stabilization laws or (iii) other governmental rules and regulations or enforcement policies affecting the use and operation of our communities, including changes to building codes and fire and life-safety codes, may result in lower revenue growth or significant unanticipated expenditures.

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

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

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

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

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

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

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

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

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

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

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

We have financed some of our apartment communities with obligations issued by local government agencies because the interest paid to the holders of this debt is generally exempt from federal income taxes and, therefore, the interest rate is generally more favorable to us. These obligations are commonly referred to as "tax-exempt bonds" and generally must be secured by communities. As a condition to obtaining tax-exempt financing, or on occasion as a condition to obtaining favorable zoning in some jurisdictions, we will commit to make some of the apartments in a community available to households whose income does not exceed certain thresholds (e.g., 50% or 80% of area median income), or who meet other qualifying tests. As of December 31, 2006, approximately 7% of our apartment homes at current operating communities were under use limitations such as these. These commitments, which may run without expiration or may expire after a period of time (such as 15 or 20 years) may limit our ability to raise rents aggressively and, in consequence, can also limit increases in the value of the communities subject to these restrictions.

In addition, some of our tax-exempt bond financing documents require us to obtain a guarantee from a financial institution of payment of the principal of, and interest on, the bonds. The guarantee may take the form of a letter of credit, surety bond, guarantee agreement or other additional collateral. If the financial institution defaults in its guarantee obligations, or if we are unable to renew the applicable guarantee or otherwise post satisfactory collateral, a default will occur under the applicable tax-exempt bonds and the community could be foreclosed upon.

Risks related to indebtedness.

We have a $650,000,000 revolving variable rate unsecured credit facility with JPMorgan Chase Bank, N.A., and Wachovia Bank, N.A., serving together as syndication agent and as banks, Bank of America, N.A., serving as administrative agent, swing lender, issuing bank and a bank, Morgan Stanley Bank, Wells Fargo Bank, N.A., and Deutsche Bank Trust Company Americas, serving collectively as documentation agent and as banks, and a syndicate of other financial institutions, serving as banks. Our organizational documents do not limit the amount or percentage of indebtedness that may be incurred. Accordingly, subject to compliance with outstanding debt covenants, we could incur more debt, resulting in an increased risk of default on our obligations and an increase in debt service requirements that could adversely affect our financial condition and results of operations.

The mortgages on those of our properties subject to secured debt, our unsecured credit facility and the indentures under which a substantial portion of our debt was issued contain customary restrictions, requirements and other limitations, as well as certain financial and operating covenants including maintenance of certain financial ratios. Maintaining compliance with these restrictions could limit our flexibility. A default in these requirements, if uncured, could result in a requirement that we repay indebtedness, which could severely affect our liquidity and increase our financing costs.

Failure to generate sufficient revenue could limit cash flow available for distributions to stockholders.

A decrease in rental revenue could have an adverse effect on our ability to pay distributions to our stockholders and our ability to maintain our status as a REIT. Significant expenditures associated with each community such as debt service payments, if any, real estate taxes, insurance and maintenance costs are generally not reduced when circumstances cause a reduction in income from a community.

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

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

Difficulty of selling apartment communities could limit flexibility.

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

Acquisitions may not yield anticipated results.

Subject to the requirements related to the Fund, we may in the future acquire apartment communities on a select basis. Our acquisition activities and their success may be exposed to the following risks:

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

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

We may from time to time commence development activity or make acquisitions outside of our existing market areas if appropriate opportunities arise. As noted in the business description above, we also own and operate retail space when a retail component represents the best use of the space, as is often the case with large urban in-fill developments. Also as noted in the business description above, we expect to develop, through a taxable REIT subsidiary, directly or through a joint venture partnership, one or more parcels with the intent to sell, which we believe represents the best use for those parcels. Our historical experience in our existing markets in developing, owning and operating rental communities does not ensure that we will be able to operate successfully in new markets, should we choose to enter them, or that we will be successful in these other activities. We may be exposed to a variety of risks if we choose to enter new markets, including an inability to evaluate accurately local apartment market conditions; an inability to obtain land for development or to identify appropriate acquisition opportunities; an inability to hire and retain key personnel; and lack of familiarity with local governmental and permitting procedures. We may be unsuccessful in owning and operating retail space at our communities or in developing real estate with the intent to sell.

Risks involved in real estate activity through joint ventures.

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

Risks associated with an investment in and management of a discretionary investment fund.

We have formed the Fund which, through a wholly-owned subsidiary, we manage as the general partner and to which we have committed $50,000,000, representing an approximate 15% equity interest. This presents risks, including the following:

- investors in the Fund may fail to make their capital contributions when due and, as a result, the Fund may be unable to execute its investment objectives;
- our subsidiary that is the general partner of the Fund is generally liable, under partnership law, for the debts and obligations of the Fund, subject to certain exculpation and indemnification rights pursuant to the terms of the partnership agreement of the Fund;
- investors in the Fund holding a majority of the partnership interests may remove us as the general partner without cause, subject to our right to receive an additional nine months of management fees after such removal and our right to acquire one of the properties then held by the Fund;
- while we have broad discretion to manage the Fund and make investment decisions on behalf of the Fund, the investors or an advisory committee comprised of representatives of the investors must approve certain matters, and as a result we may be unable to cause the Fund to make certain investments or implement certain decisions that we consider beneficial;
- we can develop communities but are generally prohibited from making acquisitions of apartment communities outside of the Fund until the earlier of March 16, 2008 or until 80% of the Fund's committed capital is invested, subject to certain exceptions; and
- we may be liable if either the Fund, or the REIT through which a number of investors have invested in the Fund and which we manage, fails to comply with various tax or other regulatory matters.

Risk of earthquake damage.

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

Insurance coverage for earthquakes is expensive due to limited industry capacity. As a result, we may experience shortages in desired coverage levels if market conditions are such that insurance is not available.

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

In addition to the earthquake insurance discussed above, we carry commercial general liability insurance, property insurance and terrorism insurance with respect to our communities on terms we consider commercially reasonable.

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

We may incur costs and increased expenses to repair property damage resulting from inclement weather.

Particularly in the Northeast and Midwest we are exposed to risks associated with inclement winter weather, including increased costs for the removal of snow and ice as well as from delays in construction. In addition, inclement weather could increase the need for maintenance and repair of our communities.

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

Under various federal, state and local environmental laws, regulations and ordinances, we may be required, regardless of knowledge or responsibility, to investigate and remediate the effects of hazardous or toxic substances or petroleum product releases at our properties and may be held liable under these laws or common law to a governmental entity or to third parties for property, personal injury or natural resources damages and for investigation and remediation costs incurred as a result of the contamination. These damages and costs may be substantial. The presence of such substances, or the failure to properly remediate the contamination, may adversely affect our 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.

The development, construction and operation of our communities are subject to regulations and permitting under various federal, state and local laws, regulations and ordinances, which regulate matters including wetlands protection, storm water runoff and wastewater discharge. Noncompliance with such laws and regulations may subject us to fines and penalties. We do not currently anticipate that we will incur any material liabilities as a result of noncompliance with these laws.

Certain federal, state and local laws, regulations and ordinances govern the removal, encapsulation or disturbance of asbestos containing materials ("ACMs") when such materials are in poor condition or in the event of renovation or demolition of a building. These laws and the common law may impose liability for release of ACMs and may allow third parties to seek recovery from owners or operators of real properties for personal injury associated with exposure to ACMs. We are not aware that any ACMs were used in the construction of the communities we developed. ACMs were, however, used in the construction of several of the communities that we acquired. We implement an operations and maintenance program at each of the communities at which ACMs are detected. We do not currently 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 currently 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 operation. In connection with our ownership, operation and development of communities, from time to time we undertake substantial remedial action in response to the presence of subsurface or other contaminants. In some cases, an indemnity exists upon which we may be able to rely if environmental liability arises from the contamination or remediation costs exceed estimates.

There can be no assurance, however, that all necessary remediation actions have been or will be undertaken at our properties or that we will be indemnified, in full or at all, in the event that environmental liability arises.

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

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 arise at communities that we have sold for which we may have liability.

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

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

We believe that we are organized and qualified as a REIT, and we intend to operate in a manner that will allow us to continue to qualify as a REIT. However, we cannot assure you that we are qualified as a REIT, or that we will remain qualified in the future. This is because qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code for which there are only limited judicial and administrative interpretations and involves the determination of a variety of factual matters and circumstances not entirely within our control. In addition, future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for federal income tax purposes or the federal income tax consequences of this qualification.

Even if we qualify as a REIT, we will be subject to certain federal, state and local taxes on our income and property and on taxable income that we do not distribute to our shareholders. In addition, we may engage in activities through taxable subsidiaries and will be subject to federal income tax at regular corporate rates on the income of those subsidiaries.

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

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

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

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

Our bylaws provide that the affirmative vote of holders of a majority of all of the shares entitled to be cast in the election of directors is required to elect a director. In a contested election, if no nominee receives the vote of holders of a majority of all of the shares entitled to be cast, the incumbent directors would remain in office. This requirement may prevent or delay a change in control and, as a result, could adversely affect our stockholders' ability to realize a premium for their shares of common stock.

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

ITEM 1b. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. COMMUNITIES

Our real estate investments consist primarily of current operating apartment communities, communities in various stages of development ("Development Communities") and Development Rights as defined below. Our current operating communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities 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 consolidated communities where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year. For the year ended December 31, 2006, the Established Communities are communities that are consolidated for financial reporting purposes, had stabilized occupancy and operating expenses as of January 1, 2005, 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 we own or have a direct or indirect ownership interest in, and that have stabilized occupancy, as defined above. Other Stabilized Communities do not include communities that are conducting or planning to conduct substantial redevelopment activities within the current year.
- *Lease-Up Communities* are communities where construction has been complete for less than one year and where physical occupancy has not reached 95%.
- *Redevelopment Communities* are communities where substantial redevelopment is in progress or is planned to begin during the current year. For communities that we wholly own, redevelopment is considered substantial when capital invested during the reconstruction effort is expected to exceed the lesser of $5,000,000 or 10% of the community's acquisition cost. The definition of substantial redevelopment may differ for communities owned through a joint venture arrangement.

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.

In addition, we own approximately 60,000 square feet of office space in Alexandria, Virginia, for our corporate office, with all other regional and administrative offices leased under operating leases.

As of December 31, 2006, communities that we owned or held a direct or indirect interest in were classified as follows:

	Number of communities	Number of apartment homes
Current Communities		
Established Communities:		
Northeast	35	8,674
Mid-Atlantic	17	5,413
Midwest	3	887
Pacific Northwest	10	2,500
Northern California	29	8,450
Southern California	11	3,430
Total Established	105	29,354
Other Stabilized Communities:		
Northeast	19	6,088
Mid-Atlantic	5	1,397
Midwest	2	460
Pacific Northwest	1	211
Northern California	3	603
Southern California	7	2,128
Total Other Stabilized	37	10,887
Lease-Up Communities	2	519
Redevelopment Communities	6	2,381
Total Current Communities	150	43,141
Development Communities	17	5,153
Development Rights	54	14,185

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

Current Communities

Our Current Communities are primarily garden-style apartment communities consisting of two and three-story buildings in landscaped settings. In January 2007, the Fund acquired one community containing 392 apartment homes. The Current Communities, as of January 31, 2007, include 115 garden-style (of which 15 are mixed communities and include townhomes), 21 high-rise and 15 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.

Our Current Communities are located in the following geographic markets:

	Number of communities at		Number of apartment homes at		Percentage of total apartment homes at	
	1-1-06	1-31-07	1-1-06	1-31-07	1-1-06	1-31-07
Northeast	**55**	**56**	**15,671**	**15,732**	**37.8%**	**36.1%**
Boston, MA	18	18	4,514	4,490	10.9%	10.3%
Fairfield County, CT	16	14	4,375	3,812	10.6%	8.8%
Long Island, NY	3	6	915	1,621	2.2%	3.7%
Northern New Jersey	3	3	1,182	1,182	2.9%	2.7%
Central New Jersey	5	6	1,752	2,042	4.2%	4.7%
New York, NY	10	9	2,933	2,585	7.1%	5.9%
Mid-Atlantic	**21**	**24**	**6,859**	**7,622**	**16.6%**	**17.5%**
Baltimore, MD	6	9	1,224	1,987	3.0%	4.6%
Washington, DC	15	15	5,635	5,635	13.6%	12.9%
Midwest	**6**	**7**	**1,696**	**1,952**	**4.1%**	**4.5%**
Chicago, IL	6	7	1,696	1,952	4.1%	4.5%
Pacific Northwest	**12**	**12**	**3,111**	**3,111**	**7.5%**	**7.2%**
Seattle, WA	12	12	3,111	3,111	7.5%	7.2%
Northern California	**32**	**33**	**9,203**	**9,366**	**22.2%**	**21.5%**
Oakland-East Bay, CA	7	7	2,089	2,089	5.0%	4.8%
San Francisco, CA	9	11	2,015	2,489	4.9%	5.7%
San Jose, CA	16	15	5,099	4,788	12.3%	11.0%
Southern California	**16**	**19**	**4,872**	**5,750**	**11.8%**	**13.2%**
Los Angeles, CA	7	9	2,448	3,006	5.9%	6.9%
Orange County, CA	6	7	1,366	1,686	3.3%	3.9%
San Diego, CA	3	3	1,058	1,058	2.6%	2.4%
	142	151	41,412	43,533	100.0%	100.0%

We manage and operate substantially all of our Current Communities. During the year ended December 31, 2006, including communities owned by joint ventures and the Fund, we completed construction of 1,368 apartment homes in six communities, acquired 1,397 apartment homes in six communities and sold 1,036 apartment homes in four communities. The average age of our Current Communities, on a weighted average basis according to number of apartment homes, is 14.1 years. When adjusted to reflect redevelopment activity, as if redevelopment were a new construction completion date, the average age of our Current Communities is 9.3 years.

Of the Current Communities, as of January 31, 2007, we own:

- a full fee simple, or absolute, ownership interest in 113 operating communities, six of which are on land subject to land leases expiring in November 2028, July 2029, December 2034, January 2062, April 2095, and March 2142;
- a general partnership interest in two partnerships that each own a fee simple interest in an operating community;
- a general partnership interest and an indirect limited partnership interest in the Fund, which owns a fee simple interest in 14 operating communities;
- a general partnership interest in five partnerships structured as "DownREITs," as described more fully below, that own an aggregate of 16 communities;
- a membership interest in five limited liability companies that each hold a fee simple interest in an operating community, three of which are on land subject to land leases expiring in December 2026, November 2089, and December 2103; and

- a residual profits interest (with no ownership interest) in a limited liability company to which an operating community was transferred upon completion of construction in the second quarter of 2006.

We also hold, directly or through wholly-owned subsidiaries, the full fee simple ownership interest in 17 of the Development Communities.

In each of our five 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. The holders of units of limited partnership interest have the right to present all or some of their units for redemption for a cash amount as determined by the applicable partnership agreement and based on the fair value of our common stock. In lieu of a cash redemption by the partnership, we may elect to acquire any unit presented for redemption for one share of our common stock or for such cash amount. As of January 31, 2007, there were 144,955 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 12/31/06	Average economic occupancy 2006	Average economic occupancy 2005	Average rental rate $ per Apt (4)	Average rental rate $ per Sq. Ft.	Financial reporting cost (5)
CURRENT COMMUNITIES												
NORTHEAST												
Boston, MA												
Avalon at Bedford Center	Bedford, MA	139	159,704	38.0	2006	1,149	95.7%	85.4%(3)	17.1%	$ 1,705	$ 1.27(3)	24,716
Avalon at Center Place (11)	Providence, RI	225	222,834	1.2	1991/1997	990	88.0%	93.8%	95.6%	2,247	2.13	28,744
Avalon at Crane Brook	Danvers & Peabody, MA	387	410,454	20.0	2004	1,271	95.3%	95.5%	85.6%	1,349	1.21	54,781
Avalon at Faxon Park	Quincy, MA	171	175,649	8.3	1998	1,027	95.3%	96.3%	95.7%	1,596	1.50	15,657
Avalon at Flanders Hill	Westborough, MA	280	299,828	62.0	2003	1,099	95.7%	95.4%	97.0%	1,515	1.35	37,202
Avalon at Lexington	Lexington, MA	198	230,277	16.1	1994	1,163	98.0%	95.9%	97.1%	1,775	1.46	16,034
Avalon at Newton Highlands (8)	Newton, MA	294	339,484	7.0	2003	1,177	95.2%	95.2%	96.0%	2,220	1.83	56,664
Avalon at Prudential Center	Boston, MA	780	732,237	1.0	1968/1998	939	97.4%	97.5%	96.8%	2,767	2.87	156,653
Avalon at Steven's Pond	Saugus, MA	326	381,825	82.6	2004	1,106	96.0%	95.7%	94.6%	1,587	1.30	54,285
Avalon at The Pinehills I	Plymouth, MA	101	151,712	6.0	2004	1,954	96.0%	93.4%	83.9%	1,814	1.13	19,943
Avalon Essex	Peabody, MA	154	198,478	11.1	2000	1,289	98.1%	97.3%	96.6%	1,605	1.21	21,817
Avalon Ledges	Weymouth, MA	304	329,822	57.6	2002	1,023	95.4%	95.3%	94.3%	1,432	1.26	36,367
Avalon Oaks	Wilmington, MA	204	229,752	22.5	1999	1,023	98.5%	95.1%	93.5%	1,515	1.28	21,257
Avalon Oaks West	Wilmington, MA	120	133,376	27.0	2002	1,033	97.5%	93.7%	93.8%	1,432	1.21	16,844
Avalon Orchards	Marlborough, MA	156	176,497	23.0	2002	1,219	95.5%	96.4%	97.2%	1,495	1.27	21,150
Avalon Summit	Quincy, MA	245	224,418	8.0	1986/1996	916	97.6%	95.5%	95.2%	1,221	1.27	17,345
Avalon West	Westborough, MA	120	147,472	8.0	1996	1,229	95.8%	95.9%	96.7%	1,432	1.12	11,332
Essex Place	Peabody, MA	286	250,322	18.0	2004	875	96.2%	97.8%	96.3%	1,090	1.22	23,727
Fairfield-New Haven, CT												
Avalon at Greyrock Place	Stamford, CT	306	314,600	3.0	2002	1,040	97.4%	97.9%	97.6%	2,088	1.99	70,393
Avalon Danbury	Danbury, CT	234	235,320	36.0	2005	1,006	94.0%	94.5%	40.8%(3)	1,619	1.52	35,454
Avalon Darien	Darien, CT	189	242,533	32.0	2004	1,282	95.8%	93.7%	97.7%	2,500	1.82	41,519
Avalon Gates	Trumbull, CT	340	379,282	37.0	1997	1,116	95.0%	98.1%	96.3%	1,554	1.37	37,105
Avalon Glen	Stamford, CT	238	229,644	4.1	1991	965	93.7%	97.2%	98.0%	1,878	1.89	32,143
Avalon Haven	North Haven, CT	128	139,972	10.6	2000	1,094	96.1%	97.4%	95.9%	1,511	1.35	13,987
Avalon Milford I	Milford, CT	246	216,746	22.0	2004	886	95.9%	98.1%	93.9%	1,363	1.52	31,441
Avalon New Canaan (7)	New Canaan, CT	104	131,782	9.1	2002	1,251	92.3%	95.7%	96.4%	2,910	2.20	24,364
Avalon on Stamford Harbor	Stamford, CT	323	323,587	12.1	2003	1,002	98.8%	97.6%	96.5%	2,334	2.27	62,886
Avalon Orange	Orange, CT	168	163,238	9.6	2005	972	95.2%	97.9%	64.1%(3)	1,436	1.45	22,096
Avalon Springs	Wilton, CT	102	158,259	12.0	1996	1,552	95.1%	92.7%	93.9%	2,845	1.70	17,194
Avalon Valley	Danbury, CT	268	300,044	17.1	1999	1,070	97.4%	98.1%	94.9%	1,621	1.42	26,310
Avalon Walk I & II	Hamden, CT	764	766,604	38.4	1992/1994	996	89.9%	91.7%(2)	93.2%	1,242	1.14(2)	65,461
Long Island, NY												
Avalon at Glen Cove South	Glen Cove, NY	256	261,425	4.0	2004	1,050	96.9%	95.5%	95.8%	2,289	2.14	67,902
Avalon Commons	Smithtown, NY	312	377,240	20.6	1997	1,209	96.8%	97.1%	97.4%	2,014	1.62	33,715
Avalon Court	Melville, NY	494	596,942	35.4	1997/2000	1,208	96.4%	96.3%	96.8%	2,394	1.91	59,822
Avalon Pines I	Coram, NY	298	362,124	32.0	2005	1,485	95.3%	95.9%	71.6%(3)	1,816	1.43	46,537
Avalon Pines II	Coram, NY	152	185,954	42.0	2006	1,223	98.7%	71.0%(3)	N/A	2,310	1.34(3)	23,866
Avalon Towers	Long Beach, NY	109	124,611	1.3	1990/1995	1,143	98.2%	97.7%	97.7%	3,339	2.85	21,278

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Northern New Jersey												
Avalon at Edgewater	Edgewater, NJ	408	428,611	7.6	2002	1,051	96.3%	95.8%	96.3%	2,269	2.07	75,214
Avalon at Florham Park	Florham Park, NJ	270	330,410	41.9	2001	1,224	95.6%	97.6%	96.4%	2,467	1.97	41,816
Avalon Cove	Jersey City, NJ	504	575,334	11.0	1997	1,142	98.8%	97.7%	97.5%	2,677	2.29	92,872
Central New Jersey												
Avalon at Freehold	Freehold, NJ	296	317,331	40.3	2002	1,072	98.0%	96.3%	95.6%	1,679	1.51	34,748
Avalon Run (13)	Lawrenceville, NJ	426	443,168	9.0	1994	1,010	95.8%	94.6%	95.5%	1,401	1.27	60,045
Avalon Run East	Lawrenceville, NJ	206	257,938	27.1	1996	1,287	97.1%	95.8%	96.0%	1,594	1.22	16,358
Avalon Run East II (8)	Lawrenceville, NJ	312	341,320	70.5	2003	1,095	96.5%	96.2%	87.6%	1,722	1.51	52,144
Avalon Watch	West Windsor, NJ	512	486,069	64.4	1988	949	96.1%	96.4%	95.3%	1,368	1.39	30,138
New York, NY												
Avalon Bowery Place I	New York, NY	206	162,000	1.1	2006	786	59.7%	32.2%(3)	N/A	3,418	1.40(3)	89,577
Avalon Gardens	Nanuet, NY	504	608,842	62.5	1998	1,208	95.2%	97.0%	97.8%	2,035	1.63	55,112
Avalon Green	Elmsford, NY	105	113,538	16.9	1995	1,081	94.3%	96.5%	96.3%	2,148	1.92	13,243
Avalon on the Sound (11)	New Rochelle, NY	412	372,860	2.4	2001	905	96.4%	96.2%	96.2%	2,237	2.38	117,098
Avalon Riverview I (11)	Long Island City, NY	372	332,947	1.0	2002	895	97.0%	96.7%	96.7%	2,956	3.19	94,561
Avalon View	Wappingers Falls, NY	288	327,547	41.0	1993	1,137	92.0%	95.0%	92.7%	1,320	1.10	19,267
Avalon Willow	Mamaroneck, NY	227	199,842	4.0	2000	880	98.2%	98.9%	96.4%	2,044	2.29	47,514
The Avalon	Bronxville, NY	110	119,410	1.5	1999	1,085	96.4%	97.0%	96.4%	3,438	3.07	31,356
MID-ATLANTIC												
Baltimore, MD												
Avalon at Fairway Hills I & II	Columbia, MD	384	386,344	23.8	1987/1996	1,005	95.1%	97.0%	94.7%	1,207	1.16	22,771
Avalon at Fairway Hills III	Columbia, MD	336	337,683	20.2	1987/1996	1,005	94.9%	95.1%(2)	91.1% (2)	1,293	1.22(2)	29,353
Avalon at Symphony Glen	Columbia, MD	176	179,880	10.0	1986	1,022	91.0%	96.6%	95.9%	1,200	1.13	9,355
Avalon Landing	Annapolis, MD	158	117,033	13.8	1984/1995	741	97.5%	97.8%	97.2%	1,177	1.55	10,188
Southgate Crossing	Columbia, MD	215	212,420	12.7	1986/2006	988	95.3%	93.8%	N/A	248	0.24	36,358
Washington, DC												
AutumnWoods	Fairfax, VA	420	355,228	24.3	1989/1996	846	86.4%	94.6%(2)	95.2%	1,225	1.37(2)	33,201
Avalon at Arlington Square	Arlington, VA	842	901,120	20.1	2001	1,070	97.1%	96.5%	94.7%	1,770	1.60	112,609
Avalon at Ballston — Washington Towers	Arlington, VA	344	294,954	4.1	1990	857	95.9%	97.8%	97.2%	1,602	1.83	38,110
Avalon at Cameron Court	Alexandria, VA	460	467,292	16.0	1998	1,016	95.2%	97.3%	95.3%	1,725	1.65	43,533
Avalon at Decoverly	Rockville, MD	368	368,374	24.0	1991/1995	1,001	94.8%	97.0%	95.3%	1,369	1.33	32,298
Avalon at Foxhall	Washington, DC	308	297,875	2.7	1982	967	98.7%	96.6%	94.3%	2,050	2.05	44,388
Avalon at Gallery Place I	Washington, DC	203	184,230	0.5	2003	903	97.5%	95.7%	95.6%	2,235	2.36	48,873
Avalon at Grosvenor Station (8)	North Bethesda, MD	497	477,459	10.0	2004	963	96.8%	97.3%	95.7%	1,627	1.65	82,157
Avalon at Providence Park	Fairfax, VA	141	148,282	9.3	1988/1997	1,052	100.0%	96.9%	96.8%	1,387	1.28	11,680
Avalon at Rock Spring (9) (11)	North Bethesda, MD	386	388,232	10.2	2003	1,006	97.2%	96.6%	94.9%	1,659	1.59	46,260
Avalon at Traville (8)	North Potomac, MD	520	573,717	47.9	2004	1,103	96.5%	97.7%	94.7%	1,595	1.41	69,747
Avalon Crescent	McLean, VA	558	613,426	19.1	1996	1,099	96.1%	96.0%	96.2%	1,770	1.55	57,601
Avalon Fields I & II	Gaithersburg, MD	288	292,282	9.2	1998	1,050	92.7%	97.0%	95.7%	1,350	1.29	22,778
Avalon Knoll	Germantown, MD	300	290,544	26.7	1985	968	95.7%	97.2%	95.8%	1,147	1.15	9,395

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MIDWEST												
Chicago, IL												
Avalon Arlington Heights	Arlington Heights, IL	409	346,416	2.8	1987/2000	848	91.9%	92.9%(2)	95.0%	1,374	1.51(2)	55,857
Avalon at Danada Farms (8)	Wheaton, IL	295	350,606	19.2	1997	1,188	95.9%	95.3%	95.6%	1,346	1.08	38,972
Avalon at Stratford Green (8)	Bloomingdale, IL	192	237,084	12.7	1997	1,235	95.3%	95.9%	95.1%	1,322	1.03	22,164
Avalon at West Grove (8)	Westmont, IL	400	388,500	17.4	1967	971	94.5%	95.0%	96.2%	881	0.86	31,272
PACIFIC NORTHWEST												
Seattle, WA												
Avalon at Bear Creek (8)	Redmond, WA	264	288,250	22.2	1998	1,092	95.8%	96.3%	94.6%	1,174	1.04	34,857
Avalon Bellevue	Bellevue, WA	202	167,069	1.7	2001	827	98.0%	96.5%	95.8%	1,361	1.59	30,862
Avalon Belltown	Seattle, WA	100	82,418	0.7	2001	824	96.0%	96.4%	95.5%	1,610	1.88	18,444
Avalon Brandemoor (8)	Lynwood, WA	424	453,602	27.0	2001	1,070	96.0%	96.8%	96.6%	1,034	0.94	45,646
Avalon HighGrove (8)	Everett, WA	391	422,482	19.0	2000	1,081	96.4%	96.5%	94.9%	962	0.86	39,879
Avalon ParcSquare (8)	Redmond, WA	124	126,951	2.0	2000	1,024	94.4%	96.4%	95.4%	1,371	1.29	19,245
Avalon Redmond Place (8)	Redmond, WA	222	211,450	8.4	1991/1997	952	94.6%	96.7%	96.4%	1,116	1.13	26,409
Avalon RockMeadow (8)	Bothell, WA	206	243,958	11.2	2000	1,184	97.1%	96.1%	95.0%	1,132	0.92	24,806
Avalon WildReed (8)	Everett, WA	234	259,080	23.0	2000	1,107	96.2%	96.7%	95.7%	955	0.83	23,095
Avalon Wynhaven (8)	Issaquah, WA	333	424,803	11.6	2001	1,276	93.7%	95.4%	94.0%	1,286	0.96	52,844
NORTHERN CALIFORNIA												
Oakland-East Bay, CA												
Avalon at Union Square	Union City, CA	208	150,320	8.5	1973/1996	723	98.1%	96.7%	96.9%	1,106	1.48	22,581
Avalon at Willow Creek	Fremont, CA	235	191,935	13.5	1985/1994	817	100.0%	97.7%	96.9%	1,336	1.60	36,212
Avalon Dublin	Dublin, CA	204	179,004	13.0	1989/1997	877	96.6%	97.2%	96.2%	1,400	1.55	27,866
Avalon Fremont I	Fremont, CA	308	316,052	14.3	1994	1,026	95.8%	96.9%	96.3%	1,583	1.49	56,612
Avalon Pleasanton	Pleasanton, CA	456	366,062	14.7	1988/1994	803	97.4%	96.8%	95.9%	1,304	1.57	62,350
Waterford	Hayward, CA	544	452,043	11.1	1985/1986	831	95.6%	95.6%	94.9%	1,154	1.33	61,686
San Francisco, CA												
Avalon at Cedar Ridge	Daly City, CA	195	141,411	7.0	1972/1997	725	97.4%	96.8%	96.0%	1,404	1.87	26,546
Avalon at Diamond Heights	San Francisco, CA	154	123,047	3.0	1972/1994	799	98.1%	97.4%	95.9%	1,649	2.01	25,327
Avalon at Mission Bay North	San Francisco, CA	250	243,089	1.4	2003	977	92.8%	95.2%	95.5%	3,057	2.99	92,812
Avalon at Nob Hill	San Francisco, CA	185	108,745	1.4	1990/1995	588	97.3%	96.4%	96.3%	1,672	2.74	28,071
Avalon Foster City	Foster City, CA	288	222,364	11.0	1973/1994	772	97.9%	97.1%	97.0%	1,377	1.73	43,588
Avalon Pacifica	Pacifica, CA	220	186,800	21.9	1971/1995	849	96.8%	96.7%	96.1%	1,495	1.70	32,165
Avalon Sunset Towers	San Francisco, CA	243	171,800	16.0	1961/1996	707	95.9%	96.7%	97.4%	1,714	2.34	28,778
Avalon Towers by the Bay	San Francisco, CA	227	243,090	1.0	1999	1,071	97.8%	96.8%	96.2%	2,843	2.57	67,006
Crowne Ridge	San Rafael, CA	254	221,635	21.9	1973/1996	873	98.4%	96.3%	95.8%	1,324	1.46	33,063

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San Jose, CA												
Avalon at Blossom Hill	San Jose, CA	324	323,496	7.5	1995	998	97.8%	96.7%	96.2%	1,484	1.44	62,060
Avalon at Cahill Park	San Jose, CA	218	218,177	3.8	2002	1,001	95.9%	97.0%	97.1%	1,868	1.81	52,570
Avalon at Creekside	Mountain View, CA	294	215,680	13.0	1962/1997	734	98.0%	97.7%	96.5%	1,257	1.67	43,423
Avalon at Foxchase I & II	San Jose, CA	396	334,956	12.0	1988/1987	844	97.5%	96.9%	96.0%	1,247	1.43	60,670
Avalon at Parkside	Sunnyvale, CA	192	203,990	8.0	1991/1996	1,062	99.5%	98.0%	97.4%	1,655	1.53	38,218
Avalon at Pruneyard	Campbell, CA	252	197,000	8.5	1968/1997	782	99.6%	97.4%	97.0%	1,251	1.56	32,141
Avalon at River Oaks	San Jose, CA	226	210,050	4.0	1990/1996	929	97.3%	97.6%	96.7%	1,487	1.56	45,009
Avalon Campbell	Campbell, CA	348	326,796	10.8	1995	939	98.3%	96.9%	96.2%	1,528	1.58	60,114
Avalon Mountain View (7)	Mountain View, CA	248	211,552	10.5	1986	853	96.4%	95.9%	95.1%	1,567	1.76	51,609
Avalon on the Alameda	San Jose, CA	305	299,762	8.9	1999	983	97.0%	96.9%	95.2%	1,850	1.82	56,506
Avalon Rosewalk	San Jose, CA	456	448,488	16.6	1997/1999	984	98.0%	96.4%	95.7%	1,480	1.45	79,364
Avalon Silicon Valley	Sunnyvale, CA	710	653,929	13.6	1997	921	95.2%	96.5%	95.8%	1,732	1.81	122,123
Avalon Towers on the Peninsula	Mountain View, CA	211	218,392	1.9	2002	1,035	97.6%	96.5%	96.7%	2,422	2.26	65,752
CountryBrook (8)	San Jose, CA	360	322,992	14.0	1985/1996	897	99.4%	97.8%	96.8%	1,347	1.47	48,790
San Marino	San Jose, CA	248	209,000	11.5	1984/1988	843	99.2%	97.4%	96.7%	1,249	1.44	35,017
SOUTHERN CALIFORNIA												
Los Angeles, CA												
Avalon at Media Center	Burbank, CA	748	530,084	14.1	1961/1997	709	96.7%	95.7%	95.9%	1,370	1.85	76,461
Avalon at Warner Center	Woodland Hills, CA	227	191,114	7.0	1979/1998	842	96.0%	96.8%	97.5%	1,614	1.86	26,943
Avalon Camarillo	Camarillo, CA	249	233,267	10.0	2006	937	99.2%	54.4%(3)	N/A	3,196	1.85(3)	47,174
Avalon Glendale (11)	Burbank, CA	223	241,714	5.1	2003	1,084	96.0%	95.4%	95.7%	2,237	1.97	40,248
Avalon Woodland Hills	Woodland Hills, CA	663	594,396	18.2	1989/1997	897	97.0%	95.5%	96.0%	1,491	1.59	72,073
The Promenade	Burbank, CA	400	360,587	6.9	1988/2002	901	98.0%	97.4%	96.9%	1,759	1.90	71,003
Avalon Del Rey (9)(12)	Los Angeles, CA	309	284,636	5.0	2006	921	97.4%	51.5%(3)	N/A	3,710	2.07(3)	65,075
Orange County, CA												
Avalon at Pacific Bay	Huntington Beach, CA	304	268,000	9.7	1971/1997	882	96.7%	96.0%	96.7%	1,455	1.58	32,296
Avalon at South Coast	Costa Mesa, CA	258	207,672	8.0	1973/1996	805	98.1%	98.3%	97.2%	1,356	1.66	25,490
Avalon Mission Viejo	Mission Viejo, CA	166	124,600	7.8	1984/1996	751	95.8%	95.5%	95.4%	1,233	1.57	14,012
Avalon Newport	Costa Mesa, CA	145	122,415	6.6	1956/1996	844	100.0%	98.2%	97.5%	1,566	1.82	10,352
Avalon Santa Margarita	Rancho Santa Margarita, CA	301	229,593	20.0	1990/1997	763	97.7%	96.9%	96.5%	1,295	1.64	24,361
San Diego, CA												
Avalon at Cortez Hill	San Diego, CA	294	226,140	1.4	1973/1998	769	95.6%	95.1%	95.0%	1,404	1.74	34,556
Avalon at Mission Bay	San Diego, CA	564	402,285	12.9	1969/1997	713	97.3%	95.7%	95.1%	1,378	1.85	66,281
Avalon at Mission Ridge	San Diego, CA	200	207,625	4.0	1960/1997	1,038	97.0%	96.3%	96.1%	1,509	1.40	22,421

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DEVELOPMENT COMMUNITIES												
Avalon at Decoverly II	Rockville, MD	196	182,560	10.8	N/A	931	N/A	N/A	N/A	N/A	N/A	29,423
Avalon at Dublin Station I	Dublin, CA	305	299,329	4.7	N/A	981	N/A	N/A	N/A	N/A	N/A	42,351
Avalon at Glen Cove North (11)	Glen Cove, NY	111	101,161	1.3	N/A	911	N/A	N/A	N/A	N/A	N/A	27,137
Avalon at Lexington Hills	Lexington, MA	387	487,139	2.3	N/A	1,259	N/A	N/A	N/A	N/A	N/A	22,611
Avalon Acton	Acton, MA	380	353,790	5.0	N/A	931	N/A	N/A	N/A	N/A	N/A	16,672
Avalon Bowery Place II	New York, NY	90	73,624	1.1	N/A	838	N/A	N/A	N/A	N/A	N/A	15,007
Avalon Chestnut Hill	Chestnut Hill, MA	204	275,563	4.7	N/A	1,351	N/A	N/A	N/A	N/A	N/A	59,926
Avalon Danvers	Danvers, MA	433	493,095	75.0	N/A	1,139	N/A	N/A	N/A	N/A	N/A	46,433
Avalon Encino	Los Angeles, CA	131	131,252	2.0	N/A	1,002	N/A	N/A	N/A	N/A	N/A	22,871
Avalon Lyndhurst	Lyndhurst, NJ	328	331,122	5.8	N/A	1,010	N/A	N/A	N/A	N/A	N/A	64,226
Avalon Meydenbauer	Bellevue, WA	368	329,613	3.6	N/A	896	N/A	N/A	N/A	N/A	N/A	36,089
Avalon on the Sound II (11)	New Rochelle, NY	588	561,981	1.7	N/A	956	N/A	N/A	N/A	N/A	N/A	102,073
Avalon Riverview North	Long Island City, NY	602	477,657	1.8	N/A	793	N/A	N/A	N/A	N/A	N/A	85,814
Avalon Shrewsbury	Shrewbury, MA	251	209,548	25.5	N/A	835	N/A	N/A	N/A	N/A	N/A	33,543
Avalon Wilshire	Los Angeles, CA	123	125,109	1.6	N/A	1,017	N/A	N/A	N/A	N/A	N/A	38,338
Avalon Woburn	Woburn, MA	446	483,995	56.0	N/A	1,085	N/A	N/A	N/A	N/A	N/A	61,277
Avalon Canoga Park	Conoga Park, CA	210	186,599	3.3	N/A	889	N/A	N/A	N/A	N/A	N/A	14,031
UNCONSOLIDATED COMMUNITIES												
Aurora at Yerba Buena (6)	San Francisco, CA	160	125,636	0.9	2000/2006	785	94.4%	95.4%(3)	N/A	2,523	3.07(3)	N/A
Avalon at Aberdeen Station (6)	Aberdeen, NJ	290	296,033	16.8	2002/2006	1,021	97.0%	95.0%(3)	N/A	1,736	1.61(3)	N/A
Avalon at Mission Bay North II (9)(11)	San Francisco, CA	313	291,817	1.5	2006	932	36.4%	27.8%(3)	N/A	9,048	2.69(3)	N/A
Avalon at Poplar Creek (6)	Schaumburg, IL	196	178,490	12.8	1986/2005	911	90.8%	95.9%(2)	94.3%(3)	1,073	1.13(2)	N/A
Avalon Chrystie Place I (9)(11)	New York, NY	361	266,940	1.5	2005	739	98.6%	98.4%	62.5%(3)	3,125	4.16	N/A
Avalon Columbia (6)	Columbia, MD	170	177,284	11.3	1989/2004	1,043	96.5%	96.1%(2)	84.4%(3)	1,273	1.17(2)	N/A
Avalon Grove (9)	Stamford, CT	402	365,252	5.1	1996	906	96.8%	96.9%	96.6%	2,101	2.24	N/A
Avalon Lakeside (6)	Wheaton, IL	204	162,821	12.4	2004	798	96.6%	95.5%	79.6%	894	1.07	N/A
Avalon at Redondo Beach (6)	Redondo Beach, CA	105	85,380	1.2	1971/2004	813	97.1%	94.4%	95.9%	1,929	2.24	N/A
Cedar Valley (6)	Columbia, MD	156	150,276	11.4	1972/2006	963	97.0%	96.6%(3)	N/A	1,187	1.19	N/A
Civic Center (6)	Norwalk, CA	192	173,568	8.7	1987/2005	904	89.1%	94.8%(2)	98.6%(3)	1,468	1.54(2)	N/A
Fuller Martel (6)	Los Angeles, CA	82	71,846	0.8	1987/2005	876	96.3%	96.1%	97.4%(3)	1,650	1.81	N/A
Paseo Park (6)	Fremont, CA	134	105,900	7.0	1987/2005	790	100.0%	96.9%	96.0%(3)	1,114	1.37(3)	N/A
Avalon Redmond (6)	Redmond, WA	400	340,448	24.0	1983/2004	851	87.5%	88.4%(2)	93.9%	1,016	1.06(2)	N/A
The Covington (6)	Schaumburg, IL	256	201,924	13.2	1988/2006	789	85.9%	83.8%(3)	N/A	1,008	1.07(3)	N/A
Avalon Juanita Village (10)	Kirkland, WA	211	207,511	2.9	2005	983	94.3%	94.1%	45.4%(3)	1,289	1.23	N/A
The Springs (6)	Corona, CA	320	241,440	13.3	1987/2006	755	94.1%	94.7%(3)	N/A	1,066	1.34(3)	N/A

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

(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, 2006. Financial reporting costs are excluded for unconsolidated communities, see Note 6, "Investments in Unconsolidated Entities" of our Consolidated Financial Statements in Item 8 of this report.

(6) We own a 15.2% combined general partnership and indirect limited partner equity interest in this community.

(7) We own a general partnership interest in a partnership that owns a fee simple interest in this community.

(8) We own a general partnership interest in a partnership structured as a DownREIT that owns this community.

(9) We own a membership interest in a limited liability company that holds a fee simple interest in this community.

(10) This community was transferred to a joint venture entity upon completion of development. We do not hold an equity interest in the entity, but retain a promoted residual interest in the profits of the entity. We receive a property management fee for this community.

(11) Community is located on land subject to a land lease.

(12) Upon completion of this community we admitted a 70% joint venture partner to the LLC. However, due to an operating guarantee provided to the joint venture partner, this community is consolidated for financial reporting purposes.

(13) In December 2006, we completed the purchase of our partner's interest in Avalon Run, and this community is now a wholly-owned community. See Note 6, "Investments in Unconsolidated Entities" of our Consolidated Financial Statements in Item 8 of this report.

Features and Recreational Amenities — Current and Development Communities

	1 BR	2BR		3BR																
	1/1.5 BA	1/1.5 BA	2/2.5/3 BA	2/2.5 BA	3BA	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	Carports	Non-direct access garages	Direct access garages	Homes w/ pre-wired security systems
CURRENT COMMUNITIES (1)																				
NORTHEAST																				
Boston, MA																				
Avalon at Bedford Center	52	—	87	—	—	—	—	139	269	All	Some	Some	Some	Some	All	None	No	No	Yes	None
Avalon at Center Place	103	—	112	4	—	6	—	225	371	All	None	None	None	Some	Some	None	No	No	No	None
Avalon at Crane Brook	162	12	175	38	—	—	—	387	658	All	Some	Some	Some	All	All	None	No	Yes	No	All
Avalon at Faxon Park	68	—	75	28	—	—	—	171	327	All	Some	Some	Some	Most	All	None	No	Yes	No	All
Avalon at Flanders Hill	108	22	120	30	—	—	—	280	589	All	Some	Some	Some	All	All	None	No	Yes	Yes	All
Avalon at Lexington	28	25	89	56	—	—		198	362	All	Some	Some	Some	Most	All	None	Yes	Yes	No	None
Avalon at Newton Highlands	90	40	99	55	4	6	—	294	551	All	Some	Some	Some	Most	Most	None	No	No	No	All
Avalon at Prudential Center	361	—	242	—	29	149	—	781	538	None	None	None	None	Most	Some	None	No	No	No	None
Avalon at Steven's Pond	102	—	202	22	—	—	—	326	749	All	Some	Some	Some	All	All	None	No	Yes	Yes	All
Avalon at The Pinehills I	12	—	73	16	—	—	—	101	235	All	Most	Some	Some	All	All	None	No	No	Yes	All
Avalon Essex	50	—	104	—	—	—	—	154	336	All	Some	Some	Half	Most	All	None	No	Yes	Yes	All
Avalon Ledges	124	28	124	28	—	—	—	304	594	All	Some	Some	Some	All	All	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	87	—	—	—	—	—	156	307	All	Some	Some	Some	All	All	None	No	Yes	Yes	All
Avalon Summit	154	58	31	1	—	—	1	245	359	None	None	None	None	Some	Most	None	No	No	Yes	None
Avalon West	40	—	55	25	—	—	—	120	285	All	Some	Some	Some	All	Half	None	No	Yes	Yes	All
Essex Place	40	246	—	—	—	—	—	286	450	Some	None	None	None	Some	Some	None	No	No	No	None
Fairfield-New Haven, CT																				
Avalon at Greyrock Place	52	91	99	12	—	—	52	306	464	All	None	None	None	Most	All	None	No	No	No	All
Avalon Danbury	112	—	98	24	—	—	—	234	54	All	None	Some	Some	Some	All	None	No	Yes	No	Some
Avalon Darien	77	—	80	32	—	—	—	189	443	All	All	Some	Some	All	All	None	No	Yes	Yes	All
Avalon Gates	122	—	168	50	—	—	—	340	688	All	Some	Some	Half	All	All	None	Yes	Yes	No	All
Avalon Glen	112	—	125	1	—	—	—	238	363	Most	Some	Some	Some	Some	Most	Some	Yes	No	Yes	Most
Avalon Haven	28	—	40	24	—	—	36	128	256	All	Some	Some	Some	All	All	None	Yes	Yes	No	All
Avalon Milford I	184	—	62	—	—	—	—	246	426	All	Some	None	Some	Some	All	None	Yes	Yes	No	All
Avalon New Canaan	16	—	64	24	—	—	—	104	194	All	Some	Some	Some	All	All	None	No	Yes	Yes	All
Avalon on Stamford Harbor	159	—	130	20	—	14	—	323	503	All	Some	Some	Some	All	Most	None	No	No	No	All
Avalon Orange	84	—	28	28	—	—	28	168	362	All	Some	Some	Some	All	All	None	Yes	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	98	—	—	156	764	1,411	All	Some	Some	Some	Most	All	None	Yes	No	No	Half
Long Island, NY																				
Avalon at Glen Cove South	124	—	91	—	—	41	—	256	366	All	None	None	Some	All	Some	None	No	No	Some	Some
Avalon Commons	128	40	112	32	—	—	—	312	485	All	Some	Some	Some	All	All	None	No	Yes	No	All
Avalon Court	172	54	194	74	—	—	—	494	797	All	Half	Half	Some	Some	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 Pines II	50	—	102	—	—	—	—	152	135	All	Most	Some	Some	All	All	None	No	Some	Some	All
Avalon Towers	—	—	38	—	3	1	67	109	198	All	None	None	None	Most	Most	None	No	Yes	No	None

Features and Recreational Amenities — Current and Development Communities

	1 BR	2BR		3BR																
	1/1.5 BA	1/1.5 BA	2/2.5/3 BA	2/2.5 BA	3BA	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	Carports	Non-direct access garages	Direct access garages	Homes w/ pre-wired security systems
Northern New Jersey																				
Avalon at Edgewater	158	—	190	60	—	—	—	408	872	All	Some	Some	Some	All	Half	None	No	No	Yes	Some
Avalon at Florham Park	46	—	162	62	—	—	—	270	583	All	All	None	Some	Most	Some	None	No	No	Yes	All
Avalon Cove	197	—	231	26	2	—	48	504	460	All	Some	Some	Some	All	Some	None	No	Yes	No	None
Central New Jersey																				
Avalon at Freehold	40	24	192	40	—	—	—	296	591	All	Some	Some	Half	All	All	None	No	Yes	No	None
Avalon Run	144	90	108	84	—	—	—	426	640	All	Some	Some	Some	Some	All	None	Yes	No	No	All
Avalon Run East	64	106	—	36	—	—	—	206	401	All	Some	Some	Some	Most	Most	None	Yes	Yes	Yes	All
Avalon Run East II	72	36	148	56	—	—	—	312	500	All	Some	Some	Some	Some	All	None	Yes	Yes	Yes	All
Avalon Watch	252	48	172	40	—	—	—	512	781	All	Some	None	Half	All	All	None	No	Yes	No	None
New York, NY																				
Avalon Bowery Place I	98	54	—	—	—	54	—	206	131	All	None	None	None	Some	Some	None	No	No	Yes	Some
Avalon Gardens	208	48	144	104	—	—	—	504	1,382	All	Half	Half	Some	All	All	Some	Yes	Yes	Yes	All
Avalon Green	25	24	56	—	—	—	—	105	208	All	Some	Some	Some	All	All	None	Yes	No	No	All
Avalon on the Sound	142	—	185	21	21	43	—	412	648	Most	Some	Some	None	Most	Some	None	No	No	Yes	None
Avalon Riverview I	186	—	114	15	14	43	—	372	426	All	None	Some	None	Most	Some	None	No	No	Yes	None
Avalon View	112	47	65	64	—	—	—	288	598	All	Some	Some	Some	Most	All	None	Yes	No	No	None
Avalon Willow	151	—	76	—	—	—	—	227	371	All	Some	Some	Some	Some	All	None	No	No	No	No
The Avalon	55	2	43	10	—	—	—	110	170	All	Some	Some	Some	Most	Half	None	No	No	Yes	All
MID-ATLANTIC																				
Baltimore, MD																				
Avalon at Fairway Hills I & II	185	78	100	38	—	—	—	401	283	All	Some	None	Most	Some	All	Some	No	No	No	None
Avalon at Fairway Hills III	97	146	54	22	—	—	23	342	522	All	Some	None	Most	Some	All	Some	No	No	No	None
Avalon at Symphony Glen	88	14	54	20	—	—	—	176	268	All	Some	None	Most	All	Most	Some	No	No	No	None
Avalon Landing	83	18	57	—	—	—	—	158	256	All	None	None	Most	Most	All	None	Yes	No	No	None
		63							15											
Southgate Crossing		94	48	10	—	—	—	2	353	All	None	None	Most	None	All	None	No	No	No	None
Washington, DC																				
AutumnWoods	220	104	96	—	—	—	—	420	720	All	Some	None	Some	All	All	None	Yes	No	No	None
Avalon at Arlington Square	404	24	196	60	—	—	158	842	1,411	All	Some	Some	Some	All	All	Some	No	Yes	Yes	All
Avalon at Ballston — Washington Towers	233	111	—	—	—	—	—	344	470	All	None	None	Some	Most	All	Some	No	No	No	None
Avalon at Cameron Court	208	—	168	—	—	—	84	460	897	All	Most	Some	Some	All	Most	None	No	Yes	Yes	All
Avalon at Decoverly	156	—	168	44	—	—	—	368	627	All	Some	Some	Some	Most	All	None	No	Yes	No	None
Avalon at Foxhall	160	70	32	2	—	28	16	308	349	All	Some	None	Some	All	All	Some	No	No	Yes	None
Avalon at Gallery Place I	113	75	—	4	—	11	—	203	148	All	Some	None	None	Most	Some	None	No	No	Yes	None
Avalon at Grosvenor Station	265	33	185	13	—	1	—	497	746	All	Some	Some	None	Most	Most	None	No	Yes	Yes	All
Avalon at Providence Park	19	—	112	4	—	—	6	141	299	All	Some	None	Most	All	All	None	No	No	No	None
Avalon at Rock Spring	178	39	133	36	—	—	—	386	680	All	Some	Some	Some	Most	All	None	No	Yes	No	All
Avalon at Traville	190	30	232	68	—	—	—	520	1,062	All	Some	Some	Some	All	Most	Some	Yes	Yes	Yes	None
Avalon Crescent	186	26	346	—	—	—	—	558	989	All	Some	Some	Most	Most	All	Some	No	Yes	Yes	All
Avalon Fields I & II	112	32	112	32	—	—	66	288	461	All	Some	Some	Some	Most	Most	None	No	Yes	No	All
Avalon Knoll	136	56	80	28	—	—	—	300	477	All	Some	None	Most	All	All	Most	No	No	No	None

Features and Recreational Amenities — Current and Development Communities

	1 BR	2BR		3BR																
	1/1.5 BA	1/1.5 BA	2/2.5/3 BA	2/2.5 BA	3BA	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	Carports	Non-direct access garages	Direct access garages	Homes w/ pre-wired security systems
MIDWEST																				
Chicago, IL																				
Avalon at Arlington Heights	232	—	147	—	—	30	—	409	650	All	None	None	None	Some	Half	None	No	No	No	None
Avalon at Danada Farms	132	—	134	14	15	—	—	295	555	All	None	None	Some	Most	Some	Some	No	No	Yes	None
Avalon at Stratford Green	63	—	108	21	—	—	—	192	424	All	None	None	Some	Most	Most	Some	No	Yes	Yes	None
Avalon at West Grove	200	200	—	—	—	—	—	400	594	None	None	None	None	Some	Half	None	Yes	No	No	None
PACIFIC NORTHWEST																				
Seattle, WA																				
Avalon at Bear Creek	55	40	110	56	3	—	—	264	515	All	Some	None	Most	All	All	Half	Yes	Yes	Yes	All
Avalon Bellevue	112	—	67	—	—	23	—	202	300	All	Some	Some	Some	Most	Some	None	No	No	No	Some
Avalon Belltown	64	—	20	—	—	16	—	100	118	All	None	None	None	Most	Some	None	No	No	No	Yes
Avalon Brandemoor	88	109	149	78	—	—	—	424	737	All	Some	None	Most	All	All	Some	Yes	Yes	Yes	All
Avalon HighGrove	84	119	124	56	8	—	—	391	721	All	Half	None	Most	All	All	Some	Yes	Yes	Yes	All
Avalon ParcSquare	31	26	55	12	—	—	117	124	189	All	Some	None	None	All	All	None	No	Yes	Yes	Some
Avalon Redmond Place	76	44	67	35	—	—	—	222	161	All	Some	None	Most	Most	All	None	Yes	Yes	No	None
Avalon RockMeadow	28	48	86	28	16	—	—	206	415	All	Some	None	Most	Most	All	Some	Yes	No	Yes	All
Avalon WildReed	36	60	78	60	—	—	—	234	463	All	Some	None	Most	All	All	Some	Yes	Yes	No	All
Avalon Wynhaven	3	42	239	13	28	—	8	333	780	All	Most	Some	Most	Half	Most	None	Yes	Yes	Yes	All
NORTHERN CALIFORNIA																				
Oakland-East Bay, CA																				
Avalon at Union Square	124	84	—	—	—	—	—	208	296	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	—	—	16	204	428	Most	Some	None	Most	All	All	None	No	Yes	No	None
Avalon Fremont I	88	—	176	—	44	—	—	308	609	All	Some	None	Some	Half	All	None	Yes	Yes	No	All
Avalon Pleasanton	238	—	218	—	—	—	—	456	941	All	Some	None	Most	Some	All	None	Yes	Yes	Yes	None
Waterford	208	—	336	—	—	—	—	544	927	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	191	All	None	Some	None	All	Most	Some	No	Yes	No	Some
Avalon at Nob Hill	114	—	25	—	—	46	—	185	105	None	None	None	None	Some	Some	Most	No	Yes	No	None
Avalon Foster City	125	122	1	—	—	40	—	288	290	None	None	None	None	Most	All	Some	Yes	No	No	None
Avalon Pacifica	58	106	56	—	—	—	—	220	301	None	None	None	Some	Some	All	None	Yes	Yes	No	None
Avalon Sunset Towers	183	20	20	—	—	20	—	243	244	None	None	None	None	None	Some	None	No	No	Yes	None
Avalon Towers by the Bay	103	—	120	—	3	—	—	226	212	All	None	None	Some	Half	Most	None	No	No	No	None
Crowne Ridge	158	68	24	—	—	4	—	254	404	Some	Some	None	Some	None	All	None	Yes	No	Yes	None

Features and Recreational Amenities — Current and Development Communities

	1 BR	2BR		3BR																
	1/1.5 BA	1/1.5 BA	2/2.5/3 BA	2/2.5 BA	3BA	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	Carports	Non-direct access garages	Direct access garages	Homes w/ pre-wired security systems
San Jose, CA																				
Avalon at Blossom Hill	90	—	210	—	24	—	—	324	549	All	Some	None	None	Most	All	None	Yes	No	No	None
Avalon at Cahill Park	118	—	94	—	6	—	—	218	314	All	Some	Some	None	All	Some	None	No	No	No	Yes
Avalon at Creekside	158	128	—	—	—	8	—	294	441	None	None	None	Some	None	Most	None	Yes	No	No	None
Avalon at Foxchase I & II	156	—	240	—	—	—	—	396	666	All	Some	None	None	ALL	All	None	Yes	Yes	No	None
Avalon at Parkside	60	—	96	36	—	—	—	192	353	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	356	Most	None	None	Most	All	All	None	No	Yes	No	None
Avalon Campbell	157	—	179	—	12	—	—	348	454	All	Some	None	None	All	All	None	Yes	No	No	All
Avalon Mountain View	108	—	88	52	—	—	—	248	672	All	Some	None	None	Some	All	None	Yes	No	No	None
Avalon on the Alameda	113	—	164	—	28	—	—	305	534	All	Some	Some	Some	Most	All	None	Some	Yes	No	None
Avalon Rosewalk	168	—	264	—	24	—	—	456	684	All	Some	None	Some	ALL	All	Most	Yes	Yes	No	None
Avalon Silicon Valley	338	—	336	18	15	3	—	710	2,000	All	Some	Some	Some	All	All	Some	Yes	Yes	No	None
Avalon Towers on the Peninsula	88	—	117	—	6	—	—	211	307	All	Some	None	None	Most	All	None	No	No	Yes	None
CountryBrook	108	—	252	—	—	—	—	360	692	All	None	None	All	None	All	None	Yes	Yes	No	None
San Marino	102	—	146	—	—	—	—	248	439	All	Some	None	None	None	All	None	Yes	No	No	None
SOUTHERN CALIFORNIA																				
Los Angeles, CA																				
Avalon at Media Center	296	169	50	12	—	221	—	748	893	Most	Some	None	Some	Some	Some	None	Yes	Yes	No	None
Avalon at Warner Center	88	54	65	20	—	—	—	227	427	All	Some	None	Some	Some	All	None	Yes	Yes	No	None
Avalon Camarillo	125	—	—	124	—	—	—	249	482	All	None	None	None	All	All	None	No	Yes	Yes	None
Avalon Glendale	75	—	121	—	27	—	—	223	519	All	None	Some	Some	All	All	None	No	No	No	All
Avalon Woodland Hills	222	—	441	—	—	—	—	663	1,356	Some	Some	Some	None	Most	All	None	No	No	No	None
The Promenade	153	—	196	51	—	—	—	400	736	Some	Some	Some	All	Some	All	None	No	No	No	None
Avalon Del Rey	190	—	—	119	—	—	—	309	623	All	None	Some	None	All	All	None	No	Yes	No	None
Orange County, CA																				
Avalon at Pacific Bay	144	56	104	—	—	—	—	304	492	All	None	None	None	All	All	None	Yes	Yes	No	None
Avalon at South Coast	124	—	86	—	—	48	—	258	428	Some	Half	None	None	Half	All	None	Yes	Yes	No	None
Avalon Mission Viejo	94	28	44	—	—	—	—	166	232	None	None	None	None	None	All	None	Yes	Yes	No	None
Avalon Newport	44	54	—	35	—	12	—	145	249	Most	Some	None	Some	Most	Most	Some	Yes	Yes	No	None
Avalon Santa Margarita	160	—	141	—	—	—	—	301	521	All	None	None	None	None	All	None	Yes	Yes	No	None
San Diego, CA																				
Avalon at Cortez Hill	113	—	84	—	—	97	—	294	298	None	None	None	None	None	All	None	No	No	No	None
Avalon at Mission Bay	270	9	165	—	—	120	—	564	755	None	None	None	None	Some	All	None	No	No	No	None
Avalon at Mission Ridge	18	98	1	83	—	—	—	200	387	Most	None	None	Most	Most	Most	Most	No	Yes	No	None

Features and Recreational Amenities — Current and Development Communities

	1 BR	2BR		3BR																
	1/1.5 BA	1/1.5 BA	2/2.5/3 BA	2/2.5 BA	3BA	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	Carports	Non-direct access garages	Direct access garages	Homes w/ pre-wired security systems
DEVELOPMENT COMMUNITIES																				
Avalon at Decoverly II	106	—	90	—	—	—	—	196	327	All	Some	Some	None	Some	All	None	No	Yes	No	None
Avalon at Glen Cove North	87	8	—	—	—	16	—	111	190	All	None	None	None	All	Some	None	No	No	No	None
Avalon at Lexington Hills	109	—	254	24	—	—	—	387	823	All	Some	Some	Some	All	Some	None	No	Yes	No	None
Avalon Lyndhurst	118	45	157	—	—	8	—	328	569	Most	Some	Some	None	All	Most	None	No	No	No	None
Avalon Acton	192	—	188	—	—	—	—	380	732	All	Some	Some	Some	Most	Some	None	No	Yes	No	None
Avalon Bowery Place II	62	18	—	—	—	10	—	90	50	All	None	None	None	Most	Some	None	No	No	No	None
Avalon Canoga Park	125	—	70	15	—	—	—	210	370	All	Some	Some	None	Most	Most	None	No	Yes	No	None
Avalon Chestnut Hill	36	28	85	50	—	5	—	204	427	All	None	Some	None	All	All	None	No	No	No	All
Avalon Danvers	148	—	235	50	—	—	—	433	856	All	Some	Some	Some	Some	Some	None	No	Yes	Yes	None
Avalon Encino	61	—	56	—	14	—	—	131	357	All	Some	None	None	Some	Some	None	No	Yes	No	None
Avalon Meydenbauer	174	5	88	23	—	78	—	368	485	All	None	None	None	Some	Some	None	No	Yes	Yes	None
Avalon on the Sound II	208	—	162	128	—	90	—	588	489	All	None	None	None	Some	None	None	No	All	None	None
Avalon Riverview North	381	—	146	—	1	74	—	602	361	Some	None	None	None	Some	Some	None	No	Yes	No	None
Avalon Shrewsbury	92	12	123	24	—	—	—	251	529	All	None	Some	None	All	All	None	No	Yes	Yes	None
Avalon Woburn	158	—	288	—	—	—	—	446	892	All	None	Some	Some	All	Some	None	No	Yes	No	None
Avalon Wilshire	53	—	62	8	—	—	—	123	350	All	None	None	None	All	Most	None	No	Yes	No	None

Features and Recreational Amenities — Current and Development Communities

	Buildings w/ security systems	Community entrance controlled access	Building entrance controlled access	Under-ground parking	Aerobicse 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 (1)																			
NORTHEAST																			
Boston, MA																			
Avalon at Bedford Center	None	No	No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	Yes	No
Avalon at Center Place	Yes	Yes	Yes	Yes	No	Yes	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	No	Yes
Avalon at Crane Brook	Some	Yes	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	Yes	Yes	No	Yes	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	None	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	No	Yes	Yes	No	No	Yes	No	Yes	Yes	No	Yes	Yes
Avalon at Prudential Center	None	No	Yes	Yes	No	No	No	No	No	No	No	No	No	No	No	Yes	No	No	Yes
Avalon at Steven's Pond	All	No	No	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	Yes	Yes	No	Yes	No
Avalon at The Pinehills I	None	No	No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	No	No
Avalon Essex	None	No	No	No	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	No	Yes	No	Yes	No
Avalon Ledges	None	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	None	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	Yes	Yes	No
Avalon Summit	None	Yes	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	No	No	Yes	Yes	No	Yes	No
Essex Place	None	No	No	No	No	No	Yes	No	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No
Fairfield-New Haven, CT																			
Avalon at Greyrock Place	All	No	Yes	Yes	No	No	Yes	No	Yes	No	Yes	No	Yes	No	No	Yes	Yes	Yes	Yes
Avalon Danbury	Some	No	Yes	No	No	No	Yes	Yes	Yes	No	No	No	Yes	No	No	Yes	No	Yes	No
Avalon Darien	None	Yes	No	No	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	Yes	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	Yes
Avalon Haven	All	Yes	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	No	No	Yes	No
Avalon Milford I	None	No	Yes	No	No	No	No	No	Yes	No	No	No	Yes	No	Yes	Yes	No	Yes	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 HaCBor	All	Yes	Yes	Yes	No	No	Yes	Yes	Yes	No	No	Yes	Yes	No	Yes	Yes	Yes	No	Yes
Avalon Orange	Some	No	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	Yes	No
Avalon Springs	Some	No	Yes	No	No	No	Yes	No	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 at Glen Cove South	None	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No	No	No	Yes	No	No	Yes	Yes	No	Yes
Avalon Commons	All	No	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	No	Yes	No
Avalon Court	All	No	Yes	No	No	No	Yes	Yes	Yes	No	No	Yes	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 Pines II	None	No	No	No	No	No	Yes	Yes	Yes	No	Yes	No	Yes	No	Yes	Yes	Yes	Yes	No
Avalon Towers	None	No	No	Yes	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	No	Yes	Yes	No	Yes

Features and Recreational Amenities — Current and Development Communities

	Buildings w/ security systems	Community entrance controlled access	Building entrance controlled access	Under-ground parking	Aerobicse 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 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	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	No	No
Avalon Cove	No	Yes	Yes	No	No	No	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes	Yes	No	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	None	Yes	No	No	No	No	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes	No	No	Yes	No
Avalon Run East	All	No	No	No	No	No	Yes	Yes	Yes	No	Yes	No	Yes	No	Yes	Yes	No	Yes	No
Avalon Run East II	Yes	No	No	No	No	No	Yes	Yes	Yes	No	Yes	No	Yes	No	Yes	Yes	No	Yes	No
Avalon Watch	None	No	Some	No	No	No	Yes	No	Yes	No	Yes	Yes	Yes	No	No	Yes	No	Yes	No
New York, NY																			
Avalon Bowery Place I	All	Yes	Yes	Yes	No	No	No	No	No	No	No	No	Yes	No	No	Yes	No	No	Yes
Avalon Gardens	Some	No	No	No	No	No	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes	Yes	No	Yes	No
Avalon Green	None	No	No	No	No	No	Yes	No	Yes	No	No	No	No	No	No	Yes	No	Yes	No
Avalon on the Sound	No	Yes	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	No	Yes	Yes
Avalon Riverview I	All	Yes	Yes	No	No	No	Yes	No	No	No	No	No	Yes	No	No	Yes	Yes	No	Yes
Avalon View	Some	No	No	No	No	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes	Yes	No	Yes	No
Avalon Willow	No	Yes	Yes	No	No	No	Yes	No	Yes	No	No	Yes	Yes	No	No	Yes	No	Yes	Yes
The Avalon	All	Yes	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 Fairway Hills III	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	No	No
Avalon Landing	None	No	No	No	No	Yes	Yes	Yes	Yes	No	No	No	Yes	No	No	Yes	No	No	No
Southgate Crossing	None	Yes	No	No	No	Yes	No	No	No	No	No	No	No	No	No	No	No	No	No
Washington, DC																			
AutumnWoods	None	No	No	No	No	Yes	Yes	No	Yes	No	Yes	No	Yes	Yes	Yes	Yes	No	Yes	No
Avalon at Arlington Square	None	No	Yes	No	No	Yes	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	Yes	Yes	No
Avalon at Ballston — Washington Towers	All	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	No	Yes	No	No	Yes	No	No	Yes
Avalon at Cameron Court	All	Yes	Yes	No	No	Yes	Yes	No	Yes	Yes	No	No	Yes	Yes	Yes	Yes	Yes	No	Yes
Avalon at Decoverly	None	No	No	No	No	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes	Yes	No	Yes	No
Avalon at Foxhall	None	Yes	Yes	Yes	No	No	No	No	Yes	No	No	No	Yes	No	No	No	No	No	Yes
Avalon at Gallery Place I	All	Yes	Yes	Yes	No	No	No	No	No	No	No	No	Yes	No	No	Yes	Yes	No	Yes
Avalon at Grosvenor Station	None	No	Yes	Yes	No	Yes	Yes	No	Yes	No	No	No	Yes	No	No	Yes	Yes	No	Yes
Avalon at Providence Park	None	No	No	No	No	Yes	No	Yes	Yes	No	No	No	No	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	Yes
Avalon at Traville	None	No	Yes	No	No	Yes	Yes	Yes	Yes	No	No	No	Yes	No	Yes	Yes	Yes	Yes	Yes
Avalon Crescent	None	Yes	No	No	No	Yes	Yes	Yes	Yes	No	No	No	Yes	No	Yes	No	Yes	Yes	Yes
Avalon Fields I & II	None	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	No	Yes	No	Yes	No	Yes	No	Yes	No	No	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	Aerobicse 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
MIDWEST																			
Chicago, IL																			
Avalon at Arlington Heights	All	Yes	Yes	No	No	No	Yes	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	No	No	No
Avalon at Stratford Green	All	No	No	No	No	Yes	Yes	Yes	Yes	No	No	No	No	No	No	Yes	No	No	No
Avalon at West Grove	None	Yes	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	None	Yes	No	No	No	No	No	No	Yes	Yes	No	No	Yes	No	No	Yes	Yes	Yes	No
Avalon Bellevue	Yes	No	Yes	Yes	No	No	No	No	No	No	No	No	Yes	No	No	Yes	Yes	No	No
Avalon Belltown	Yes	Yes	Yes	Yes	No	No	Yes	No	No	No	No	No	No	No	No	No	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 HighGrove	None	No	No	No	No	No	No	No	Yes	Yes	No	No	Yes	No	No	Yes	Yes	Yes	No
Avalon ParcSquare	All	Yes	Yes	Yes	No	No	No	No	No	No	No	No	Yes	No	No	Yes	Yes	No	No
Avalon Redmond Place	None	No	No	No	No	No	No	Yes	Yes	Yes	No	No	Yes	No	No	Yes	No	Yes	No
Avalon RockMeadow	None	No	No	No	No	No	No	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 Wynhaven	None	No	Yes	Yes	No	No	Yes	Yes	Yes	Yes	No	No	Yes	No	No	Yes	Yes	Yes	Yes
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	Yes	No
Avalon at Willow Creek	None	Yes	No	No	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	No	No	No	No	No
Avalon Dublin	None	No	No	No	No	Yes	Yes	No	Yes	Yes	No	No	Yes	Yes	Yes	No	Yes	No	No
Avalon Fremont I	None	No	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	No	No	No	No
Avalon Pleasanton	None	No	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	Yes	No	Yes	Yes	No
Waterford	None	Yes	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	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	No
Avalon Foster City	Some	No	No	No	No	Yes	No	Yes	Yes	No	No	No	Yes	No	Yes	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 Sunset Towers	All	Yes	Yes	Yes	No	Yes	Yes	No	No	No	No	No	No	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
Crowne Ridge	None	No	No	Yes	No	No	No	Yes	Yes	Yes	No	No	Yes	No	No	No	Yes	No	No

Features and Recreational Amenities — Current and Development Communities

	Buildings w/ security systems	Community entrance controlled access	Building entrance controlled access	Under-ground parking	Aerobicse 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
San Jose, CA																			
Avalon at Blossom Hill	None	Yes	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	No	No	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	Yes	Yes	Yes	Yes	No	Yes	No	Yes	No	Yes	Yes	Yes	No	No
Avalon at Foxchase I & II	None	No	No	Yes	No	Yes	Yes	No	Yes	No	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	Yes	No	No	No	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	Yes	Yes	No	No	No
Avalon at River Oaks	None	No	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	No	Yes	No	No
Avalon Campbell	None	Yes	No	Yes	No	No	No	Yes	Yes	Yes	No	No	Yes	No	No	No	Yes	Yes	No
Avalon Mountain View	None	No	No	Yes	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	No	No	Yes	Yes	No
Avalon on the Alameda	None	Yes	Yes	Yes	No	No	No	No	Yes	Yes	No	No	Yes	No	No	No	No	No	No
Avalon Rosewalk	None	Yes	No	No	No	No	No	No	Yes	Yes	No	No	Yes	No	No	No	No	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 Towers on the Peninsula	All	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	Yes	No	No	Yes
CountryBrook	None	Yes	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	No	No	No	No
San Marino	None	Yes	No	No	No	Yes	No	No	Yes	No	No	No	Yes	No	No	No	No	Yes	No
SOUTHERN CALIFORNIA																			
Los Angeles, CA																			
Avalon at Media Center	None	No	Yes	No	No	No	No	No	Yes	No	No	No	Yes	No	No	No	No	No	Yes
Avalon at Warner Center	None	Yes	No	No	No	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	No	Yes	No	No	No
Avalon Camarillo	None	Yes	No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	Yes	No
Avalon Glendale	None	Yes	No	Yes	No	No	No	No	Yes	Yes	No	No	Yes	No	No	No	No	No	No
Avalon Woodland Hills	None	Yes	No	Yes	No	No	No	No	Yes	Yes	No	No	Yes	No	No	No	Yes	No	No
The Promenade	All	Yes	Yes	Yes	No	No	No	No	Yes	Yes	No	No	No	No	No	Yes	Yes	Yes	No
Avalon Del Rey	All	Yes	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	Yes	Yes	No	No
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 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	Yes	No	Yes	No
San Diego, CA																			
Avalon at Cortez Hill	All	Yes	Yes	No	No	No	No	No	Yes	Yes	Yes	No	Yes	No	No	Yes	Yes	No	No
Avalon at Mission Bay	None	Yes	No	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	No	No
Avalon at Mission Ridge	None	No	No	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	No	No	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	Aerobicse 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
DEVELOPMENT COMMUNITIES																			
Avalon at Decoverly II	None	No	No	No	No	No	Yes	No	Yes	No	Yes	Yes	Yes	No	No	Yes	No	Yes	No
Avalon at Glen Cove North	All	No	Yes	Yes	No	No	Yes	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	Yes
Avalon at Lexington Hills	Some	No	Some	Some	Yes	No	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	No	Yes	Yes
Avalon Lyndhurst	All	No	Yes	No	Yes	No	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	No	No
Avalon Acton	All	Yes	Some	Some	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	No	Yes	No
Avalon Bowery Place II	All	Yes	Yes	Yes	No	No	No	No	No	No	No	No	No	No	No	No	No	No	Yes
Avalon Canoga Park	All	Yes	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	Yes	No	No	No
Avalon Chestnut Hill	None	No	Yes	Yes	No	No	No	No	Yes	No	No	No	Yes	No	No	Yes	No	Yes	Yes
Avalon Danvers	Some	No	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	Yes	Yes	Yes
Avalon Encino	All	Yes	Yes	Yes	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No	Yes	No	No	No
Avalon Meydenbauer	All	Yes	Yes	Yes	No	No	Yes	No	No	No	No	No	Yes	No	No	Yes	No	No	No
Avalon on the Sound II	All	All	All	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	No	Yes
Avalon Riverview North	None	No	Yes	No	Yes	No	Yes	No	Yes	No	No	No	Yes	No	No	Yes	No	No	Yes
Avalon Shrewsbury	None	No	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	No	Yes	No
Avalon Woburn	Some	No	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes	Yes	No	Yes	No
Avalon Wilshire	All	Yes	Yes	Yes	No	No	Yes	No	No	No	No	No	Yes	No	No	Yes	No	No	No

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

Development Communities

As of December 31, 2006, we had 17 Development Communities under construction. We expect these Development Communities, when completed, to add a total of 5,153 apartment homes to our portfolio for a total capitalized cost, including land acquisition costs, of approximately $1,323,300,000. You should carefully review Item 1a., "Risk Factors," for a discussion of the risks associated with development activity.

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

		Number of apartment homes	Total capitalized cost (1) ($ millions)	Construction start	Initial occupancy (2)	Estimated completion	Estimated stabilization (3)
1.	Avalon Wilshire *Los Angeles, CA*	123	$ 46.6	Q1 2005	Q1 2007	Q2 2007	Q4 2007
2.	Avalon Chestnut Hill *Chestnut Hill, MA*	204	60.6	Q2 2005	Q3 2006	Q1 2007	Q3 2007
3.	Avalon at Decoverly II *Rockville, MD*	196	30.5	Q3 2005	Q2 2006	Q1 2007	Q3 2007
4.	Avalon Lyndhurst (4) *Lyndhurst, NJ*	328	78.8	Q3 2005	Q4 2006	Q4 2007	Q2 2008
5.	Avalon Shrewsbury *Shrewsbury, MA*	251	36.1	Q3 2005	Q2 2006	Q2 2007	Q4 2007
6.	Avalon Riverview North *New York, NY*	602	175.6	Q3 2005	Q3 2007	Q3 2008	Q1 2009
7.	Avalon at Glen Cove North *Glen Cove, NY*	111	42.4	Q4 2005	Q2 2007	Q3 2007	Q1 2008
8.	Avalon Danvers *Danvers, MA*	433	84.8	Q4 2005	Q1 2007	Q2 2008	Q4 2008
9.	Avalon Woburn *Woburn, MA*	446	81.3	Q4 2005	Q3 2006	Q1 2008	Q3 2008
10.	Avalon on the Sound II *New Rochelle, NY*	588	184.2	Q1 2006	Q3 2007	Q3 2008	Q1 2009
11.	Avalon Meydenbauer *Bellevue, WA*	368	84.3	Q1 2006	Q4 2007	Q3 2008	Q1 2009
12.	Avalon at Dublin Station I *Dublin, CA*	305	85.8	Q2 2006	Q3 2007	Q2 2008	Q4 2008
13.	Avalon at Lexington Hills *Lexington, MA*	387	86.2	Q2 2006	Q2 2007	Q3 2008	Q1 2009
14.	Avalon Bowery Place II (5) *New York, NY*	90	61.9	Q3 2006	Q4 2007	Q1 2008	Q2 2008
15.	Avalon Encino *Los Angeles, CA*	131	61.5	Q3 2006	Q3 2008	Q4 2008	Q1 2009
16.	Avalon Canoga Park *Canoga Park, CA*	210	53.9	Q4 2006	Q1 2008	Q2 2008	Q4 2008
17.	Avalon Acton (5) *Acton, MA*	380	68.8	Q4 2006	Q1 2008	Q4 2008	Q2 2009
	Total	5,153	$ 1,323.3				

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

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

(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 remediation of our Avalon Lyndhurst development site, as discussed in Note 8, "Commitment and Contingencies" of the Consolidated Financial Statements included as Item 8 of this report, is substantially complete. The net cost associated with this remediation effort after considering insurance proceeds received to date, including costs associated with construction delays, is expected to total approximately $7.5 million. We are pursuing the recovery of these additional costs through insurance as well as from the third parties involved, but any additional recoverable amounts are not currently estimable. The total expected capitalized cost cited above does not reflect the potential impact of these additional net costs.

(5) This community is being financed in part by third party, tax-exempt debt.

Redevelopment Communities

As of December 31, 2006, we had three consolidated communities under redevelopment. We expect the total capitalized cost to redevelop these communities to be $25,800,000, excluding costs prior to redevelopment. In addition, the Fund has three communities under redevelopment. We have found that the cost to redevelop an existing apartment community is more difficult to budget and estimate than the cost to develop a new community. Accordingly, we expect that actual costs may vary from our budget by a wider range than for a new development community. We cannot assure you that we will meet our schedule for reconstruction completion or restabilized operations, or that we will meet our budgeted costs, either individually or in the aggregate. We anticipate increasing our redevelopment activity related to Fund-owned communities, as well as communities in our current operating portfolio. You should carefully review Item 1a., "Risk Factors," for a discussion of the risks associated with redevelopment activity.

The following presents a summary of these Redevelopment Communities:

	Number of apartment homes	Total cost ($ millions) Pre-redevelopment cost	Total cost ($ millions) Total capitalized cost (1)	Reconstruction start	Estimated reconstruction completion	Estimated restabilized operations (2)
Consolidated Communities						
1. Avalon Arlington Heights *Arlington Heights, IL*	409	$ 50.2	$ 57.1	Q1 2006	Q1 2007	Q3 2007
2. Avalon Walk I and II *Hamden, CT*	764	59.4	71.2	Q1 2006	Q4 2007	Q2 2008
3. Avalon at AutumnWoods *Fairfax, VA*	420	31.2	38.3	Q3 2006	Q3 2008	Q1 2009
Subtotal	1,593	$ 140.8	$ 166.6			
Fund Communities						
1. Avalon Redmond *Redmond, WA*	400	$ 49.2	$ 56.7	Q2 2006	Q4 2007	Q2 2008
2. Civic Center Place *Norwalk, CA*	192	38.1	43.5	Q4 2006	Q2 2008	Q4 2008
3. Avalon at Poplar Creek *Schaumburg, IL*	196	25.2	28.6	Q4 2006	Q1 2008	Q3 2008
Subtotal	788	$ 112.5	$ 128.8			
Total	2,381	$ 253.3	$ 295.4			

(1) Total capitalized cost includes all capitalized costs projected to be or actually incurred to develop the respective Redevelopment 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, all as determined in accordance with GAAP.

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

Development Rights

As of December 31, 2006, we are evaluating the future development of 54 new apartment communities on land that is either owned by us, under contract, subject to a leasehold interest or for which we hold either a purchase or lease option. We generally hold Development Rights through options to acquire land, although for 18 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 14,185 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, 2006, there were cumulative capitalized costs (including legal fees, design fees and related overhead costs, but excluding land costs) of $39,365,000 relating to Development Rights that we consider probable for future development. In addition, land costs related to the pursuit of Development Rights (consisting of original land and additional carrying costs) of $209,568,000 are reflected as land held for development as of December 31, 2006 on the Consolidated Balance Sheet of the Consolidated Financial Statements set forth in Item 8 of this report.

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

You should carefully review Section 1a., “Risk Factors,” for a discussion of the risks associated with Development Rights.

The table below presents a summary of these Development Rights:

	Location		Estimated number of homes	Total capitalized cost ($ millions) (1)
1.	White Plains, NY	(2)	393	$ 155
2.	New York, NY		296	125
3.	Tinton Falls, NJ		216	41
4.	Coram, NY	(2)	200	47
5.	Kirkland, WA Phase II	(2)	176	53
6.	Hingham, MA	(2)	235	44
7.	Northborough, MA		350	60
8.	Wilton, CT	(2)	100	24
9.	Union City, CA	(5)	438	120
10.	Andover, MA	(2)	115	21
11.	Norwalk, CT		319	83
12.	Sharon, MA		156	26
13.	Brooklyn, NY		628	317
14.	Pleasant Hill, CA	(4)	416	153
15.	Milford, CT	(2)	284	45
16.	West Haven, CT		170	23
17.	Cohasset, MA	(2)	200	38
18.	Quincy, MA	(2)	146	24
19.	West Long Branch, NJ	(3)	216	36
20.	Plymouth, MA Phase II		81	17
21.	Shelton, CT		302	49
22.	Shelton, CT II		171	34
23.	Roselle Park, NJ		340	75
24.	Wanaque, NJ		210	45
25.	San Francisco, CA		152	40
26.	North Bergen, NJ	(3)	156	48
27.	Howell, NJ		265	42
28.	Gaithersburg, MD		254	41
29.	Highland Park, NJ		285	67
30.	Dublin, CA Phase II		200	52
31.	Dublin, CA Phase III		205	53
32.	Canoga Park, CA		297	85
33.	New York, NY II		680	261
34.	Camarillo, CA		376	55
35.	Bloomingdale, NJ		173	38
36.	Greenburgh, NY Phase II		444	112
37.	Irvine, CA	(2)	280	76
38.	Stratford, CT	(2)	146	23
39.	Hackensack, NJ		210	47
40.	Oyster Bay, NY	(2)	150	42
41.	Saddle Brook, NJ		300	55
42.	Oakland, NJ		308	62
43.	Randolph, NJ		128	31
44.	Irvine, CA II		180	57
45.	Garden City, NY		160	58
46.	Alexandria, VA	(5)	283	73
47.	Tysons Corner, VA	(5)	439	101
48.	Yonkers, NY		400	88
49.	Plainview, NY		160	38
50.	Wheaton, MD	(5)	320	56
51.	Yaphank, NY	(2)	343	57
52.	Camarillo, CA II		233	57
53.	Rockville, MD	(5)	240	46
54.	Winchester, MA		260	65
	Total		14,185	$ 3,581

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

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

(3) This Development Right is subject to a joint venture ownership structure.

(4) This Development Right is subject to a joint venture arrangement. In connection with the pursuit of this Development Right, $125 million in bond financing was issued and immediately invested in a guaranteed investment contract ("GIC") administered by a trustee as described in the Notes to the Consolidated Financial Statements set forth in Item 8 of this report.

(5) Represents improved land encumbered with debt. The improved land consists of occupied office buildings and industrial space. Net operating income from incidental operations from the current improvements are recorded as a reduction in the cost basis as described in the Notes to the Consolidated Financial Statements set forth in Item 8 of this report.

Recent Developments

Sales of Existing Communities. We seek to increase the value of our interests and increase our presence 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 value creation and presence, we (i) sell assets that do not meet our long-term investment strategy or when capital and real estate markets allow us to realize a portion of the value created over the past business cycle and (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 non-taxable, like-kind exchange transaction. We sold four communities, including one community previously held by a joint venture entity, containing an aggregate of 1,036 apartment homes, during the period from January 1, 2006 through January 31, 2007. Net proceeds from the sale of these assets were $218,492,000.

Land Acquisitions. We select land for development and follow established procedures that we believe minimize both the cost and the risks of development. During 2006, we acquired nine land parcels for an aggregate purchase price of $91,574,000. The land parcels purchased, which are currently being developed or are held for future development, are as follows:

		Gross acres	Estimated number of apartment homes	Total capitalized cost (1) ($ millions)	Date acquired	Construction start (2)
1.	Avalon Cohasset *Cohasset, MA*	62.0	200	$ 38	January 2006	2008
2.	Avalon Canoga Park *Canoga Park, CA*	3.3	210	54	January 2006	2006
3.	Avalon Jamboree Village *Irvine, CA*	4.5	280	76	May 2006	2008
4.	Avalon at Lexington Hills *Lexington, MA*	22.5	387	86	June 2006	2006
5.	Avalon at Charles Pond (3) *Coram, NY*	39.0	200	47	June 2006	2007
6.	Avalon at the Hingham Shipyard *Hingham, MA*	12.9	235	44	June 2006	2007
7.	Avalon at Oyster Bay *Oyster Bay, NY*	5.0	150	42	August 2006	2008
8.	Avalon Acton (3) *Acton, MA*	50.3	380	69	December 2006	2006
9.	Avalon White Plains *White Plains, NY*	3.2	393	155	December 2006	2007
	Total	202.7	2,435	$ 611		

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

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

(3) Excludes portion of land acquired that is not planned for development

In addition, in January 2007, we acquired a parcel of land located in Brooklyn, NY for approximately $70,000,000. We expect to begin construction of this high-rise community in the second half of 2007.

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. You should carefully review the discussion under Item 1a., "Risk Factors," for a discussion of risks associated with an uninsured property or liability loss.

Many of our West Coast communities are located in the general vicinity of active earthquake faults. A large concentration of our communities lies near, and thus is susceptible to, the major fault lines in California, including the San Andreas Fault and the Hayward Fault. We cannot assure you that an earthquake would not cause damage or losses greater than insured levels. We have in place with respect to communities located in California, 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 $100,000,000 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 a policy aggregate of $2,000,000, the next $400,000 of loss per occurrence outside California will be treated as an additional deductible.

We renewed the first $15,000,000 layer of our property insurance policy on May 1, 2006. We renewed the remaining layers on this policy on December 1, 2006. At that time, we elected to renew most of these layers so that they will now expire on May 1, 2007, in order to mitigate the risk of cost escalation and align the renewal date for the upper layers with the renewal date for the primary layer.

Our annual general liability policy and workman's compensation coverage renewed on August 1, 2006. We have completed our negotiations with the incumbent carrier and the insurance coverage provided for in these renewal policies did not materially change from the preceding year.

Just as with office buildings, transportation systems and government buildings, there have been reports that apartment communities could become targets of terrorism. In December 2005, Congress passed the Terrorism Risk Insurance Extension Act ("TRIEA") 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 TRIEA, 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 TRIEA coverage (subject to deductibles and insured limits) for liability to third parties that result from terrorist acts at our communities. TRIEA is scheduled to expire on December 31, 2007. It is uncertain if Congress will extend TRIEA and continue to provide federal support for terrorism insurance. If Congress does not extend TRIEA, the cost and availability of terrorism insurance may be in question.

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

ITEM 3. LEGAL PROCEEDINGS

We are currently involved in litigation alleging that communities constructed by us violate the accessibility requirements of the Fair Housing Act and the Americans with Disabilities Act. The lawsuit, Equal Rights Center v. AvalonBay Communities, Inc., was filed on September 23, 2005 in the federal district court in Maryland. The plaintiff seeks compensatory and punitive damages in unspecified amounts as well as injunctive relief (such as modification of existing communities), an award of attorneys' fees, expenses and costs of suit. The Company has filed a motion to dismiss all or parts of the suit, which has not been ruled on yet by the court. Due to the preliminary nature of the litigation, we cannot predict or determine the outcome of this lawsuit, nor is it reasonably possible to estimate the amount of loss, if any, that would be associated with an adverse decision or settlement.

On January 11, 2007, a former leasing consultant of the Company, individually and on behalf of other leasing consultants allegedly similarly situated, filed suit against the Company in the U.S. District Court for the Southern District of New York alleging that the Company did not pay all leasing consultants overtime as required under the Fair Labor Standards Act. The Company disputes this allegation and maintains that it has accurately tracked and paid all leasing consultants overtime as required by law. We cannot predict the outcome of this lawsuit, nor is it reasonably possible at this time to estimate the amount of loss, if any, that would be associated with an adverse decision.

In addition to the matters described above, we are involved in various other claims and/or administrative proceedings that arise in the ordinary course of our business. While no assurances can be given, we do not believe that any of these outstanding litigation matters, individually or in the aggregate, will have a material adverse effect on our operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the fourth quarter of 2006.

PART II

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

Our common stock is traded on the NYSE under the ticker symbol AVB. The following table sets forth the quarterly high and low sales prices per share of our common stock for the years 2006 and 2005, as reported by the NYSE. On January 31, 2007 there were 795 holders of record of an aggregate of 79,344,557 shares of our outstanding common stock. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one record holder.

	2006			2005		
	Sales Price		Dividends	Sales Price		Dividends
	High	Low	declared	High	Low	declared
Quarter ended March 31	$110.45	$ 88.95	$0.78	$75.59	$65.18	$0.71
Quarter ended June 30	$112.00	$100.50	$0.78	$81.80	$64.99	$0.71
Quarter ended September 30	$125.21	$110.27	$0.78	$88.23	$78.37	$0.71
Quarter ended December 31	$134.60	$119.31	$0.78	$92.99	$78.82	$0.71

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. In January 2007, we announced that our Board of Directors declared a dividend on our common stock for the first quarter of 2007 of $0.85 per share, a 9.0% increase over the previous quarterly dividend of $0.78 per share. The increased dividend will be payable on April 16, 2007 to all common stockholders of record as of April 2, 2007.

During the three months ended December 31, 2006, the Company issued (i) 2,287 shares of common stock in exchange for 2,287 units of limited partnership held by two limited partners of Bay Countrybrook, L.P., and (ii) 3,235 shares of common stock in exchange for 3,235 limited partnership units in Avalon DownREIT V, L.P. The shares were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933. AvalonBay is relying on the exemption based on factual representations received from the limited partners who received these shares.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share (1)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum Dollar Amount that May Yet be Purchased Under the Plans or Programs (in thousands) (2)
Month Ended October 31, 2006	549	$ 121.78	—	$ 100,000
Month Ended November 30, 2006	757	$ 131.77	—	$ 100,000
Month Ended December 31, 2006	254	$ 127.91	—	$ 100,000

(1) Includes shares surrendered to the Company in connection with employee stock option exercises or vesting of restricted stock as payment of exercise price or as payment of taxes.

(2) As disclosed for the first time in our Form 10-K for the year ended December 31, 2005, our Board of Directors has adopted a Stock Repurchase Program under which we may acquire, from time to time, shares of common stock in the open market with an aggregate purchase price of up to $100,000,000. In 2006 and 2005, no purchases were made (a) under this program, or (b) outside of this program. In determining whether to repurchase shares, we consider a variety of factors, including our liquidity needs, the then current market price of our shares and the effect of the share repurchases on our per share earnings and FFO. There is no scheduled expiration date to this program.

Information regarding securities authorized for issuance under equity compensation plans is included in the section entitled “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” on page 69 of this Form 10-K.

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				
	12-31-06	12-31-05	12-31-04	12-31-03	12-31-02
Revenue:					
Rental and other income	$ 731,041	$ 666,376	$ 613,240	$ 556,582	$ 531,595
Management, development and other fees	6,259	4,304	604	931	2,145
Total revenue	737,300	670,680	613,844	557,513	533,740
Expenses:					
Operating expenses, excluding property taxes	210,895	191,558	181,351	164,253	147,965
Property taxes	68,257	65,487	59,458	53,257	47,580
Interest expense, net	111,046	127,099	131,103	130,178	114,282
Depreciation expense	162,896	158,822	151,991	138,725	121,995
General and administrative expense	24,767	25,761	18,074	14,830	13,449
Impairment loss	—	—	—	—	6,800
Total expenses	577,861	568,727	541,977	501,243	452,071
Equity in income of unconsolidated entities	7,455	7,198	1,100	25,535	55
Venture partner interest in profit-sharing	—	—	(1,178)	(1,688)	(857)
Minority interest in consolidated partnerships	(573)	(1,481)	(150)	(950)	(865)
Gain on sale of land	13,519	4,479	1,138	1,234	—
Income from continuing operations before cumulative effect of change in accounting principle	179,840	112,149	72,777	80,401	80,002
Discontinued operations:					
Income from discontinued operations	1,148	14,942	21,134	31,368	44,723
Gain on sale of communities	97,411	195,287	121,287	159,756	48,893
Total discontinued operations	98,559	210,229	142,421	191,124	93,616
Income before cumulative effect of change in accounting principle	278,399	322,378	215,198	271,525	173,618
Cumulative effect of change in accounting principle	—	—	4,547	—	—
Net income	278,399	322,378	219,745	271,525	173,618
Dividends attributable to preferred stock	(8,700)	(8,700)	(8,700)	(10,744)	(17,896)
Net income available to common stockholders	$ 269,699	$ 313,678	$ 211,045	$ 260,781	$ 155,722
Per Common Share and Share Information:					
Earnings per common share — basic					
Income from continuing operations (net of dividends attributable to preferred stock)	$ 2.31	$ 1.42	$ 0.96	$ 1.01	$ 0.90
Discontinued operations	$ 1.33	$ 2.88	$ 1.99	$ 2.79	$ 1.36
Net income available to common stockholders	$ 3.64	$ 4.30	$ 2.95	$ 3.80	$ 2.26
Weighted average common shares outstanding — basic	74,125,795	72,952,492	71,564,202	68,559,657	68,772,139
Earnings per common share — diluted					
Income from continuing operations (net of dividends attributable to preferred stock)	$ 2.27	$ 1.40	$ 0.96	$ 1.00	$ 0.89
Discontinued operations	$ 1.30	$ 2.81	$ 1.96	$ 2.73	$ 1.34
Net income available to common stockholders	$ 3.57	$ 4.21	$ 2.92	$ 3.73	$ 2.23
Weighted average common shares outstanding — diluted	75,586,898	74,759,318	73,354,956	70,203,467	70,674,211
Cash dividends declared	$ 3.12	$ 2.84	$ 2.80	$ 2.80	$ 2.80

	For the year ended				
	12-31-06	12-31-05	12-31-04	12-31-03	12-31-02
Other Information:					
Net income	$ 278,399	$ 322,378	$ 219,745	$ 271,525	$ 173,618
Depreciation — continuing operations	162,896	158,822	151,991	138,725	121,995
Depreciation — discontinued operations	—	3,241	10,676	14,380	22,482
Interest expense, net — continuing operations	111,046	127,099	131,103	130,178	114,282
Interest expense, net — discontinued operations	—	—	525	2,399	3,122
EBITDA(1)	$ 552,341	$ 611,540	$ 514,040	$ 557,207	$ 435,499
Funds from Operations (2)	$ 330,819	$ 281,773	$ 246,247	$ 230,566	$ 251,410
Number of Current Communities (3)	150	143	138	131	137
Number of apartment homes	43,141	41,412	40,142	38,504	40,179
Balance Sheet Information:					
Real estate, before accumulated depreciation	$ 6,578,615	$ 5,903,168	$ 5,697,144	$ 5,431,757	$ 5,369,453
Total assets	$ 5,813,186	$ 5,165,060	$ 5,081,249	$ 4,909,582	$ 4,950,835
Notes payable and unsecured credit facilities	$ 2,825,586	$ 2,334,017	$ 2,451,354	$ 2,337,817	$ 2,471,163
Cash Flow Information:					
Net cash flows provided by operating activities	$ 351,943	$ 306,248	$ 275,617	$ 239,677	$ 307,810
Net cash flows provided by (used in) investing activities	$ (511,371)	$ (19,761)	$ (251,683)	$ 33,935	$ (435,796)
Net cash flows provided by (used in) financing activities	$ 162,280	$ (282,293)	$ (29,471)	$ (279,465)	$ 68,008

Notes to Selected Financial Data

(1) EBITDA is defined as net income before interest income and expense, income taxes, depreciation and amortization from both continuing and discontinued operations. Under this definition, EBITDA includes gains on sale of assets and gain on sale of partnership interests. Management generally considers EBITDA to be an appropriate supplemental measure to net income of our operating performance because it helps investors to understand our ability to incur and service debt and to make capital expenditures. EBITDA should not be considered as an alternative to net income (as determined in accordance with 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.

(2) We generally consider Funds from Operations, or "FFO," as defined below, to be an appropriate supplemental measure of our operating and financial performance because, by excluding gains or losses related to dispositions of previously depreciated property and excluding real estate depreciation, which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates, FFO can help one compare the operating performance of a real estate company between periods or as compared to different companies. 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.

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

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

- gains or losses on sales of previously depreciated operating communities;
- extraordinary gains or losses (as defined by GAAP);
- cumulative effect of change in accounting principle;
- depreciation of real estate assets; and
- adjustments for unconsolidated partnerships and joint ventures.

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.

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.

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

	For the year ended				
	12-31-06	12-31-05	12-31-04	12-31-03	12-31-02
Net income	$ 278,399	$ 322,378	$ 219,745	$ 271,525	$ 173,618
Dividends attributable to preferred stock	(8,700)	(8,700)	(8,700)	(10,744)	(17,896)
Depreciation — real estate assets, including discontinued operations and joint venture adjustments	164,749	162,019	157,988	128,278	142,980
Minority interest expense, including discontinued operations	391	1,363	3,048	1,263	1,601
Gain on sale of unconsolidated entities holding previously depreciated real estate assets	(6,609)	—	—	—	—
Cumulative effect of change in accounting principle	—	—	(4,547)	—	—
Gain on sale of previously depreciated real estate assets	(97,411)	(195,287)	(121,287)	(159,756)	(48,893)
Funds from Operations attributable to common stockholders	$ 330,819	$ 281,773	$ 246,247	$ 230,566	$ 251,410
Weighted average common shares outstanding — diluted	75,586,898	74,759,318	73,354,956	70,203,467	70,674,211
FFO per common share — diluted	$ 4.38	$ 3.77	$ 3.36	$ 3.28	$ 3.55

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to facilitate an understanding of our business and results of operations. This MD&A should be read in conjunction with our Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included elsewhere in this report. This report, including the following MD&A, contains forward-looking statements regarding future events or trends as described more fully under "Forward-Looking Statements" on page 65 of this report. Actual results or developments could differ materially from those projected in such statements as a result of the risk factors described in Item 1a, "Risk Factors," of this report.

Overview

Business Description

We are primarily engaged in developing, acquiring, owning and operating apartment communities in high barrier-to-entry markets of the United States. We seek to create long-term shareholder value by accessing capital on cost effective terms; deploying that capital to develop, redevelop and acquire apartment communities in high barrier-to-entry markets; operating apartment communities; and selling communities when they no longer meet our long-term investment strategy or when pricing is attractive.

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 help reduce demand volatility 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 rental 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 regularly evaluate the allocation of our investments by the amount of invested capital and by 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. Our strategy is to more deeply penetrate these markets with a broad range of products and services and an intense focus on our customer. A substantial majority of our communities are upscale, which generally command among the highest rents in their markets. However, we also pursue the ownership and operation of apartment communities that target a variety of customer segments and price points, consistent with our goal of offering a broad range of products and services.

We believe that, over an entire real estate cycle, lower housing affordability and the limited new supply of apartment homes in our markets will result in a higher propensity to rent and larger revenue and cash flow increases relative to other markets. However, throughout the real estate cycle, apartment market fundamentals, and therefore operating cash flows, are affected by overall economic conditions. A number of our markets experienced economic contraction due to job losses in 2002 and 2003, resulting in a prolonged period of weak apartment market fundamentals (i.e., the ratio of demand, including from new renter household formations, to supply) as reflected in declining rental revenue and demand. However, 2004 was a year of transition with apartment fundamentals further improving in 2005 and 2006. The economic upturn, as evidenced by job growth and declining unemployment claims, and modest increases in net supply, are contributing to the current strong apartment market fundamentals.

Financial Highlights and Outlook

Strong apartment fundamentals in 2006 were evidenced by the year-over-year rental revenue growth of 6.8% achieved within our Established Community portfolio (as defined later in this report) during the year ended December 31, 2006, comprised of an increase in rental rates of 6.3% and an increase in occupancy of 0.5%. This revenue growth combined with constrained expense growth contributed to our Established Community portfolio achieving year-over-year growth in net operating income ("NOI") of 9.1% in 2006. For the fourth quarter of 2006, our Established Communities experienced an increase in rental revenue of 7.4% and a corresponding increase in NOI of 10.9% over the prior year period, our strongest operating performance since 2001.

We expect the positive revenue and net operating income growth of Established Communities to continue in 2007 but at a more moderate pace. Modest net new supply, low home affordability and continued but moderating job growth should support favorable apartment fundamentals. We expect modest increases in net rental supply in our markets in 2007 that will remain below the national average. The single-family housing market continues to moderate, such that the increase in home prices is flat or down and for-sale inventory has increased. However, the current gap between the cost to rent and the cost to own continues to make rental apartments an economically attractive housing alternative in our markets. These recent trends increase the likelihood that potential home buyers will extend the period they rent a home. Finally, we expect that job growth will continue in our markets, however, at a more modest rate in 2007. Accordingly, we expect apartment market fundamentals to remain strong in our markets such that apartment rental demand will outpace new supply. Our current financial outlook provides for rental revenue growth of 5.0% to 6.5% in our Established Community portfolio in 2007, and projected NOI growth of 5.5% to 7.5%.

In positioning for future growth, we have increased our development activity and our investments in Development Rights, as discussed below. We currently have in excess of $1,300,000,000 under construction (measured by total projected capitalized cost of the communities at completion, including the portions in which joint venture partners hold an equity or economic interest). For 2007, we expect additional new development activity to be in the range of $1,000,000,000 to $1,300,000,000. In addition, we continue to secure new Development Rights, including the acquisition of land for future development. We currently have Development Rights for construction of new apartment communities that, based on total projected capitalized cost if developed as expected, total approximately $3,600,000,000.

We continue to look for opportunities to acquire existing communities through our investment in and management of a discretionary investment fund (the "Fund"), in which the Company holds an interest of approximately 15%. During its investment period (which will end on or before March 16, 2008), the Fund will be our principal vehicle for acquiring apartment communities, subject to certain exceptions. The Fund acquired five communities for an aggregate purchase price of $223,670,000 during 2006 and has approximately $115,000,000 under contract for acquisition in early 2007. As of January 31, 2007, the total amount invested by the Fund is $514,000,000. We expect the Fund to continue to focus on acquisition opportunities where value can be created, generally through redevelopment, repositioning and market cycle timing opportunities.

Real estate capital flows remain strong, with income investors seeking to acquire existing apartment communities. As a result, opportunities to realize value upon disposition have continued to be available. In 2006, we sold four communities (one through a joint venture) for an aggregate sales price of $261,850,000 resulting in a gain in accordance with GAAP of $104,020,000. We expect asset sales of approximately $150,000,000 to $200,000,000 in 2007.

For new development, the slowing for-sale market has resulted in increased investment opportunities. We are being selective in pursuing these opportunities, given continued high land prices and construction costs. In addition, we are seeing greater availability of experienced subcontractors and development and construction professionals as a result of slowing construction in both the condominium and single-family housing markets. These positives are somewhat offset by higher construction and development costs.

Communities Overview

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 options to purchase land 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 are consolidated for financial reporting purposes and were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, which allows the performance of these communities 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 during the current year, but had not achieved stabilization as of the beginning of the prior year. Lease-Up Communities consist of communities where construction is complete but stabilization has not been achieved. Redevelopment Communities consist of communities where substantial redevelopment is in progress or is planned to begin during the current year. A more detailed description of our reportable segments and other related operating information can be found in Note 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, and discussions related to these segments of our business can be found in "Liquidity and Capital Resources."

The net operating income of our current operating communities, as defined later in this report, is one of the financial measures that we use to evaluate community performance. Net operating income is affected by the demand and supply dynamics within our markets, our rental rates and occupancy levels, and our ability to control operating costs. Our overall financial performance is also impacted by the general availability and cost of capital and the performance of newly developed and acquired apartment communities.

As of December 31, 2006, we owned or held a direct or indirect ownership interest in 167 apartment communities containing 48,294 apartment homes in ten states and the District of Columbia, of which 17 communities were under construction and six communities were under reconstruction. In addition, we owned a direct or indirect ownership interest in Development Rights to develop an additional 54 communities that, if developed in the manner expected, will contain an estimated 14,185 apartment homes.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. 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, or different estimates or assumptions had been made, it is possible that different accounting policies would have been applied, resulting in different financial results or a different presentation of our financial statements. Below is a discussion of a number of accounting policies that we consider critical to an understanding of our financial condition and operating results that may require complex judgment in their application or require estimates about matters which are inherently uncertain. A discussion of our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 1, "Organization and Significant Accounting Policies" of our Consolidated Financial Statements.

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 development efforts commence 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. Rental income and operating expenses incurred during the initial lease-up or post-redevelopment lease-up period are fully recognized as they accrue.

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, making 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, a significant portion of our 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 recurring make-ready costs, such as carpet replacements, our expense levels and volatility are greatest in the third quarter of each year as this is when we experience our greatest amount of turnover. 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 2006, 2005 and 2004, the amounts capitalized (excluding land costs) related to acquisitions, development and redevelopment were $677,587,000, $425,170,000 and $347,091,000, respectively. For Established and Other Stabilized Communities, we recorded non-revenue generating capital expenditures of $18,000,000 or $497 per apartment home in 2006, $16,753,000 or $471 per apartment home in 2005 and $12,347,000 or $354 per apartment home in 2004. In addition, revenue generating, or expense saving capital expenditures, such as water sub metering equipment and cable installations, were $153,000, $817,000 and $637,000 in 2006, 2005 and 2004, respectively. The average maintenance costs charged to expense per apartment home, including carpet and appliance replacements, related to these communities was $1,638 in 2006, $1,546 in 2005 and $1,348 in 2004. Historically, we have experienced a gradual increase in capitalized costs and expensed maintenance costs per apartment home as the average age of our communities has increased. We expect to return to the trend of gradual increases in maintenance costs in future years.

Asset Impairment Evaluation

We assess the impairment of our investments and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. For both our consolidated and unconsolidated entities, factors that could trigger an assessment for impairment include, but are not limited to: i) underperformance of the asset relative to historical or expected future operating results, ii) significant change in legal and economic factors, iii) incurrence of costs significantly in excess of amounts originally forecasted for construction or acquisition of an asset, or iv) an expectation that a long-lived asset will be disposed of at an amount below the current carrying value. We evaluate the key factors necessary in the assessment of asset impairment on a quarterly basis. In 2006, 2005 and 2004, we did not recognize any impairment in value associated with our investments or long-lived assets. We cannot predict the occurrence of future events that may cause an impairment assessment to be performed.

REIT Status

We are a Maryland corporation that has elected to be treated, for federal income tax purposes, as a REIT. We elected to be taxed as a REIT under the Internal Revenue Code of 1986 (“the Code”), 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 if we distribute 100% of taxable income over time periods allowed under the Code 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 (subject to any applicable alternative minimum tax) and may not be able to elect 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 2006, 2005 and 2004 follows (dollars in thousands):

	2006	2005	$ Change	% Change	2005	2004	$ Change	% Change
Revenue:								
Rental and other income	$ 731,041	$ 666,376	$ 64,665	9.7%	$ 666,376	$ 613,240	$ 53,136	8.7%
Management, development and other fees	6,259	4,304	1,955	45.4%	4,304	604	3,700	612.6%
Total revenue	737,300	670,680	66,620	9.9%	670,680	613,844	56,836	9.3%
Expenses:								
Direct property operating expenses, excluding property taxes	169,685	155,481	14,204	9.1%	155,481	148,705	6,776	4.6%
Property taxes	68,257	65,487	2,770	4.2%	65,487	59,458	6,029	10.1%
Total community operating expenses	237,942	220,968	16,974	7.7%	220,968	208,163	12,805	6.2%
Corporate-level property management and other indirect operating expenses	34,177	31,243	2,934	9.4%	31,243	27,956	3,287	11.8%
Investments and investment management	7,033	4,834	2,199	45.5%	4,834	4,690	144	3.1%
Interest expense, net	111,046	127,099	(16,053)	(12.6%)	127,099	131,103	(4,004)	(3.1%)
Depreciation expense	162,896	158,822	4,074	2.6%	158,822	151,991	6,831	4.5%
General and administrative expense	24,767	25,761	(994)	(3.9%)	25,761	18,074	7,687	42.5%
Total other expenses	339,919	347,759	(7,840)	(2.3%)	347,759	333,814	13,945	4.2%
Equity in income of unconsolidated entities	7,455	7,198	257	3.6%	7,198	1,100	6,098	n/a
Venture partner interest in profit-sharing	—	—	—	n/a	—	(1,178)	1,178	(100.0%)
Minority interest in consolidated partnerships	(573)	(1,481)	908	(61.3%)	(1,481)	(150)	(1,331)	n/a
Gain on sale of land	13,519	4,479	9,040	201.8%	4,479	1,138	3,341	293.6%
Income from continuing operations before cumulative effect of change in accounting principle	179,840	112,149	67,691	60.4%	112,149	72,777	39,372	54.1%
Discontinued operations:								
Income from discontinued operations	1,148	14,942	(13,794)	(92.3%)	14,942	21,134	(6,192)	(29.3%)
Gain on sale of communities	97,411	195,287	(97,876)	(50.1%)	195,287	121,287	74,000	61.0%
Total discontinued operations	98,559	210,229	(111,670)	(53.1%)	210,229	142,421	67,808	47.6%
Income before cumulative effect of change in accounting principle	278,399	322,378	(43,979)	(13.6%)	322,378	215,198	107,180	49.8%
Cumulative effect of change in accounting principle	—	—	—	n/a	—	4,547	(4,547)	n/a
Net income	278,399	322,378	(43,979)	(13.6%)	322,378	219,745	102,633	46.7%
Dividends attributable to preferred stock	(8,700)	(8,700)	—	—	(8,700)	(8,700)	—	—
Net income available to common stockholders	$ 269,699	$ 313,678	$ (43,979)	(14.0%)	$ 313,678	$ 211,045	$ 102,633	48.6%

Net income available to common stockholders decreased $43,979,000 or 14.0%, to $269,699,000 in 2006. This decrease is primarily attributable to reduced asset sales and related gains in 2006, partially offset by growth in net operating income from Established Communities and contributions to net operating income from newly developed communities. Net income available to common stockholders increased $102,633,000, or 48.6%, to $313,678,000 in 2005. This increase is primarily attributable to higher gains on sales of assets in 2005, including the gain related to the sale of a technology investment, as well as increased net operating income from Established Communities and newly developed communities.

Net operating income ("NOI") is considered by management to be an important and appropriate supplemental performance measure to net income because it helps both investors and management to understand the core operations of a community or communities prior to the allocation of any corporate-level or financing-related costs. NOI reflects the operating performance of a community and allows for an easy comparison of the operating performance of individual assets or groups of assets. In addition, because prospective buyers of real estate have different financing and overhead structures, with varying marginal impacts to overhead 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. We define NOI as total property revenue less direct property operating expenses, including property taxes.

NOI does not represent cash generated from operating activities in accordance with GAAP. Therefore, NOI should not be considered an alternative to net income as an indication of our performance. NOI should also not be considered an alternative to net cash flow from operating activities, as determined by GAAP, as a measure of liquidity, nor is NOI necessarily indicative of cash available to fund cash needs. A calculation of NOI for the years ended December 31, 2006, 2005 and 2004, along with a reconciliation to net income for each year, is as follows (dollars in thousands):

	For the year ended		
	12-31-06	12-31-05	12-31-04
Net income	$ 278,399	$ 322,378	$ 219,745
Indirect operating expenses, net of corporate income	28,809	26,675	26,612
Investments and investment management	7,033	4,834	4,690
Interest expense, net	111,046	127,099	131,103
General and administrative expense	24,767	25,761	18,074
Equity in income of unconsolidated entities	(7,455)	(7,198)	(1,100)
Minority interest in consolidated partnerships	—	—	1,178
Venture partner interest in profit-sharing	573	1,481	150
Depreciation expense	162,896	158,822	151,991
Cumulative effect of change in accounting principle	—	—	(4,547)
Gain on sale of real estate assets	(110,930)	(199,766)	(122,425)
Income from discontinued operations	(1,148)	(14,942)	(21,134)
Net operating income	$ 493,990	$ 445,144	$ 404,337

The NOI increases in both 2006 and 2005 as compared to the prior years, consist of changes in the following categories (dollars in thousands):

	2006 Increase	2005 Increase
Established Communities	$ 32,216	$ 13,052
Other Stabilized Communities	5,497	3,786
Development and Redevelopment Communities	11,133	23,969
Total	$ 48,846	$ 40,807

The NOI increase in Established Communities in 2006 was largely due to the improved apartment market fundamentals. During 2006, we focused on rental rate growth, while maintaining occupancy of at least 95% in all regions. We will continue to seek increases in rental rates. However we anticipate that increases in rental rates and overall rental revenue growth may moderate in 2007, as we expect continued but moderating job growth (demand) and increased net supply as compared to recent periods. We expect revenue growth from our Established Communities of 5.0% to 6.5% in 2007 as compared to 2006. In addition, although we will continue to aggressively manage operating expenses, there is upward pressure on operating expenses from increasing utility, labor, insurance and property tax expenses. We expect operating expenses at our Established Communities to increase by 3.5% to 5.0% in 2007 as compared to 2006. Overall, we anticipate growth in NOI from our Established Communities of 5.5% to 7.5% in 2007 as compared to 2006.

The Company has given projected NOI growth in 2007 only for Established Communities and not on a company-wide basis. The Company believes that NOI growth of the Established Communities assists investors in understanding management's estimate of the likely contribution to operations from Established Communities.

However, the Company has not provided a projection of NOI growth on a company-wide basis due to the difficulty in projecting the timing of new development starts, dispositions and acquisitions, as well as the complexities involved in projecting the allocation of corporate-level property management overhead, general and administrative costs and interest expense to communities not yet developed, disposed or acquired. NOI growth expected from Established Communities is not a projection of the Company's projected consolidated financial performance or projected cash flow.

Rental and other income increased in 2006 due to increased rental rates and occupancy for our Established Communities, coupled with additional rental income generated from newly developed communities. We expect the strong apartment fundamentals experienced in 2006 to continue in 2007, but at a more moderate pace.

Overall Portfolio — The weighted average number of occupied apartment homes increased to 37,716 apartment homes for 2006 as compared to 36,520 apartment homes for 2005 and 34,540 apartment homes for 2004. This change is primarily the result of an increase in the overall occupancy rate and increased homes available from newly developed and acquired communities, partially offset by communities sold in 2006 and 2005. The weighted average monthly revenue per occupied apartment home increased to $1,610 in 2006 as compared to $1,516 in 2005 and $1,477 in 2004.

Established Communities - Rental revenue increased $35,871,000, or 6.8%, in 2006 and increased $16,523,000, or 3.6%, in 2005. The increases in 2006 and 2005 are due to both increased rental rates and increased economic occupancy as compared to the prior years. For 2006, the weighted average monthly revenue per occupied apartment home increased 6.3% to $1,647 compared to $1,549 in 2005, primarily due to increased market rents and decreased concessions. The average economic occupancy increased from 96.0% in 2005 to 96.5% in 2006. 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 revenue from Established Communities to increase 5.0% to 6.5% in 2007 as compared to 2006.

We experienced increases in Established Communities' rental revenue in all six of our regions in 2006 as compared to 2005. The largest increases in rental revenue were in the Pacific Northwest, the Mid-Atlantic and Northern California, with increases of 10.1%, 8.9% and 8.4%, respectively, between years. The Northeast and Northern California regions comprise the majority of our Established Community revenue, and therefore are discussed in more detail below.

Northern California, which represented approximately 27.4% of Established Community rental revenue during 2006, experienced an increase in rental revenue of 8.4% in 2006 as compared to 2005. Average rental rates increased by 7.9% to $1,561 in 2006, and economic occupancy increased 0.5% to 96.7% in 2006. Apartment fundamentals improved in Northern California in 2006, resulting in accelerated revenue growth in this region. We expect Northern California to see continued revenue growth in 2007.

The Northeast region, which accounted for approximately 36.5% of Established Community rental revenue during 2006, experienced an increase in rental revenue of 4.5% in 2006 as compared to 2005. Average rental rates increased 4.4% to $2,032 in 2006 and economic occupancy increased 0.1% to 96.5% during 2006. We expect job growth in 2007 to increase slightly over the growth levels experienced in 2006 in the Northeast and net supply to increase. However, we expect overall apartment fundamentals will remain favorable, resulting in moderate rental rate growth in the Northeast during 2007. The Company believes that Northern New Jersey will lead the region in revenue growth as a result of the strong apartment fundamentals in neighboring New York City. We expect Boston, Massachusetts will lag the region in revenue growth, as economic recovery is not occurring as quickly as in other areas of the region.

In accordance with GAAP, cash concessions are amortized as an offset to rental revenue over the approximate lease term, which is generally one year. As a supplemental measure, we also present rental revenue with concessions stated on a cash basis to help investors 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.

Rental revenue with concessions stated on a cash basis also allows investors to understand historical trends in cash concessions, as well as 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, 2006 and 2005 (dollars in thousands). Information for the year ended December 31, 2004 is not presented, as Established Community classification is not comparable prior to January 1, 2005. See Note 9, "Segment Reporting," of our Consolidated Financial Statements.

	For the year ended	
	12-31-06	12-31-05
Rental revenue (GAAP basis)	$ 559,771	$ 523,900
Concessions amortized	11,082	20,010
Concessions granted	(5,796)	(17,399)
Rental revenue adjusted to state concessions on a cash basis	$ 565,057	$ 526,511
Year-over-year % change — GAAP revenue	6.8%	n/a
Year-over-year % change — cash concession based revenue	7.3%	n/a

Management, development and other fees increased in 2006 and 2005 due to increased asset management, property management and redevelopment fees earned from the Fund. The Fund was formed in March 2005, and continues to grow through purchases, acquiring five more communities in 2006. In addition, construction and development fees earned from unconsolidated entities in 2006 and 2005 contributed to increased fee income.

Direct property operating expenses, excluding property taxes increased in both 2006 and 2005, primarily due to the addition of recently developed and acquired apartment homes coupled with expense growth in our Established Communities.

For Established Communities, direct property operating expenses, excluding property taxes, increased $3,088,000, or 2.6%, to $120,487,000 in 2006 due primarily to increases in payroll, maintenance and utility costs, partially offset by decreases in marketing and office and administration expenses. During 2005, direct property operating expenses increased $965,000, or 0.9%, to $104,346,000 in 2005 due primarily to increases in utility, maintenance and payroll costs, partially offset by decreases in marketing and bad debt expenses. We expect operating expenses for Established Communities to increase by 3.5% to 5.0% in 2007 as compared to 2006, primarily as a result of continued higher utility and payroll costs, as well as increased insurance costs.

Property taxes increased in both 2006 and 2005 due to overall higher assessments and the addition of newly developed and redeveloped apartment homes, and are impacted by the size and timing of successful tax appeals in both years.

For Established Communities, property taxes increased by $721,000, or 1.4%, in 2006 and $2,527,000, or 5.7%, in 2005, due to overall higher assessments throughout all regions and are impacted by the size and timing of successful tax appeals in both years. We expect property taxes to continue to increase in 2007 as compared to 2006 to reflect increased valuations. However, property tax increases are mitigated for communities in California, where increases in property taxes are limited by law (Proposition 13). We evaluate property tax increases internally, as well as engage third-party consultants, and appeal increases when appropriate.

Corporate-level property management and other indirect operating expenses increased in both 2006 and 2005 due to increased compensation, as well as increased costs relating to corporate initiatives focused on increasing efficiency and enhancing controls at our operating communities.

Investments and investment management reflects the costs incurred related to investment acquisitions, investment management and abandoned pursuit costs, which include costs incurred on development pursuits not yet considered probable for development, as well as the abandonment or impairment of development pursuits, acquisition pursuits and disposition pursuits. Investments and investment management increased in 2006 as compared to 2005 due primarily to increased compensation costs and increased staffing related to management of the Fund redevelopment activity, coupled with an increase in abandoned pursuit costs. Abandoned pursuit costs were $2,115,000 in 2006, $816,000 in 2005 and $1,726,000 in 2004. Abandoned pursuit costs can be volatile, and the costs incurred in any given period may vary significantly in future years.

Interest expense, net decreased in 2006 as compared to 2005 due primarily to higher levels of capitalized interest in connection with our increased development activity, lower average outstanding balances on our unsecured credit facility and increased interest income. In addition, through a maturity and the subsequent issuance of unsecured notes, we reduced the effective annual interest rate on $150,000,000 of debt by approximately 1%. These decreases in interest expense are partially offset by higher interest rates on variable rate debt in 2006 and the timing of the repayment and re-issuance of unsecured debt in 2005. Interest income increased in 2006 due to higher invested cash balances as well as increases in the interest rate earned on cash deposits. In addition, interest income in 2006 includes interest earned on an escrow funded from a disposition in 2005 that was used in a tax-deferred exchange.

Depreciation expense increased in both 2006 and 2005 primarily due to the completion of development and redevelopment activities, coupled with the timing of depreciation expense for a community previously classified as held for sale.

General and administrative expense ("G&A") decreased in 2006 and increased in 2005 relative to the prior years primarily due to the incurrence in 2005 of the following: (i) separation costs of approximately $2,100,000 due to the departure of a senior executive; (ii) the accrual of costs related to various litigation matters of approximately $1,500,000; and (iii) increased board of director fees due to the acceleration of equity awards with the resignation of a director due to disability in 2005, partially offset by higher compensation costs in 2006. We expect expensed overhead costs, including G&A, corporate-level property management and investments and investment management, to increase approximately 6.0% to 7.5% in 2007 as compared to 2006 in support of the Company's continued growth.

Equity in income of unconsolidated entities in 2006 includes our share of gain on the sale of a joint venture community in the amount of $6,609,000, and the release of amounts previously withheld in escrow allowing recognition of the final installment of the gain from the sale of our investment in Rent.com to eBay in the amount of $433,000. Equity in income of unconsolidated entities in 2005 includes the initial gain recognized in the amount of $6,252,000 related to the sale of our investment in Rent.com to eBay.

Minority interest in consolidated partnerships decreased in 2006 as compared to 2005 due to the conversion of limited partnership units, thereby reducing outside ownership interests and the allocation of net income to outside ownership interests. However, minority interest increased in 2005 due to the consolidation of an entity under FASB Interpretation No. 46 ("FIN 46"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51," as revised in December 2003. Effective January 1, 2004, we consolidated an entity from which we held a participating mortgage note in accordance with FIN 46. We did not hold an equity interest in this entity, and therefore 100% of the entity's net loss was recognized as minority interest in consolidated partnerships during the year ended December 31, 2004. In October 2004, we received payment in full of the outstanding mortgage note due from this entity. Upon repayment of the mortgage note, our economic interest in this entity ended, and therefore we discontinued consolidation as this entity was no longer considered a variable interest entity under FIN 46.

Gain on sale of land in 2006 represents the gain on sale of three land parcels located in Danvers, Massachusetts, Jersey City, New Jersey and Stamford, Connecticut. During 2005, we sold three land parcels, one located in Dublin, California, one in Madison, Washington, and one in Freehold, New Jersey.

Income from discontinued operations represents the net income generated by communities sold during the period from January 1, 2004 through December 31, 2006. See Note 7, "Real Estate Disposition Activities," of our Consolidated Financial Statements. The decreases in 2006 and 2005 are due to the sale of three consolidated communities in 2006, seven communities and one office building in 2005 and five communities in 2004, eliminating the income generated from the assets upon disposition.

Gain on sale of real estate assets decreased in 2006 as compared to 2005 primarily due to the volume and size of dispositions, coupled with the carrying value of the communities sold. Gain on sale of real estate assets increased in 2005 and decreased in 2004 due to the volume and size of dispositions in each year. The amount of gain realized in any given reporting period depends on many factors, including the number of communities sold, the size and carrying value of those communities and the sales price, which are driven by local and national market conditions.

Cumulative effect of change in accounting principle in 2004 is a result of the implementation of FIN 46, discussed above, and represents the difference between the net assets consolidated under FIN 46 and the previously recorded net assets.

Funds from Operations Attributable to Common Stockholders ("FFO")

FFO is considered by management to be an appropriate supplemental measure of our operating and financial performance. In calculating FFO, we exclude gains or losses related to dispositions of previously depreciated property and exclude real estate depreciation. These amounts are generally excluded in the industry definition of FFO as amounts can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates. FFO can help one compare the operating performance of a real estate company between periods or as compared to different companies. 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

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

We regularly review our liquidity needs, the adequacy of cash flows from operations, and other expected liquidity sources to meet these needs. We 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 on our common stock required to maintain our REIT qualification under the Internal Revenue Code of 1986;
- development and redevelopment activity in which we are currently engaged; and
- capital calls for the Fund, as required.

We anticipate that we can fully satisfy these needs from a combination of cash flow provided by operating activities, proceeds from asset dispositions and borrowing capacity under our variable rate unsecured credit facility, as well as other public or private sources of liquidity.

Cash and cash equivalents totaled $8,567,000 at December 31, 2006, an increase of $2,852,000 from $5,715,000 at December 31, 2005. The following discussion relates to changes in cash due to operating, investing and financing activities, which are presented in our Consolidated Statements of Cash Flows included elsewhere in this report.

Operating Activities – Net cash provided by operating activities increased to $351,943,000 in 2006 from $306,248,000 in 2005. The increase was driven primarily by the additional NOI from our Established Communities' operations, as well as NOI from recently developed communities, partially offset by the loss of NOI from the four communities sold in 2006, as discussed earlier in this report.

Investing Activities – Net cash used in investing activities of $511,371,000 in 2006 related to investments in assets through the development redevelopment and acquisition of apartment communities, partially offset by proceeds from asset dispositions. During 2006, we invested $832,337,000 in the purchase and development of the following real estate and capital expenditures:

- We began the development of eight new communities. These eight communities, if developed as expected, will contain a total of 2,459 apartment homes, and the total capitalized cost, including land acquisition costs, is projected to be approximately $686,600,000. We completed the development of six communities containing a total of 1,368 apartment homes for a total capitalized cost, including land acquisition cost, of $375,200,000.
- We began the redevelopment of three consolidated communities, which contain an aggregate of 1,593 apartment homes and, if redeveloped as expected, will be completed for a total redevelopment capitalized cost of $25,800,000, excluding costs incurred prior to redevelopment. We completed the redevelopment of one consolidated community containing 336 apartment homes for a total capitalized cost of $6,000,000, excluding costs incurred prior to redevelopment.
- We acquired nine parcels of land in connection with Development Rights, for an aggregate purchase price of $91,574,000**.**
- We had capital expenditures relating to current communities' real estate assets of $21,289,000 and non-real estate capital expenditures of $957,000.

We disposed of four communities (one through a joint venture) for an aggregate sales price of $261,850,000 and a total gain in accordance with GAAP of $104,020,000. We also disposed of three parcels of land for an aggregate sales price of $19,635,000 and a total gain in accordance with GAAP of $13,519,000. In addition, we received proceeds in the amount of $20,482,000 from the sale of a 70% interest in our investments in Avalon Del Rey Apartments, LLC. For further discussion See Note 6, "Investments in Unconsolidated Entities," included in Item 8 of this report.

Financing Activities – Net cash provided by financing activities totaled $162,280,000 in 2006. The net cash inflow is due primarily to the proceeds from $500,000,000 of unsecured notes that we issued in September 2006, partially offset by the $150,000,000 of unsecured notes that was repaid upon maturity in July 2006. In addition, net cash provided by financing activities includes the issuance of common stock for option exercises and the issuance of secured mortgage loans, partially offset by dividends paid and repayment of borrowings under our unsecured credit facility. See Note 3, "Notes Payable, Unsecured Notes and Credit Facility," and Note 4, "Stockholders' Equity," of our Consolidated Financial Statements, for additional information.

Variable Rate Unsecured Credit Facility

We entered into a $650,000,000 revolving variable rate unsecured credit facility with a syndicate of commercial banks. JPMorgan Chase Bank, Wachovia Bank, N.A. and Bank of America, N.A. led the syndication effort in varying capacities. Under the terms of the credit facility, we may elect to increase the facility up to $1,000,000,000, provided that one or more banks (from the syndicate or otherwise) voluntarily agree to provide the additional commitment. No member of the syndicate of banks can prohibit such an 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 $813,000. The unsecured credit facility bears interest at varying levels based on the London Interbank Offered Rate ("LIBOR"), our credit rating and on a maturity schedule selected by us. The current stated pricing is LIBOR plus 0.40% per annum (5.72% on January 31, 2007).

The spread over LIBOR can vary from LIBOR plus 0.325% to LIBOR plus 1.00% based on our credit rating. In addition, a competitive bid option is available for borrowings of up to $422,500,000. 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 no outstanding balance under this competitive bid option at January 31, 2007. We are subject to 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. The credit facility matures in November 2011, assuming our exercise of a one-year renewal option. At January 31, 2007, no amounts were outstanding on the credit facility, $38,088,000
was used to provide letters of credit and $611,912,000 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 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. 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.

The following debt activity occurred during the year ended December 31, 2006:

- We repaid $150,000,000 in previously issued unsecured notes in July 2006, along with any unpaid interest, pursuant to their scheduled maturity. No prepayment penalty was incurred;
- We issued a total of $500,000,000 of unsecured notes in September 2006 under our existing shelf registration statement. The offering consisted of two separate tranches of $250,000,000 with an annual effective interest rate of 5.586% and 5.820%, maturing in 2012 and 2016, respectively;
- We issued $34,000,000 of variable rate mortgage debt for one community in April 2006, maturing in April 2011;
- We issued $93,800,000 of variable rate, tax-exempt debt for one community in December 2006, maturing in November 2037;
- We issued $48,500,000 of variable rate, tax-exempt debt for one community in December 2006, maturing in November 2039; and
- We issued $45,000,000 of variable rate, tax-exempt debt for one community in December 2006, maturing in July 2040.

In January 2007, the Company filed a shelf registration statement with the Securities and Exchange Commission, allowing us to sell an undetermined number or amount of certain debt and equity securities as defined in the prospectus. In addition, in January 2007, in conjunction with the inclusion of our common stock in the S&P 500 Index, we issued 4,600,000 shares of our common stock at $129.30 per share. Net proceeds of approximately $594,000,000 will be used for general corporate purposes.

The table below details debt maturities for the next five years, excluding our unsecured credit facility, for debt outstanding at December 31, 2006 (dollars in thousands).

Community	All-In interest rate (1)	Principal maturity date	Balance outstanding 12-31-05	Balance outstanding 12-31-06	Scheduled maturities 2007	2008	2009	2010	2011	Thereafter
Tax-exempt bonds										
Fixed rate										
CountryBrook	6.30%	Mar-2012	$ 16,586	$ 15,990	$ 634	$ 676	$ 719	$ 766	$ 816	$ 12,379
Avalon at Symphony Glen	4.90%	Jul-2024	9,780	9,780	—	—	—	—	—	9,780
Avalon View	7.55%	Aug-2024	16,465	15,980	515	555	595	635	680	13,000
Avalon at Lexington	6.55%	Feb-2025	12,834	12,467	367	415	441	469	498	10,277
Avalon at Nob Hill	5.80%	Jun-2025	18,494	18,116(2)	—	—	—	—	—	18,116
Avalon Campbell	6.48%	Jun-2025	33,614	32,776(2)	—	—	—	—	—	32,776
Avalon Pacifica	6.48%	Jun-2025	15,247	14,867(2)	—	—	—	—	—	14,867
Avalon Knoll	6.95%	Jun-2026	12,239	11,957	302	324	347	371	398	10,215
Avalon Landing	6.85%	Jun-2026	6,044	5,903	153	162	173	185	198	5,032
Avalon Fields	7.55%	May-2027	10,705	10,483	237	256	275	295	316	9,104
Avalon West	7.73%	Dec-2036	8,259	8,179	92	91	98	105	112	7,681
Avalon Oaks	7.45%	Jul-2041	17,324	17,205	129	137	147	157	168	16,467
Avalon Oaks West	7.48%	Apr-2043	17,145	17,036	117	125	133	142	152	16,367
			194,736	190,739	2,546	2,741	2,928	3,125	3,338	176,061
Variable rate **(3)**										
The Promenade	5.68%	Oct-2010	32,100	31,495	651	701	755	29,388	—	—
Waterford	4.27%	Jul-2014	33,100	33,100(4)	—	—	—	—	—	33,100
Avalon at Mountain View	4.27%	Feb-2017	18,300	18,300(4)	—	—	—	—	—	18,300
Avalon at Foxchase I	4.27%	Nov-2017	16,800	16,800(4)	—	—	—	—	—	16,800
Avalon at Foxchase II	4.27%	Nov-2017	9,600	9,600(4)	—	—	—	—	—	9,600
Avalon at Mission Viejo	4.82%	Jun-2025	7,635	7,635(4)	—	—	—	—	—	7,635
Avalon at Nob Hill	3.65%	Jun-2025	2,306	2,684(2)	—	—	—	—	—	2,684
Avalon Campbell	3.65%	Jun-2025	5,186	6,024(2)	—	—	—	—	—	6,024
Avalon Pacifica	3.65%	Jun-2025	2,353	2,733(2)	—	—	—	—	—	2,733
Bowery Place I	4.16%	Nov-2037	—	93,800(5)	—	521	576	636	703	91,364
Bowery Place II	4.23%	Nov-2039	—	48,500(5)	—	—	—	270	298	47,932
Avalon Acton	4.96%	Jul-2040	—	45,000(5)	—	—	—	—	—	45,000
Avalon at Fairway Hills I	4.91%	Jun-2026	11,500	11,500	—	—	—	—	—	11,500
			138,880	327,171	651	1,222	1,331	30,294	1,001	292,672
Conventional loans (6)										
Fixed rate										
$150 million unsecured notes	6.93%	Jul-2006	150,000	—	—	—	—	—	—	—
$150 million unsecured notes	5.18%	Aug-2007	150,000	150,000	150,000	—	—	—	—	—
$110 million unsecured notes	7.13%	Dec-2007	110,000	110,000	110,000	—	—	—	—	—
$50 million unsecured notes	6.63%	Jan-2008	50,000	50,000	—	50,000	—	—	—	—
$150 million unsecured notes	8.38%	Jul-2008	150,000	146,000	—	146,000	—	—	—	—
$150 million unsecured notes	7.63%	Aug-2009	150,000	150,000	—	—	150,000	—	—	—
$200 million unsecured notes	7.66%	Dec-2010	200,000	200,000	—	—	—	200,000	—	—
$300 million unsecured notes	6.79%	Sep-2011	300,000	300,000	—	—	—	—	300,000	—
$50 million unsecured notes	6.31%	Sep-2011	50,000	50,000	—	—	—	—	50,000	—
$250 million unsecured notes	6.26%	Nov-2012	250,000	250,000	—	—	—	—	—	250,000
$100 million unsecured notes	5.11%	Mar-2013	100,000	100,000	—	—	—	—	—	100,000
$150 million unsecured notes	5.52%	Apr-2014	150,000	150,000	—	—	—	—	—	150,000
$250 million unsecured notes	5.88%	Jan-2012	—	250,000	—	—	—	—	—	250,000
$250 million unsecured notes	5.72%	Sep-2016	—	250,000	—	—	—	—	—	250,000
Wheaton Development Right	6.99%	Oct-2008	4,589	4,513	81	4,432	—	—	—	—
Eisenhower Ave. Development Right	8.08%	Apr-2009	4,504	4,402	109	118	4,175	—	—	—
Twinbrook Development Right	7.25%	Oct-2011	8,379	8,200	193	207	222	239	7,339	—
Tysons West Development Right	5.55%	Jul-2028	6,681	6,535	156	162	173	183	193	5,668
Avalon Orchards	7.65%	Jul-2033	20,136	19,883	272	290	311	333	357	18,320
			1,854,289	2,199,533	260,811	201,209	154,881	200,755	357,889	1,023,988
Variable rate **(3)**										
Avalon Ledges	6.75%	May-2009	19,290	18,635(4)	811	688	17,136	—	—	—
Avalon at Flanders Hill	6.75%	May-2009	21,935	21,245(4)	926	784	19,535	—	—	—
Avalon at Newton Highlands	6.69%	Dec-2009	38,905	37,650(4)	1,546	1,397	34,707	—	—	—
Avalon at Crane Brook	6.66%	Mar-2011	—	33,535(4)	1,230	1,045	1,106	1,169	28,985	—
			80,130	111,065	4,513	3,914	72,484	1,169	28,985	—
Total indebtedness — excluding unsecured credit facility			$ 2,268,035	$ 2,828,508	$ 268,521	$ 209,086	$ 231,624	$ 235,343	$ 391,213	$ 1,492,721

(1) Includes credit enhancement fees, facility fees, trustees' fees and other fees.

(2) Financed by variable rate, tax-exempt debt, but the interest rate on a portion of this debt is effectively fixed at December 31, 2006 and December 31, 2005 through a swap agreement. The portion of the debt fixed through a swap agreement decreases (and therefore the variable portion of the debt increases) monthly as payments are made to a principal reserve fund.

(3) Variable rates are given as of December 31, 2006.

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

(5) Represents full amount of the debt as of December 31, 2006. Actual amounts drawn on the debt as of December 31, 2006 are $79,849 for Bowery Place I and $0 for both Bowery Place II and Avalon Acton.

(6) Balances outstanding represent total amounts due at maturity, and are not net of $2,922 and $818 of debt discount as of December 31, 2006 and December 31, 2005, respectively, as reflected in unsecured notes on our Consolidated Balance Sheets included elsewhere in this report.

Future Financing and Capital Needs – Portfolio and Other Activity

As of December 31, 2006, we had 17 new communities under construction, for which a total estimated cost of $639,458,000 remained to be invested. In addition, we had six communities which we own, or in which we have a direct or indirect interest, under reconstruction, for which a total estimated cost of $13,791,000 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:

- cash currently on hand invested in highly liquid overnight money market funds and repurchase agreements;
- the remaining capacity under our current $650,000,000 unsecured credit facility;
- the net proceeds from sales of existing communities;
- retained operating cash;
- the issuance of debt or equity securities (including proceeds from the recent stock offering); and/or
- private equity funding.

Before planned reconstruction activity, including reconstruction activity related to communities acquired by the Fund as discussed below, 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 or reconstruction activity and significant losses could be incurred.

We have invested in the Fund, a private, discretionary investment vehicle that acquires and operates apartment communities in our markets. The Fund will serve, until March 16, 2008 or until 80% of its committed capital is invested, as the principal vehicle through which we will invest in the acquisition of apartment communities, subject to certain exceptions. These exceptions include significant individual asset and portfolio acquisitions, properties acquired in tax-deferred transactions and acquisitions that are inadvisable or inappropriate for the Fund. The Fund will not restrict our development activities, and will terminate after a term of eight years, subject to two one-year extensions. The Fund has nine institutional investors, including us, with a combined equity capital commitment of $330,000,000. A significant portion of the investments made in the Fund by its investors are being made through AvalonBay Value Added Fund, Inc., a Maryland corporation that qualifies as a REIT under the Internal Revenue Code (the "Fund REIT"). A wholly-owned subsidiary of the Company is the general partner of the Fund and has committed $50,000,000 to the Fund and the Fund REIT (of which approximately $22,944,000 has been invested as of January 31, 2007) representing a 15.2% combined general partner and limited partner equity interest. Under the Fund documents, the Fund has the ability to employ leverage through debt financings up to 65% on a portfolio basis, which, if achieved, would enable the Fund to invest up to $940,000,000 (of which approximately $514,000,000 has been invested as of January 31, 2007). We currently expect that leverage of less than 65% will be employed, reducing the projected investment value to between $850,000,000 and $900,000,000.

From time to time we use joint ventures to hold or develop individual real estate assets. We generally employ joint ventures primarily to mitigate asset concentration or market risk or secondarily as a source of liquidity. We may also use joint ventures related to mixed-use land development opportunities where our partners bring development and operational expertise to the venture. Each joint venture or partnership agreement has been and will continue to 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 achieve our objectives through joint ventures.

In evaluating our allocation of capital within our markets, we sell assets that do not meet our long-term investment criteria or when capital and real estate markets allow us to realize a portion of the value created over the past business cycle and redeploy the proceeds from those sales to develop and redevelop communities. In response to real estate and capital markets conditions, we sold four communities, including an investment held in a joint venture, with net proceeds in the aggregate of approximately $218,492,000 from January 1, 2006 through January 31, 2007. 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 future total revenues, total expenses and NOI. However, we believe that the absence of future cash flows from communities sold will have a minimal impact on our ability to fund future liquidity and capital resource needs.

Off Balance Sheet Arrangements

In addition to the investment interests in consolidated and unconsolidated real estate entities, we have certain off balance sheet arrangements with the entities in which we invest. Additional discussion of these entities can be found in Note 6, "Investments in Unconsolidated Entities," and Note 8, "Commitments and Contingencies," of our Consolidated Financial Statements located elsewhere in this report.

- *CVP I, LLC* – CVP I, LLC has outstanding tax-exempt, variable rate bonds maturing in November 2036 in the amount of $117,000,000, which have permanent credit enhancement. We have agreed to guarantee, under limited circumstances, the repayment to the credit enhancer of any advances it may make in fulfillment of CVP I, LLC's repayment obligations under the bonds. We have also guaranteed to the credit enhancer that CVP I, LLC will obtain a final certificate of occupancy for the project (Chrystie Place in New York City) overall once tenant improvements related to a retail tenant are complete, which is expected in 2007. Our 80% partner in this venture has agreed that it will reimburse us its pro rata share of any amounts paid relative to these guaranteed obligations. The estimated fair value of, and our obligation under these guarantees, both at inception and as of December 31, 2006 were not significant. As a result we have not recorded any obligation associated with these guarantees at December 31, 2006.
- *MVP I, LLC* – MVP I, LLC has a construction loan in the amount of $94,400,000 (of which $76,739,000 is outstanding as of December 31, 2006), which matures in September 2010, assuming exercise of two one-year renewal options, and is payable by the unconsolidated real estate entity. In connection with the construction management services that we provided to MVP I, LLC, the entity that owns and developed Avalon at Mission Bay North II in San Francisco, we have provided a construction completion guarantee to the lender in order to fulfill their standard financing requirements related to the construction financing. Construction was completed in 2006, and our obligations under this guarantee will terminate once all of the lender's standard completion requirements have been satisfied, which we currently expect to occur in 2007. The estimated fair value of and our obligation under this guarantee, both at inception and as of December 31, 2006 was not significant and therefore no liability has been recorded related to this construction completion guarantee as of December 31, 2006.
- *The Fund* – The Fund has 12 mortgage loans with amounts outstanding in the aggregate of $259,645,000. These mortgage loans have varying maturity dates (or dates after which the loans can be prepaid), ranging from February 2007 to October 2014. These mortgage loans are secured by the underlying real estate. In addition, the Fund has a credit facility with $57,400,000 outstanding as of December 31, 2006, which matures in January 2008. The mortgage loans and the credit facility are payable by the Fund with operating cash flow from the underlying real estate, and the credit facility is secured by capital commitments. We have not guaranteed the debt of the Fund, nor do we have any obligation to fund this debt should the Fund be unable to do so.

In addition, as part of the formation of the Fund, we have provided to one of the limited partners a guarantee. The guarantee provides that if, upon final liquidation of the Fund, the total amount of all distributions to that partner during the life of the Fund (whether from operating cash flow or property sales) does not equal a minimum of the total capital contributions made by that partner, then we will pay the partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the partner (maximum of approximately $3,400,000 as of December 31, 2006). As of December 31, 2006, the fair value of the real estate assets owned by the Fund is considered adequate to cover such potential payment to that partner under a liquidation scenario. The estimated fair value of, and our obligation under this guarantee, both at inception and as of December 31, 2006 was not significant and therefore we have not recorded any obligation for this guarantee as of December 31, 2006.

- *PHVP I, LLC* – In connection with the pursuit of a Development Right in Pleasant Hill, California, $125,000,000 in bond financing was issued by the Contra Costa County Redevelopment Agency (the "Agency") in connection with the possible future construction of a multifamily rental community by PHVP I, LLC. The bond proceeds were immediately invested in their entirety in a guaranteed investment contract ("GIC") administered by a trustee. This Development Right is planned as a mixed-use development, with residential, for-sale, retail and office components. The bond proceeds will remain in the GIC until at least June 1, 2007, but no later than December 5, 2007, at which time a loan will be made to PHVP I, LLC to fund construction of the multifamily portion of the development, or the bonds will be redeemed by the Agency. Although we do not have any equity or economic interest in PHVP I, LLC at this time, we do have an option to make a capital contribution to PHVP I, LLC in exchange for a 99% general partner interest in the entity. Should we decide not to exercise this option, the bonds will be redeemed, and a loan will not be made to PHVP I, LLC. The bonds are payable from the proceeds of the GIC and are non-recourse to both PHVP I, LLC and to us. There is no loan payable outstanding by PHVP I, LLC as of December 31, 2006.

  In addition, as part of providing construction management services to PHVP I, LLC for the construction of a public garage, we have provided a construction completion guarantee to the related lender in order to fulfill their standard financing requirements related to the garage construction financing. Our obligations under this guarantee will terminate following construction completion of the garage once all of the lender's standard completion requirements have been satisfied, which we currently expect to occur in 2008. In the third quarter of 2006, significant modifications were requested by the local transit authority to change the garage structure design. We do not believe that the requested design changes impact the construction schedule. However, it is expected that these changes will increase the original budget by an amount up to $5,000,000. We believe that substantially all potential additional amounts are reimbursable from unrelated third parties. At this time we do not believe that it is probable that we will incur any additional costs. The estimated fair value of, and our obligation under this guarantee, both at inception and as of December 31, 2006 was not significant and therefore we have not recorded any obligation for this guarantee as of December 31, 2006.
- *Avalon Del Rey Apartments, LLC* – In the fourth quarter of 2006, we admitted a 70% venture partner to the LLC for an investment of $49,000,000, including the assumption of debt. In conjunction with this investment, we provided an operating guarantee to the joint venture partner. This guarantee provides that if the initial year return earned by the joint venture partner is less than a threshold return of 7% on its initial equity investment, we will pay the joint venture partner an amount equal to the shortfall, up to the 7% threshold return required. As of December 31, 2006, the cash flows and expected return on investment of the community are expected to meet and exceed the initial year threshold return required by our joint venture partner. Therefore we have not recorded any liability associated with this guarantee as of December 31, 2006.

There are no other 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.

Contractual Obligations

We currently have contractual obligations consisting primarily of long-term debt obligations and lease obligations for certain land parcels and regional and administrative office space. Scheduled contractual obligations required for the next five years and thereafter are as follows as of December 31, 2006 (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)	$ 2,828,508	$ 268,521	$ 440,710	$ 626,556	$ 1,492,721
Operating Lease Obligations (2)	1,868,720	8,045	16,411	16,156	1,828,108
Total	$ 4,697,228	$ 276,566	$ 457,121	$ 642,712	$ 3,320,829

(1) No balance outstanding under our variable rate unsecured credit facility as of December 31, 2006. Amounts exclude interest payable as of December 31, 2006.

(2) Includes land leases expiring between July 2029 and March 2142. Amounts do not include any adjustment for purchase options available under the land leases.

Inflation and Deflation

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

Forward-Looking Statements

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

- our potential development, redevelopment, acquisition or disposition of communities;
- the timing and cost of completion of apartment communities under construction, reconstruction, development or redevelopment;
- the timing of lease-up, occupancy and stabilization of apartment communities;
- the pursuit of land on which we are considering future development;
- the anticipated operating performance of our communities;
- cost, yield and earnings estimates;
- our declaration or payment of distributions;
- our joint venture and discretionary fund activities;
- our policies regarding investments, indebtedness, acquisitions, dispositions, financings and other matters;
- our qualification as a REIT under the Internal Revenue Code;
- the real estate markets in Northern and Southern California and markets in selected states in the Mid-Atlantic, 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, which we describe in Item 1a, "Risk Factors," elsewhere in this report, 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.

In addition, these forward-looking statements represent our estimates and assumptions only as of the date of this report. We do not undertake a duty to update these forward-looking statements, and therefore they may not represent our estimates and assumptions after the date of this report.

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

- we may fail to secure development opportunities due to an inability to reach agreements with third parties to obtain land at attractive prices or to obtain desired zoning and other local approvals;
- we may abandon or defer development opportunities for a number of reasons, including changes in local market conditions which make development less desirable, increases in costs of development and increases in the cost of capital, resulting in losses;
- construction costs of a community may exceed our original estimates;
- we may not complete construction and lease-up of communities under development or redevelopment on schedule, resulting in increased interest costs and construction costs and a decrease in our expected rental revenues;
- occupancy rates and market rents may be adversely affected by competition and local economic and market conditions which are beyond our control;
- financing may not be available on favorable terms or at all, and our cash flows from operations and access to cost effective capital may be insufficient for the development of our pipeline which could limit our pursuit of opportunities;
- our cash flows may be insufficient to meet required payments of principal and interest, and we may be unable to refinance existing indebtedness or the terms of such refinancing may not be as favorable as the terms of existing indebtedness;
- we may be unsuccessful in our management of the Fund and the Fund REIT; and
- we may be unsuccessful in managing changes in our portfolio composition.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain financial market risks, the most predominant being interest rate risk. We monitor interest rate risk 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 $426,795,000 and $209,165,000 in variable rate debt outstanding (excluding variable rate debt effectively fixed through swap agreements) as of December 31, 2006 and 2005, respectively. If interest rates on the variable rate debt had been 100 basis points higher throughout 2006 and 2005, our annual interest costs would have increased by approximately $3,027,000 and $3,990,000, respectively, based on balances outstanding during the applicable years.

We currently use interest rate protection agreements (consisting of interest rate swap and interest rate cap agreements) to reduce the impact of interest rate fluctuations on certain variable rate indebtedness, not for trading on speculative purposes. 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, 2006, the effect of swap agreements is to fix the interest rate on approximately $65,800,000 of our variable rate, tax-exempt debt. The interest rate protection provided by certain swap agreements on the consolidated variable rate, tax-exempt debt was not electively entered into by us but, rather, was a requirement of either the bond issuer or the credit enhancement provider related to certain tax-exempt bond financings. Had these swap agreements not been in place during 2006 and 2005, our annual interest costs would have been approximately $1,182,000 and $1,878,000 lower, respectively, based on balances outstanding and reported interest rates during the applicable years. Additionally, if the variable interest rates on this debt had been 100 basis points higher throughout 2006 and 2005 and these swap agreements had not been in place, our annual interest costs would have been approximately $37,000 higher in 2006 and $1,200,000 lower in 2005.

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.

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 amounts outstanding under our variable rate unsecured credit facility) with an aggregate carrying value of $2,828,508,000 at December 31, 2006 had an estimated aggregate fair value of $2,939,717,000 at December 31, 2006. Fixed rate debt (excluding our variable rate debt effectively fixed through swap agreements) represented $2,324,513,000 of the carrying value and $2,435,722,000 of the fair value at December 31, 2006. If interest rates had been 100 basis points higher as of December 31, 2006, the fair value of this fixed rate debt would have decreased by $102,909,000.

We do not have any exposure to foreign currency or equity price risk, and our exposure to commodity price risk is insignificant.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9a. CONTROLS AND PROCEDURES

(a) *Evaluation of Disclosure Controls and Procedures*. As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. We continue to review and document our disclosure controls and procedures, including our internal 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) *Management's Report on Internal Control Over Financial Reporting*. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2006 based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2006.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

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

ITEM 9b. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information pertaining to directors and executive officers of the Company and the Company's Code of Conduct are 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 16, 2007.

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 16, 2007.

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 16, 2007.

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, 2006:

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)	2,603,738(2)(3)	$ 69.65(3)(4)	1,791,861(5)
Equity compensation plans not approved by security holders (6)	—	n/a	789,312
Total	2,603,738	$ 69.65(3)(4)	2,581,173

(1) Consists of the 1994 Plan.

(2) Includes 116,499 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 274,986 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 4,240 shares, at a weighted-average exercise price of $36.83 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 and operating partnership units 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, 2007, the maximum number of shares remaining available for future issuance under the 1994 Plan was increased by 748,133 to 2,539,994.

(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, AND DIRECTOR INDEPENDENCE

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 16, 2007.

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 16, 2007.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

15(a)(1) Financial Statements

Index to Financial Statements

Consolidated Financial Statements and Financial Statement Schedule:

15(a)(2) Financial Statement Schedule

15(a)(3) Exhibits

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

INDEX TO EXHIBITS

3(i).1	—	Articles of Amendment and Restatement of Articles of Incorporation of the Company, dated as of June 4, 1998. (Refiled herewith.)
3(i).2	—	Articles of Amendment, dated as of October 2, 1998. (Refiled herewith.)
3(i).3	—	Articles Supplementary, dated as of October 13, 1998, relating to the 8.70% Series H Cumulative Redeemable Preferred Stock. (Refiled herewith.)
3(ii).1	—	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	—	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.)
4.2	—	Indenture for Senior Debt Securities, dated as of January 16, 1998, between the Company and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to Exhibit 4.1 to Form S-3ASR of the Company filed January 8, 2007.)
4.3	—	First Supplemental Indenture, dated as of January 20, 1998, between the Company and State Street Bank and Trust Company as Trustee. (Incorporated by reference to Exhibit 4.2 to Form S-3ASR of the Company filed January 8, 2007.)
4.4	—	Second Supplemental Indenture, dated as of July 7, 1998, between the Company and State Street Bank and Trust Company as Trustee. (Incorporated by reference to Exhibit 4.3 to Form S-3ASR of the Company filed January 8, 2007.)
4.5	—	Amended and Restated Third Supplemental Indenture, dated as of July 10, 2000 between the Company and State Street Bank and Trust Company as Trustee. (Incorporated by reference to Exhibit 4.4 to Form S-3ASR of the Company filed January 8, 2007.)
4.6	—	Fourth Supplemental Indenture, dated as of September 18, 2006, between the Company and U.S. Bank National Association as Trustee. (Incorporated by reference to Exhibit 4.5 to Form S-3ASR of the Company filed January 8, 2007.)
4.7	—	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.)
4.8	—	Amendment to the Company's Dividend Reinvestment and Stock Purchase Plan filed on December 17, 1999. (Incorporated by reference to the Prospectus Supplement filed pursuant to Rule 424(b)(2) of the Securities Act of 1933 on December 17, 1999.)
4.9	—	Amendment to the Company's Dividend Reinvestment and Stock Purchase Plan filed on March 26, 2004. (Incorporated by reference to the Prospectus Supplement filed pursuant to Rule 424(b)(3) of the Securities Act of 1933 on March 26, 2004.)
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. (Incorporated by reference to Exhibit 10.1 to Form 10-K of the Company filed March 5, 2004.)
10.2	—	Amended and Restated Limited Partnership Agreement of AvalonBay Value Added Fund, L.P., dated as of March 16, 2005. (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed May 6, 2005.)
10.3+	—	Endorsement Split Dollar Agreements and Amendments thereto with Messrs. Blair, Naughton, Fuller, Sargeant, Horey and Meyer (Incorporated by reference to Exhibit 10.2 to Form 10-Q of the Company filed May 6, 2005.)
10.4+	—	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.)
10.5+	—	First Amendment to Employment Agreement between the Company and Thomas J. Sargeant, dated as of March 31, 2005. (Incorporated by reference to Exhibit 10.5 to Form 10-Q of the Company filed May 6, 2005.)
10.6+	—	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.)
10.7+	—	First Amendment to Employment Agreement between the Company and Bryce Blair, dated as of March 31, 2005. (Incorporated by reference to Exhibit 10.3 to Form 10-Q of the Company filed May 6, 2005.)
10.8+	—	Employment Agreement, dated as of February 26, 2001, between the Company and Timothy J. Naughton. (Refiled herewith.)
10.9+	—	First Amendment to Employment Agreement between the Company and Timothy J. Naughton, dated as of March 31, 2005. (Incorporated by reference to Exhibit 10.4 to Form 10-Q of the Company filed May 6, 2005.)
10.10+	—	Employment Agreement, dated as of September 10, 2001, between the Company and Leo S. Horey. (Refiled herewith.)
10.11+	—	First Amendment to Employment Agreement between the Company and Leo S. Horey, dated as of March 31, 2005. (Incorporated by reference to Exhibit 10.6 to Form 10-Q of the Company filed May 6, 2005).
10.12+	—	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.)
10.13+	—	First Amendment to Employment Agreement between the Company and Samuel B. Fuller, dated as of March 31, 2005. (Incorporated by reference to Exhibit 10.7 to Form 10-Q of the Company filed May 6, 2005).
10.14+	—	Separation Agreement between the Company and Samuel B. Fuller, dated as of April 6, 2005. (Incorporated by reference to Exhibit 10.9 to Form 10-Q of the Company filed May 6, 2005.)

10.15+	—	Retirement Agreement, dated as of March 24, 2000, between the Company and Gilbert M. Meyer. (Refiled herewith.)
10.16+	—	First Amendment to Retirement Agreement between the Company and Gilbert M. Meyer, dated as of March 31, 2005. (Incorporated by reference to Exhibit 10.8 to Form 10-Q of the Company filed May 6, 2005).
10.17+	—	Avalon Properties, Inc. 1993 Stock Option and Incentive Plan. (Refiled herewith.)
10.18+	—	Avalon Properties, Inc. 1995 Equity Incentive Plan. (Refiled herewith.)
10.19+	—	Amendment, dated May 6, 1999, to the Avalon Properties Amended and Restated 1995 Equity Incentive Plan. (Refiled herewith.)
10.20+	—	AvalonBay Communities, Inc. 1994 Stock Incentive Plan, as amended and restated in full on December 8, 2004. (Incorporated by reference to Exhibit 10.B 1 to Form 8-K of the Company filed December 14, 2004.)
10.21+	—	Amendment, dated February 9, 2006, to the AvalonBay Communities, Inc. 1994 Stock Incentive Plan, as amended and restated on December 8, 2004. (Incorporated by reference to Exhibit 10.32 to Form 10-K of the Company filed March 14, 2006.)
10.22+	—	Amendment, dated December 6, 2006, to the AvalonBay Communities, Inc. 1994 Stock Incentive Plan, as amended and restated on December 8, 2004. (Filed herewith.)
10.23+	—	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.)
10.24+	—	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.)
10.25+	—	Form of Indemnity Agreement between the Company and its Directors. (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed November 9, 2005.)
10.26+	—	The Company's Officer Severance Plan adopted on September 9, 1999. (Refiled herewith.)
10.27+	—	Form of AvalonBay Communities, Inc. Non-Qualified Stock Option Agreement (1994 Stock Incentive Plan, as Amended and Restated). (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on November 4, 2004.).
10.28+	—	Form of AvalonBay Communities, Inc. Incentive Stock Option Agreement (1994 Stock Incentive Plan, as Amended and Restated). (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed on November 4, 2004.)
10.29+	—	Form of AvalonBay Communities, Inc. Employee Stock Grant and Restricted Stock Agreement. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on November 4, 2004.)

10.30+	—	Form of AvalonBay Communities, Inc. Director Restricted Unit Agreement. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on November 4, 2004.)
10.31+	—	Form of AvalonBay Communities, Inc. Director Restricted Stock Agreement. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on November 4, 2004.)
10.32	—	Amended and Restated Revolving Loan Agreement, dated as of May 24, 2004, among the Company, as Borrower, JPMorgan Chase Bank and Wachovia Bank, N.A., each as a Bank and Syndication Agent, Bank of America, successor in interest to Fleet National Bank, as a Bank, Swing Lender and Issuing Bank, Morgan Stanley Bank, Wells Fargo Bank, N.A., and Deutsche Bank Trust Company Americas, 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 Bank of America, successor in interest to Fleet National Bank, as Administrative Agent. (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed August 6, 2004.)
10.33+	—	Rules and Procedures for Non-Employee Directors' Deferred Compensation Program adopted on November 20, 2006. (Filed herewith.)
10.34+	—	Compensation Arrangements for Non-Employee Directors. (Incorporated by reference to the Company's Form 8-K filed on February 14, 2006.)
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 154(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: February 28, 2007

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

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

Date: February 28, 2007

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

Date: February 28, 2007

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

Date: February 28, 2007

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

Date: February 28, 2007

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

Date: February 28, 2007

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

Date: February 28, 2007

By: /s/ Timothy J. Naughton
Timothy J. Naughton, Director

Date: February 28, 2007

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

Date: February 28, 2007

By: /s/ H. Jay Sarles
H. Jay Sarles, Director

Date: February 28, 2007

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

Date: February 28, 2007

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

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of AvalonBay Communities, Inc. as of December 31, 2006 and 2005, 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, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AvalonBay Communities, Inc. at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of AvalonBay Communities, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 26, 2007

Report of Independent Registered Public Accounting Firm

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting in Item 9a., that AvalonBay Communities, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AvalonBay Communities, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that AvalonBay Communities, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, AvalonBay Communities, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AvalonBay Communities, Inc. as of December 31, 2006 and 2005, 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, 2006 of AvalonBay Communities, Inc. and our report dated February 26, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia
February 26, 2007

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

	12-31-06	12-31-05
ASSETS		
Real estate:		
Land	$ 958,254	$ 872,822
Buildings and improvements	4,560,457	4,254,914
Furniture, fixtures and equipment	143,480	131,689
	5,662,191	5,259,425
Less accumulated depreciation	(1,099,834)	(937,824)
Net operating real estate	4,562,357	4,321,601
Construction in progress, including land	641,781	261,743
Land held for development	209,568	179,739
Operating real estate assets held for sale, net	64,351	182,705
Total real estate, net	5,478,057	4,945,788
Cash and cash equivalents	8,567	5,715
Cash in escrow	136,989	48,266
Resident security deposits	26,574	26,290
Investments in unconsolidated real estate entities	42,724	41,942
Deferred financing costs, net	26,343	17,976
Deferred development costs	39,365	31,467
Prepaid expenses and other assets	54,567	47,616
Total assets	$ 5,813,186	$ 5,165,060
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unsecured notes, net	$ 2,153,078	$ 1,809,182
Variable rate unsecured credit facility	—	66,800
Mortgage notes payable	672,508	458,035
Dividends payable	60,417	54,476
Payables for construction	59,232	24,690
Accrued expenses and other liabilities	112,219	82,205
Accrued interest payable	37,236	34,649
Resident security deposits	38,803	35,544
Liabilities related to real estate assets held for sale	42,985	38,352
Total liabilities	3,176,478	2,603,933
Minority interest of unitholders in consolidated partnerships	5,270	19,464
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, $0.01 par value; $25 liquidation preference; 50,000,000 shares authorized at both December 31, 2006 and December 31, 2005; 4,000,000 shares issued and outstanding at both December 31, 2006 and December 31, 2005	40	40
Common stock, $0.01 par value; 140,000,000 shares authorized at both December 31, 2006 and December 31, 2005; 74,668,372 and 73,663,048 shares issued and outstanding at December 31, 2006 and December 31, 2005, respectively	747	737
Additional paid-in capital	2,482,516	2,429,568
Accumulated earnings less dividends	151,714	115,788
Accumulated other comprehensive loss	(3,579)	(4,470)
Total stockholders' equity	2,631,438	2,541,663
Total liabilities and stockholders' equity	$ 5,813,186	$ 5,165,060

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		
	12-31-06	12-31-05	12-31-04
Revenue:			
Rental and other income	$ 731,041	$ 666,376	$ 613,240
Management, development and other fees	6,259	4,304	604
Total revenue	737,300	670,680	613,844
Expenses:			
Operating expenses, excluding property taxes	210,895	191,558	181,351
Property taxes	68,257	65,487	59,458
Interest expense, net	111,046	127,099	131,103
Depreciation expense	162,896	158,822	151,991
General and administrative expense	24,767	25,761	18,074
Total expenses	577,861	568,727	541,977
Equity in income of unconsolidated entities	7,455	7,198	1,100
Venture partner interest in profit-sharing	—	—	(1,178)
Minority interest in consolidated partnerships	(573)	(1,481)	(150)
Gain on sale of land	13,519	4,479	1,138
Income from continuing operations before cumulative effect of change in accounting principle	179,840	112,149	72,777
Discontinued operations:			
Income from discontinued operations	1,148	14,942	21,134
Gain on sale of communities	97,411	195,287	121,287
Total discontinued operations	98,559	210,229	142,421
Income before cumulative effect of change in accounting principle	278,399	322,378	215,198
Cumulative effect of change in accounting principle	—	—	4,547
Net income	278,399	322,378	219,745
Dividends attributable to preferred stock	(8,700)	(8,700)	(8,700)
Net income available to common stockholders	$ 269,699	$ 313,678	$ 211,045
Other comprehensive income:			
Unrealized gain on cash flow hedges	891	2,626	1,116
Comprehensive income	$ 270,590	$ 316,304	$ 212,161
Earnings per common share — basic:			
Income from continuing operations (net of dividends attributable to preferred stock)	$ 2.31	$ 1.42	$ 0.96
Discontinued operations	1.33	2.88	1.99
Net income available to common stockholders	$ 3.64	$ 4.30	$ 2.95
Earnings per common share — diluted:			
Income from continuing operations (net of dividends attributable to preferred stock)	$ 2.27	$ 1.40	$ 0.96
Discontinued operations	1.30	2.81	1.96
Net income available to common stockholders	$ 3.57	$ 4.21	$ 2.92

See accompanying notes to Consolidated Financial Statements.

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

	Shares issued							
	Preferred stock	Common stock	Preferred stock	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total stockholders' equity
Balance at December 31, 2003	4,000,000	70,937,526	$ 40	$ 709	$ 2,316,773	$ 2,024	$ (8,212)	$ 2,311,334
Net income	—	—	—	—	—	219,745	—	219,745
Unrealized gain on cash flow hedges	—	—	—	—	—	—	1,116	1,116
Dividends declared to common and preferred stockholders	—	—	—	—	—	(210,338)	—	(210,338)
Issuance of common stock	—	1,644,550	—	17	59,147	(662)	—	58,502
Amortization of deferred compensation	—	—	—	—	4,932	—	—	4,932
Balance at December 31, 2004	4,000,000	72,582,076	40	726	2,380,852	10,769	(7,096)	2,385,291
Net income	—	—	—	—	—	322,378	—	322,378
Unrealized gain on cash flow hedges	—	—	—	—	—	—	2,626	2,626
Dividends declared to common and preferred stockholders	—	—	—	—	—	(216,982)	—	(216,982)
Issuance of common stock	—	1,080,972	—	11	40,378	(377)	—	40,012
Amortization of deferred compensation	—	—	—	—	8,338	—	—	8,338
Balance at December 31, 2005	4,000,000	73,663,048	40	737	2,429,568	115,788	(4,470)	2,541,663
Net income	—	—	—	—	—	278,399	—	278,399
Unrealized gain on cash flow hedges	—	—	—	—	—	—	891	891
Dividends declared to common and preferred stockholders	—	—	—	—	—	(241,155)	—	(241,155)
Issuance of common stock	—	1,005,324	—	10	38,839	(1,318)	—	37,531
Amortization of deferred compensation	—	—	—	—	14,109	—	—	14,109
Balance at December 31, 2006	4,000,000	74,668,372	$ 40	$ 747	$ 2,482,516	$ 151,714	$ (3,579)	$ 2,631,438

See accompanying notes to Consolidated Financial Statements.

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

	For the year ended		
	12-31-06	12-31-05	12-31-04
Cash flows from operating activities:			
Net income	$ 278,399	$ 322,378	$ 219,745
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation expense	162,896	158,822	151,991
Depreciation expense from discontinued operations	—	3,241	10,676
Amortization of deferred financing costs and debt premium/discount	4,474	4,022	3,962
Amortization of deferred compensation	10,095	4,292	2,593
Income allocated to minority interest in consolidated partnerships	573	1,481	187
Income allocated to venture partner interest in profit-sharing	—	—	1,178
Equity in income of unconsolidated entities, net of eliminations	(6,480)	(6,565)	(1,100)
Return on investment of unconsolidated entities	298	330	43
Gain on sale of real estate assets	(110,930)	(199,766)	(122,425)
Cumulative effect of change in accounting principle	—	—	(4,547)
Increase in cash in operating escrows	(844)	(4,344)	(1,451)
Decrease (increase) in resident security deposits, prepaid expenses and other assets	(2,197)	8,547	(10,589)
Increase in accrued expenses, other liabilities and accrued interest payable	15,659	13,810	25,354
Net cash provided by operating activities	351,943	306,248	275,617
Cash flows from investing activities:			
Development/redevelopment of real estate assets including land acquisitions and deferred development costs	(735,167)	(382,871)	(355,938)
Acquisition of real estate assets, including partner equity interest	(74,924)	(57,415)	(128,238)
Capital expenditures — existing real estate assets	(21,289)	(17,570)	(12,984)
Capital expenditures — non-real estate assets	(957)	(1,520)	(860)
Proceeds from sale of real estate and technology investments, including reimbursement for Fund communities, net of selling costs	272,223	469,292	219,649
Increase (decrease) in payables for construction	34,542	5,198	(3,962)
Decrease (increase) in cash in construction escrows	19,572	(21,784)	201
Repayment of participating mortgage note, including interest and prepayment premium	—	—	34,846
Increase in investments in unconsolidated real estate entities	(5,371)	(13,091)	(4,397)
Net cash used in investing activities	(511,371)	(19,761)	(251,683)
Cash flows from financing activities:			
Issuance of common stock	26,551	36,611	54,031
Dividends paid	(234,958)	(215,391)	(209,095)
Net borrowings (repayments) under unsecured credit facility	(66,800)	(35,200)	50,900
Issuance of mortgage notes payable and draws on construction loans	113,849	26,269	105,843
Repayments of mortgage notes payable	(6,827)	(41,932)	(40,270)
Issuance (repayment) of unsecured notes	343,743	(50,000)	25,000
Payment of deferred financing costs	(12,698)	(1,292)	(9,318)
Redemption of units for cash by minority partners	(80)	(50)	(1,691)
Distributions to DownREIT partnership unitholders	(392)	(1,194)	(1,425)
Distributions to joint venture and profit-sharing partners	(108)	(114)	(3,446)
Net cash provided by (used in) financing activities	162,280	(282,293)	(29,471)
Net increase (decrease) in cash and cash equivalents	2,852	4,194	(5,537)
Cash and cash equivalents, beginning of year	5,715	1,521	7,058
Cash and cash equivalents, end of year	$ 8,567	$ 5,715	$ 1,521
Cash paid during year for interest, net of amount capitalized	$ 102,640	$ 121,526	$ 124,895

See accompanying notes to Consolidated Financial Statements.

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

During the year ended December 31, 2006:

- As described in Note 4, "Stockholders' Equity," 122,172 shares of common stock valued at $12,568 were issued in connection with stock grants, 2,306 shares valued at $256 were issued through the Company's dividend reinvestment plan, 47,411 shares valued at $3,449 were withheld to satisfy employees' tax withholding and other liabilities and 5,910 shares valued at $193 were forfeited, for a net value of $9,182. In addition, the Company granted 849,769 options for common stock, net of forfeitures, at a value of $9,946.
- 308,345 units of limited partnership, valued at $14,166, 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 issued $187,300 of variable rate tax-exempt debt, of which $107,451 in proceeds were not received, but placed in an escrow until requisitioned for construction funding.
- The Company recorded a decrease to other liabilities and a corresponding gain to other comprehensive income of $891 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 $60,417.

During the year ended December 31, 2005:

- 165,790 shares of common stock were issued in connection with stock grants, 1,295 shares were issued through the Company's dividend reinvestment plan, 8,971 shares were issued to a member of the Board of Directors in fulfillment of a deferred stock award, 50,916 shares were withheld to satisfy employees' tax withholding and other liabilities and 9,965 shares were forfeited, for a net value of $9,317. In addition, the Company granted 696,484 options for common stock, net of forfeitures, at a value of $4,521.
- 49,263 units of limited partnership, valued at $2,202, 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 deconsolidated mortgage notes payable in the aggregate amount of $24,869 upon admittance of outside investors into the Fund (as defined in Note 6, "Investments in Unconsolidated Entities").
- The Company assumed fixed rate debt of $4,566 as part of the acquisition of an improved land parcel.
- The Company recorded a decrease to other liabilities and a corresponding gain to other comprehensive income of $2,626 to adjust the Company's Hedging Derivatives to their fair value.
- Common and preferred dividends declared but not paid totaled $54,476.

During the year ended December 31, 2004:

- 147,517 shares of common stock were issued in connection with stock grants, 78,509 shares were issued in connection with non-cash stock option exercises, 1,545 shares were issued through the Company's dividend reinvestment plan, 75,515 shares were withheld to satisfy employees' tax withholding and other liabilities and 3,012 shares were forfeited, for a net value of $6,138. In addition, the Company granted 465,232 options for common stock, net of forfeitures, at a value of $2,081.
- 104,160 units of limited partnership, valued at $4,035, 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 with mortgage notes payable of $28,335 in the aggregate, that were assumed by the respective buyers as part of the total sales price.
- The Company assumed fixed rate debt of $8,155 in connection with the acquisition of a community and $20,141 in connection with the acquisition of three improved land parcels.
- The Company recorded a decrease to other liabilities and a corresponding gain to other comprehensive income of $1,116 to adjust the Company's Hedged Derivatives to their fair value.
- Common and preferred dividends declared but not paid totaled $52,982.

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 ("the Code"), 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, 2006, the Company owned or held a direct or indirect ownership interest in 150 operating apartment communities containing 43,141 apartment homes in ten states and the District of Columbia, of which six communities containing 2,381 apartment homes were under reconstruction. In addition, the Company owned or held a direct or indirect ownership interest in 17 communities under construction that are expected to contain an aggregate of 5,153 apartment homes when completed. The Company also owned or held a direct or indirect ownership interest in rights to develop an additional 54 communities that, if developed in the manner expected, will contain an estimated 14,185 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 accompanying Consolidated Financial Statements include the accounts of the Company and its wholly-owned partnerships, certain joint venture partnerships, subsidiary partnerships structured as DownREITs and any variable interest entities consolidated under FASB Interpretation No. 46 ("FIN 46(R)"), "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51," as revised in December 2003. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company assesses consolidation of variable interest entities under the guidance of FIN 46(R). The Company accounts for joint venture entities and subsidiary partnerships, including those structured as DownREITs, that are not variable interest entities, in accordance with EITF Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights", Statement of Position ("SOP") 78-9, "Accounting for Investments in Real Estate Ventures", Accounting Principles Board ("APB") Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock" and EITF Topic D-46, "Accounting for Limited Partnership Investments." The Company uses EITF Issue No. 04-5 to evaluate the partnership of each joint venture entity and determine whether control over the partnership, as defined by the EITF, lies with the general partner, or the limited partners, when the limited partners have certain rights. The general partner in a limited partnership is presumed to control that limited partnership, unless that presumption is overcome by the limited partners having either: (i) the substantive ability, either by a single limited partner or through a simple majority vote, to dissolve the limited partnership or otherwise remove the general partner without cause; or (ii) substantive participating rights. If the Company is the general partner and has control over the partnership, or if the Company's limited partnership ownership includes the ability to dissolve the partnership, or has substantive participating rights, as discussed above, the Company consolidates the investments.

If the Company is not the general partner, or the Company's partnership interest does not contain either of the above terms which overcome the presumption of control in a limited partnership residing with the general partner, the Company then looks to the guidance in SOP 78-9, APB 18 and EITF D-46 to determine the accounting framework to apply. The Company generally uses the equity method to account for these investments unless our ownership interest is so minor that we have virtually no influence over the partnership operating and financial policies. Investments in which the Company has little or no influence are accounted for using the cost method.

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. The holders of units of limited partnership interest have the right to present all or some of their units for redemption for a cash amount as determined by the applicable partnership agreement and based on the fair value of the Company's common stock. In lieu of cash redemption, the Company may elect to exchange such units for an equal number of shares of the company's common stock.

In conjunction with the acquisition and development of investments in unconsolidated entities, the Company may incur costs in excess of its equity in the underlying assets. These costs are capitalized and depreciated over the life of the underlying assets to the extent that the Company expects to recover these costs.

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. During the year ended December 31, 2004, the Company recorded an impairment loss of $1,002 related to a technology investment, which is included in operating expenses, excluding property taxes on the accompanying Consolidated Statements of Operations and Other Comprehensive Income. The Company did not recognize an impairment loss on any of its investments in unconsolidated entities during the years ended December 31, 2006 or 2005.

Revenue and Gain 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 ("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.

The Company accounts for sales of real estate assets and the related gain recognition in accordance with SFAS No. 66, "Accounting for Sales of Real Estate."

Real Estate

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. Significant expenditures which improve or extend the life of an asset are capitalized. 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 development efforts commence and ends when the asset, or a portion of an asset, is delivered and is ready for its intended use.

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. Rental income and operating costs incurred during the initial lease-up or post-redevelopment lease-up period are recognized as they accrue.

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, making future development by the Company no longer probable, any capitalized pre-development costs are written-off with a charge to expense. The Company expenses costs related to abandoned pursuits, which includes the abandonment or impairment of Development Rights, acquisition pursuits, disposition pursuits and technology investments, in the amounts of $2,115 in 2006, $816 in 2005 and $1,726 in 2004. These costs are included in operating expenses, excluding property taxes on the accompanying Consolidated Statements of Operations and Other Comprehensive Income. Abandoned pursuit costs can vary greatly, and the costs incurred in any given period may be significantly different in future years.

The Company owns land improved with office buildings and industrial space occupied by unrelated third-parties in connection with five Development Rights. The Company intends to manage the current improvements until such time as all tenant obligations have been satisfied or eliminated through negotiation, and construction of new apartment communities is ready to begin. As provided under the guidance of SFAS No. 67, the revenue from incidental operations received from the current improvements in excess of any incremental costs are being recorded as a reduction of total capitalized costs of the Development Right and not as part of net income.

In connection with the acquisition of an operating community, the Company performs a valuation and allocation to each asset and liability acquired in such transaction, based on their estimated fair values at the date of acquisition in accordance with SFAS No. 141, "Business Combinations." The purchase price allocations to tangible assets, such as land, buildings and improvements, and furniture, fixtures and equipment, are reflected in real estate assets and depreciated over their estimated useful lives. Any purchase price allocation to intangible assets, such as in-place leases, is included in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets and amortized over the average remaining lease term of the acquired leases. The fair value of acquired in-place leases is determined based on the estimated cost to replace such leases, including foregone rents during an assumed re-lease period, as well as the impact on projected cash flow of acquired leases with leased rents above or below current market rents.

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.

It is the Company's policy to perform a quarterly qualitative analysis to determine if there are changes in circumstances that suggest the carrying value of a long lived asset may not be recoverable. If there is an event or change in circumstance that indicates an impairment in the value of an operating community, the Company compares the current and projected operating cash flow 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 flow 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 on any of its operating communities during the years ended December 31, 2006, 2005 or 2004.

Income Taxes

The Company elected to be taxed as a REIT under the Code, 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 if it distributes 100% of the taxable income over the time period allowed under the Code 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, 2006, 2005 and 2004 (unaudited):

	2006 Estimate	2005 Actual	2004 Actual
Net income available to common stockholders	$ 269,699	$ 313,678	$ 211,045
Dividends attributable to preferred stock, not deductible for tax	8,700	8,700	8,700
GAAP gain on sale of communities less than tax gain	7,326	9,345	8,305
Depreciation/Amortization timing differences on real estate	(24,917)	(14,736)	(3,793)
Tax compensation expense in excess of GAAP	(20,968)	(18,969)	(19,758)
Other adjustments	5,135	(2,254)	(9,835)
Taxable net income	$ 244,975	$ 295,764	$ 194,664

The following summarizes the tax components of the Company's common and preferred dividends declared for the years ended December 31, 2006, 2005 and 2004 (unaudited):

	2006	2005	2004
Ordinary income	48%	9%	39%
15% capital gain	43%	77%	51%
Unrecaptured §1250 gain	9%	14%	10%

Deferred Financing Costs

Deferred financing costs include fees and other expenditures necessary to obtain debt financing and are amortized on a straight-line basis, which approximates the effective interest method, over the shorter of the term of the loan or the related credit enhancement facility, if applicable. Unamortized financing costs are written-off when debt is retired before the maturity date. Accumulated amortization of deferred financing costs was $16,179 at December 31, 2006 and was $16,074 at December 31, 2005.

Cash, Cash Equivalents and Cash in Escrow

Cash and cash equivalents include all cash and liquid investments with an original maturity of three months or less from the date acquired. Cash in escrow consists primary of construction financing proceeds that is restricted for use in the construction of a specific community. The majority of the Company's cash, cash equivalents and cash in escrows are 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 cash flow 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." This statement 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.

For cash flow hedge relationships, changes in the fair value of the derivative instrument that are deemed effective at offsetting the risk being hedged are reported in other comprehensive income. For cash flow hedges where the cumulative changes in the fair value of the derivative exceed the cumulative changes in fair value of the hedged item, the ineffective portion is recognized in current period earnings. As of December 31, 2006 and December 31, 2005, the Company had approximately $262,000 and $233,000, respectively, in variable rate debt subject to cash flow hedges. See Note 5, "Derivative Instruments and Hedging Activities" for further discussion of derivative financial instruments.

Comprehensive Income

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

Earnings per Common Share

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		
	12-31-06	12-31-05	12-31-04
Basic and diluted shares outstanding			
Weighted average common shares — basic	74,125,795	72,952,492	71,564,202
Weighted average DownREIT units outstanding	172,255	474,440	573,529
Effect of dilutive securities	1,288,848	1,332,386	1,217,225
Weighted average common shares — diluted	75,586,898	74,759,318	73,354,956
Calculation of Earnings per Share — basic			
Net income available to common stockholders	$ 269,699	$ 313,678	$ 211,045
Weighted average common shares — basic	74,125,795	72,952,492	71,564,202
Earnings per common share — basic	$ 3.64	$ 4.30	$ 2.95
Calculation of Earnings per Share — diluted			
Net income available to common stockholders	$ 269,699	$ 313,678	$ 211,045
Add: Minority interest of DownREIT unitholders in consolidated partnerships, including discontinued operations	391	1,363	3,048
Adjusted net income available to common stockholders	$ 270,090	$ 315,041	$ 214,093
Weighted average common shares — diluted	75,586,898	74,759,318	73,354,956
Earnings per common share — diluted	$ 3.57	$ 4.21	$ 2.92

Certain options to purchase shares of common stock in the amounts of 3,000 were outstanding during the year ended December 31, 2006, but were not included in the computation of diluted earnings per share because in applying the treasury stock method under the provisions of SFAS 123(R), as discussed below, such options are anti-dilutive. Employee options to purchase shares of common stock of 4,500 and 6,000 were outstanding during the years ended December 31, 2005 and 2004, 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

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 a three-year period. Therefore, the cost related to stock-based employee compensation for employee stock options included in the determination of net income for the year ended 2006 is the same as the cost that 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. However, the cost related to stock-based employee compensation for employee stock options included in the determination of net income for the years ended December 31, 2005 and 2004 is less than that which would have been recognized if the fair value based method had been applied to all awards granted since the original effective date of SFAS 123. If the fair value based method had been applied to all outstanding and unvested awards in the years ended December 31, 2005 and 2004, net income would have been $112 and $967 lower for the years ended December 31, 2005 and 2004, respectively. There would not have been any material impact on earnings per common share – diluted for the years ended December 31, 2005 and 2004.

The Company adopted the provisions of SFAS 123(R), "Share Based Payment," using the modified prospective transition method on January 1, 2006. The adoption of SFAS 123(R) did not have a material impact on the Company's financial position or results of operations. However, the adoption of SFAS 123(R) changed the service period for, and timing of, the recognition of compensation cost related to retirement eligibility, which will generally result in accelerated expense recognition by the Company for its stock based compensation programs. For the years ended December 31, 2005 and 2004, the Company recorded compensation cost over the vesting period, regardless of eligibility for retirement (see Note 8, "Commitments and Contingencies," for a discussion of the Company's retirement plan). If the Company had recorded compensation cost based on retirement eligibility, the increase to compensation cost during the years ended December 31, 2005 and 2004 would not have been material.

Under the provisions of SFAS 123(R), the Company is required to estimate the forfeiture of stock options and recognize compensation cost net of the estimated forfeitures. The estimated forfeitures included in compensation cost are adjusted to reflect actual forfeitures at the end of the vesting period. Prior to the adoption of SFAS 123(R), option forfeitures were recognized as they occurred. The forfeiture rate at December 31, 2006 was 1.9%. The application of estimated forfeitures did not materially impact compensation expense for the year ended December 31, 2006.

Variable Interest Entities under FIN 46(R)

The Company adopted the final provisions of FIN 46(R) as of January 1, 2004, which resulted in the consolidation of one entity during 2004 from which the Company held a participating mortgage note. As a result, the Company recognized a cumulative effect of change in accounting principle in January 2004 in the amount of $4,547, which increased earnings per common share – diluted by $0.06. The Company did not hold an equity interest in this entity, and therefore 100% of the entity's net income or loss was recognized by the Company as minority interest in consolidated partnerships on the Consolidated Statements of Operations and Other Comprehensive Income. In October 2004, the Company received payment in full of the outstanding mortgage note. Upon note repayment, the Company did not continue to hold a variable interest in this entity and therefore the Company discontinued consolidating the entity under the provisions of FIN 46(R). Related interest income in the year ended December 31, 2004 has been eliminated in consolidation.

Assets Held for Sale & Discontinued Operations

The Company follows SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144") which requires that the assets and liabilities of any communities which have been sold, or otherwise qualify as held for sale, be presented separately in the Consolidated Balance Sheets. In addition, the results of operations for those assets that meet the definition of discontinued operations are presented as such in the Company's Consolidated Statements of Operations and Other Comprehensive Income. Held for sale and discontinued operations classifications are provided in both the current and prior years presented. Real estate assets held for sale are measured at the lower of the carrying amount or the fair value less the cost to sell. Both the real estate assets and corresponding liabilities are presented separately in the accompanying Consolidated Balance Sheets. Subsequent to classification of a community as held for sale, no further depreciation is recorded. For those assets qualifying for classification as discontinued operations, the community specific components of net income presented as discontinued operations include net operating income, minority interest expense and interest expense, net. For periods prior to the asset qualifying for discontinued operations under SFAS 144, the Company reclassified the results of operations to discontinued operations in accordance with SFAS 144. Subsequent to the reclassification to discontinued operations, the impact of assets classified as discontinued operations on the statements of operations and other comprehensive income will include depreciation. 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 held for sale or discontinued operations will not have any impact on the Company's financial condition or results of operations. The Company combines the operating, investing and financing portions of cash flows attributable to discontinued operations with the respective cash flows from continuing operations on the accompanying Consolidated Statements of Cash Flows.

Recently Issued Accounting Standards

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109," ("FIN 48") which provides guidance for the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." FIN 48 establishes a threshold for the recognition and measurement in financial statements of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for all fiscal years beginning after December 15, 2006. The Company is still assessing the impact and disclosure requirements of FIN 48.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which standardizes the definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, and accordingly, this statement does not require any new fair value measurements. SFAS No. 157 is effective for all fiscal years beginning after November 15, 2007. The Company does not believe that the adoption of SFAS No. 157 will have any material impact on its financial position or results of operations.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Reclassifications

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

2. Interest Capitalized

The Company capitalized interest during the development and redevelopment of real estate assets in accordance with SFAS No. 34, "Capitalization of Interest Cost." Capitalized interest associated with communities under development or redevelopment totaled $46,388 for 2006, $25,284 for 2005 and $20,566 for 2004.

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, 2006 and December 31, 2005 are summarized below. The following amounts and discussion do not include the construction loan payable related to a community classified as held for sale as of December 31, 2006 (see Note 7, "Real Estate Disposition Activities").

	12-31-06	12-31-05
Fixed rate unsecured notes (1)	$ 2,153,078	$ 1,809,182
Fixed rate mortgage notes payable — conventional and tax-exempt	234,272	239,025
Variable rate mortgage notes payable — conventional and tax-exempt	438,236	219,010
Total notes payable and unsecured notes	2,825,586	2,267,217
Variable rate unsecured credit facility	—	66,800
Total mortgage notes payable, unsecured notes and unsecured credit facility	$ 2,825,586	$ 2,334,017

(1) Balances at December 31, 2006 and December 31, 2005 include $2,922 and $818 of debt discount, respectively.

The following debt activity occurred during the year ended December 31, 2006:

- The Company issued $34,000 of variable rate mortgage debt maturing in March 2011;
- The Company issued $93,800 of variable rate tax-exempt debt maturing in November 2037;
- The Company issued $48,500 of variable rate tax-exempt debt maturing in November 2039;
- The Company issued $45,000 of variable rate tax-exempt debt maturing in July 2040;
- The Company repaid $150,000 of unsecured notes with an annual interest rate of 6.8%, pursuant to their scheduled maturity; and
- The Company issued a total of $500,000 of unsecured notes a shelf registration statement. The offering consisted of two separate tranches in the aggregate principal amount of $250,000 each, with effective interest rates of 5.586% and 5.820%, maturing in January 2012 and September 2016, respectively.

In the aggregate, secured notes payable mature at various dates from October 2008 through April 2043 and are secured by certain apartment communities and improved land parcels (with a net carrying value of $954,612 as of December 31, 2006). As of December 31, 2006, the Company has guaranteed approximately $67,395 of mortgage notes payable held by wholly-owned subsidiaries; all such mortgage notes payable are consolidated for financial reporting purposes. The weighted average interest rate of the Company's fixed rate mortgage notes payable (conventional and tax-exempt) was 6.8% at December 31, 2006 and December 31, 2005. The weighted average interest rate of the Company's variable rate mortgage notes payable and its unsecured credit facility (as discussed on the following page), including the effect of certain financing related fees, was 5.8% at December 31, 2006 and 5.5% at December 31, 2005.

Scheduled payments and maturities of mortgage notes payable and unsecured notes outstanding at December 31, 2006 are as follows:

Year	Secured notes payments	Secured notes maturities	Unsecured notes maturities	Stated interest rate of unsecured notes
2007	$ 8,521	$ —	$ 110,000	6.875%
			150,000	5.000%
2008	8,718	4,368	50,000	6.625%
			146,000	8.250%
2009	7,831	73,793	150,000	7.500%
2010	6,354	28,989	200,000	7.500%
2011	5,303	35,910	300,000	6.625%
			50,000	6.625%
2012	4,601	12,166	250,000	6.125%
			250,000	5.500%
2013	4,728	—	100,000	4.950%
2014	3,748	34,450	150,000	5.375%
2015	5,499	—	—	—
2016	5,926	—	250,000	5.750%
Thereafter	144,364	277,239	—	—
	$ 205,593	$ 466,915	$ 2,156,000	

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.

The Company has entered into a $650,000 revolving variable rate unsecured credit facility with a syndicate of commercial banks. JPMorgan Chase Bank, Wachovia Bank, N.A. and Bank of America, N.A. led the syndication effort in varying capacities. There were no amounts outstanding under the current facility and $38,713 outstanding in letters of credit on December 31, 2006. The Company had $66,800 outstanding under the prior credit facility and $40,154 in letters of credit on December 31, 2005. Under the terms of the credit facility, the Company may elect to increase the facility up to $1,000,000, provided that one or more banks (from the syndicate or otherwise) voluntarily agree to provide the additional commitment. 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 $813, which is subject to increase in the event that the amount available on the facility is increased. 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 0.40% per annum. The stated spread over LIBOR can vary from LIBOR plus 0.325% to LIBOR plus 1.00% based on credit conditions. 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 $422,500. The competitive bid option may result in lower pricing than the stated rate if market conditions allow. The Company had no amounts outstanding under this competitive bid option as of December 31, 2006. The Company is subject to 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. The credit facility matures in November 2011, assuming exercise of a one-year renewal option by the Company.

4. Stockholders' Equity

As of both December 31, 2006 and 2005, the Company had authorized for issuance 140,000,000 and 50,000,000 shares of common and preferred stock, respectively. As of December 31, 2006, 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, 2006	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

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 above. The preferred stock is not redeemable prior to the date stated in the table above, 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.

During the year ended December 31, 2006, the Company:

(i) issued 614,692 shares of common stock in connection with stock options exercised;
(ii) issued 308,345 shares of common stock to acquire an equal number of DownREIT limited partnership units;
(iii) issued 2,306 shares through the Company's dividend reinvestment plan;
(iv) issued 122,172 common shares in connection with stock grants;
(v) issued 10,830 shares of common stock in connection with its employee stock purchase plan;
(vi) had 5,910 shares of restricted stock forfeited; and
(vii) withheld 47,111 shares to satisfy employees' tax withholding and other liabilities.

In addition, the Company granted 867,113 options for common stock to employees. As required under SFAS No. 123(R), any deferred compensation related to the Company's stock option and restricted stock grants during the year ended December 31, 2006 is not reflected on the Company's Consolidated Balance Sheet as of December 31, 2006 or on the Consolidated Statements of Stockholders' Equity, and will not be reflected until earned as compensation cost.

Dividends per common share were $3.12 for the year ended December 31, 2006, $2.84 for year ended December 31, 2005, and $2.80 for the year ended December 31, 2004. The average dividend for all non-redeemed preferred shares during 2006, 2005 and 2004 was $2.18 per share. No preferred shares were redeemed in 2006, 2005 or 2004.

In 2004, the Company resumed its Dividend Reinvestment and Stock Purchase Plan (the "DRIP"). The DRIP allows for holders of the Company's common stock or preferred stock to purchase shares of common stock through either reinvested dividends or optional cash payments. The purchase price per share for newly issued shares of common stock under the DRIP will be equal to the last reported sale price for a share of the Company's common stock as reported by the New York Stock Exchange ("NYSE") on the applicable investment date.

5. Derivative Instruments and Hedging Activities

The Company enters into interest rate swap and interest rate cap agreements (collectively, the "Hedging Derivatives") to reduce the impact of interest rate fluctuations on its variable rate, tax-exempt bonds and its variable rate conventional secured debt (collectively, the "Hedged Debt"). The Company has not entered into any interest rate hedge agreements for its conventional unsecured debt and does not enter into derivative transactions for trading or other speculative purposes. The following table summarizes the consolidated Hedging Derivatives at December 31, 2006 (dollars in thousands):

	Interest Rate Caps	Interest Rate Swaps
Notional balance	$196,500	$65,759
Weighted average interest rate (1)	5.7%	6.3%
Weighted average capped interest rate	7.7%	n/a
Earliest maturity date	Mar-07	Aug-07
Latest maturity date	Apr-11	Jul-10
Estimated liability fair value	$ (78)	$ (3,084)

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

The Company has determined that its Hedging Derivatives qualify as effective cash flow hedges under SFAS No. 133, resulting in the Company recording the effective portion of cumulative changes in the fair value of the Hedging Derivatives in other comprehensive income. Amounts recorded in other comprehensive income will be reclassified into earnings in the periods in which earnings are affected by the hedged cash flow. To adjust the Hedging Derivatives to their fair value, the Company recorded unrealized gains in other comprehensive income of $891, $2,626 and $1,116 during the years ended December 31, 2006, 2005 and 2004, respectively. These amounts will be reclassified into earnings in conjunction with the periodic adjustment of the floating rates on the Hedged Debt, in interest expense, net. The amount reclassified into earnings in 2006, as well as the estimated amount included in accumulated other comprehensive income as of December 31, 2006, expected to be reclassified into earnings within the next twelve months to offset the variability of cash flows of the hedged items during this period are not material.

The Company assesses both at inception and on an on-going basis, the effectiveness of qualifying cash flow hedges. Hedge ineffectiveness, reported as a component of General and Administrative expenses, did not have a material impact on earnings of the Company for any prior period, and the Company does not anticipate that it will have a material effect in the future. The fair values of the Hedging Derivatives are included in accrued expenses and other liabilities on the accompanying Consolidated Balance Sheets.

Derivative financial instruments expose the Company to credit risk in the event of nonperformance by the counterparties under the terms of the Hedging Derivatives. The Company minimizes its credit risk on these transactions by dealing with major, creditworthy financial institutions which have an A+ or better credit rating by the Standard & Poor's Ratings Group. As part of its on-going control procedures, the Company monitors the credit ratings of counterparties and the exposure of the Company to any single entity, thus minimizing credit risk concentration. The Company believes the likelihood of realizing losses from counterparty non-performance is remote.

6. Investments in Unconsolidated Entities

Investments in Unconsolidated Real Estate Entities

The Company accounts for its investments in unconsolidated real estate entities that are not considered variable interest entities under FIN 46(R) in accordance with EITF Issue No. 04-5, SOP 78-9 and APB 18, and EITF Topic D-46.

During 2006, the Company engaged in the following transactions impacting our investments in unconsolidated real estate entities.

- *Town Run Associates* — In the fourth quarter of 2006, the Company purchased its partner's interest in Avalon Run for $58,500. 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. Avalon Run is currently a wholly-owned community and has since been consolidated for financial reporting purposes.

- *Avalon Terrace, LLC* — In December 2006, the Company and its joint venture partner sold Avalon Bedford to an unrelated third party for a sales price of $79,100. The Company's share of the gain calculated in accordance with GAAP was $6,609 and is included in equity income of unconsolidated entities on the accompanying Consolidated Statements of Operations and Other Comprehensive Income. The Company acquired Avalon Bedford, a 368 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.

As of December 31, 2006, the Company had investments in the following real estate entities:

- *Town Grove, LLC* — The limited liability corporation was formed 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 $12,600, and following a preferred return on all contributed equity (which was achieved in 2006), 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, 2006. This community is unconsolidated for financial reporting purposes and is accounted for under the equity method.
- *Arna Valley View LP* — In connection with the municipal approval process for the development of a consolidated community, 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, 2006, Arna Valley View has $5,793 of variable rate, tax-exempt bonds outstanding, which mature in June 2032. In addition, Arna Valley View has $4,834 of 4% fixed rate county bonds outstanding that mature in December 2030. Arna Valley View's debt is neither guaranteed by, nor recoursed to the Company. Due to the Company's limited ownership in this venture and the terms of the management agreement regarding the rights of the limited partners, it is accounted for using the cost method.
- *CVP I, LLC* – In February 2004, the Company entered into a joint venture agreement with an unrelated third-party for the development of Avalon Chrystie Place, a 361 apartment-home community located in New York, New York, for which construction was completed in late 2005. The Company has contributed $6,270 to this joint venture and holds a 20% equity interest (with a right to 50% of distributions after achievement of a threshold return, which was not achieved in 2006). The Company is the managing member of CVP I, LLC, however property management services at the community are performed by an unrelated third party. In connection with the construction management services that the Company provided to CVP I, LLC during the development of Avalon Chrystie Place, the Company provided a construction completion guarantee to the construction loan lender in order to fulfill their standard financing requirements related to the construction financing. Upon completion of the construction of Avalon Chrystie Place in 2006, the Company was released from all obligations associated with this guarantee.

  As of December 31, 2006, CVP I, LLC has tax-exempt variable rate bonds in the amount of $117,000 outstanding, which have a permanent credit enhancement and mature in February 2036. The Company has guaranteed, under limited circumstance, the repayment to the credit enhancer of any advance in fulfillment of CVP I, LLC's repayment obligations under the bonds. The Company has also guaranteed the credit enhancer that CVP I, LLC will obtain a final certificate of occupancy for the project overall once tenant improvements related to a retail tenant are complete, which is expected in 2007.

The Company's 80% partner in this venture has agreed that it will reimburse us its pro rata share of any amounts paid relative to these guaranteed obligations. The Company does not currently expect to incur any liability under either of these guarantees. The estimated fair value of, and the Company's obligation under these guarantees, both at inception and as of December 31, 2006 were not significant. As a result, the Company has not recorded any obligation associated with these guarantees at December 31, 2006. This community is unconsolidated for financial reporting purposes and is accounted for under the equity method.

- *Avalon Del Rey Apartments, LLC* - In March 2004, the Company entered into an agreement with an unrelated third party which provided that, upon construction completion, Avalon Del Rey would be owned and operated by a joint venture between the Company and the third party. Avalon Del Rey is a 309 apartment-home community located in Los Angeles, California. Construction for Avalon Del Rey was completed during the third quarter of 2006. During the fourth quarter of 2006, the third-party venture partner invested $49,000 and was granted a 70% ownership interest in the venture, with the Company retaining a 30% equity interest (see Note 7, "Real Estate Disposition Activities"). The Company will continue to be responsible for the day-to-day operations of the community and will be the management agent subject to the terms of a management agreement. Avalon Del Rey Apartments, LLC has a variable rate $50,000 secured construction loan, of which $40,845 is outstanding as of December 31, 2006 and which matures in September 2007. In conjunction with the construction management services that the Company provided to Avalon Del Rey Apartments, LLC, the Company has provided a construction completion guarantee to the construction loan lender in order to fulfill their standard financing requirements related to construction financing. The obligation of the Company under this guarantee will terminate following satisfaction of the lender's standard completion requirements, which the Company expects to occur in 2007.

  In conjunction with the admittance of the joint venture partner to the LLC, the Company provided the third-party investor an operating guarantee. This guarantee, which extends for one year, provides that if the one-year return for the initial year of the joint venture partner's investment is less than a threshold return of 7% on its initial equity investment, that the Company will pay the joint venture partner an amount equal to the shortfall, up to the 7% threshold return required. The maximum exposure of this guarantee is approximately $3,400. As of December 31, 2006, the cash flows and return on investment for Avalon Del Rey are expected to meet and exceed the initial year threshold return required by our joint venture partner. As a result, the Company's obligation under this guarantee is insignificant, and the Company has therefore not recorded any liability associated with this guarantee as of December 31, 2006.

  The sale of the 70% ownership interest is being accounted for under the deposit method of accounting pursuant to SFAS 66, with the recognition of the sale deferred until the Company is relieved of its obligation under the operating guarantee. Accordingly, the Company continues to consolidate this community for financial reporting purposes, reporting the joint venture partner's interest in the net assets of the LLC as a component of accrued expenses and other liabilities, and recognizing the joint venture partner's interest in the operating results of the LLC as a component of minority interest in consolidated partnerships.

- *Juanita Construction, Inc.* - In April 2004, a taxable REIT subsidiary of the Company entered into an agreement to develop Avalon at Juanita Village, a 211 apartment-home community located in Kirkland, Washington, for which construction was completed in late 2005. Avalon at Juanita Village was developed through Juanita Construction, Inc., a wholly-owned taxable REIT subsidiary and was sold to a joint venture in the first quarter of 2006, at which point, the subsidiary was reimbursed for all the costs of construction and retained a promoted residual interest in the profits of the joint venture. The third party joint venture partner received a 100% equity interest in the joint venture and will control the joint venture. The Company was engaged to manage the community for a property management fee. This community is unconsolidated for financial reporting purposes effective with the sale to the joint venture.

- *MVP I, LLC* – In December 2004, the Company entered into a joint venture agreement with an unrelated third party for the development of Avalon at Mission Bay North II. Construction for Avalon at Mission Bay North II, a 313 apartment-home community located in San Francisco, California, was completed in December 2006. The Company has contributed $5,902 to this venture and holds a 25% equity interest. The Company will be responsible for the day-to-day operations of the community and will be the management agent subject to the terms of a management agreement.

MVP I, LLC has a variable rate $94,400 secured construction loan, of which $76,739 is outstanding as of December 31, 2006 and which matures in September 2010, assuming exercise of two one-year extensions. In conjunction with the construction management services that the Company provided to MVP I, LLC, the Company has provided a construction completion guarantee to the construction loan lender in order to fulfill their standard financing requirements related to construction financing. Under the terms of the guarantee, in the event of default, the Company would be required to make payment for any excess cost to complete construction over remaining unused loan proceeds. The obligation of the Company under this guarantee will terminate once all of the lender's standard completion requirements have been satisfied, which the Company expects to occur in 2007. The estimated fair value of, and the Company's obligation under this guarantee, both at inception and as of December 31, 2006 was not significant and therefore no liability for this guarantee has been recorded by the Company at December 31, 2006. This community is unconsolidated for financial reporting purposes and is accounted for under the equity method.

- *AvalonBay Value Added Fund, L.P. (the "Fund") –* In March 2005, the Company admitted outside investors into the Fund, a private, discretionary investment vehicle, which will acquire and operate communities in the Company's markets. The Fund will serve, until March 16, 2008 or until 80% of its committed capital is invested, as the principal vehicle through which the Company will acquire apartment communities, subject to certain exceptions. The Fund has nine institutional investors, including the Company, and a combined equity capital commitment of $330,000. A significant portion of the investments made in the Fund by its investors are being made through AvalonBay Value Added Fund, Inc., a Maryland corporation that qualifies as a REIT under the Internal Revenue Code (the "Fund REIT"). A wholly-owned subsidiary of the Company is the general partner of the Fund and has committed $50,000 to the Fund and the Fund REIT, representing a 15.2% combined general partner and limited partner equity interest, with $22,944 of this commitment funded as of December 31, 2006. Under the Fund documents, the Fund has the ability to employ leverage of up to 65% on a portfolio basis, which, if achieved, would enable the Fund to invest up to approximately $940,000. Upon the admittance of the outside investors, the Fund held four communities, containing a total of 879 apartment homes with an aggregate gross real estate value of $112,852, that were acquired in 2004. Prior to the admittance of outside investors, the Fund was directly or indirectly wholly-owned by the Company, and therefore the revenues and expenses, and assets and liabilities of these four communities were consolidated in the Company's results of operations and financial position. However, upon admittance of the outside investors in March 2005, the Company deconsolidated the revenue and expenses, and assets and liabilities of these four communities and accounts for its 15.2% equity interest in the Fund under the equity method of accounting. The Company received net proceeds of $87,948 as reimbursement for acquiring and warehousing these communities. The Company receives asset management fees, property management fees and redevelopment fees, as well as a promoted interest if certain thresholds are met (which were not achieved in 2006).

  As of December 31, 2006, the Fund owns the following 13 communities, subject to certain mortgage debt. In addition, as of December 31, 2006, the Fund has $57,400 outstanding under its variable rate credit facility, which matures in January 2008. The Company has not guaranteed any of the Fund debt, nor does it have any obligation to fund this debt should the Fund be unable to do so.

  - Avalon at Redondo Beach, a 105 apartment-home community located in Los Angeles, California. As of December 31, 2006, Avalon at Redondo Beach has $16,765 in 4.8% fixed rate debt outstanding, which matures in October 2011;
  - Avalon Lakeside, a 204 apartment-home community located in Chicago, Illinois. As of December 31, 2006, Avalon Lakeside has no debt outstanding;
  - Avalon Columbia, a 170 apartment-home community located in Baltimore, Maryland. As of December 31, 2006, Avalon Columbia has $16,575 in 5.3% fixed rate debt outstanding, which matures in April 2012;
  - Avalon Redmond, a 400 apartment-home community located in Seattle, Washington. As of December 31, 2006, Avalon Redmond has $31,500 in 5.0% fixed rate debt outstanding, which matures in July 2012;
  - Avalon at Poplar Creek, a 196 apartment-home community located in Chicago, Illinois. As of December 31, 2006, Avalon at Poplar Creek has $16,500 in 4.8% fixed rate debt outstanding, which matures in October 2012;
  - Fuller Martel, an 82 apartment-home community located in Los Angeles, California. As of December 31, 2006, Fuller Martel has $11,500 in 5.4% fixed rate debt outstanding, which matures in February 2014;

- Civic Center Place, a 192 apartment-home community located in Norwalk, California. As of December 31, 2006, Civic Center Place has $23,806 in 5.3% fixed rate debt outstanding, which matures in August 2013;
- Paseo Park, a 134 apartment-home community located in Fremont, California. As of December 31, 2006, Paseo Park has $11,800 in 5.7% fixed rate debt outstanding, which matures in November 2013;
- Aurora at Yerba Buena, a 160 apartment-home community located in San Francisco, California. As of December 31, 2006, Aurora at Yerba Buena has $41,500 in 5.9% fixed rate debt outstanding, which matures in March 2014;
- Avalon at Aberdeen Station, a 290 apartment-home community located in Aberdeen, New Jersey. As of December 31, 2006, Avalon at Aberdeen Station has $34,456 in 5.7% fixed rate debt outstanding, which matures in September 2013;
- The Springs, a 320 apartment-home community located in Corona, California. As of December 31, 2006, The Springs has $26,000 in 6.1% fixed rate debt outstanding, which matures in October 2014;
- The Covington, a 256 apartment-home community located in Lombard, Illinois. As of December 31, 2006, The Covington has $17,243 in 5.4% fixed rate debt outstanding, which matures in January 2014; and
- Cedar Valley, a 156 apartment-home community located in Columbia, Maryland. As of December 31, 2006, Cedar Valley has $12,000 in 6.3% variable rate debt outstanding, which matures in February 2007.

In addition, as part of the formation of the Fund, the Company has provided to one of the limited partners a guarantee. The guarantee provides that, if, upon final liquidation of the Fund, the total amount of all distributions to that partner during the life of the Fund (whether from operating cash flow or property sales) does not equal the total capital contributions made by that partner, then the Company will pay the partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the partner (maximum of approximately $3,400 as of December 31, 2006). As of December 31, 2006, the fair value of the real estate assets owned by the Fund is considered adequate to cover such potential payment under a liquidation scenario. The estimated fair value of, and the Company's obligation under this guarantee, both at inception and as of December 31, 2006 was not significant and therefore the Company has not recorded any obligation for this guarantee as of December 31, 2006.

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

	12-31-06	12-31-05
Assets:		
Real estate, net	$ 707,227	$ 520,556
Other assets	55,716	40,485
Total assets	$ 762,943	$ 561,041
Liabilities and partners' capital:		
Mortgage notes payable and credit facility	$ 510,784	$ 332,760
Other liabilities	33,505	26,745
Partners' capital	218,654	201,536
Total liabilities and partners' capital	$ 762,943	$ 561,041

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

	For the year ended		
	12-31-06	12-31-05	12-31-04
Rental income	$ 67,207	$ 35,826	$ 21,148
Operating and other expenses	(31,281)	(19,582)	(8,291)
Gain on Sale of Communities	26,661	—	—
Interest expense, net	(23,142)	(7,648)	(1,786)
Depreciation expense	(18,054)	(8,482)	(4,003)
Net income	$ 21,391	$ 114	$ 7,068

In March 2005, the Company purchased its joint venture partner's 75% interest in AvalonBay Redevelopment, LLC, the limited liability company that owns Avalon on the Sound, which was developed through the joint venture in 2001. Prior to December 31, 2004, the Company had a repurchase option for Avalon on the Sound and accounted for its investment as a profit-sharing arrangement as required by SFAS No. 66, "Accounting for Sales of Real Estate." 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 for the year ended December 31, 2004. The repurchase option expired in December 2004, and therefore as of December 31, 2004 and for the three months ended March 31, 2005, the Company accounted for its 25% interest in Avalon on the Sound under the equity method of accounting. Due to the purchase of the remaining 75% equity interest, this entity was consolidated as of April 1, 2005.

In conjunction with the acquisition and development of the investments in unconsolidated entities, the Company incurred costs in excess of its equity in the underlying net assets of the respective investments. These costs represent $7,491 at December 31, 2006 and $8,806 at December 31, 2005 of the respective investment balances.

Investments in Unconsolidated Non-Real Estate Entities

In February 2005, the Company sold its interest in a technology venture that was accounted for under the cost method. As a result of this transaction, the Company received net proceeds of approximately $6,700 and recognized a gain on the sale of this investment of $6,252, which is reflected in equity in income of unconsolidated entities on the accompanying Consolidated Statement of Operations and Other Comprehensive Income for the year ended December 31, 2005. Under the terms of the sale, certain proceeds were escrowed to secure the purchaser's rights to indemnification. Any amounts not used for this purpose were distributed to the former investors in the venture in 2006. For the year ended December 31, 2006, the Company recognized $433 for the final installment of the gain on this sale upon release of this escrow.

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

	For the year ended		
	12-31-06	12-31-05	12-31-04
Town Grove, LLC	$ 1,457	$ 1,286	$ 950
CVP I, LLC	(68)	(339)	—
Town Run Associates	298	266	43
Avalon Terrace, LLC	6,736	58	(28)
MVP I, LLC	(662)	(57)	—
AvalonBay Value Added Fund, L.P.	(799)	(341)	—
AvalonBay Redevelopment, LLC	—	73	—
Rent.com	433	6,252	135
Constellation Real Technologies	60	—	—
Total	$ 7,455	$ 7,198	$ 1,100

7. Real Estate Disposition Activities

During the year ended December 31, 2006, the Company sold four communities, containing a total of 1,036 apartment homes, including one community that was previously held by a joint venture entity (see Note 6, "Investments in Unconsolidated Entities"). These communities were sold for a gross sales price of approximately $261,850, resulting in net proceeds of $218,492 and a GAAP gain of $104,020. Details regarding the community asset sales are summarized in the following table:

Community Name	Location	Period of sale	Apartment homes	Debt	Gross sales price	Net proceeds
Avalon Estates	Boston, MA	Q106	162	—	34,550	33,563
Avalon Cupertino	San Jose, CA	Q106	311	—	88,000	86,602
Avalon Corners	Stamford, CT	Q206	195	—	60,200	58,248
Avalon Bedford (1)	Stamford, CT	Q406	368	37,200	79,100	40,079
Total of all 2006 asset sales			1,036	$ 37,200	$ 261,850	$ 218,492
Total of all 2005 asset sales			1,305	$ —	$ 351,450	$ 344,185
Total of all 2004 asset sales			1,360	$ 38,735	$ 241,050	$ 210,001

(1) The Company held a 25% ownership interest and right to 50% of cash flow distributions after achievement of a threshold return for this community

As of December 31, 2006, the Company had one community, Avalon Del Rey, that qualified as held for sale under the provisions of SFAS No. 144. In 2006, the Company admitted a third-party partner into the joint venture entity that owns Avalon Del Rey (see Note 6, "Investments in Unconsolidated Entities"). However, due to the operating guarantee provided to the joint venture partner, the Company will account for its investment under the deposit method as required by SFAS No. 66, "Accounting for Sales of Real Estate." As a result, the Company has classified the real estate assets (which are net of an impairment charge taken on the land in 2002, as well as accumulated depreciation recorded through December 31, 2006) and the related liabilities for Avalon Del Rey as held for sale, as separate captions in the accompanying Consolidated Balance Sheets. However, due to the continuing involvement of the Company through its 30% ownership interest and its role as the managing member in the venture, Avalon Del Rey has been and will continue to be reported as a component of continuing operations on the accompanying Consolidated Financial Statements.

Also, in accordance with the requirements of SFAS No. 144, the operations for any communities sold from January 1, 2004 through December 31, 2006 have been presented as discontinued operations in the accompanying Consolidated Financial Statements. Accordingly, certain reclassifications have been made in prior periods to reflect discontinued operations consistent with current period presentation.

The following is a summary of income from discontinued operations for the periods presented:

	For the year ended		
	12-31-06	12-31-05	12-31-04
Rental income	$ 1,787	$ 26,867	$ 48,018
Operating and other expenses	(639)	(8,684)	(15,646)
Interest expense, net	—	—	(525)
Minority interest expense	—	—	(37)
Depreciation expense	—	(3,241)	(10,676)
Income from discontinued operations	$ 1,148	$ 14,942	$ 21,134

The Company's Consolidated Balance Sheets include other assets (excluding net real estate) of $1,558 and $1,599, and other liabilities of $42,985 and $38,352 as of December 31, 2006 and December 31, 2005, respectively, relating to real estate assets sold or held for sale.

The Company sold three parcels of land, one located in Jersey City, New Jersey, one in Danvers, Massachusetts, and one in Bedford, Massachusetts, for an aggregate gross sales price of $19,635 and an aggregate GAAP gain of $13,519. The Company had gains on the Sales of land parcels of $4,479 in 2005, and $1,138 in 2004.

8. Commitments and Contingencies

Employment Agreements and Arrangements

As of December 31, 2006, the Company had employment agreements with four 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 terms of these agreements end on dates that vary between December 2007 and November 2008. 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.

The Company's stock incentive plan, as described in Note 10, "Stock-Based Compensation Plans," provides that upon an employee's Retirement (as defined in the plan documents) from the Company, all outstanding stock options and restricted shares of stock held by the employee will vest, and the employee will have up to 12 months to exercise any options held upon retirement. Under the plan, Retirement means a termination of employment, other than for cause, after attainment of age 50, provided that (i) the employee has worked for the Company for at least 10 years, (ii) the employee's age at Retirement plus years of employment with the Company equals at least 70, (iii) the employee provides at least six months written notice of his intent to retire, and (iv) the employee enters into a one year non-compete and employee non-solicitation agreement.

The Company also has an Officer Severance Program (the "Program") 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 following 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. Costs related to the Company's employment agreements and the Program are accounted for in accordance with SFAS No. 5, "Accounting for Contingencies," and therefore are recognized when considered by management to be probable and estimable.

Construction and Development Contingencies

In connection with the pursuit of a Development Right in Pleasant Hill, California, $125,000 in bond financing was issued by the Contra Costa County Redevelopment Agency (the "Agency") in connection with the possible future construction of a multifamily rental community by PHVP I, LLC. The bond proceeds were immediately invested in their entirety in a guaranteed investment contract ("GIC") administered by a trustee. This Development Right is planned as a mixed-use development, with residential, for-sale, retail and office components. The bond proceeds will remain in the GIC until at least June 1, 2007, but no later than December 5, 2007, at which time a loan will be made to PHVP I, LLC to fund construction of the multifamily portion of the development, or the bonds will be redeemed by the Agency. Although the Company does not have any equity or economic interest in PHVP I, LLC at this time, the Company holds an option to make a capital contribution to PHVP I, LLC in exchange for a 99% general partner interest in the entity. Should the Company decide not to exercise this option, the bonds will be redeemed, and a loan will not be made to PHVP I, LLC. The bonds are payable from the proceeds of the GIC and are non-recourse to both PHVP I, LLC and to the Company. There is no loan payable outstanding by PHVP I, LLC as of December 31, 2006.

In addition, as part of providing construction management services to PHVP I, LLC for the construction of a public garage, the Company has provided a construction completion guarantee to the related lender in order to fulfill their standard financing requirements related to the garage construction financing. The Company's obligations under this guarantee will terminate following construction completion of the garage once all of the lender's standard completion requirements have been satisfied, which the Company currently expect to occur in 2008. In the third quarter of 2006, significant modifications were requested by the local transit authority to change the garage structure design. The Company does not believe that the requested design changes will impact the construction schedule. However, it is expected that these changes will increase the original budget by an amount up to $5,000. The Company believe that substantially all potential additional amounts are reimbursable from unrelated third parties. At this time, the Company does not believe that it is probable that it will incur any additional costs. The estimated fair value of, and the Company's obligation under this guarantee, both at inception and as of December 31, 2006 was not significant and therefore the Company has not recorded any obligation for this guarantee as of December 31, 2006.

Legal Contingencies

The Company is currently involved in litigation alleging that 100 communities currently or formerly owned by us violate the accessibility requirements of the Fair Housing Act and the Americans with Disabilities Act. The lawsuit, Equal Rights Center v. AvalonBay Communities, Inc., was filed on September 23, 2005 in the federal district court in Maryland. The plaintiff seeks compensatory and punitive damages in unspecified amounts as well as injunctive relief (such as modification of existing communities), an award of attorneys' fees, expenses and costs of suit. The Company has filed a motion to dismiss all or parts of the suit, which has not been ruled on yet by the court. The Company cannot predict or determine the outcome of this lawsuit, nor is it reasonably possible to estimate the amount of loss, if any, that would be associated with an adverse decision.

During 2006, the Company determined that contaminated soil from imported fill was delivered to its Avalon Lyndhurst development site by third parties. The contaminants exceeded allowable levels for residential use under New Jersey state and local regulations. The remediation effort is substantially complete. The Company has estimated that the net cost associated with this remediation effort after considering insurance proceeds received to date, including costs associated with construction delays, is expected to be approximately $7,500. The Company is pursuing the recovery of these additional net costs through its insurance as well as from the third parties involved, but no assurance can be given as to the amount or timing of reimbursements to the Company. The Company is recording these incremental costs as they are incurred, and potential recoveries as they become certain or are received. Although the estimated costs to complete construction of this community exceed the original construction budget, the Company does not expect that, upon completion, there will be an impairment in value of this asset which would require a write down in the carrying value. The Company will continue to review this assessment based on changes in circumstances or market conditions.

In addition, 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 currently 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. However, if these matters are resolved unfavorably, they may have a material adverse effect on the Company's financial position and results of operations.

Lease Obligations

The Company owns nine apartment communities which are located on land subject to land leases expiring between November 2028 and March 2142. In addition, the Company leases certain office space. These leases are accounted for as operating leases under SFAS No. 13, "Accounting for Leases." These leases have varying escalation terms, and three of these leases have purchase options exercisable between 2006 and 2052. The Company incurred costs of $4,231, $4,486 and $4,399 in the years ended December 31, 2006, 2005 and 2004, respectively, related to these leases.

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

Payments due by period					
2007	2008	2009	2010	2011	Thereafter
$8,045	$8,288	$8,123	$8,091	$8,065	$1,828,108

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, unless disposition plans regarding a community change, 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, 2006, the Established Communities are communities that are consolidated for financial reporting purposes, had stabilized occupancy and operating expenses as of January 1, 2005, 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, 2006.

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 Communities and Other Stabilized Communities. NOI is defined by the Company as total revenue less direct property operating expenses. Although the Company considers NOI a useful measure of a community's or communities' operating performance, NOI should not be considered an alternative to net income or net cash flow from operating activities, as determined in accordance with GAAP. NOI excludes a number of income and expense categories as detailed in the reconciliation of NOI to net income.

A reconciliation of NOI to net income for the years ended December 31, 2006, 2005 and 2004 is as follows:

	For the year ended		
	12-31-06	12-31-05	12-31-04
Net income	$ 278,399	$ 322,378	$ 219,745
Indirect operating expenses, net of corporate income	28,809	26,675	26,612
Investments and investment management	7,033	4,834	4,690
Interest expense, net	111,046	127,099	131,103
General and administrative expense	24,767	25,761	18,074
Equity in income of unconsolidated entities	(7,455)	(7,198)	(1,100)
Minority interest in consolidated partnerships	573	1,481	150
Venture partner interest in profit-sharing	—	—	1,178
Depreciation expense	162,896	158,822	151,991
Cumulative effect of change in accounting principle	—	—	(4,547)
Gain on sale of real estate assets	(110,930)	(199,766)	(122,425)
Income from discontinued operations	(1,148)	(14,942)	(21,134)
Net operating income	$ 493,990	$ 445,144	$ 404,337

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 table on the following page 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." Segment information for the years ended December 31, 2006, 2005 and 2004 has been adjusted for the communities that were sold from January 1, 2004 through December 31, 2006 as described in Note 7, "Real Estate Disposition Activities."

	Total revenue	NOI	% NOI change from prior year	Gross real estate (1)
For the year ended December 31, 2006				
Established				
Northeast	$ 204,374	$ 137,379	5.1%	$ 1,263,190
Mid-Atlantic	100,462	72,033	12.5%	591,996
Midwest	11,478	7,121	7.4%	92,408
Pacific Northwest	33,103	21,819	13.0%	316,089
Northern California	153,151	107,135	11.6%	1,441,418
Southern California	57,632	41,572	9.1%	373,421
Total Established	560,200	387,059	9.1%	4,078,522
Other Stabilized	93,878	59,432	n/a	865,338
Development / Redevelopment	76,356	47,499	n/a	1,324,929
Land Held for Future Development	n/a	n/a	n/a	209,568
Non-allocated (2)	6,866	n/a	n/a	35,183
Total	$ 737,300	$ 493,990	10.9%	$ 6,513,540
For the year ended December 31, 2005				
Established				
Northeast	$ 167,636	$ 111,734	3.5%	$ 1,062,981
Mid-Atlantic	68,575	48,613	3.9%	387,801
Midwest	11,113	6,627	7.1%	91,755
Pacific Northwest	30,080	19,312	8.0%	315,331
Northern California	146,432	99,769	3.5%	1,489,363
Southern California	48,800	35,319	6.7%	331,315
Total Established	472,636	321,374	4.2%	3,678,546
Other Stabilized	77,552	50,621	n/a	653,399
Development / Redevelopment	116,144	73,149	n/a	1,158,482
Land Held for Future Development	n/a	n/a	n/a	179,739
Non-allocated (2)	4,348	n/a	n/a	30,741
Total	$ 670,680	$ 445,144	10.1%	$ 5,700,907
For the year ended December 31, 2004				
Established				
Northeast	$ 135,059	$ 89,547	(2.5%)	$ 722,482
Mid-Atlantic	51,390	36,316	(0.2%)	273,774
Midwest	10,734	6,188	6.8%	91,121
Pacific Northwest	28,836	17,874	1.1%	314,717
Northern California	126,196	87,067	(5.9%)	1,270,848
Southern California	56,124	39,634	1.8%	401,204
Total Established	408,339	276,626	(1.2%)	3,074,146
Other Stabilized	111,894	71,744	n/a	1,068,859
Development / Redevelopment	93,096	55,967	n/a	1,019,396
Land Held for Future Development	n/a	n/a	n/a	156,350
Non-allocated (2)	515	n/a	n/a	27,401
Total	$ 613,844	$ 404,337	9.7%	$ 5,346,152

(1) Does not include gross real estate assets for discontinued operations of $65,075, $202,261 and $350,992 as of December 31, 2006, 2005 and 2004 respectively.

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

10. Stock-Based Compensation Plans

The Company has a stock incentive plan (the "1994 Plan"), which was amended and restated on December 8, 2004, and amended on February 9, 2006 and December 6, 2006. 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 ("ISOs") under Section 422 of the Internal Revenue Code, (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 1,791,861, 2,066,308 and 2,311,249 were available for future option or restricted stock grant awards under the 1994 Plan as of December 31, 2006, 2005 and 2004, respectively. Annually on January 1st, 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, 2006, 2005 or 2004.

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, 2003	2,979,265	$ 39.57	473,962	$ 37.32
Exercised	(1,167,679)	39.06	(287,700)	37.05
Granted	545,809	50.71	—	—
Forfeited	(80,577)	43.98	—	—
Options Outstanding, December 31, 2004	2,276,818	$ 42.39	186,262	$ 36.23
Exercised	(743,524)	41.89	(159,638)	37.82
Granted	725,988	70.09	—	—
Forfeited	(29,504)	55.66	—	—
Options Outstanding, December 31, 2005	2,229,778	$ 51.40	26,624	$ 37.09
Exercised	(592,308)	50.09	(22,384)	37.15
Granted	867,113	99.28	—	—
Forfeited	(17,344)	79.72	—	—
Options Outstanding, December 31, 2006	2,487,239	$ 69.65	4,240	$ 36.81
Options Exercisable:				
December 31, 2004	1,366,009	$ 39.72	186,262	$ 38.15
December 31, 2005	1,158,591	$ 42.45	26,624	$ 37.09
December 31, 2006	1,041,360	$ 47.99	4,240	$ 36.81

For options outstanding at December 31, 2006 under the 1994 Plan, 350,919 options had exercise prices ranging between $31.50 and $39.99 and a weighted average remaining contractual life of 3.0 years, 300,697 options had exercise prices ranging between $40.00 and $49.99 and a weighted average remaining contractual life of 4.7 years, 336,181 options had exercise prices between $50.00 and $59.99 and a weighted average remaining contractual life of 7.1 years, 637,142 options had exercise prices ranging between $69.93 and $79.99 and a weighted average remaining contractual life of 8.1 years, 851,800 options had exercise prices ranging between $81.42 and $99.99 and a weighted average remaining contractual life of 9.1 years, and 10,500 options had exercise prices between $103.00 and $123.03 and a weighted average remaining contractual life of 9.5 years. Options outstanding and exercisable at December 31, 2006 for the Avalon 1993 and Avalon 1995 Plans had exercise prices ranging from $35.31 to $37.66 and a weighted average contractual life of approximately one year and an intrinsic value of $395. Options outstanding under the 1994 Plan at December 31, 2006 had an intrinsic value of $153,922. Options exercisable at December 31, 2006 under the 1994 plan had a weighted average contractual life of 5.3 years and an intrinsic value of $85,454. The intrinsic value of options exercised during 2006, 2005 and 2004 was $49,440, $80,271 and $133,003, respectively.

The weighted average fair value of the options granted during 2006 is estimated at $11.47 per share on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 5.0% over the expected life of the option, volatility of 17.61%, risk-free interest rates of 4.55% and an expected life of approximately 7 years. The weighted average fair value of the options granted during 2005 is estimated at $6.40 per share on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 5.5% over the expected life of the option, volatility of 17.56%, risk-free interest rates of 3.91% and an expected life of approximately 7 years. The weighted average fair value of the options granted during 2004 is estimated at $3.87 per share on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 6.05% over the expected life of the option, volatility of 17.28%, risk-free interest rates of 3.58% 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 estimated forfeitures for the given year. Estimated forfeitures are adjusted to reflect actual forfeitures at the end of the vesting period.

The Company issued restricted stock as part of its stock-based compensation plan during the years ended December 31, 2006, 2005, and 2004. Compensation cost is recognized over the requisite service period, which varies, but does not exceed five years. The fair value of restricted stock is the closing stock price on the date of the grant. Provisions of SFAS 123(R) require the Company to recognize compensation cost taking into consideration retirement eligibility. The cost related to stock-based compensation for restricted stock included in the determination of net income is based on actual forfeitures for the given year. Restricted stock awards typically vest over a five year period with the exception of accelerated vesting provisions, which are infrequent and occur on a case by case basis. Restricted stock vesting during 2006 had fair values ranging from $36.66 to $102.88 per share. The total fair value of shares vested was $7,655, $8,932, and $4,859 for the periods ended December 31, 2006, December 31, 2005 and December 31, 2004 respectively.

Total compensation cost recognized in income relating to deferred compensation for the years ended December 31, 2006, 2005 and 2004 was $10,095, $4,292 and $2,593 respectively. Total capitalized compensation cost for the years ended December 31, 2006, 2005 and 2004 was $4,014, $4,046 and $2,339 respectively. At December 31, 2006, there was a total of $8,490 and $11,560 in unrecognized compensation cost for unvested stock options and unvested restricted stock, respectively. The unrecognized compensation cost for stock options does not take into account estimated forfeitures. The unrecognized compensation cost for unvested stock options and restricted stock is expected to be recognized over a weighted average period of 1.9 years and 2.5 years, respectively.

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 789,312 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 12 months. Under the ESPP, eligible employees are permitted to acquire shares of the Company's common stock through payroll deductions, subject to maximum purchase limitations. The purchase period is a period of seven months beginning each April 1 and ending each October 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, if the change is announced prior to the beginning of the affected date or purchase period. The Company issued 10,830 shares, 13,372 shares and 14,476 shares and recognized compensation expense of $173, $134 and $109 under the ESPP for the years ended December 31, 2006, 2005 and 2004, respectively. The Company accounts for transactions under the ESPP using the fair value method prescribed under SFAS No. 123(R), as further discussed in Note 1, "Organization and Significant Accounting Policies."

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 flow. 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 and construction 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 outstanding per amount of approximately $2,829,000 and $2,268,000 had an estimated aggregate fair value of $2,940,000 and $2,394,000 at December 31, 2006 and 2005, respectively.
- The Company reports all derivative instruments at for value in accordance with SFAS No. 133, as amended. See Note 5, "Derivative Instruments and Hedging Activities," for further discussions.

12. Related Party Arrangements

Unconsolidated Entities

The Company manages unconsolidated real estate entities for which it receives asset management, property management, development and redevelopment fee revenue. From these entities, the Company received fees of $6,259, $4,304 and $604 in the years ended December 31, 2006, 2005 and 2004, respectively. These fees are included in management, development and other fees on the accompanying Consolidated Statements of Operations and Other Comprehensive Income.

In addition, in connection with the construction management services that the Company provided to MVP I, LLC, the entity that owns and developed Avalon at Mission Bay North II, the Company funds certain construction costs that are expected to be reimbursed through construction financing within 30 to 60 days. Construction was completed in 2005, and depending on the timing of such funding, the accompanying Consolidated Balance Sheets may reflect a corresponding receivable in prepaid expenses and other assets or a corresponding liability in accrued expenses and other liabilities. The Company has recorded receivables in the amounts of $5,654 as of December 31, 2006 and $6,653 as of December 31, 2005, from MVP I, LLC. The Company expects to be reimbursed through draws on a construction loan within 30 to 60 days.

Director Compensation

The 1994 Plan provides that directors of the Company who are also employees receive no additional compensation for their services as a director. On May 14, 2003, the Company's Board of Directors approved an amendment to the 1994 Plan pursuant to which 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 New York Stock Exchange ("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. In addition, the Lead Independent Director receives an annual fee of $30 payable in equal monthly installments of $2.5. In February 2006, the Company's Board of Directors approved another amendment to the 1994 Plan under which (i) following the 2006 Annual Meeting of Stockholders the cash payment was adjusted to $40, payable in quarterly installments of $10 and (ii) following the 2007 Annual Meeting of Stockholders, the number of shares of restricted stock (or deferred stock awards) will be calculated based on the closing price on the day of the award (rather than the closing price on the award date of the prior year). The Company recorded non-employee director compensation expense relating to the restricted stock grants, deferred stock awards and stock options in the amount of $1,013, $966 and $940 in the years ended December 31, 2006, 2005 and 2004, respectively as a component of general and administrative expenses. Deferred compensation relating to these restricted stock grants, deferred stock awards and stock options was $778 and $579 on December 31, 2006 and December 31, 2005, respectively.

13. Quarterly Financial Information (Unaudited)

The following summary represents the quarterly results of operations for the years ended December 31, 2006 and 2005:

	For the three months ended			
	3-31-06	6-30-06	9-30-06	12-31-06
Total revenue	$ 175,158	$ 180,675	$ 187,667	$ 193,800
Income from continuing operations(1)	$ 47,582	$ 37,906	$ 45,076	$ 49,276
Income from discontinued operations(1)	$ 66,495	$ 32,063	—	—
Net income available to common stockholders	$ 111,902	$ 67,794	$ 42,901	$ 47,101
Net income per common share — basic(2)	$ 1.52	$ 0.91	$ 0.58	$ 0.63
Net income per common share — diluted(2)	$ 1.49	$ 0.90	$ 0.57	$ 0.62

	For the three months ended			
	3-31-05	6-30-05	9-30-05	12-31-05
Total revenue	$ 161,245	$ 165,586	$ 170,751	$ 173,098
Income from continuing operations(1)	$ 27,861	$ 29,977	$ 26,885	$ 27,426
Income from discontinued operations(1)	$ 41,749	$ 26,934	$ 72,243	$ 69,303
Net income available to common stockholders	$ 67,435	$ 54,736	$ 96,953	$ 94,554
Net income per common share — basic(2)	$ 0.93	$ 0.75	$ 1.32	$ 1.29
Net income per common share — diluted(2)	$ 0.92	$ 0.74	$ 1.30	$ 1.26

(1) Amounts may not equal previously reported results due to reclassification between income from continuing operations and income from discontinued operations.

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

14. Subsequent Events

In January 2007, the Company filed a new shelf registration statement with the Securities and Exchange Commission, allowing the Company to sell an undetermined number or amount of certain debt and equity securities as defined in the prospectus. In addition, in conjunction with its inclusion in the S&P 500 Index in January 2007, the Company issued 4,600,000 shares of its common stock at $129.30 per share. Net proceeds in the amount of approximately $594,000 will be used for general corporate purposes.

In January 2007, the Company purchased a parcel of land located in New York, NY for $70,000. The Company expects to begin construction on this parcel of a 628 apartment-home community in the fourth quarter of 2007.

In January 2007, the Fund acquired Centerpoint, a newly constructed high-rise tower and separate, recently renovated historic mid-rise buildings located within a single downtown city block of Baltimore, MD. Centerpoint was acquired for a purchase price of $78,500. The community contains a total of 392 apartment homes and approximately 33,000 square feet of retail space.

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	Initial Cost			Total Cost						
	Land	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land	Building / Construction in Progress & Improvements	Total	Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Encumbrances	Year of Completion / Acquisition
Current Communities										
Avalon at Bedford Center	4,238	20,477	1	4,238	20,478	24,716	763	23,953	—	2006
Avalon at Center Place	—	26,816	1,928	—	28,744	28,744	9,561	19,183	—	1991/1997
Avalon at Crane Brook	12,381	42,298	102	12,381	42,400	54,781	3,569	51,212	33,535	2004
Avalon at Faxon Park	1,136	14,001	520	1,136	14,521	15,657	4,540	11,117	—	1998
Avalon at Flanders Hill	3,572	33,504	126	3,572	33,630	37,202	5,198	32,004	21,245	2003
Avalon at Lexington	2,124	12,599	1,311	2,124	13,910	16,034	5,898	10,136	12,467	1994
Avalon at Newton Highlands	11,038	45,527	99	11,038	45,626	56,664	5,385	51,279	37,650	2003
Avalon at Prudential Center	25,811	104,399	26,443	25,811	130,842	156,653	34,972	121,681	—	1968/1998
Avalon at Stevens Pond	10,704	43,506	75	10,704	43,581	54,285	5,005	49,280	—	2004
Avalon at The Pinehills I	3,623	16,292	28	3,623	16,320	19,943	1,361	18,582	—	2004
Avalon Essex	5,230	16,303	284	5,230	16,587	21,817	4,105	17,712	—	2000
Avalon Ledges	2,627	33,443	297	2,627	33,740	36,367	5,515	30,852	18,635	2002
Avalon Oaks	2,129	18,656	472	2,129	19,128	21,257	5,357	15,900	17,205	1999
Avalon Oaks West	3,303	13,467	74	3,303	13,541	16,844	2,430	14,414	17,036	2002
Avalon Orchards	2,975	18,037	138	2,975	18,175	21,150	3,134	18,016	19,883	2002
Avalon Summit	1,743	14,670	932	1,743	15,602	17,345	5,747	11,598	—	1986/1996
Avalon West	943	9,881	508	943	10,389	11,332	3,702	7,630	8,179	1996
Essex Place	4,643	19,007	77	4,643	19,084	23,727	1,571	22,156	—	2004
Avalon at Greyrock Place	13,819	56,499	75	13,819	56,574	70,393	8,883	61,510	—	2002
Avalon Danbury	4,905	30,520	29	4,905	30,549	35,454	1,573	33,881	—	2005
Avalon Darien	6,922	34,594	3	6,922	34,597	41,519	3,857	37,662	—	2004
Avalon Gates	4,414	31,268	1,423	4,414	32,691	37,105	10,820	26,285	—	1997
Avalon Glen	5,956	23,993	2,194	5,956	26,187	32,143	11,465	20,678	—	1991
Avalon Haven	1,264	12,491	232	1,264	12,723	13,987	3,066	10,921	—	2000
Avalon Milford I	8,746	22,695	(0)	8,746	22,695	31,441	1,931	29,510	—	2004
Avalon New Canaan	4,835	19,485	44	4,835	19,529	24,364	3,172	21,192	—	2002
Avalon on Stamford Harbor	10,836	51,989	61	10,836	52,050	62,886	8,328	54,558	—	2003
Avalon Orange	2,108	19,983	5	2,108	19,988	22,096	1,282	20,814	—	2005
Avalon Springs	2,116	14,664	414	2,116	15,078	17,194	5,105	12,089	—	1996
Avalon Valley	2,277	23,781	252	2,277	24,033	26,310	6,525	19,785	—	1999
Avalon Walk I & II	9,102	48,796	7,563	9,102	56,359	65,461	21,389	44,072	—	1992/1994
Avalon at Glen Cove South	7,871	59,969	62	7,871	60,031	67,902	5,150	62,752	—	2004
Avalon Commons	4,679	28,509	527	4,679	29,036	33,715	9,454	24,261	—	1997
Avalon Court	9,228	50,021	573	9,228	50,594	59,822	14,172	45,650	—	1997/2000
Avalon Pines I	6,178	40,564	(205)	6,178	40,359	46,537	2,625	43,912	—	2005
Avalon Pines II	2,943	20,923	0	2,943	20,923	23,866	556	23,310	—	2006
Avalon Towers	3,118	12,709	5,451	3,118	18,160	21,278	6,102	15,176	—	1990/1995
Avalon at Edgewater	14,529	60,240	445	14,529	60,685	75,214	11,184	64,030	—	2002
Avalon at Florham Park	6,647	34,909	260	6,647	35,169	41,816	7,842	33,974	—	2001
Avalon Cove	8,760	82,442	1,670	8,760	84,112	92,872	28,326	64,546	—	1997
Avalon at Freehold	4,116	30,514	118	4,116	30,632	34,748	5,527	29,221	—	2002

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	Land	Building / Construction in Progress & Improvements		Land	Building / Construction in Progress & Improvements	Total				
Avalon Run	13,060	45,855	1,130	13,060	46,985	60,045	145	59,900	—	1994
Avalon Run East	1,579	14,668	111	1,579	14,779	16,358	5,232	11,126	—	1996
Avalon Run East II	6,765	45,377	2	6,765	45,379	52,144	3,409	48,735	—	2003
Avalon Watch	5,585	22,394	2,159	5,585	24,553	30,138	11,357	18,781	—	1988
Avalon Bowery Place	18,668	70,739	170	18,668	70,909	89,577	433	89,144	93,800	2006
Avalon Gardens	8,428	45,660	1,024	8,428	46,684	55,112	14,590	40,522	—	1998
Avalon Green	1,820	10,525	898	1,820	11,423	13,243	4,361	8,882	—	1995
Avalon on the Sound	—	116,231	867	—	117,098	117,098	18,931	98,167	—	2001
Avalon Riverview I	—	94,166	395	—	94,561	94,561	14,611	79,950	—	2002
Avalon View	3,529	14,140	1,598	3,529	15,738	19,267	6,871	12,396	15,980	1993
Avalon Willow	6,207	40,791	516	6,207	41,307	47,514	10,373	37,141	—	2000
The Avalon	2,889	28,324	143	2,889	28,467	31,356	7,457	23,899	—	1999
Avalon at Fairway Hills I & II	4,147	16,599	2,025	4,147	18,624	22,771	7,546	15,225	11,500	1987/1996
Avalon at Fairway Hills III	4,465	17,864	7,024	4,465	24,888	29,353	7,301	22,052	—	1987/1996
Avalon at Symphony Glen	1,594	6,384	1,377	1,594	7,761	9,355	3,875	5,480	9,780	1986
Avalon Landing	1,849	7,409	930	1,849	8,339	10,188	3,460	6,728	5,903	1984/1995
Southgate Crossing	7,207	29,151	0	7,207	29,151	36,358	203	36,155	—	2006
AutumnWoods	6,096	24,400	2,705	6,096	27,105	33,201	8,858	24,343	—	1989/1996
Avalon at Arlington Square	22,041	90,296	272	22,041	90,568	112,609	17,183	95,426	—	2001
Avalon at Ballston Washington	7,291	29,177	1,642	7,291	30,819	38,110	13,310	24,800	—	1990
Avalon at Cameron Court	10,292	32,930	311	10,292	33,241	43,533	10,421	33,112	—	1998
Avalon at Decoverly	6,157	24,800	1,341	6,157	26,141	32,298	10,160	22,138	—	1991/1995
Avalon at Foxhall	6,848	27,614	9,926	6,848	37,540	44,388	13,727	30,661	—	1982
Avalon at Gallery Place I	9,084	39,731	58	9,084	39,789	48,873	5,138	43,735	—	2003
Avalon at Grosvenor Station	24,751	57,331	75	24,751	57,406	82,157	5,649	76,508	—	2004
Avalon at Providence Park	2,152	8,907	621	2,152	9,528	11,680	3,207	8,473	—	1988/1997
Avalon at Rock Spring	—	46,003	257	—	46,260	46,260	6,524	39,736	—	2003
Avalon at Traville	14,360	55,382	5	14,360	55,387	69,747	5,504	64,243	—	2004
Avalon Crescent	13,851	43,397	353	13,851	43,750	57,601	14,666	42,935	—	1996
Avalon Fields I & II	4,047	18,553	178	4,047	18,731	22,778	6,712	16,066	10,483	1998
Avalon Knoll	1,528	6,136	1,731	1,528	7,867	9,395	3,795	5,600	11,957	1985
Avalon Arlington Heights	9,728	39,661	6,468	9,728	46,129	55,857	8,787	47,070	—	1987/2000
Avalon at Danada Farms	7,535	30,623	814	7,535	31,437	38,972	9,721	29,251	—	1997
Avalon at Stratford Green	4,326	17,569	269	4,326	17,838	22,164	5,520	16,644	—	1997
Avalon at West Grove	5,149	20,656	5,467	5,149	26,123	31,272	8,324	22,948	—	1967
Avalon at Bear Creek	6,786	27,154	917	6,786	28,071	34,857	8,297	26,560	—	1998
Avalon Bellevue	6,664	24,119	79	6,664	24,198	30,862	5,264	25,598	—	2001
Avalon Belltown	5,644	12,733	67	5,644	12,800	18,444	2,555	15,889	—	2001
Avalon Brandemoor	8,630	36,679	337	8,630	37,016	45,646	7,565	38,081	—	2001
Avalon HighGrove	7,569	32,041	269	7,569	32,310	39,879	6,991	32,888	—	2000
Avalon ParcSquare	3,789	15,143	313	3,789	15,456	19,245	3,631	15,614	—	2000
Avalon Redmond Place	4,558	17,568	4,283	4,558	21,851	26,409	7,181	19,228	—	1991/1997
Avalon RockMeadow	4,777	19,726	303	4,777	20,029	24,806	4,656	20,150	—	2000

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Avalon WildReed	4,253	18,676	166	4,253	18,842	23,095	4,343	18,752	—	2000
Avalon Wynhaven	11,412	41,142	290	11,412	41,432	52,844	8,424	44,420	—	2001
Avalon at Union Square	4,249	16,820	1,512	4,249	18,332	22,581	5,654	16,927	—	1973/1996
Avalon at Willow Creek	6,581	26,583	3,048	6,581	29,631	36,212	8,958	27,254	—	1985/1994
Avalon Dublin	5,276	19,642	2,948	5,276	22,590	27,866	6,574	21,292	—	1989/1997
Avalon Fremont	10,746	43,399	2,467	10,746	45,866	56,612	13,721	42,891	—	1994
Avalon Pleasanton	11,610	46,552	4,188	11,610	50,740	62,350	15,564	46,786	—	1988/1994
Waterford	11,324	45,717	4,645	11,324	50,362	61,686	15,675	46,011	33,100	1985/1986
Avalon at Cedar Ridge	4,230	9,659	12,657	4,230	22,316	26,546	6,810	19,736	—	1972/1997
Avalon at Diamond Heights	4,726	19,130	1,471	4,726	20,601	25,327	6,290	19,037	—	1972/1994
Avalon at Mission Bay North	13,814	78,452	546	13,814	78,998	92,812	10,517	82,295	—	2003
Avalon at Nob Hill	5,403	21,567	1,101	5,403	22,668	28,071	6,750	21,321	20,800	1990/1995
Avalon Foster City	7,852	31,445	4,291	7,852	35,736	43,588	10,340	33,248	—	1973/1994
Avalon Pacifica	6,125	24,796	1,244	6,125	26,040	32,165	7,775	24,390	17,600	1971/1995
Avalon Sunset Towers	3,561	21,321	3,896	3,561	25,217	28,778	8,140	20,638	—	1961/1996
Avalon Towers by the Bay	9,155	57,624	227	9,155	57,851	67,006	14,606	52,400	—	1999
Crowne Ridge	5,982	16,885	10,196	5,982	27,081	33,063	8,283	24,780	—	1973/1996
Avalon at Blossom Hill	11,933	48,247	1,880	11,933	50,127	62,060	14,967	47,093	—	1995
Avalon at Cahill Park	4,760	47,600	210	4,760	47,810	52,570	7,528	45,042	—	2002
Avalon at Creekside	6,546	26,301	10,576	6,546	36,877	43,423	10,485	32,938	—	1962/1997
Avalon at Foxchase I & II	11,340	45,532	3,798	11,340	49,330	60,670	15,288	45,382	26,400	1988/1987
Avalon at Parkside	7,406	29,823	989	7,406	30,812	38,218	9,257	28,961	—	1991/1996
Avalon at Pruneyard	3,414	15,469	13,258	3,414	28,727	32,141	9,002	23,139	—	1968/1997
Avalon at River Oaks	8,904	35,121	984	8,904	36,105	45,009	10,635	34,374	—	1990/1996
Avalon Campbell	11,830	47,828	456	11,830	48,284	60,114	14,365	45,749	38,800	1995
Avalon Mountain View	9,755	39,393	2,461	9,755	41,854	51,609	12,634	38,975	18,300	1986
Avalon on the Alameda	6,119	50,230	157	6,119	50,387	56,506	13,929	42,577	—	1999
Avalon Rosewalk	15,814	62,028	1,522	15,814	63,550	79,364	18,233	61,131	—	1997/1999
Avalon Silicon Valley	20,713	99,573	1,837	20,713	101,410	122,123	29,967	92,156	—	1997
Avalon Towers on the Peninsula	9,560	56,136	56	9,560	56,192	65,752	9,588	56,164	—	2002
Countrybrook	9,384	34,958	4,448	9,384	39,406	48,790	11,872	36,918	15,990	1985/1996
San Marino	6,607	26,673	1,737	6,607	28,410	35,017	8,616	26,401	—	1984/1988
Avalon at Media Center	22,483	28,104	25,874	22,483	53,978	76,461	15,382	61,079	—	1961/1997
Avalon at Warner Center	7,045	12,986	6,912	7,045	19,898	26,943	6,935	20,008	—	1979/1998
Avalon Camarillo	8,454	38,720	(0)	8,454	38,720	47,174	866	46,308	—	2006
Avalon at Glendale	—	40,248	0	—	40,248	40,248	4,757	35,491	—	2003
Avalon Woodland Hills	23,828	40,372	7,873	23,828	48,245	72,073	16,163	55,910	—	1989/1997
The Promenade	14,052	56,827	124	14,052	56,951	71,003	8,957	62,046	31,495	1988/2002
Avalon Del Rey	6,541	58,535	(1)	6,541	58,534	65,075	724	64,351	40,845	2006
Avalon at Pacific Bay	4,871	19,745	7,680	4,871	27,425	32,296	8,256	24,040	—	1971/1997
Avalon at South Coast	4,709	16,063	4,718	4,709	20,781	25,490	6,554	18,936	—	1973/1996
Avalon Mission Viejo	2,517	9,257	2,238	2,517	11,495	14,012	3,521	10,491	7,635	1984/1996
Avalon Newport	1,975	3,814	4,563	1,975	8,377	10,352	2,537	7,815	—	1956/1996

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Avalon Santa Margarita	4,607	16,911	2,843	4,607	19,754	24,361	6,055	18,306	—	1990/1997
Avalon at Cortez Hill	2,768	20,134	11,654	2,768	31,788	34,556	9,344	25,212	—	1973/1998
Avalon at Mission Bay	9,922	40,633	15,726	9,922	56,359	66,281	16,313	49,968	—	1969/1997
Avalon at Mission Ridge	2,710	10,924	8,787	2,710	19,711	22,421	6,021	16,400	—	1960/1997
	$ 921,900	$4,356,642	$312,294	$ 921,900	$4,668,936	$5,590,836	$1,076,823	$ 4,514,013	$ 596,203	
Development Communities										
Avalon Decoverly II	3,364	14,864	11,195	3,364	26,059	29,423	132	29,291	—	
Avalon at Dublin Station	—	17	42,334	—	42,351	42,351	—	42,351	—	
Avalon at Glen Cove North	—	107	27,030	—	27,137	27,137	—	27,137	—	
Avalon at Lexington Hills	—	52	22,559	—	22,611	22,611	—	22,611	—	
Avalon Acton	—	—	16,672	—	16,672	16,672	—	16,672	45,000	
Avalon Bowery Place II	—	41	14,966	—	15,007	15,007	—	15,007	48,500	
Avalon Chestnut Hill	10,626	34,527	14,773	10,626	49,300	59,926	223	59,703	—	
Avalon Danvers	—	127	46,306	—	46,433	46,433	—	46,433	—	
Avalon Encino	—	38	22,833	—	22,871	22,871	—	22,871	—	
Avalon Lyndhurst	—	285	63,941	—	64,226	64,226	—	64,226	—	
Avalon Meydenbauer	—	147	35,942	—	36,089	36,089	—	36,089	—	
Avalon on the Sound II	—	71	102,002	—	102,073	102,073	—	102,073	—	
Avalon Riverview North	—	49	85,765	—	85,814	85,814	—	85,814	—	
Avalon Shrewsbury	3,258	19,798	10,487	3,258	30,285	33,543	223	33,320	—	
Avalon Wilshire	—	222	38,116	—	38,338	38,338	—	38,338	—	
Avalon Woburn	3,320	10,125	47,832	3,320	57,957	61,277	84	61,193	—	
Avalon Canoga Park	—	19	14,012	—	14,031	14,031	—	14,031	—	
	$ 20,568	$ 80,490	$616,764	$ 20,568	$ 697,254	$ 717,822	$ 662	$ 717,160	$ 93,500	
Land held for development	209,568	—	—	209,568	—	209,568	—	209,568	23,650	
Corporate Overhead	22,327	13,370	24,692	22,327	38,062	60,389	23,073	37,316	2,153,078	
	$1,174,363	$4,450,502	$953,750	$1,174,363	$5,404,252	$6,578,615	$1,100,558	$ 5,478,057	$2,866,431	

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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 $6,579,000 at December 31, 2006.

The changes in total real estate assets for the years ended December 31, 2006, 2005 and 2004 are as follows:

	Years ended December 31,		
	2006	2005	2004
Balance, beginning of period	$ 5,903,168	$ 5,697,144	$ 5,431,757
Acquisitions, construction costs and improvements	825,981	528,118	520,643
Dispositions, including impairment loss on planned dispositions	(150,534)	(322,094)	(255,256)
Balance, end of period	$ 6,578,615	$ 5,903,168	$ 5,697,144

The changes in accumulated depreciation for the years ended December 31, 2006, 2005 and 2004, are as follows:

	Years ended December 31,		
	2006	2005	2004
Balance, beginning of period	$ 957,380	$ 819,319	$ 695,368
Depreciation, including discontinued operations	162,896	162,063	162,667
Dispositions	(19,718)	(24,002)	(38,716)
Balance, end of period	$ 1,100,558	$ 957,380	$ 819,319

ARTICLES OF

AMENDMENT AND RESTATEMENT

OF

ARTICLES OF INCORPORATION

OF

BAY APARTMENT COMMUNITIES, INC.

Dated: June 4, 1998

ARTICLES OF
AMENDMENT AND RESTATEMENT
OF
ARTICLES OF INCORPORATION
OF
BAY APARTMENT COMMUNITIES, INC.

ARTICLE I

PREAMBLE

Bay Apartment Communities, Inc., a corporation organized and existing under the laws of the State of Maryland (the "Corporation"), hereby certifies as follows:

1.1 The name of the Corporation is Bay Apartment Communities, Inc. The date of the filing of its Articles of Incorporation with the State Department of Assessments and Taxation of the State of Maryland (the "Department") was March 13, 1995 (as thereafter amended from time to time prior to the date hereof, the "Original Charter").

1.2 The total number of shares of stock which the Corporation has authority to issue (the "Stock") prior to the date of this Amendment and Restatement is eighty-five million (85,000,000) shares, consisting of (i) twenty-five million (25,000,000) shares of preferred stock, par value $.01 per share ("Preferred Stock"); (ii) forty million (40,000,000) shares of common stock, par value $.01 per share ("Common Stock"); and (iii) twenty million (20,000,000) shares of excess common stock, par value $.01 per share. The aggregate par value of all of the shares of all classes of Stock prior to the date of this Amendment and Restatement is $850,000.

1.3 The total number of shares of Stock which the Corporation has authority to issue immediately following this Amendment and Restatement is three hundred seventy million (370,000,000) shares, initially consisting of (i) fifty million (50,000,000) shares of Preferred Stock; (ii) three hundred million (300,000,000) shares of Common Stock; and (iii) twenty million (20,000,000) shares of excess stock, par value $.01 per share ("Excess Stock"). The aggregate par value of all the shares of all classes of Stock immediately following this Amendment and Restatement is $3,700,000.

1.4 These Articles of Amendment and Restatement of Articles of Incorporation (the "Articles"), which amend, restate and integrate the provisions of the Original Charter were deemed advisable and approved by a majority of the Board of Directors of the Corporation and were approved by the stockholders of the Corporation in accordance with the Maryland General Corporation Law (the "MGCL").

1.5 The Corporation desires to amend and restate the Original Charter as currently in effect, and upon acceptance for record by the Department the provisions set forth in these

Articles shall be all of the provisions of the charter of the Corporation.

ARTICLE II

NAME

The name of the Corporation is:

"Avalon Bay Communities, Inc."

ARTICLE III

PURPOSES

Purpose and Powers. The purposes for which the Corporation is formed are to engage in business as a real estate investment trust (a "REIT") (as that phrase is defined under Section 856 of the Internal Revenue Code of 1986, as amended (the "Code")) and to engage in any other lawful act or activity for which corporations may be organized under the Maryland General Corporation Law. The foregoing purposes shall be in no way limited or restricted by reference to, or inference from, the terms of any other clause of these Articles, as amended from time to time, and each shall be regarded as independent. The foregoing purposes are also to be construed as powers of the Corporation, and shall be in addition to and not in limitation of the general powers of corporations under the laws of the State of Maryland.

ARTICLE IV

PRINCIPAL OFFICE ADDRESS

The address of the principal office of the Corporation in Maryland is c/o The Corporation Trust Incorporated, 300 East Lombard Street, Suite 1400, Baltimore, Maryland 21202.

ARTICLE V

THE RESIDENT AGENT

The resident agent of the Corporation in Maryland is The Corporation Trust Incorporated, whose address is 300 East Lombard Street, Suite 1400, Baltimore, Maryland 21202.

ARTICLE VI

BOARD OF DIRECTORS

6.1 General Powers; Action by Committee. The business and affairs of the Corporation shall be managed under the direction of the Board of Directors and, except as otherwise expressly provided by law, these Articles or the bylaws, as amended from time to time (the "Bylaws"), of the Corporation, all of the powers of the Corporation shall be vested in such Board. Any action which the Board of Directors is empowered to take may be taken on behalf of the Board of Directors by a duly authorized committee thereof except (i) to the extent limited by Maryland law, these Articles or the Bylaws and (ii) for any action which requires the affirmative vote or approval of a majority of all Directors then in office (unless, in such case, these Articles or the Bylaws specifically provide that a duly authorized committee can take such action on behalf of the Board of Directors). A majority of the Board of Directors shall constitute a quorum and, except as otherwise specifically provided in these Articles, the affirmative vote of a majority of the Directors present at a meeting at which a quorum is present shall be the act of the Board of Directors.

6.2 Number. The number of Directors of the Corporation shall be fixed from time to time by a resolution duly adopted by the Board of Directors; provided, however, that the total number of Directors shall be not fewer than three (3). No reduction in the number of Directors shall cause the removal of any Director from office prior to the expiration of his or her term. Immediately following the effectiveness of this Amendment and Restatement the Corporation shall have twelve (12) Directors, whose names shall be as follows:

Gilbert M. Meyer
Charles H. Berman
Bruce A. Choate
Michael A. Futterman
John J. Healy, Jr.
Christopher B. Leinberger
Richard L. Michaux
Richard W. Miller
Brenda J. Mixson
Thomas H. Nielsen
Lance R. Primis
Allan D. Schuster

6.3 Term; Election. The term of office of each Director shall expire at the next succeeding annual meeting of stockholders. The Directors elected at each annual meeting of stockholders shall hold office until their successors are duly elected and qualified or until their earlier resignation or removal.

Notwithstanding the foregoing, whenever, pursuant to the provisions of Article VII or Article XIV of these Articles, the holders of any one or more series of Stock shall have the right, voting separately as a series or together with holders of other such series, to elect Directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of these

Articles and any articles supplementary applicable thereto.

During any period when the holders of any series of Stock have the right to elect additional Directors as provided for or fixed pursuant to the provisions of Article VII or Article XIV of these Articles, then upon commencement and for the duration of the period during which such right continues: (a) the then otherwise total authorized number of Directors of the Corporation shall automatically be increased by such specified number of Directors, and the holders of such Stock shall be entitled to elect the additional Directors so provided for or fixed pursuant to said provisions and (b) each such additional Director shall serve until such Director's successor shall have been duly elected and qualified, or until such Director's right to hold such office terminates pursuant to said provisions, whichever occurs earlier, subject to such Director's earlier death, disqualification, resignation or removal. Except as otherwise provided by the Board of Directors in the resolution or resolutions establishing such series, whenever the holders of any series of Stock having such right to elect additional Directors are divested of such right pursuant to the provisions of such Stock, the terms of office of all such additional Directors elected by the holders of such Stock, or elected to fill any vacancies resulting from the death, resignation, disqualification or removal of such additional Directors, shall forthwith terminate and the total authorized number of Directors of the Corporation shall be reduced accordingly.

6.4 Resignation or Removal of Directors. Any Director may resign from the Board of Directors or any committee thereof at any time by written notice to the Board of Directors, effective upon execution and delivery to the Corporation of such notice or upon any future date specified in the notice. Subject to the rights, if any, of the holders of any series of Stock to elect Directors and to remove any Director whom such holders have the right to elect, any Director (including persons elected by Directors to fill vacancies in the Board of Directors) may be removed from office (a) only with cause and (b) only by the affirmative vote of the holders of at least 75% of the shares then entitled to vote at a meeting of the stockholders called for that purpose. At least 30 days prior to any meeting of stockholders at which it is proposed that any Director be removed from office, written notice of such proposed removal shall be sent to the Director whose removal will be considered at the meeting. For purposes of these Articles, "cause," with respect to the removal of any Director, shall mean only (i) conviction of a felony, (ii) declaration of unsound mind by order of a court, (iii) gross dereliction of duty, (iv) commission of any act involving moral turpitude or (v) commission of an act that constitutes intentional misconduct or a knowing violation of law if such action in either event results both in an improper substantial personal benefit to such Director and a material injury to the Corporation.

6.5 Vacancies. Subject to the rights, if any, of the holders of any class or series of Stock to elect Directors and to fill vacancies on the Board of Directors relating thereto, any vacancy on the Board of Directors which results from the removal of a Director for cause shall be filled by the affirmative vote of a majority of votes cast by the stockholders normally entitled to vote in the election of Directors at a meeting of stockholders. Any vacancy occurring on the Board of Directors for any other reason, except as a result of an increase in the number of Directors, may be filled by a majority vote of the remaining Directors,

notwithstanding that such majority is less than a quorum; provided, however, that any Director appointed to fill the vacancy for an Independent Director (as hereinafter defined) shall also require the vote affirmative vote of a majority of the remaining Independent Directors. Any vacancy occurring on the Board of Directors as a result of an increase in the number of Directors may be filled by a majority vote of the entire Board of Directors. A Director elected by the

Board of Directors or the stockholders to fill a vacancy shall hold office until the next annual meeting of stockholders and until his or her successor is elected and qualified. In the event of a vacancy in the Board of Directors, the remaining Directors, except as otherwise provided by law, may exercise the powers of the full Board of Directors until such vacancy is filled.

6.6 Independent Directors. Notwithstanding anything herein to the contrary, at all times (except during a period not to exceed sixty (60) days following the death, resignation, incapacity, or removal from office of a Director prior to the expiration of the Director's term of office), a majority of the Board of Directors shall be comprised of persons ("Independent Directors") who are not officers or employees of the Corporation or any affiliate thereof and who do not have a material business or professional relationship with the Corporation or any affiliate thereof.

6.7 Powers. Subject to the express limitations herein or in the Bylaws, the business and affairs of the Corporation shall be managed under the direction of the Board of Directors. These Articles, as amended or supplemented from time to time, shall be construed with a presumption in favor of the grant of power and authority to the Directors. The determination as to any of the following matters, made in good faith by or pursuant to the direction of the Board of Directors consistent with these Articles and in the absence of actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a court, shall be final and conclusive and shall be binding upon the Corporation and every holder of shares of its Stock: the amount of the net income of the Corporation for any period and the amount of assets at any time legally available for the payment of dividends, redemption of its Stock or the payment of other distributions on its Stock; the amount of paid-in surplus, net assets, other surplus, annual or other net profit, net assets in excess of capital, undivided profits or excess of profits over losses on sales of assets; the amount, purpose, time of creation, increase or decrease, alteration or cancellation of any reserves or charges and the propriety thereof (whether or not any obligation or liability for which such reserves or charges shall have been created shall have been paid or discharged); the fair value, or any sale, bid or asked price to be applied in determining the fair value, of any asset owned or held by the Corporation; any matter relating to the acquisition, holding and disposition of any assets by the Corporation; or any other matter relating to the business and affairs of the Corporation.

ARTICLE VII

STOCK

7.1 Authorized Stock. The total number of shares of Stock which the Corporation has authority to issue is three hundred seventy million (370,000,000) shares, initially

consisting of (i) fifty million (50,000,000) shares of Preferred Stock, par value $.01 per share; (ii) three hundred million (300,000,000) shares of Common Stock, par value $.01 per share; and (iii) twenty million (20,000,000) shares of Excess Stock, par value $.01 per share. The aggregate par value of all the shares of all classes of Stock is $3,700,000. If shares of one class of Stock are classified or reclassified into shares of another class of Stock pursuant to this Article VII, the number of authorized shares of the former class shall be automatically decreased and the number of shares of the latter class shall be automatically increased, in each case by the number of shares so classified or reclassified, so that the aggregate number of shares of Stock of all classes that the Corporation has authority to issue shall not be more than the total number of shares of Stock set forth in the first sentence of this paragraph.

7.2 Preferred Stock. Subject to any limitations prescribed by law, the Board of Directors is expressly authorized to classify any unissued shares of Preferred Stock and reclassify any previously classified but unissued shares of Preferred Stock of any series from time to time, in one or more classes or series of such Stock and, by filing articles supplementary with the Department, to establish or change from time to time the number of shares to be included in each such class or series, and to fix the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption of each class or series. Any action by the Board of Directors under this Section 7.2 of Article VII shall require the affirmative vote of a majority of the Directors then in office; provided, however, that by the affirmative vote of a majority of the Directors then in office, the Board of Directors may appoint a committee to act on behalf of the Board of Directors under this Section 7.2, and in such event the affirmative vote of a majority of the members of such committee then in office shall be required for any action under this Section 7.2.

At the time of acceptance for record of these Articles, the Board of

Directors had duly divided and classified 18,238,800 shares of Preferred Stock into seven series of Preferred Stock. The rights, preferences and privileges of these series are set forth herein in Article XIV.

7.3 Common Stock. Subject to all of the rights, powers and preferences of the Preferred Stock and except as provided by law or in this Article VII or Article XIV (or in any articles supplementary regarding any class or series of Preferred Stock):

7.3.1 Voting Rights. The holders of shares of Common Stock shall be entitled to vote for the election of Directors and on all other matters requiring stockholder action, and each holder of shares of Common Stock shall be entitled to one vote for each share of Common Stock held by such stockholder.

7.3.2 Dividend Rights. Holders of Common Stock shall be entitled to receive such dividends and other distributions in cash, Stock or property of the Corporation as may be authorized and declared by the Board of Directors upon the Common Stock and, if any Excess Stock resulting from the conversion of Common Stock is then outstanding, such Excess Stock out of any assets or funds of the Corporation legally available therefor, but only when and as authorized by the Board of Directors or any

authorized committee thereof from time to time, and shall share ratably with the holders of such Excess Stock resulting from the conversion of Common Stock in any such dividend or distribution.

Before payment of any dividends or other distributions, there may be set aside out of any assets of the Corporation available for dividends or other distributions such sum or sums as the Board of Directors may from to time, in its absolute discretion, think proper as a reserve fund for contingencies, for equalizing dividends or other distributions, for repairing or maintaining any property of the Corporation or for such other purpose as the Board of Directors shall determine to be in the best interest of the Corporation, and the Board of Directors may modify or abolish any such reserve in the manner in which it was created.

7.3.3 Rights Upon Liquidation. Upon the voluntary or involuntary liquidation, dissolution or winding up of the Corporation, subject to the rights of holders of any shares of Preferred Stock and Excess Stock resulting from the conversion of Preferred Stock, the net assets of the Corporation available for distribution to the holders of Common Stock, and, if any Excess Stock resulting from the conversion of Common Stock is then outstanding, such Excess Stock, shall be distributed pro rata to such holders in proportion to the number of shares of Common Stock and such Excess Stock held by each.

7.4 Excess Stock. For the purposes of this Section 7.4, terms not otherwise defined shall have the meanings set forth in Article IX.

7.4.1 Conversion into Excess Stock.

(a) If, notwithstanding the other provisions contained in these Articles, prior to the Restriction Termination Date, there is a purported Transfer or Non-Transfer Event such that any Person (other than a Look-Through Entity) would Beneficially Own shares of Equity Stock in excess of the Ownership Limit, or such that any Person that is a Look-Through Entity would Beneficially Own shares of Equity Stock in excess of the Look-Through Limit, then, (i) except as otherwise provided in Section 9.4 of Article IX, the purported transferee shall be deemed to be a Prohibited Owner and shall acquire no right or interest (or, in the case of a Non-Transfer Event, the Person holding record title to the shares of Equity Stock Beneficially Owned by such Beneficial Owner shall cease to own any right or interest) in such number of shares of Equity Stock which would cause such Beneficial Owner to Beneficially Own shares of Equity Stock in excess of the Ownership Limit or the Look-Through Limit, as the case may be, (ii) such number of shares of Equity Stock in excess of the Ownership Limit or the Look-Through Limit, as the case may be (rounded up to the nearest whole share), shall be automatically converted into an equal number of shares of Excess Stock and transferred to a Trust in accordance with Section 7.4.4 of this Article VII and (iii) the Prohibited Owner shall submit the

certificates representing such number of shares of Equity Stock to the Corporation, accompanied by all requisite and duly executed assignments of transfer thereof, for registration in the name of the Trustee of the Trust. If the shares of Equity Stock that are converted into Excess Stock are not shares of Common Stock, then the Excess Stock into which they are converted shall be deemed to be a separate series of Excess Stock with a designation and title corresponding to the designation and title of the shares that have been converted into the Excess Stock. Such conversion into Excess Stock and transfer to a Trust shall be effective as of the close of trading on the Trading Day prior to the date of the purported Transfer or Non-Transfer Event, as the case may be, even though the certificates representing the shares of Equity Stock so converted may be submitted to the Corporation at a later date.

(b) If, notwithstanding the other provisions contained in these Articles, prior to the Restriction Termination Date there is a purported Transfer or Non-Transfer Event that, if effective, would (i) result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code, (ii) cause the Corporation to Constructively Own 10% or more of the ownership interest in a tenant of the Corporation's or a Subsidiary's real property within the meaning of Section 856(d)(2)(B) of the Code or (iii) result in the shares of Equity Stock being beneficially owned by fewer than 100 persons within the meaning of Section 856(a)(5) of the Code, then (x) the purported transferee shall be deemed to be a Prohibited Owner and shall acquire no right or interest (or, in the case of a Non-Transfer Event, the Person holding record title of the shares of Equity Stock with respect to which such Non-Transfer Event occurred shall cease to own any right or interest) in such number of shares of Equity Stock, the ownership of which by such purported transferee or record holder would (A) result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code, (B) cause the Corporation to Constructively Own 10% or more of the ownership interests in a tenant of the Corporation's or a Subsidiary's real property within the meaning of Section 856(d)(2)(B) of the Code or (c) result in the shares of Equity Stock being beneficially owned by fewer than 100 persons within the meaning of Section 856(a)(5) of the Code, (y) such number of shares of Equity Stock (rounded up to the nearest whole share) shall be automatically converted into an equal number of shares of Excess Stock and transferred to a Trust in accordance with Section 7.4.4 of this Article VII and (z) the Prohibited Owner shall submit such number of shares of Equity Stock to the Corporation, accompanied by all requisite and duly executed assignments of transfer thereof, for registration in the name of the Trustee of the Trust. If the shares of Equity Stock that are converted into Excess Stock are not shares of Common Stock, then the Excess Stock into which they are converted shall be deemed to be a separate series of Excess Stock with a designation and title corresponding to the designation and title of the shares that have been converted into the Excess Stock. Such conversion into Excess Stock and transfer to a Trust shall be effective as of the close of trading on the Trading

Day prior to the date of the purported Transfer or Non-Transfer Event, as the case may be, even though the certificates representing the shares of Equity Stock so converted may be submitted to the Corporation at a later date.

(c) Upon the occurrence of such a conversion of shares of Equity Stock into an equal number of shares of Excess Stock, such shares of Equity Stock shall be automatically retired and canceled, without any action required by the Board of Directors of the Corporation, and shall thereupon be restored to the status of authorized but unissued shares of the particular class or series of Equity Stock from which such Excess Stock was converted and may be reissued by the Corporation as that particular class or series of Equity Stock.

7.4.2 Remedies for Breach. If the Corporation, or its designees, shall at any time determine in good faith that a Transfer has taken place in violation of Section 9.2 of Article IX or that a Person intends to acquire or has attempted to acquire Beneficial Ownership or Constructive Ownership of any shares of Equity Stock in violation of Section 9.2 of Article IX, the Corporation shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer or acquisition, including, but not limited to, refusing to give effect to such Transfer on the stock transfer books of the Corporation or instituting proceedings to enjoin such Transfer or acquisition, but the failure to take any such action shall not affect the automatic conversion of shares of Equity Stock into Excess Stock and their transfer to a Trust in accordance with Section 7.4.4.

7.4.3 Notice of Restricted Transfer. Any Person who acquires or attempts to acquire shares of Equity Stock in violation of Section 9.2 of Article IX, or any Person who owns shares of Equity Stock that were converted into shares of Excess Stock and transferred to a Trust pursuant to Sections 7.4.1 and 7.4.4 of this Article VII, shall immediately give written notice to the Corporation of such event and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such Transfer or Non-Transfer Event, as the case may be, on the Corporation's status as a REIT.

7.4.4 Ownership in Trust. Upon any purported Transfer or Non-Transfer Event that results in Excess Stock pursuant to Section 7.4.1 of this Article VII, (i) the Corporation shall create, or cause to be created, a Trust, and shall designate a Trustee and name a Beneficiary thereof and (ii) such Excess Stock shall be automatically transferred to such Trust to be held for the exclusive benefit of the Beneficiary. Any conversion of shares of Equity Stock into shares of Excess Stock and transfer to a Trust shall be effective as of the close of trading on the Trading Day prior to the date of the purported Transfer or Non-Transfer Event that results in the conversion. Shares of Excess Stock so held in trust shall remain issued and outstanding shares of Stock of the Corporation.

7.4.5 Dividend Rights. Each share of Excess Stock shall be entitled to the

same dividends and distributions (as to both timing and amount) as may be authorized by the Board of Directors with respect to shares of the same class and series as the shares of Equity Stock that were converted into such Excess Stock. The Trustee, as record holder of the shares of Excess Stock, shall be entitled to receive all dividends and distributions and shall hold all such dividends or distributions in trust for the benefit of the Beneficiary. The Prohibited Owner with respect to such shares of Excess Stock shall repay to the Trust the amount of any dividends or distributions received by it that are (i) attributable to any shares of Equity Stock that have been converted into shares of Excess Stock and (ii) dividends or distributions which were distributed by the Corporation to stockholders of record on a record date which was on or after the date that such shares were converted into shares of Excess Stock. The Corporation shall take all measures that it determines reasonably necessary to recover the amount of any such dividend or distribution paid to a Prohibited Owner, including, if necessary, withholding any portion of future dividends or distributions payable on shares of Equity Stock Beneficially Owned by the Person who, but for the provisions of Articles VII and IX, would Constructively Own or Beneficially Own the shares of Equity Stock that were converted into shares of Excess Stock; and, as soon as reasonably practicable following the Corporation's receipt or withholding thereof, shall pay over to the Trust for the benefit of the Beneficiary the dividends so received or withheld, as the case may be.

7.4.6 Rights upon Liquidation. In the event of any voluntary or involuntary liquidation of, or winding up of, or any distribution of the assets of, the Corporation, each holder of shares of Excess Stock shall be entitled to receive, ratably with each other holder of shares of Equity Stock of the same class and series as the shares which were converted into such Excess Stock and other holders of such Excess Stock, that portion of the assets of the Corporation that is available for distribution to the holders of shares of such class and series of Equity Stock and such Excess Stock. The Trust shall distribute to the Prohibited Owner the amounts received upon such liquidation, dissolution, or winding up, or distribution; provided, however, that the Prohibited Owner shall not be entitled to receive amounts in excess of, in the case of a purported Transfer in

which the Prohibited Owner gave value for shares of Equity Stock and which Transfer resulted in the conversion of the shares into shares of Excess Stock, the product of (x) the price per share, if any, such Prohibited Owner paid for the shares of Equity Stock and (y) the number of shares of Equity Stock which were so converted into Excess Stock, and, in the case of a Non-Transfer Event or purported Transfer in which the Prohibited Owner did not give value for such shares (e.g., if the shares were received through a gift or devise) and which Non-Transfer Event or purported Transfer, as the case may be, resulted in the conversion of the shares into shares of Excess Stock, the product of (x) the price per share equal to the Market Price on the date of such Non-Transfer Event or purported Transfer and (y) the number of shares of Equity Stock which were so converted into Excess Stock. Any remaining amount in such Trust shall be distributed to the Beneficiary.

7.4.7 Voting Rights. Each share of Excess Stock shall entitle the holder to no

voting rights other than those voting rights which must accompany a class of Stock under Maryland law. The Trustee, as record holder of the Excess Stock, shall be entitled to vote all shares of Excess Stock in the event voting rights are mandated by Maryland law. Any vote by a Prohibited Owner as a purported holder of shares of Equity Stock prior to the discovery by the Corporation that such shares of Equity Stock have been converted into shares of Excess Stock shall, subject to applicable law, (i) be rescinded and shall be void ab initio with respect to such shares of Excess Stock and (ii) be recast in accordance with the desires of the Trustee acting for the benefit of the Beneficiary; provided, however, that if the Corporation has already taken irreversible corporate action, then the Trustee shall not have the authority to rescind and recast such vote.

7.4.8 Designation of Permitted Transferee.

(a) As soon as practicable after the Trustee acquires Excess Stock, but in an orderly fashion so as not to materially adversely affect the trading price of Common Stock, the Trustee shall designate one or more Persons as Permitted Transferees and sell to such Permitted Transferees any shares of Excess Stock held by the Trustee; provided, however, that (i) any Permitted Transferee so designated purchases for valuable consideration (whether in a public or private sale) the shares of Excess Stock and (ii) any Permitted Transferee so designated may acquire such shares of Excess Stock without violating any of the restrictions set forth in Section 9.2 of Article IX and without such acquisition resulting in the conversion of the shares of Equity Stock so acquired into shares of Excess Stock and the transfer of such shares to a Trust pursuant to Sections 7.4.1 and 7.4.4 of this Article VII. The Trustee shall have the exclusive and absolute right to designate Permitted Transferees of any and all shares of Excess Stock. Prior to any transfer by the Trustee of shares of Excess Stock to a Permitted Transferee, the Trustee shall give not less than five Trading Days' prior written notice to the Corporation of such intended transfer and the Corporation must have waived in writing its purchase rights, if any, under Section 7.4.10 of this Article VII.

(b) Subject to Section 7.4.8, upon the designation by the Trustee of a Permitted Transferee in accordance with the provisions of this Section 7.4.8, the Trustee shall cause to be transferred to the Permitted Transferee shares of Excess Stock acquired by the Trustee pursuant to Section 7.4.4 of this Article VII. Upon such transfer of shares of Excess Stock to the Permitted Transferee, such shares of Excess Stock shall be automatically converted into an equal number of shares of Equity Stock of the same class and series which was converted into such Excess Stock. Upon the occurrence of such a conversion of shares of Excess Stock into an equal number of shares of Equity Stock, such shares of Excess Stock shall be automatically retired and canceled, without any action required by the Board of Directors of the Corporation, and shall thereupon be restored to the status of authorized but unissued shares of Excess Stock and may be reissued by the Corporation as Excess Stock. The Trustee shall (i) cause to be recorded on the stock transfer books of the Corporation that the Permitted Transferee is the holder of record of such number of shares of Equity Stock, and (ii) distribute to the Beneficiary any and all amounts held with respect to such shares of Excess Stock after making payment to the Prohibited Owner pursuant to Section 7.4.9 of this Article VII.

(c) If the Transfer of shares of Excess Stock to a purported Permitted Transferee would or does violate any of the transfer

restrictions set forth in Section 9.2 of Article IX, such Transfer shall be void ab initio as to that number of shares of Excess Stock that cause the violation of any such restriction when such shares are converted into shares of Equity Stock (as described in clause (b) above) and the purported Permitted Transferee shall be deemed to be a Prohibited Owner and shall acquire no rights in such shares of Excess Stock or Equity Stock. Such shares of Equity Stock shall be automatically re-converted into Excess Stock and transferred to the Trust from which they were originally Transferred. Such conversion and transfer to the Trust shall be effective as of the close of trading on the Trading Day prior to the date of the Transfer to the purported Permitted Transferee and the provisions of this Article VII shall apply to such shares, including, without limitation, the provisions of Sections 7.4.8 through 7.4.10 with respect to any future Transfer of such shares by the Trust.

7.4.9 Compensation to Record Holder of Shares of Equity Stock That Are Converted into Shares of Excess Stock. Any Prohibited Owner shall be entitled (following acquisition of the shares of Excess Stock and subsequent designation of and sale of Excess Stock to a Permitted Transferee in accordance with Section 7.4.8 of this Article VII or following the purchase of such shares in accordance with Section 7.4.10 of this Article VII) to receive from the Trustee following the sale or other disposition of such shares of Excess Stock the lesser of (i) (a) in the case of a purported Transfer in which the Prohibited Owner gave value for shares of Equity Stock and which Transfer resulted in the conversion of such shares into shares of Excess Stock, the product of (x) the price per share, if any, such Prohibited Owner paid for the shares of Equity Stock and (y) the number of shares of Equity Stock which were so converted into Excess Stock and (b) in the case of a Non-Transfer Event or purported Transfer in which the Prohibited Owner did not give value for such shares (e.g., if the shares were received through a gift or devise) and which Non-Transfer Event or purported Transfer, as the case may be, resulted in the conversion of such shares into shares of Excess Stock, the product of (x) the price per share equal to the Market Price on the date of such Non-Transfer Event or purported Transfer and (y) the number of shares of Equity Stock which were so converted into Excess Stock or (ii) the proceeds received by the Trustee from the sale or other disposition of such shares of Excess Stock in accordance with Section 7.4.8 or Section 7.4.10 of this Article VII. Any amounts received by the Trustee in respect of such shares of Excess Stock and in excess of such amounts to be paid to the Prohibited Owner pursuant to this Section 7.4.9 shall be distributed to the Beneficiary in accordance with the provisions of Section 7.4.8 of this Article VII. Each Beneficiary and Prohibited Owner shall be deemed to have waived any and all claims that it may have against the Trustee and the Trust arising out of the disposition of shares of Excess Stock, except for claims arising out of the gross negligence or willful misconduct of, or any failure to make payments in accordance with this Section 7.4 of this Article VII, by such Trustee.

7.4.10 Purchase Right in Excess Stock. Except for shares of Excess Stock which may result from the conversion of shares of Series A Preferred Stock and Series

B Preferred Stock which are outstanding as of the acceptance for record of these Articles, which shares shall not be subject to this Section 7.4.10, shares of Excess Stock shall be deemed to have been offered for sale to the Corporation or its designee, at a price per share equal to the lesser of (i) the price per share in the transaction that created such shares of Excess Stock (or, in the case of a Non-Transfer Event or Transfer in which the Prohibited Owner did not give value for the shares (e.g., if the shares were received through a gift or devise), the Market Price on the date of such Non-Transfer Event or Transfer in which the Prohibited Owner did not give value for the shares) or (ii) the Market Price on the date the Corporation, or its designee, accepts such offer. The Corporation shall have the right to accept such offer for a period of 90 days following the later of (a) the date of the Non-Transfer Event or purported Transfer which results in such shares of Excess Stock or (b) the date the Board of Directors first determines that a Transfer or Non-Transfer Event resulting in shares of Excess Stock has occurred, if the Corporation does not receive a notice of such Transfer or Non-Transfer Event pursuant to Section 7.4.3 of this Article VII.

7.5 Classification of Stock. The Board of Directors may classify or reclassify any unissued shares of Stock from time to time by setting or changing the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, and terms and conditions of redemption for each class or series, including, but not limited to, the reclassification of unissued shares

of Common Stock to shares of Preferred Stock or unissued shares of Preferred Stock to shares of Common Stock or the issuance of any rights plan or similar plan.

7.6 Issuance of Stock. The Board of Directors may authorize the issuance from time to time of shares of Stock of any class or series, whether now or hereafter authorized, or securities or rights convertible into shares of Stock, for such consideration as the Board of Directors may deem advisable (or without consideration in the case of a share split or dividend), subject to such restrictions or limitations, if any, as may be set forth in these Articles or the Bylaws of the Corporation.

7.7 Dividends or Distributions. The Directors may from time to time authorize and declare and pay to stockholders such dividends or distributions in cash, property or other assets of the Corporation or in securities of the Corporation or from any other source as the Directors in their discretion shall determine.

7.8 Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Article VII, the Board of Directors shall have the power to determine the application of the provisions of this Article VII with respect to any situation based on the facts known to it.

7.9 Legend. Except as otherwise determined by the Board of Directors, each certificate for shares of Equity Stock shall bear substantially the following legend:

"The shares of Avalon Bay Communities, Inc. (the

"Corporation") represented by this certificate are subject to restrictions set forth in the Corporation's charter, as the same may be amended from time to time, which prohibit in general (a) any Person (other than a Look-Through Entity) from Beneficially Owning shares of Equity Stock in excess of the Ownership Limit, (b) any Look-Through Entity from Beneficially Owning shares of Equity Stock in excess of the Look-Through Ownership Limit and (c) any Person from acquiring or maintaining any ownership interest in the stock of the Corporation that is inconsistent with (i) the requirements of the Internal Revenue Code of 1986, as amended, pertaining to real estate investment trusts or (ii) the charter of the Corporation, and the holder of this certificate by his, her or its acceptance hereof consents to be bound by such restrictions. Capitalized terms used in this paragraph and not defined herein are defined in the Corporation's charter, as the same may be amended from time to time.

The Corporation will furnish without charge, to each stockholder who so requests, a copy of the relevant provisions of the charter and the bylaws, each as amended, of the Corporation, a copy of the provisions setting forth the designations, preferences, privileges and rights of each class of stock or series thereof that the Corporation is authorized to issue and the qualifications, limitations and restrictions of such preferences and/or rights. Any such request may be addressed to the Secretary of the Corporation or to the transfer agent named on the face hereof."

7.10 Severability. Each provision of this Article VII shall be severable and an adverse determination as to any such provision shall in no way affect the validity of any other provision.

7.11 Articles and Bylaws. All persons who shall acquire Stock in the Corporation shall acquire the same subject to the provisions of these Articles and the Bylaws.

ARTICLE VIII

LIMITATION ON PREEMPTIVE RIGHTS

No holder of any Stock or any other securities of the Corporation, whether now or hereafter authorized, shall have any preferential or preemptive rights to subscribe for or purchase any Stock or any other securities of the Corporation other than such rights, if any, as the Board of Directors, in its sole discretion, may fix by articles supplementary, by contract or otherwise; and any Stock or other securities which the Board of Directors may determine to offer for subscription may, within the Board of Directors' sole discretion, be offered to the holders of any class, series or type of Stock or other securities at the time outstanding to the

exclusion of holders of any or all other classes, series or types of Stock or other securities at the time outstanding.

ARTICLE IX

LIMITATIONS ON TRANSFER AND OWNERSHIP OF EQUITY STOCK

9.1 Definitions. For purposes of this Article IX, the following terms shall have the meanings set forth below:

"Beneficial Ownership," when used with respect to ownership of shares of Equity Stock by any Person, shall mean all shares of Equity Stock which are (i) directly owned by such Person, (ii) indirectly owned by such Person (if such Person is an "individual" as defined in Section 542(a)(2) of the Code) taking into account the constructive ownership rules of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code, or (iii) beneficially owned by such Person pursuant to Rule 13d-3 under the Securities Exchange Act of 1934, as amended; provided, however, that in determining the number of shares Beneficially Owned by a Person or group, no share shall be counted more than once although applicable to two or more of clauses (i), (ii) and (iii) of this definition or (in the case of a group) although Beneficially Owned by more than one Person in such group. (If a Person Beneficially Owns shares of Equity Stock that are not actually outstanding (e.g., shares issuable upon the exercise of an option or convertible security) ("Option Shares"), then, whenever these Articles require a determination of the percentage of outstanding shares of a class of Equity Stock Beneficially Owned by that Person, the Option Shares Beneficially Owned by that Person shall also be deemed to be outstanding.)

"Beneficiary" shall mean, with respect to any Trust, one or more organizations described in each of Section 170(b)(1)(A) (other than clauses (vii) and (viii) thereof) and Section 170(c)(2) of the Code that are named by the Corporation as the beneficiary or beneficiaries of such Trust, in accordance with the provisions of Section 7.4.4 of Article VII.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Constructive Ownership" shall mean ownership of shares of Equity Stock by a Person who is or would be treated as a direct or indirect owner of such shares of Equity Stock through the application of Section 318 of the Code, as modified by Section 856(d)(5) of the Code. The terms "Constructive Owner," "Constructively Owns" and "Constructively Owned" shall have correlative meanings.

"Equity Stock" shall mean a particular class (other than Excess Stock) or series of stock of the Corporation. The use of the term "Equity Stock" or any term defined by reference to the term "Equity Stock" shall refer to the particular class or series of stock which is appropriate under the context.

"Look-Through Entity" shall mean a Person that is either (i) a trust described in Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code as modified by Section 856(h)(3) of the Code or (ii) registered under the Investment Company Act of 1940.

"Look-Through Ownership Limit" shall mean, with respect to a class or series of Equity Stock, 15% of the number of outstanding shares of such Equity Stock.

"Market Price" of Equity Stock on any date shall mean the average of the Closing Price for shares of such Equity Stock for the five consecutive Trading Days ending on such date. The "Closing Price" on any date shall mean (A) where there exists a public market for the Corporation's Equity Stock, the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transaction reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the shares of Equity Stock are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the shares of Equity Stock are listed or admitted to trading or, if the shares of Equity Stock are not listed or admitted to trading on any national securities exchange, the last

quoted price, or if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the Nasdaq Stock Market, Inc. or, if such system is no longer in use, the principal other automated quotation system that may then be in use or (B) if no public market for the Equity Stock exists, the Closing Price will be determined by a single, independent appraiser selected by a committee composed of Independent Directors which appraiser shall appraise the Market Price for such Equity Stock within such guidelines as shall be determined by the committee of Independent Directors.

"Non-Transfer Event" shall mean an event other than a purported Transfer that would cause (a) any Person (other than a Look-Through Entity) to Beneficially Own shares of Equity Stock in excess of the Ownership Limit or (b) any Look-Through Entity to Beneficially Own shares of Equity Stock in excess of the Look-Through Ownership Limit. Non-Transfer Events include but are not limited to (i) the granting of any option or entering into any agreement for the sale, transfer or other disposition of shares (or of Beneficial Ownership of shares) of Equity Stock or (ii) the sale, transfer, assignment or other disposition of interests in any Person or of any securities or rights convertible into or exchangeable for shares of Equity Stock or for interests in any Person that results in changes in Beneficial Ownership of shares of Equity Stock.

"Ownership Limit" shall mean, with respect to a class or series of Equity Stock, 9.8% of the number of outstanding shares of such Equity Stock.

"Permitted Transferee" shall mean any Person designated as a Permitted Transferee in accordance with the provisions of Section 7.4.8 of Article VII.

"Person" shall mean (a) an individual or any corporation, partnership, estate,

trust, association, private foundation, joint stock company or any other entity and (b) a "group" as that term is used for purposes of Section 13(d)(3) of the Exchange Act; but shall not include an underwriter that participates in a public offering of Equity Stock for a period of 90 days following purchase by such underwriter of such Equity Stock.

"Prohibited Owner" shall mean, with respect to any purported Transfer or Non-Transfer Event, any Person who is prevented from becoming or remaining the owner of record title to shares of Equity Stock by the provisions of Section 7.4.1 of Article VII.

"Restriction Termination Date" shall mean the first day on which the Board of Directors, in accordance with Article VI hereof, determines that it is no longer in the best interests of the Corporation to attempt to, or continue to, qualify under the Code as a REIT.

"Trading Day" shall mean a day on which the principal national securities exchange on which any of the shares of Equity Stock are listed or admitted to trading is open for the transaction of business or, if none of the shares of Equity Stock are listed or admitted to trading on any national securities exchange, any day other than a Saturday, a Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

"Transfer" (as a noun) shall mean any sale, transfer, gift, assignment, devise or other disposition of shares (or of Beneficial Ownership of shares) of Equity Stock, whether voluntary or involuntary, whether of record, constructively or beneficially and whether by operation of law or otherwise. "Transfer" (as a verb) shall have the correlative meaning.

"Trust" shall mean any separate trust created and administered in accordance with the terms of Section 7.4 of Article VII, for the exclusive benefit of any Beneficiary.

"Trustee" shall mean any Person or entity, unaffiliated with both the Corporation and any Prohibited Owner (and, if different than the Prohibited Owner, the Person who would have had Beneficial Ownership of the Shares that would have been owned of record by the Prohibited Owner), designated by the Corporation to act as trustee of any Trust, or any successor trustee thereof.

9.2 Restriction on Ownership and Transfer.

(a) (I) Except as provided in Section 9.4 of this Article IX, until the Restriction Termination Date, (i) no Person (other than a Look-Through Entity) shall Beneficially Own shares of Equity Stock in excess of

the Ownership Limit and (ii) no Look-Through Entity shall Beneficially Own shares of Equity Stock in excess of the Look-Through Ownership Limit.

(II) Except as provided in Section 9.4 of this Article IX, until the Restriction Termination Date, any purported Transfer (whether or not the result of a transaction entered into through the facilities of the New York Stock Exchange or any other national securities

exchange or the Nasdaq Stock Market, Inc. or any other automated quotation system) that, if effective, would result in any Person (other than a Look-Through Entity) Beneficially Owning shares of Equity Stock in excess of the Ownership Limit shall be void ab initio as to the Transfer of that number of shares of Equity Stock which would be otherwise Beneficially Owned by such Person in excess of the Ownership Limit, and the intended transferee shall acquire no rights in such shares of Equity Stock.

(III) Except as provided in Section 9.4 of this Article IX, until the Restriction Termination Date, any purported Transfer (whether or not the result of a transaction entered into through the facilities of the New York Stock Exchange or any other national securities exchange or the Nasdaq Stock Market, Inc. or any other automated quotation system) that, if effective, would result in any Look-Through Entity Beneficially Owning shares of Equity Stock in excess of the Look-Through Ownership Limit shall be void ab initio as to the Transfer of that number of shares of Equity Stock which would be otherwise Beneficially Owned by such Look-Through Ownership Entity in excess of the Look-Through Ownership Limit, and the intended transferee Look-Through Entity shall acquire no rights in such shares of Equity Stock.

(b) Until the Restriction Termination Date, any purported Transfer (whether or not the result of a transaction entered into through the facilities of the New York Stock Exchange or any other national securities exchange or the Nasdaq Stock Market, Inc. or any other automated quotation system) of shares of Equity Stock that, if effective, would result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code shall be void ab initio as to the Transfer of that number of shares of Equity Stock that would cause the Corporation to be "closely held" within the meaning of Section 856(h) of the Code, and the intended transferee shall acquire no rights in such shares of Equity Stock.

(c) Until the Restriction Termination Date, any purported Transfer (whether or not the result of a transaction entered into through the facilities of the New York Stock Exchange or any other national securities exchange or the Nasdaq Stock Market, Inc. or any other automated quotation system) of shares of Equity Stock that, if effective, would cause the Corporation to Constructively Own 10% or more of the ownership interests in a tenant of the real property of the Corporation or any direct or indirect subsidiary (whether a corporation, partnership, limited liability company or other entity) of the Corporation (a "Subsidiary"), within the meaning of Section 856(d)(2)(B) of the Code, shall be void ab initio as to the Transfer of that number of shares of Equity Stock that would cause the Corporation to Constructively Own 10% or more of the ownership interests in a tenant of the real property of the Corporation or a Subsidiary within the meaning of Section 856(d)(2)(B) of the Code, and the intended transferee shall acquire no rights in such shares of Equity Stock.

(d) Until the Restriction Termination Date, any purported Transfer (whether or not the result of a transaction entered into through the facilities of the New York Stock Exchange or any other national securities exchange or the Nasdaq Stock Market, Inc. or any other automated quotation system) that, if effective, would result in shares of Equity Stock being beneficially owned by fewer than 100 persons within the meaning of Section 856(a)(5) of

the Code shall be void ab initio and the intended transferee shall acquire no rights in such shares of Equity Stock.

9.3 Owners Required to Provide Information. Until the Restriction Termination Date:

(a) Every Beneficial Owner of more than 5%, or such lower percentages as are then required pursuant to regulations under the Code, of the outstanding shares of any class or series of Equity Stock of the Corporation as of any dividend record date on the Corporation's Equity Stock shall, within 30 days after January 1 of each year, provide to the Corporation a written statement or affidavit stating the name and address of such Beneficial Owner,

the number of shares of Equity Stock Beneficially Owned by such Beneficial Owner as of each such dividend record date, and a description of how such shares are held. Each such Beneficial Owner shall provide to the Corporation such additional information as the Corporation may request in order to determine the effect, if any, of such Beneficial Ownership on the Corporation's status as a REIT and to ensure compliance with the Ownership Limit.

(b) Each Person who is a Beneficial Owner of shares of Equity Stock and each Person (including the stockholder of record) who is holding shares of Equity Stock for a Beneficial Owner shall provide to the Corporation a written statement or affidavit stating such information as the Corporation may request in order to determine the Corporation's status as a REIT and to ensure compliance with the Ownership Limit.

9.4. Exception. The Board of Directors, upon receipt of a ruling from the Internal Revenue Service or an opinion of counsel or other evidence or undertakings acceptable to it, may, in its sole discretion, waive the application of the Ownership Limit or the Look-Through Ownership Limit to a Person subject, as the case may be, to any such limit, provided that (A) the Board of Directors obtains such representations and undertakings from such Person as are reasonably necessary to ascertain that such Person's Beneficial Ownership or Constructive Ownership of shares of Equity Stock will now and in the future (i) not result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code, (ii) not cause the Corporation to Constructively Own 10% or more of the ownership interests of a tenant of the Corporation or a Subsidiary within the meaning of Section 856(d)(2)(B) of the Code and to violate the 95% gross income test of Section 856(c)(2) of the Code, and (iii) not result in the shares of Equity Stock of the Corporation being beneficially owned by fewer than 100 persons within the meaning of Section 856(a)(5) of the Code, and (B) such Person agrees in writing that any violation or attempted violation of (x) such other limitation as the Board of Directors may establish at the time of such waiver with respect to such Person or (y) such other restrictions and conditions as the Board of Directors may in its sole discretion impose at the time of such waiver with respect to such Person, will result, as of the time of such violation even if discovered after such violation, in the conversion of such shares in excess of the original limit applicable to such Person into shares of Excess Stock pursuant to Section 7.4.1 of Article VII.

9.5 New York Stock Exchange Transactions. Notwithstanding any provision contained herein to the contrary, nothing in these Articles shall preclude the settlement of any transaction entered into through the facilities of the New York Stock Exchange or any other national securities exchange or the Nasdaq Stock Market, Inc. or any other automated quotation system. In no event shall the existence or application of the preceding sentence have the effect of deterring or preventing the conversion of Equity Stock into Excess Stock as contemplated herein.

9.6 Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Article IX, including any definition contained in Section 9.1 of this Article IX, the Board of Directors shall have the power to determine the application of the provisions of this Article IX with respect to any situation based on the facts known to it.

9.7 Remedies Not Limited. Except as set forth in Section 9.5 of this Article IX, nothing contained in this Article IX or Article VII shall limit the authority of the Corporation to take such other action as it deems necessary or advisable to protect the Corporation and the interests of its stockholders by preservation of the Corporation's status as a REIT and to ensure compliance with the Ownership Limit or the Look-Through Ownership Limit.

ARTICLE X

RIGHTS AND POWERS OF CORPORATION, BOARD OF DIRECTORS AND OFFICERS

In carrying on its business, or for the purpose of attaining or furthering any of its objects, the Corporation shall have all of the rights, powers and privileges granted to corporations by the laws of the State of Maryland, as well as the power to do any and all acts and things that a natural person or partnership could do as now or hereafter authorized by law, either alone or in partnership or conjunction with others. In furtherance and not in limitation of the powers conferred by statute, the powers of the Corporation and of the Directors and stockholders shall include the following:

10.1 Conflicts of Interest. Any Director or officer individually, or any firm of which any Director or officer may be a member, or any corporation or association of which any Director or officer may be a director or officer or in which any Director or officer may be interested as the holder of any amount of its Stock or otherwise, may be a party to, or may be

pecuniarily or otherwise interested in, any contract or transaction of the Corporation, and, in the absence of fraud, no contract or other transaction shall be thereby affected or invalidated; provided, however, that (a) such fact shall have been disclosed or shall have been known to the Board of Directors or the committee thereof that approved such contract or transaction and such contract or transaction shall have been approved or ratified by the affirmative vote of a majority of the disinterested Directors, or (b) such fact shall have been disclosed or shall have been known to the stockholders entitled to vote, and such contract or transaction shall have been approved or ratified by a majority of the votes cast by the stockholders entitled to vote, other than the votes of shares owned of record or beneficially by the interested Director or

corporation, firm or other entity, or (c) the contract or transaction is fair and reasonable to the Corporation. Any Director of the Corporation who is also a director or officer of or interested in such other corporation or association, or who, or the firm of which he is a member, is so interested, may be counted in determining the existence of a quorum at any meeting of the Board of Directors of the Corporation which shall authorize any such contract or transaction, with like force and effect as if he were not such director or officer of such other corporation or association or were not so interested or were not a member of a firm so interested.

10.2 Amendment of Articles. The Corporation reserves the right, from time to time, to make any amendment of its Articles, now or hereafter authorized by law, including any amendment which alters the contract rights, as expressly set forth in its Articles, of any outstanding Stock.

No amendment or repeal of these Articles shall be made unless the same is first approved by the Board of Directors pursuant to a resolution adopted by the Board of Directors in accordance with the MGCL, and, except as otherwise provided by law, thereafter approved by the stockholders.

Whenever any vote of the holders of voting stock is required to amend or repeal any provision of these Articles, then in addition to any other vote of the holders of voting stock that is required by these Articles, the affirmative vote of the holders of a majority of the outstanding shares of Stock of the Corporation entitled to vote on such amendment or repeal, voting together as a single class, and the affirmative vote of the holders of a majority of the outstanding shares of each class entitled to vote thereon as a class, shall be required to amend or repeal any provision of these Articles; provided, however, that the affirmative vote of the holders of not less than two-thirds of the outstanding shares entitled to vote on such amendment or repeal, voting together as a single class, and the affirmative vote of the holders of not less than two-thirds of the outstanding shares of each class entitled to vote thereon as a class, shall be required to amend or repeal any of the provisions of Sections 6.4, 6.5 or 6.6 of Article VI, Article X or Article XII of these Articles.

ARTICLE XI

INDEMNIFICATION

The Corporation (which for the purpose of this Article XI shall include predecessor entities of the Corporation as set forth in Section 2-418 of the MGCL) shall have the power to the maximum extent permitted by Maryland law in effect from time to time, to obligate itself to indemnify, and to pay or reimburse reasonable expenses in advance of final disposition of a proceeding to, (a) any individual who is a present or former Director or officer of the Corporation or (b) any individual who, while a Director of the Corporation and at the request of the Corporation, serves or has served as a director, officer, partner or trustee of another corporation, real estate investment trust, partnership, joint venture, trust, employee benefit plan or any other enterprise from and against any claim or liability to which such person may become subject or which such person may incur by reason of his status as a present or former

Director or officer of the Corporation. The Corporation shall have the power, with the approval of the Board of Directors, to provide such indemnification and advancement of expenses to a person who served a predecessor of the Corporation in any of the capacities described in (a) or (b) above and to any employee or agent of the Corporation or a predecessor of the Corporation.

ARTICLE XII

LIMITATION OF LIABILITY

To the fullest extent permitted under the MGCL as in effect on the date of filing these Articles or as the MGCL is thereafter amended from time to time, no Director or officer shall be liable to the Corporation or its stockholders for money damages. Neither the amendment or the repeal of this Article, nor the adoption of any other provision in the Corporation's Articles inconsistent with this Article, shall eliminate or reduce the protection afforded by this Article to a Director or officer of the Corporation with respect to any matter which occurred, or any cause of action, suit or claim which but for this Article would have accrued or arisen, prior to such amendment, repeal or adoption.

ARTICLE XIII

MISCELLANEOUS

13.1 Provisions in Conflict with Law or Regulations.

(a) The provisions of these Articles are severable, and if the Directors shall determine that any one or more of such provisions are in conflict with the REIT provisions of the Code, or other applicable federal or state laws, the conflicting provisions shall be deemed never to have constituted a part of these Articles, even without any amendment of these Articles pursuant to Section 10.2 hereof; provided, however, that such determination by the Directors shall not affect or impair any of the remaining provisions of these Articles or render invalid or improper any action taken or omitted prior to such determination. No Director shall be liable for making or failing to make such a determination.

(b) If any provision of these Articles or any application of such provision shall be held invalid or unenforceable by any federal or state court having jurisdiction, such holding shall not in any manner affect or render invalid or unenforceable such provision in any other jurisdiction, and the validity of the remaining provisions of these Articles shall not be affected. Other applications of such provision shall be affected only to the extent necessary to comply with the determination of such court.

ARTICLE XIV

DESIGNATED SERIES OF PREFERRED STOCK

14.1 Series A Preferred Stock. The Board of Directors has duly divided and classified 2,308,800 shares of the Preferred Stock of the Corporation into a series designated Series A Preferred Stock and has provided for the issuance of such series. Subject in all cases to the provisions of Section 7.4 of Article VII and Article IX of the Articles with respect to Excess Stock, the following is a description of the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the Series A Preferred Stock of the Corporation:

14.1.1 Designation and Amount. The designation of the Preferred Stock described in Section 14.1 hereof shall be "Series A Preferred Stock (par value $.01 per share)" (hereinafter "Series A Preferred Stock"). The number of authorized shares of Series A Preferred Stock is 2,308,800. The Series A Preferred Stock shall rank (a) senior to the Corporation's Series E Preferred Stock (as defined in Section 14.5 hereof) and Common Stock, (b) on a pari passu basis with the Corporation's Series B Preferred Stock (as defined in Section 14.2 hereof), and (c) junior to the Corporation's Series C Preferred Stock (as defined in Section 14.3 hereof), Series D Preferred Stock (as defined in Section 14.4 hereof), Series F Preferred Stock (as defined in Section 14.6 hereof) and Series G Preferred Stock (as defined in Section 14.7 hereof), with respect to the payment of dividends.

14.1.2 Dividend Rights.

(a) The holders of record of outstanding shares of Series A Preferred Stock shall be entitled to receive, when and as authorized by the Board of Directors, out of funds legally available therefor, cash dividends which are (i) cumulative, (ii) preferential to the dividends paid on the Corporation's Series E Preferred Stock and Common Stock, on a pari passu basis to the dividends paid on the Corporation's Series B Preferred Stock, and junior to the dividends paid on the Corporation's Series C Preferred Stock, Series D Preferred Stock, Series F Preferred Stock and Series G Preferred Stock, and (iii) payable at an annual rate equal to the Series A Dividend Amount, and no more, on the fifteenth day of each February, May, August and November following the date of original issuance of the Series A Preferred Stock (the "Series A

Original Issue Date"). Each calendar quarter immediately preceding the fifteenth day of February, May, August and November (or if the Series A Original Issue Date is not on the first day of a calendar quarter, the period beginning on the date of issuance and ending on the last day of the calendar quarter of issuance) is referred to hereinafter as a "Series A Dividend Period." The initial per share Series A Dividend Amount per annum shall be equal to $1.6068. The amount of dividends payable for each full Series A Dividend Period for the Series A Preferred Stock shall be computed by dividing the Series A Dividend Amount by four. The amount of dividends on the Series A Preferred Stock payable for the initial Series A Dividend Period, or any other period shorter or longer than a full Series A Dividend Period, shall be computed ratably on the basis of the actual number of days in such Series A Dividend Period. In the event of any change in the quarterly cash dividend per share applicable to the Common Stock, the quarterly cash dividend per share on the Series A Preferred Stock shall be adjusted for the same dividend period by an amount computed by multiplying the amount of the change in the Common Stock dividend times the Series A Conversion Ratio (as defined in Section 14.1.4(a)).

(b) In the event the Corporation shall declare a distribution payable in (i) securities of other persons, (ii) evidences of indebtedness issued by the Corporation or other persons, (iii) assets (excluding cash dividends) or (iv) options or rights to purchase capital stock or evidences of indebtedness in the Corporation or other persons, then, in each such case for the purpose of this Section 14.1.2(b), the holders of the Series A Preferred Stock shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of shares of Common Stock of the Corporation into which their shares of Series A Preferred Stock are or would be convertible (assuming such shares of Series A Preferred Stock were then convertible).

(c) The Corporation shall not (i) declare or pay or set apart for payment any dividends or distributions on any Stock ranking as to dividends junior to the Series A Preferred Stock (other than dividends paid in shares of such junior Stock) or (ii) make any purchase or redemption of, or any sinking fund payment for the purchase or redemption of, any Stock ranking as to dividends junior to the Series A Preferred Stock (other than a purchase or redemption made by issue or delivery of such junior Stock) unless all dividends payable on all outstanding shares of Series A Preferred Stock for all past Series A Dividend Periods shall have been paid in full or declared and a sufficient sum set apart for payment thereof, provided, however, that any moneys theretofore deposited in any sinking fund with respect to any Preferred Stock of the Corporation in compliance with the provisions of such sinking fund may thereafter be applied to the purchase or redemption of such Preferred Stock in accordance with the terms of such sinking fund.

(d) All dividends declared on shares of Series A Preferred Stock and any other class of Preferred Stock or series thereof ranking on a parity as to dividends with the Series A Preferred Stock shall be declared pro rata, so that the amounts of dividends declared per share on the Series A Preferred Stock for the Series A Dividend Period of the Series A Preferred Stock ending either on the same day or within the dividend period of such other Stock shall, in all cases, bear to each other the same ratio that accrued dividends per share on the shares of Series A Preferred Stock and such other Stock bear to each other.

14.1.3 Liquidation Rights.

(a) Subject to the prior rights of the Corporation's Series C Preferred Stock, Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock and any class or series of Stock the terms of which specifically provide that such Stock ranks senior to the Series A Preferred Stock, in the event of any liquidation, dissolution, or winding up of the Corporation, either voluntary or involuntary, the holders of Series A Preferred Stock shall be entitled to receive, on a pari passu basis with the holders of the Corporation's Series B Preferred Stock and prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of Common Stock by reason of their ownership of such Stock, an amount equal to all accrued but unpaid dividends for each share of Series A Preferred Stock then held by them. If

upon the occurrence of such event, the assets and funds thus distributed among the holders of the Series A Preferred Stock shall be insufficient to permit the payment to such holders of the full amounts to which they are entitled under the preceding sentence, then, subject to any prior rights of any classes or

series of Stock, the entire assets and funds of the Corporation legally available for distribution shall be distributed ratably to the holders of the Series A Preferred Stock and the holders of any other shares of Stock on a parity for liquidation purposes with the Series A Preferred Stock in proportion to the aggregate amounts owed to each such holder.

(b) Subject to any prior rights of any other class or series of Stock, after the payment or setting apart of payment to the holders of Series A Preferred Stock of the full preferential amounts to which they shall be entitled pursuant to Section 14.1.3(a) above, the holders of the Series A Preferred Stock shall be treated pari passu with the holders of the record of Common Stock, with each holder of record of Series A Preferred Stock being entitled to receive in addition to the amounts payable pursuant to Section 14.1.3(a) above, that amount which such holder would be entitled to receive if such holder had converted all its Series A Preferred Stock into Common Stock immediately prior to the liquidating distribution in question.

14.1.4 Conversion.

(a) Right to Convert. Beginning on the third anniversary of the Series A Original Issue Date, the holders of shares of Series A Preferred Stock shall have the right, at their option, to convert each such share, at any time and from time to time, into one (the "Series A Conversion Ratio," which shall be subject to adjustment as hereinafter provided) fully paid and nonassessable share of Common Stock; provided, however, that no holder of Series A Preferred Stock shall be entitled to convert shares of such Series A Preferred Stock into Common Stock pursuant to the foregoing provision, if, as a result of such conversion, such person would become the Beneficial Owner of more than 4.9% of the Corporation's outstanding Common Stock (the "4.9% Limitation"). As used in Section 14.1 and 14.2 hereof, Beneficial Owner shall have the meaning set forth in Rule 13d-3 under the Securities Exchange Act of 1934 (or any successor provision thereto). Notwithstanding the foregoing, such conversion right may be exercised at any time after the Series A Original Issue Date and irrespective of the 4.9% Limitation (and no such limit shall apply) if any of the following circumstances occurs:

(i) For any two consecutive fiscal quarters, the aggregate amount outstanding as of the end of the quarter under (1) all mortgage indebtedness of the Corporation and its consolidated entities and (2) unsecured indebtedness of the Corporation and its consolidated entities exceeds sixty-five percent (65%) of the amount arrived at by (A) taking the Corporation's consolidated gross revenues less property-related expenses, including real estate taxes, insurance, maintenance and utilities, but excluding depreciation, amortization, interest and corporate general and administrative expenses, for the quarter in question and the immediately preceding quarter, (B) multiplying the amount in clause (A) by two (2), and (C) dividing the resulting product in clause (B) by nine percent (9%) (all as such items of indebtedness, revenues and expenses are reported in consolidated financial statements contained in the Corporation's Forms 10-K and Forms 10-Q as filed with the Securities and Exchange Commission); or

(ii) Gilbert M. Meyer has ceased to be an executive officer of the Corporation, unless the holders of a majority of the shares of the Series A Preferred Stock then outstanding have voted on and approved a replacement for Mr. Meyer and the replacement remains an executive officer of the Corporation; or

(iii) If (A) the Corporation shall be party to, or shall have entered into an agreement for, any transaction (including, without limitation, a merger, consolidation, statutory share exchange or sale of all or substantially all of its assets (each of the foregoing a "Series A Transaction")), in each case as a result of which shares of Common Stock shall have been or will be converted into the right to receive stock, securities or other property (including cash or any combination thereof) or which has resulted or will result in the holders of Common Stock immediately prior to the Series A Transaction owning less than 50% of the Common Stock after the Series A Transaction, or (B) a "change of control" as defined in the next sentence occurs with respect to the Corporation. A change of control shall mean the acquisition (including by virtue of a merger, share exchange or other business combination) by one stockholder or a group of stockholders acting in concert of the power to elect a majority of the Corporation's Board of Directors. The Corporation shall notify the holders of Series A Preferred Stock promptly if any of the events listed in this Section 14.1.4(a)(iii) shall occur. Calculations set forth in Section 14.1.4(a)(i) shall be made without regard to unconsolidated indebtedness incurred as a joint venture partner, and the effect of any unconsolidated joint venture, including any income

from such unconsolidated joint venture, shall be excluded for purposes of the calculation set forth in Section 14.1.4(a)(i).

(b) Mandatory Conversion. On the tenth anniversary of the Series A Original Issue Date (the "Series A Mandatory Conversion Date"), each issued and outstanding share of Series A Preferred Stock which has not been converted to Common Stock shall mandatorily convert to that number of fully paid and nonassessable shares of Common Stock equal to the Series A Conversion Ratio, as adjusted, regardless of the 4.9% Limitation. From and after the Series A Mandatory Conversion Date, certificates representing shares of Series A Preferred Stock shall be deemed to represent the shares of Common Stock into which they have been converted. Following the Series A Mandatory Conversion Date, the holder of certificates for Series A Preferred Stock may surrender those certificates at the office of any transfer agent for the Common Stock, or if there is no such transfer agent, at the principal offices of the Corporation, or at such other office as may be designated by the Corporation, accompanied by instructions from the holder as to the name(s) and address(es) in which such holder wishes the certificate(s) for the shares of Common Stock issuable upon such conversion to be issued. Promptly following surrender of certificates for Series A Preferred Stock after the Series A Mandatory Conversion Date, the Corporation shall issue and deliver at such office a certificate or certificates for the number of whole shares of Common Stock issuable upon mandatory conversion of the Series A Preferred Stock to the person(s) entitled to receive the same. For purposes of Sections 14.1.4(d) and 14.1.4(e) below, the Series A Mandatory Conversion Date shall constitute the Series A Conversion Date.

(c) Procedure for Conversion. In order to exercise its right to convert shares

of Series A Preferred Stock into Common Stock, the holder of shares of Series A Preferred Stock shall surrender the certificate(s) therefor, duly endorsed if the Corporation shall so require, or accompanied by appropriate instruments of transfer satisfactory to the Corporation, at the office of any transfer agent for the Series A Preferred Stock, or if there is no such transfer agent, at the principal offices of the Corporation, or at such other office as may be designated by the Corporation, together with written notice that such holder elects to convert such shares. Such notice shall also state the name(s) and address(es) in which such holder wishes the certificate(s) for the shares of Common Stock issuable upon conversion to be issued. As soon as practicable after a conversion, the Corporation shall issue and deliver at said office a certificate or certificates for the number of whole shares of Common Stock issuable upon conversion of the shares of Series A Preferred Stock duly surrendered for conversion, to the person(s) entitled to receive the same. Shares of Series A Preferred Stock shall be deemed to have been converted immediately prior to the close of business on the date on which the certificates therefor and notice of intention to convert the same are duly received by the Corporation in accordance with the foregoing provisions, and the person(s) entitled to receive the Common Stock issuable upon such conversion shall be deemed for all purposes as record holder(s) of such Common Stock as of the close of business on such date (hereinafter, the "Series A Conversion Date").

(d) Fractional Shares. No fractional shares shall be issued upon conversion of the Series A Preferred Stock into Common Stock, and the number of shares of Common Stock to be issued shall be rounded to the nearest whole share. As to any final fraction of a share which the holder of one or more shares of Series A Preferred Stock would be entitled to receive upon exercise of his conversion right the Corporation shall pay a cash adjustment in an amount equal to the same fraction of the last sale price (or bid price if there were no sales) per share of Common Stock on the New York Stock Exchange on the business day which next precedes the Series A Conversion Date or, if such Common Stock is not then listed on the New York Stock Exchange, of the market price per share (as determined in a manner prescribed by the Board of Directors of the Corporation) at the close of business on the business day which next precedes the Series A Conversion Date.

(e) Payment of Adjusted Accrued Dividends Upon Conversion. On the next dividend payment date (or such later date as is permitted in this Section 14.1.4(e)) following any Series A Conversion Date hereunder, the Corporation shall pay in cash Series A Adjusted Accrued Dividends (as defined below) on shares of Series A Preferred Stock so converted. The holder shall be entitled to receive accrued and unpaid dividends accrued to and including the Series A Conversion Date on the shares of Series A Preferred Stock converted (assuming that such dividends accrue ratably each day that such shares are outstanding), less an amount equal to the pre-conversion portion of the dividends paid on the shares of Common Stock issued upon such conversion (the "Series A Conversion Stock"). (The record date for the Series A Conversion Stock which occurs after the Series A Conversion Date is hereinafter referred to as the "Series A Subsequent Record

Date.") The pre-conversion portion of such Series A Conversion Stock dividend means that portion of such dividend as is attributable to the period that (i) begins on the day after the last Series A Conversion Stock dividend record date occurring before such Series A Subsequent Record Date and (ii) ends on such Series A Conversion Date, assuming that such dividends accrue ratably during the period. The term "Series A Adjusted

Accrued Dividends" means the amount arrived at through the application of the foregoing formula. Series A Adjusted Accrued Dividends shall not be less than zero. The formula for Series A Adjusted Accrued Dividends shall be applied to effectuate the Corporation's intent that the holder converting shares of Series A Preferred Stock to Series A Conversion Stock shall be entitled to receive dividends on such shares of Series A Preferred Stock up to and including the Series A Conversion Date and shall be entitled to the dividends on the shares of Series A Conversion Stock issued upon such conversion which are deemed to accrue beginning on the first day after the Series A Conversion Date, but shall not be entitled to dividends attributable to the same period for both the shares of Series A Preferred Stock converted and the shares of Series A Conversion Stock issued upon such conversion. The Corporation shall be entitled to withhold (to the extent consistent with the intent to avoid double dividends for overlapping portions of Series A Preferred and Series A Conversion Stock dividend periods) the payment of Series A Adjusted Accrued Dividends until the applicable Series A Subsequent Record Date, even though such date occurs after the applicable dividend payment date with respect to the Series A Preferred Stock, in which event the Corporation shall mail to each holder who converted Series A Preferred Stock a check for the Series A Adjusted Accrued Dividends thereon within five (5) business days after such Series A Subsequent Record Date. Series A Adjusted Accrued Dividends shall be accompanied by an explanation of how such Series A Adjusted Accrued Dividends have been calculated. Series A Adjusted Accrued Dividends shall not bear interest.

(f) Adjustments.

(i) In the event the Corporation shall at any time (i) pay a dividend or make a distribution to holders of Common Stock in shares of Common Stock, (ii) subdivide its outstanding shares of Common Stock into a larger number of shares, or (iii) combine its outstanding shares of Common Stock into a smaller number of shares, the Series A Conversion Ratio shall be adjusted on the effective date of the dividend, distribution, subdivision or combination by multiplying the Series A Conversion Ratio by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately prior to such dividend, distribution, subdivision or combination and the denominator of which shall be the number of shares of Common Stock outstanding immediately after such dividend, distribution, subdivision or combination.

(ii) Whenever the Series A Conversion Ratio shall be adjusted as herein provided, the Corporation shall cause to be mailed by first class mail, postage prepaid, as soon as practicable to each holder of record of shares of Series A Preferred Stock a notice stating that the Series A Conversion Ratio has been adjusted and setting forth the adjusted Series A Conversion Ratio, together with an explanation of the calculation of the same.

(iii) If the Corporation shall be party to any Series A Transaction in each case

as a result of which shares of Common Stock shall be converted into the right to receive stock, securities or other property (including cash or any combination thereof), the holder of each share of Series A Preferred Stock shall have the right in connection with such Series A Transaction to convert such share, pursuant to the optional conversion provisions hereof, into the number and kind of shares of stock or other securities and the amount and kind of property receivable upon such Series A Transaction by a holder of the number of shares of Common Stock issuable upon conversion of such share of Series A Preferred Stock immediately prior to such Series A Transaction. The Corporation shall not be party to any Series A Transaction unless the terms of such Series A Transaction are consistent with the provisions of this Section 14.1.4(f)(iii), and it shall not consent to or agree

to the occurrence of any Series A Transaction until the Corporation has entered into an agreement with the successor or purchasing entity, as the case may be, for the benefit of the holders of the Series A Preferred Stock, thereby enabling the holders of the Series A Preferred Stock to receive the benefits of this Section 14.1.4(f)(iii) and the other provisions of the Articles. Without limiting the generality of the foregoing, provision shall be made for adjustments in the Series A Conversion Ratio which shall be as nearly equivalent as may be practicable to the adjustments provided for in Section 14.1.4(f)(iii). The provisions of this Section 14.1.4(f)(iii) shall similarly apply to successive Series A Transactions.

(iv) In the event that the Corporation shall propose to effect any Series A Transaction which would result in an adjustment under Section 14.1.4(f)(iii), the Corporation shall cause to be mailed to the holders of record of Series A Preferred Stock at least 20 days prior to the record date for such Series A Transaction a notice stating the date on which such Series A Transaction is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such Series A Transaction. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such Series A Transaction.

(g) Other.

(i) The Corporation shall at all times reserve and keep available out of its authorized but unissued Common Stock the maximum number of shares of Common Stock issuable upon the conversion of all shares of Series A Preferred Stock then outstanding, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series A Preferred Stock, in addition to such other remedies as shall be available to the holder of such Series A Preferred Stock, the Corporation shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

(ii) The Corporation shall pay any taxes that may be payable in respect of the issuance of shares of Common Stock upon conversion of shares of Series A Preferred

Stock, but the Corporation shall not be required to pay any taxes which may be payable in respect of any transfer of shares of Series A Preferred Stock or any transfer involved in the issuance of shares of Common Stock in a name other than that in which the shares of Series A Preferred Stock so converted are registered, and the Corporation shall not be required to transfer any such shares of Series A Preferred Stock or to issue or deliver any such shares of Common Stock unless and until the person(s) requesting such transfer or issuance shall have paid to the Corporation the amount of any such taxes, or shall have established to the satisfaction of the Corporation that such taxes have been paid.

(iii) The Corporation will not, by amendment of the Articles or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in carrying out of all the provisions of the Articles and in the taking of all such action as may be necessary or appropriate to protect the conversion rights of the holders of the Series A Preferred Stock against impairment.

(iv) Holders of Series A Preferred Stock shall be entitled to receive copies of all communications by the Corporation to its holders of Common Stock, concurrently with the distribution to such shareholders.

14.1.5 Voting Rights. Except as indicated in this Section 14.1.5, or except as otherwise from time to time required by applicable law, the holders of shares of Series A Preferred Stock shall not be entitled to vote on any matter on which the holders of shares of Common Stock are entitled to vote, except that the holders of a majority of the outstanding shares of Series A Preferred Stock, voting as a separate class, shall be required to vote on and approve any material adverse change in the rights, preferences or privileges of the

Series A Preferred Stock. For purposes of the foregoing, the creation of a new class of Stock having rights, preferences or privileges senior to, in parity with or junior to the rights, preferences or privileges of the Series A Preferred Stock shall not be treated as a material adverse change in the rights, preferences or privileges of the Series A Preferred Stock, and the holders of Series A Preferred Stock shall not have any right to vote on the creation of such new class of Stock. Except as provided above and as required by law, the holders of Series A Preferred Stock are not entitled to vote on any merger or consolidation involving the Corporation, on any share exchange or on a sale of all or substantially all of the assets of the Corporation.

14.1.6 Reacquired Shares. Shares of Series A Preferred Stock converted, redeemed or otherwise purchased or acquired by the Corporation shall be restored to the status of authorized but unissued shares of Preferred Stock without designation as to series.

14.2 Series B Preferred Stock. The Board of Directors has duly divided and classified 425,000 shares of the Preferred Stock of the Corporation into a series designated Series B Preferred Stock and has provided for the issuance of such series. Subject in all cases to the

provisions of Section 7.4 of Article VII and Article IX of the Articles with respect to Excess Stock, the following is a description of the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the Series B Preferred Stock of the Corporation:

14.2.1 Designation and Amount. The designation of the Preferred Stock described in Section 14.2 hereof shall be "Series B Preferred Stock (par value $.01 per share)" (hereinafter, the "Series B Preferred Stock"). The number of shares of the Series B Preferred Stock is 425,000. The Series B Preferred Stock shall rank (a) senior to the Corporation's Series E Preferred Stock and Common Stock, (b) on a pari passu basis with the Corporation's Series A Preferred Stock, and (c) junior to the Corporation's Series C Preferred Stock, Series D Preferred Stock, Series F Preferred Stock and Series G Preferred Stock, with respect to the payment of dividends. The Series B Preferred Stock shall have identical preferences, voting powers, restrictions, limitations as to dividends, qualifications, terms and conditions of redemption, conversion and other rights as the Series A Preferred Stock.

14.2.2 Dividend Rights.

(a) The holders of record of outstanding shares of Series B Preferred Stock shall be entitled to receive, when, as and if authorized by the Board of Directors, out of funds legally available therefor, cash dividends which are (1) cumulative (2) preferential to the dividends paid on the Corporation's Series E Preferred Stock and Common Stock, on a pari passu basis with the dividends paid on the Corporation's Series A Preferred Stock, and junior to the dividends paid on the Corporation's Series C Preferred Stock, Series D Preferred Stock, Series F Preferred Stock and Series G Preferred Stock, and (3) payable at an annual rate equal to the Series B Dividend Amount (as defined below) and no more, on the fifteenth day of each February, May, August and November following the date of original issuance of the Series B Preferred Stock (the "Series B Original Issue Date"). Each calendar quarter immediately preceding the fifteenth day of February, May, August and November (or if the Series B Original Issue Date is not on the first day of a calendar quarter, the period beginning on the date of issuance and ending on the last day of the calendar quarter of issuance) is referred to hereinafter as a "Series B Dividend Period." The initial per share Series B Dividend Amount per annum shall be equal to $1.648. The amount of dividends payable for each full Series B Dividend Period for each share of the Series B Preferred Stock shall be computed by dividing the per share Series B Dividend Amount by four. The amount of dividends on the Series B Preferred Stock payable for the initial Series B Dividend Period, or any other period shorter or longer than a full Series B Dividend Period, shall be computed ratably on the basis of the actual number of days in such Series B Dividend Period. In the event of any change in the quarterly cash dividend per share declared on the Common Stock, the quarterly cash dividend per share on the Series B Preferred Stock shall be adjusted for the same Series B Dividend Period by an amount computed by multiplying the amount of the change in the Common Stock dividend times the Series B Conversion Ratio (as defined in Section 14.2.4(a)).

(b) In the event the Corporation shall declare a distribution payable in (i) securities of other persons, (ii) evidences of indebtedness issued by the Corporation or other persons, (iii) assets (excluding cash dividends) or (iv) options or rights to purchase capital stock or evidences of indebtedness in the Corporation or other persons, then, in each such case for the purpose of this Section 14.2.2(b), the holders of the Series B Preferred Stock shall be entitled to a proportionate share of any such distribution as though they were the holders of the number of shares of Common Stock of the Corporation into which their shares of Series B Preferred Stock are or would be convertible (assuming such shares of Series B Preferred Stock were then convertible).

(c) The Corporation shall not (i) declare or pay or set apart for payment any dividends or distributions on any Stock ranking as to dividends junior to the Series B Preferred Stock (other than dividends paid in shares of such junior Stock) or (ii) make any purchase or redemption of, or any sinking fund payment for the purchase or redemption of, any Stock ranking as to dividends junior to the Series B Preferred Stock (other than a purchase or redemption made by issue or delivery of such junior Stock) unless all dividends payable on all outstanding shares of Series B Preferred Stock for all past Series B Dividend Periods shall have been paid in full or declared and a sufficient sum set apart for payment thereof, provided, however, that any moneys theretofore deposited in any sinking fund with respect to any Preferred Stock of the Corporation in compliance with the provisions of such sinking fund may thereafter be applied to the purchase or redemption of such Preferred Stock in accordance with the terms of such sinking fund.

(d) All dividends declared on shares of Series B Preferred Stock and any other class of Preferred Stock or series thereof ranking on a parity as to dividends with the Series B Preferred Stock and the Series A Preferred Stock shall be declared pro rata, so that the amounts of dividends declared per share on the Series B Preferred Stock and Series A Preferred Stock for the Series B Dividend Period of the Series B Preferred Stock and Series A Preferred Stock ending either on the same day or within the dividend period of such other Stock, shall, in all cases, bear to each other the same ratio that accrued dividends per share on the shares of Series B Preferred Stock, Series A Preferred Stock and such other Stock bear to each other.

14.2.3 Liquidation Rights.

(a) Subject to any prior rights of any class or series of Stock, in the event of any liquidation, dissolution, or winding up of the Corporation, either voluntary or involuntary, the holders of Series B Preferred Stock shall be entitled to receive, on a pari passu basis with the holders of the Corporation's Series A Preferred Stock and prior and in preference to any distribution of any of the assets or surplus funds of the Corporation to the holders of Common Stock by reason of their ownership of such Stock, an amount equal to all accrued but unpaid dividends for each share of Series B Preferred Stock then held by them. If upon the occurrence of such event, the assets and funds thus distributed among the holders of the Series B Preferred Stock shall be insufficient to permit the payment to such holders of the full aforesaid amounts to which they are entitled, then, subject to any prior rights of any classes or series of Stock, the

entire assets and funds of the Corporation legally available for distribution shall be distributed ratably to the holders of the Series A Preferred Stock and Series B Preferred Stock, and any other shares of Stock on a parity for liquidation purposes in proportion to the aggregate amounts owed to each such holder.

(b) Subject to any prior rights of any other class or series of Stock, after the payment or setting apart of payment to the holders of Series B Preferred Stock of the full preferential amounts to which they shall be entitled pursuant to Section 14.2.3(a) above, the holders of record of the Series B Preferred Stock shall be treated pari passu with the holders of record of Series A Preferred Stock and Common Stock, with each holder of record of Series B Preferred Stock being entitled to receive, in addition to the amounts payable pursuant to Section 14.2.3(a) above, that amount which such holder would be entitled to receive if such holder had converted all its Series B Preferred Stock into Common Stock immediately prior to the liquidating distribution in question.

14.2.4 Conversion.

(a) Right to Convert. Beginning on October 2, 1998, the holders of shares of Series B Preferred Stock shall have the right, at their

option, to convert each such share, at any time and from time to time, into one (the "Series B Conversion Ratio," which shall be subject to adjustment as hereinafter provided) fully paid and nonassessable share of Common Stock; provided, however, that no holder of Series B Preferred Stock shall be entitled to convert shares of such Series B Preferred Stock into Common Stock pursuant to the foregoing provision, if, immediately after such conversion, such person would be the Beneficial Owner of the Corporation's outstanding Common Stock in an amount exceeding the 4.9% Limitation. Notwithstanding the foregoing, such conversion right may be exercised at any time after the Series B Original Issue Date and irrespective of the 4.9% Limitation (and no such limit shall apply) if any of the following circumstances occurs:

(i) For any two consecutive fiscal quarters, the aggregate amount outstanding as of the end of the quarter under (1) all mortgage indebtedness of the Corporation and its consolidated entities and (2) unsecured indebtedness of the Corporation and its consolidated entities exceeds sixty-five percent (65%) of the amount arrived at by (A) taking the Corporation's consolidated gross revenues less property-related expenses, including real estate taxes, insurance, maintenance and utilities, but excluding depreciation, amortization, interest and corporate general and administrative expenses, for the quarter in question and the immediately preceding quarter, (B) multiplying the amount in clause (A) by two (2), and (C) dividing the resulting product in clause B by nine percent (9%) (all as such items of indebtedness, revenues and expenses are reported in consolidated financial statements contained in the Corporation's Forms 10-K and Forms 10-Q as filed with the Securities and Exchange Commission); or

(ii) Gilbert M. Meyer has ceased to be an executive officer of the Corporation, unless the holders of a majority of the shares of the Series B Preferred Stock then outstanding have voted on and approved a replacement for Mr. Meyer and the

replacement remains an executive officer of the Corporation; or

(iii) If (A) the Corporation shall be party to, or shall have entered into an agreement for, any transaction (including, without limitation, a merger, consolidation, statutory share exchange or sale of all or substantially all of its assets (each of the foregoing a "Series B Transaction")), in each case as a result of which shares of Common Stock shall have been or will be converted into the right to receive stock, securities or other property (including cash or any combination thereof) or which has resulted or will result in the holders of Common Stock immediately prior to the Series B Transaction owning less than 50% of the Common Stock after the Series B Transaction, or (B) a "change of control" as defined in the next sentence occurs with respect to the Corporation. A change of control shall mean the acquisition (including by virtue of a merger, share exchange or other business combination) by one stockholder or a group of stockholders acting in concert of the power to elect a majority of the Corporation's Board of Directors. The Corporation shall notify the holders of Series B Preferred Stock promptly if any of the events listed in this Section 14.2.4(a)(iii) shall occur.

Calculations set forth in Section 14.2.4(a)(i) shall be made without regard to unconsolidated indebtedness incurred as a joint venture partner, and the effect of any unconsolidated joint venture, including any income from such unconsolidated joint venture, shall be excluded for purposes of the calculation set forth in Section 14.2.4(a)(i).

(b) Mandatory Conversion. On October 2, 2005 (the "Series B Mandatory Conversion Date"), each issued and outstanding share of Series B Preferred Stock which has not been converted to Common Stock shall mandatorily convert to that number of fully paid and nonassessable shares of Common Stock equal to the Series B Conversion Ratio, as adjusted, regardless of the 4.9% Limitation. From and after the Series B Mandatory Conversion Date, certificates representing shares of Series B Preferred Stock shall be deemed to represent the shares of Common Stock into which they have been converted. Following the Series B Mandatory Conversion Date, the holder of certificates for Series B Preferred Stock may surrender those certificates at the office of any transfer agent for the Common Stock, or if there is no such transfer agent, at the principal offices of the Corporation, or at such other office as may be designated by the Corporation, accompanied by instructions from the holder as to the name(s) and address(es) in which such holder wishes the certificate(s) for the shares of Common Stock issuable upon such conversion to be issued. Promptly following surrender of certificates for Series B Preferred Stock after the Series B Mandatory Conversion Date, the Corporation shall issue and deliver at such office a certificate or certificates for the number of whole shares of Common Stock issuable upon mandatory conversion of the Series B Preferred Stock

to the person(s) entitled to receive the same. For purposes of Sections 14.2.4(d) and 14.2.4(e) below, the Series B Mandatory Conversion Date shall constitute the Series B Conversion Date.

(c) Procedure for Conversion. In order to exercise its right to convert shares of Series B Preferred Stock into Common Stock, the holder of shares of Series B Preferred Stock shall surrender the certificate(s) therefor, duly endorsed if the Corporation shall so require, or accompanied by appropriate instruments of transfer satisfactory to the Corporation, at the office

of any transfer agent for the Series B Preferred Stock or if there is no such transfer agent, at the principal offices of the Corporation, or at such other office as may be designated by the Corporation, together with written notice that such holder elects to convert such shares. Such notice shall also state the name(s) and address(es) in which such holder wishes the certificate(s) for the shares of Common Stock issuable upon conversion to be issued. As soon as practicable after a conversion, the Corporation shall issue and deliver at said office a certificate or certificates for the number of whole shares of Common Stock issuable upon conversion of the shares of Series B Preferred Stock duly surrendered for conversion, to the person(s) entitled to receive the same. Shares of Series B Preferred Stock shall be deemed to have been converted immediately prior to the close of business on the date on which the certificates therefor and notice of intention to convert the same are duly received by the Corporation in accordance with the foregoing provisions, and the person(s) entitled to receive the Common Stock issuable upon such conversion shall be deemed for all purposes as record holder(s) of such Common Stock as of the close of business on such date (hereinafter, the "Series B Conversion Date").

(d) No Fractional Shares. No fractional shares shall be issued upon conversion of the Series B Preferred Stock into Common Stock, and the number of shares of Common Stock to be issued shall be rounded to the nearest whole share. As to any final fraction of a share which the holder of one or more shares of Series B Preferred Stock would be entitled to receive upon exercise of his conversion right, the Corporation shall pay a cash adjustment in an amount equal to the same fraction of the last sale price (or bid price if there were no sales) per share of Common Stock on the New York Stock Exchange on the business day which next precedes the Series B Conversion Date or, if such Common Stock is not then listed on the New York Stock Exchange, of the market price per share (as determined in a manner prescribed by the Board of Directors of the Corporation) at the close of business on the business day which next precedes the Series B Conversion Date.

(e) Payment of Adjusted Accrued Dividends Upon Conversion. On the next dividend payment date (or such later date as is permitted in this Section 14.2.4(e)) following any Series B Conversion Date hereunder, the Corporation shall pay in cash Series B Adjusted Accrued Dividends (as defined below) on shares of Series B Preferred Stock so converted. The holder shall be entitled to receive accrued and unpaid dividends, if any, accrued to and including the Series B Conversion Date on the shares of Series B Preferred Stock converted (assuming that such dividends accrue ratably each day that such shares are outstanding based on the Series B Dividend Amount for such quarter), less an amount equal to the pre-conversion portion of the dividends paid on the shares of Common Stock issued upon such conversion (the "Series B Conversion Stock"). (The record date for the Series B Conversion Stock which occurs after the Series B Conversion Date is hereinafter referred to as the "Series B Subsequent Record Date.") The pre-conversion portion of such Series B Conversion Stock dividend means that portion of such dividend as is attributable to the period that (i) begins on the day after the last Series B Conversion Stock dividend record date occurring before such Subsequent Record Date and (ii) ends on such Series B Conversion Date, assuming that such dividends accrue ratably during the period. The term "Series B Adjusted Accrued Dividends" means the amount arrived at through the application of the foregoing formula. Series B Adjusted Accrued Dividends shall not be less than zero. The formula for Series B Adjusted Accrued Dividends shall be applied to effectuate

the Corporation's intent that the holder converting shares of Series B Preferred Stock to Series B Conversion Stock shall be entitled to receive dividends on such shares of Series B Preferred Stock up to and including the Series B Conversion Date and shall be entitled to the dividends on the shares of Series B Conversion Stock issued upon such conversion which are deemed to accrue beginning on the first day after the Series B Conversion Date, but shall not be entitled to dividends attributable to the same period for both the

shares of Series B Preferred Stock converted and the shares of Series B Conversion Stock issued upon such conversion. The Corporation shall be entitled to withhold (to the extent consistent with the intent to avoid double dividends for overlapping portions of Series B Preferred Stock and the Series B Conversion Stock dividend periods) the payment of Series B Adjusted Accrued Dividends until the applicable Subsequent Record Date, even though such date occurs after the applicable dividend payment date with respect to the Series B Preferred Stock, in which event the Corporation shall mail to each holder who converted Series B Preferred Stock a check for the Series B Adjusted Accrued Dividends thereon within five (5) business days after such Series B Subsequent Record Date. Series B Adjusted Accrued Dividends shall be accompanied by an explanation of how such Series B Adjusted Accrued Dividends have been calculated. Series B Adjusted Accrued Dividends shall not bear interest.

(f) Adjustments.

(i) In the event the Corporation shall at any time (i) pay a dividend or make a distribution to holders of Common Stock in shares of Common Stock, (ii) subdivide its outstanding shares of Common Stock into a larger number of shares, or (iii) combine its outstanding shares of Common Stock into a smaller number of shares, the Series B Conversion Ratio shall be adjusted on the effective date of the dividend, distribution, subdivision or combination by multiplying the Series B Conversion Ratio by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding immediately after such dividend, distribution, subdivision or combination and the denominator of which shall be the number of shares of Common Stock outstanding immediately prior to such dividend, distribution, subdivision or combination.

(ii) Whenever the Series B Conversion Ratio shall be adjusted as herein provided, the Corporation shall cause to be mailed by first class mail, postage prepaid, as soon as practicable to each holder of record of shares of Series B Preferred Stock a notice stating that the Series B Conversion Ratio has been adjusted and setting forth the adjusted Series B Conversion Ratio, together with an explanation of the calculation of the same.

(iii) If the Corporation shall be party to any Series B Transaction in each case as a result of which shares of Common Stock shall be converted into the right to receive stock, securities or other property (including cash or any combination thereof), the holder of each share of Series B Preferred Stock shall have the right in connection with such Series B Transaction to convert such share, pursuant to the optional conversion provisions hereof, into the number and kind of shares of stock or other securities and the amount and kind of property receivable upon such Series B Transaction by a holder of the number of shares of Common Stock issuable upon conversion of such share of Series B

Preferred Stock immediately prior to such Series B Transaction. The Corporation shall not be party to any Series B Transaction unless the terms of such Series B Transaction are consistent with the provisions of this Section 14.2.4(f)(iii), and it shall not consent to or agree to the occurrence of any Series B Transaction until the Corporation has entered into an agreement with the successor or purchasing entity, as the case may be, for the benefit of the holders of the Series B Preferred Stock, thereby enabling the holders of the Series B Preferred Stock to receive the benefits of this Section 14.2.4(f)(iii) and the other provisions of the Articles. Without limiting the generality of the foregoing, provision shall be made for adjustments in the Conversion Ratio which shall be as nearly equivalent as may be practicable to the adjustments provided for in Section 14.2.4(f)(i). The provisions of this Section 14.2.4(f)(iii) shall similarly apply to successive Series B Transactions.

(iv) In the event that the Corporation shall propose to effect any Series B Transaction which would result in an adjustment under Section 14.2.4(f)(iii), the Corporation shall cause to be mailed to the holders of record of Series B Preferred Stock at least 20 days prior to the record date for such Series B Transaction a notice stating the date on which such Series B Transaction is expected to become effective, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities or other property deliverable upon such Series B Transaction. Failure to give such notice, or any defect therein, shall not affect the legality or validity of such Series B Transaction.

(g) Other.

(i) The Corporation shall at all times reserve and keep available out of its authorized but unissued Common Stock the maximum number of shares of Common Stock issuable upon the conversion of all shares of Series B Preferred Stock then outstanding, and if at any time the number of authorized but unissued shares of Common Stock shall not be sufficient to effect the conversion of all then outstanding shares of the Series B Preferred Stock, in addition to such other remedies as shall be available to the holders of such Series B Preferred Stock, the Corporation shall take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued shares of Common Stock to such number of shares as shall be sufficient for such purposes.

(ii) The Corporation shall pay any taxes that may be payable in respect of the issuance of shares of Common Stock upon conversion of shares of Series B Preferred Stock, but the Corporation shall not be required to pay any taxes which may be payable in respect of any transfer of shares of Series B Preferred Stock or any transfer involved in the issuance of shares of Common Stock in a name other than that in which the shares of Series B Preferred Stock so converted are registered, and the Corporation shall not be required to transfer any such shares of Series B Preferred Stock or to issue or deliver any such shares of Common Stock unless and until the person(s) requesting such transfer or issuance shall have paid to the Corporation the amount of any such taxes, or shall have

established to the satisfaction of the Corporation that such taxes have been paid.

(iii) The Corporation will not, by amendment of the Articles or through any reorganization, recapitalization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Corporation, but will at all times in good faith assist in carrying out of all the provisions of the Articles and in the taking of all such action as may be necessary or appropriate to protect the conversion rights of the holders of the Series B Preferred Stock against impairment.

(iv) Holders of Series B Preferred Stock shall be entitled to receive copies of all communications by the Corporation to its holders of Common Stock, concurrently with the distribution to such shareholders.

14.2.5 Voting Rights.

(a) Except as indicated in this Section 14.2.5, or except as otherwise from time to time required by applicable law, the holders of shares of Series B Preferred Stock will have no voting rights.

(b) If six quarterly dividends (whether or not consecutive) payable on shares of Series B Preferred Stock or on any series of Preferred Stock which ranks pari passu with the Series B Preferred Stock as to dividends (the "Series B Parity Stock") are in arrears, the number of Directors then constituting the Board of Directors of the Corporation will be increased by two, and the holders of the shares of Series B Preferred Stock, voting together as a class with the holders of shares of any other series of Series B Parity Stock entitled to such voting rights (any such other series, the "Series B Voting Preferred Stock"), will have the right to elect two additional Directors to serve on the Corporation's Board of Directors at any annual meeting of stockholders or a properly called special meeting of the holders of Series B Preferred Stock and such other Series B Voting Preferred Stock until all such dividends have been declared and paid or set aside for payment. The term of office of all Directors so elected will terminate with the termination of such voting rights.

(c) The approval of holders of two-thirds of the outstanding Series B Preferred Stock and all other series of Series B Voting Preferred Stock similarly affected, voting as a single class, is required in order to amend the Articles to affect materially and adversely the rights, preferences or voting power of the holder of shares of Series B Preferred Stock or the Series B Voting Preferred Stock. For purposes of the foregoing, the creation of a new class of Stock having rights, preferences or privileges senior to, on a parity with or junior to the rights, preferences or privileges of the Series B Preferred Stock shall not be treated as a material adverse change in the rights, preferences or privileges of the Series B Preferred Stock, and the holders of Series B Preferred Stock shall not have any right to vote on the creation of such new class of Stock.

(d) Except as provided above and as required by law, the holders of Series B Preferred Stock are not entitled to vote on any merger or consolidation involving the Corporation, on any share exchange or on a sale of all or substantially all of the assets of the Corporation.

14.2.6 Reacquired Shares. Shares of Series B Preferred Stock converted, redeemed or otherwise purchased or acquired by the Corporation shall be restored to the status of authorized but unissued shares of Preferred Stock without designation as to series.

14.3 8.50% Series C Cumulative Redeemable Preferred Stock. The Board of Directors has, by resolution, duly divided and classified 2,300,000 shares of the Preferred Stock of the Corporation into a series designated 8.50% Series C Cumulative Redeemable Preferred Stock and has provided for the issuance of such series. Subject in all cases to the provisions of the Articles, including without limitation, Section 7.4 of Article VII and Article IX with respect to limitations on the transfer and ownership of Stock, the following is a description of the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the 8.50% Series C Cumulative Redeemable Preferred Stock of the Corporation:

14.3.1 Designation and Number. A series of Preferred Stock, designated the "8.50% Series C Cumulative Redeemable Preferred Stock" (the "Series C Preferred Stock"), has been established. The number of authorized shares of the Series C Preferred Stock is 2,300,000.

14.3.2 Rank. The Series C Preferred Stock shall, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) senior to the Corporation's Series A Preferred Stock, Series B Preferred Stock, Series E Preferred Stock and all classes or series of Common Stock of the Corporation, and to all equity securities issued by the Corporation ranking junior to such Series C Preferred Stock; (b) on a parity with the Corporation's Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock and all other equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank on a parity with the Series C Preferred Stock; and (c) junior to all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank senior to the Series C Preferred Stock. The term "equity securities" shall not include convertible debt securities.

14.3.3 Dividends.

(a) Holders of the then outstanding shares of Series C Preferred Stock shall be entitled to receive, when and as authorized by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of

8.50% of the $25.00 liquidation preference per annum (equivalent to a fixed annual amount of $2.125 per share). Such dividends shall be cumulative from the first date on which any Series C Preferred Stock is issued and shall be payable quarterly in arrears on or before March 15, June 15, September 15 and December 15 of each year or, if not a business day, the next succeeding business day (each, a "Series C Dividend Payment Date"). The first dividend, which will be paid on September 15, 1997, will be for less than a full quarter. Such dividend and any dividend payable on the Series C Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in the stock records of the Corporation at the close of business on the applicable record date, which shall be the first day of the calendar month in which the applicable Series C Dividend Payment Date falls or on such other date designated by the Board of Directors of the Corporation as the record date for the payment of dividends on the Series C Preferred Stock that is not more than 30 nor less than 10 days prior to such Series C Dividend Payment Date (each, a "Series C Dividend Record Date").

(b) No dividends on shares of Series C Preferred Stock shall be authorized by the Board of Directors of the Corporation or paid or set apart for payment by the Corporation at such time as the terms and provisions of any agreement of the Corporation, including any agreement relating to its indebtedness, prohibits such authorization, payment or setting apart for

payment or provides that such authorization, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such authorization or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series C Preferred Stock shall accrue whether or not the terms and provisions set forth in Section 14.3.3(b) hereof at any time prohibit the current payment of dividends, whether or not the Corporation has earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Series C Preferred Stock will accumulate as of the Series C Dividend Payment Date on which they first become payable.

(d) Except as provided in Section 14.3.3(e) below, no dividends will be declared or paid or set apart for payment on any Stock of the Corporation or any other series of Preferred Stock ranking, as to dividends, on a parity with or junior to the Series C Preferred Stock (other than a dividend in shares of the Corporation's Common Stock or in any other class of Stock ranking junior to the Series C Preferred Stock as to dividends and upon liquidation) for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series C Preferred Stock for all past dividend periods and the then current dividend period.

(e) When dividends are not paid in full (and a sum sufficient for such full payment is not so set apart) upon the Series C Preferred Stock and the shares of any other series of Preferred Stock ranking on a parity as to dividends with the Series C Preferred Stock, all dividends declared upon the Series C Preferred Stock and any other series of Preferred Stock ranking on a parity as to dividends with the Series C Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series C Preferred Stock and such other series

of Preferred Stock shall in all cases bear to each other the same ratio that accrued dividends per share on the Series C Preferred Stock and such other series of Preferred Stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such Preferred Stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on Series C Preferred Stock which may be in arrears.

(f) Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series C Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than in shares of Common Stock or other shares of Stock ranking junior to the Series C Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment, nor shall any other distribution be declared or made, upon the Common Stock or any other Stock of the Corporation ranking junior to or on a parity with the Series C Preferred Stock as to dividends or upon liquidation, nor shall any shares of Common Stock, or any other shares of Stock of the Corporation ranking junior to or on a parity with the Series C Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by the Corporation (except by conversion into or exchange for other Stock of the Corporation ranking junior to the Series C Preferred Stock as to dividends and upon liquidation).

(g) Any dividend payment made on shares of the Series C Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable. Holders of the Series C Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock in excess of full cumulative dividends on the Series C Preferred Stock as described above.

14.3.4 Liquidation Preference.

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of shares of Series C Preferred Stock then outstanding are entitled to be paid out of the assets of the Corporation legally available for distribution to its stockholders a liquidation preference of $25.00 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, before any distribution of assets is made to holders of Common Stock or any other class or series of Stock of the Corporation that ranks junior to the Series C Preferred Stock as to liquidation rights.

(b) In the event that, upon any such voluntary or

involuntary liquidation, dissolution or winding up, the available assets of the Corporation are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series C Preferred Stock and the corresponding amounts payable on all shares of other classes or series of Stock of the Corporation ranking on a parity with the Series C Preferred Stock in the distribution of assets, then the holders of the Series C Preferred Stock and all other such classes or series of Stock shall

share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

(c) After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series C Preferred Stock will have no right or claim to any of the remaining assets of the Corporation.

(d) Written notice of any such liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage pre-paid, not less than 30 nor more than 60 days prior to the payment date stated therein, to each record holder of the Series C Preferred Stock at the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation.

(e) The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

14.3.5 Redemption.

(a) Right of Optional Redemption. The Series C Preferred Stock is not redeemable prior to June 20, 2002. However, in order to ensure that the Corporation remains qualified as a REIT for federal income tax purposes, shares of Series C Preferred Stock which have been converted into Excess Stock shall be subject to repurchase by the Corporation in accordance with Section 7.4.10 of Article VII. On and after June 20, 2002, the Corporation, at its option and upon not less than 30 nor more than 60 days' written notice, may redeem shares of the Series C Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends thereon to the date fixed for redemption (except as provided in Section 14.3.5(c) below), without interest. If less than all of the outstanding Series C Preferred Stock is to be redeemed, the Series C Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by the Corporation.

(b) Limitations on Redemption.

(i) The redemption price of the Series C Preferred Stock (other than the portion thereof consisting of accrued and unpaid dividends) is payable solely out of the sale proceeds of other capital stock of the Corporation, which may include other series of Preferred Stock, and from no other source. For purposes of the preceding sentence, "capital stock" means any equity securities (including Common Stock and Preferred Stock), shares, interest, participation or other ownership interests (however designated) and any rights (other than debt securities convertible into or exchangeable for equity securities) or options to purchase any of the foregoing.

(ii) Unless full cumulative dividends on all shares of Series C Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series C Preferred Stock shall be redeemed unless all outstanding shares of Series C Preferred Stock are simultaneously redeemed, and the Corporation shall not purchase or otherwise acquire directly or indirectly any shares of Series C Preferred Stock (except by exchange for Stock of the Corporation ranking junior to the Series C Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing

shall not prevent the purchase by the Corporation of shares of Excess Stock in order to ensure that the Corporation remains qualified as a REIT for federal income tax purposes or the purchase or acquisition of shares of Series C Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series C Preferred Stock.

(c) Immediately prior to any redemption of Series C Preferred Stock, the Corporation shall pay, in cash, any accumulated and unpaid dividends through the redemption date, unless a redemption date falls after a Series C Dividend Record Date and prior to the corresponding Series C Dividend Payment Date, in which case each holder of Series C Preferred Stock at the close of business on such Series C Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Series C Dividend Payment Date notwithstanding the redemption of such shares before such Series C Dividend Payment Date. Except as provided above, the Corporation will make no payment or allowance for unpaid dividends, whether or not in arrears, on Series C Preferred Stock which is redeemed.

(d) Procedures for Redemption.

(i) Notice of redemption will be (A) given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the redemption date, and (B) mailed by the Corporation, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series C Preferred Stock to be redeemed at their respective addresses as they appear on the stock transfer records of the Corporation. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series C Preferred Stock except as to the holder to whom notice was defective or not given.

(ii) In addition to any information required by law or by the applicable rules of any exchange upon which Series C Preferred Stock may be listed or admitted to trading, such notice shall state: (A) the redemption date; (B) the redemption price; (C) the number of shares of Series C Preferred Stock to be redeemed; (D) the place or places where the Series C Preferred Stock is to be surrendered for payment of the redemption price; and (E) that dividends on the shares to be redeemed will cease to accrue on such redemption date. If less than all of the Series C Preferred Stock held by any holder is to be redeemed, the notice mailed to such holder shall also specify the number of shares of

Series C Preferred Stock held by such holder to be redeemed.

(iii) If notice of redemption of any shares of Series C Preferred Stock has been given and if the funds necessary for such redemption have been set aside by the Corporation in trust for the benefit of the holders of any shares of Series C Preferred Stock so called for redemption, then from and after the redemption date dividends will cease to accrue on such shares of Series C Preferred Stock, such shares of Series C Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. Holders of Series C Preferred Stock to be redeemed shall surrender such Series C Preferred Stock at the place designated in such notice and, upon surrender in accordance with said notice of the certificates for shares of Series C Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Corporation shall so require and the notice shall so state), such shares of Series C Preferred Stock shall be redeemed by the Corporation at the redemption price plus any accrued and unpaid dividends payable upon such redemption. In case less than all the shares of Series C Preferred Stock represented by any such certificate are redeemed, a new certificate or certificates shall be issued representing the unredeemed shares of Series C Preferred Stock without cost to the holder thereof.

(iv) The deposit of funds with a bank or trust corporation for the purpose of redeeming Series C Preferred Stock shall be irrevocable except that:

(A) the Corporation shall be entitled to receive from such bank or trust corporation the interest or other earnings, if any, earned on any money so deposited in trust, and the holders of any shares redeemed shall have no claim to such interest or other earnings; and

(B) any balance of monies so deposited by the Corporation and unclaimed by the holders of the Series C Preferred Stock entitled thereto at the expiration of two years from the applicable redemption dates shall be repaid, together with any interest or other earnings thereon, to the Corporation, and after any such repayment, the holders of the shares entitled to the funds so repaid to the Corporation shall look only to the Corporation for payment without interest or other earnings.

(e) The shares of Series C Preferred Stock are subject to the provisions of Section 7.4 of Article VII and Article IX of the Articles relating to Excess Stock. Excess Stock issued upon exchange of shares of Series C Preferred Stock pursuant to such provisions may be redeemed, in whole or in part, at any time when outstanding shares of Series C Preferred Stock are being redeemed, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends on the shares of Series C Preferred Stock, which were exchanged for such Excess Stock, through the date of such exchange, without interest. If the Corporation elects to redeem Excess Stock pursuant to the redemption right set forth in the preceding sentence, such Excess Stock shall be redeemed in such proportion and in accordance with such procedures as shares of Series C Preferred Stock are being redeemed.

(f) Any shares of Series C Preferred Stock that shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued Preferred Stock, without designation as to series until such shares are thereafter designated as part of a particular series by the Board of Directors.

14.3.6 Voting Rights.

(a) Holders of the Series C Preferred Stock will not have any voting rights, except as set forth below or as otherwise from time to time required by law.

(b) Whenever dividends on any shares of Series C Preferred Stock shall be in arrears for six or more quarterly periods (a "Series C Preferred Dividend Default"), the Board of Directors shall take such action as may be necessary to increase the number of Directors of the Corporation by two and the holders of such shares of Series C Preferred Stock (voting separately as a class with the holders of all other series of Preferred Stock ranking on a parity with the Series C Preferred Stock as to dividends or upon liquidation ("Series C Parity Preferred") upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two Directors of the Corporation (the "Series C Preferred Stock Directors") at a special meeting called by the holders of record of at least 20% of the Series C Preferred Stock or the holders of any other series of Series C Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series C Preferred Stock for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment.

(c) If and when all accumulated dividends and the dividend for the then current dividend period on the Series C Preferred Stock shall have been paid in full or set aside for payment in full, the holders of shares of Series C Preferred Stock shall be divested of the voting rights set forth in Section 14.3.6(b) hereof (subject to revesting in the event of each and every Series C Preferred Dividend Default) and, if all accumulated dividends and the dividend for the current dividend period have been paid in full or set aside for payment in full on all other series of Series C Parity Preferred upon which like voting rights have been conferred and are exercisable, the term of office of each Series C Preferred Stock Director so elected shall terminate and the Board of Directors shall take such action as may be necessary to reduce the number of Directors by two. Any Series C Preferred Stock Director may be removed at any time with or without cause by the vote of, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series C Preferred Stock when they have the voting rights set forth in Section 14.3.6(b) (voting separately as a class with all other series of Series C Parity Preferred upon which like voting rights have been conferred and are exercisable). So long as a Series C Preferred Dividend Default shall continue, any vacancy in the office of a Series C Preferred Stock Director may be filled by written consent of the Series C Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series C Preferred Stock when

they have the voting rights set forth in Section 14.3.6(b) (voting separately as a class with all other series of Series C Parity Preferred upon which like voting rights have been conferred and are exercisable). The Series C Preferred Stock Directors shall each be entitled to one vote per director on any matter.

(d) So long as any shares of Series C Preferred Stock remain outstanding, the Corporation shall not, without the affirmative vote of the holders of at least two-thirds of the shares of the Series C Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class), (i) authorize or create, or increase the authorized or issued amount of, any class or series of Stock ranking senior to the Series C Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or reclassify any authorized Stock of the Corporation into any such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares or (ii) amend, alter or repeal the provisions of the Articles, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series C Preferred Stock or the holders thereof; provided, however, that with respect to the occurrence of any event set forth in (ii) above, so long as the Series C Preferred Stock remains outstanding with the terms thereof materially unchanged or, if the Corporation is not the surviving entity in such transaction, is exchanged for a security of the surviving entity with terms that are materially the same as the Series C Preferred Stock, the occurrence of any such event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers of the holders of the Series C Preferred Stock; and, provided further, that any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other series of Preferred Stock, or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series C Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

(e) The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series C Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

14.3.7 Conversion. The Series C Preferred Stock is not convertible into or exchangeable for any other property or securities of the Corporation, except that the shares of Series C Preferred Stock will automatically be converted by the Corporation into shares of Excess Stock and transferred to a Trust in accordance with Section 7.4 of Article VII and Article IX of the Articles in the same manner that Common Stock is converted into Excess Stock and transferred to a Trust pursuant thereto, in order to ensure that the Company remains qualified as a REIT for federal income tax purposes.

14.4 8.00% Series D Cumulative Redeemable Preferred Stock. The Board of Directors has, by resolution, duly divided and classified 3,450,000 shares of the Preferred Stock

of the Corporation into a series designated 8.00% Series D Cumulative Redeemable Preferred Stock and has provided for the issuance of such series. Subject in all cases to the provisions of the Articles, including without limitation, Section 7.4 of Article VII and Article IX with respect to limitations on the transfer and ownership of Stock, the following is a description of the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the 8.00% Series D Cumulative Redeemable Preferred Stock of the Corporation:

14.4.1 Designation and Number. A series of Preferred Stock, designated the "8.00% Series D Cumulative Redeemable Preferred Stock" (the "Series D Preferred Stock"), has been established. The number of authorized shares of the Series D Preferred Stock is 3,450,000.

14.4.2 Rank. The Series D Preferred Stock shall, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) senior to the

Corporation's Series A Preferred Stock, Series B Preferred Stock, Series E Preferred Stock, all classes or series of Common Stock of the Corporation, and to all equity securities issued by the Corporation ranking junior to such Series D Preferred Stock; (b) on a parity with the Corporation's Series C Preferred Stock, Series F Preferred Stock, Series G Preferred Stock and all other equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank on a parity with the Series D Preferred Stock; and (c) junior to all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank senior to the Series D Preferred Stock. The term "equity securities" shall not include convertible debt securities.

14.4.3 Dividends.

(a) Holders of the then outstanding shares of Series D Preferred Stock shall be entitled to receive, when and as authorized by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 8.00% of the $25.00 liquidation preference per annum (equivalent to a fixed annual amount of $2.00 per share). Such dividends shall be cumulative from the first date on which any Series D Preferred Stock is issued and shall be payable quarterly in arrears on or before March 15, June 15, September 15 and December 15 of each year or, if not a business day, the next succeeding business day (each, a "Series D Dividend Payment Date"). The first dividend, which will be paid on March 15, 1998, will be for less than a full quarter. Such dividend and any dividend payable on the Series D Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in the stock records of the Corporation at the close of business on the applicable record date, which shall be the first day of the calendar month in which the applicable Series D Dividend Payment Date falls or on such other date designated by the Board of Directors of the Corporation as the record date for the payment of dividends on the Series D Preferred Stock that is not more than 30 nor less than 10 days prior to such Series D Dividend Payment Date (each, a "Series D Dividend Record Date").

(b) No dividends on shares of Series D Preferred Stock shall be authorized by the Board of Directors of the Corporation or paid or set apart for payment by the Corporation at such time as the terms and provisions of any agreement of the Corporation, including any agreement relating to its indebtedness, prohibits such authorization, payment or setting apart for payment or provides that such authorization, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such authorization or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series D Preferred Stock shall accrue whether or not the terms and provisions set forth in Section 14.4.3(b) hereof at any time prohibit the current payment of dividends, whether or not the Corporation has earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Series D Preferred Stock will accumulate as of the Series D Dividend Payment Date on which they first become payable.

(d) Except as provided in Section 14.4.3(e) below, no dividends will be declared or paid or set apart for payment on any Stock of the Corporation or any other series of Preferred Stock ranking, as to dividends, on a parity with or junior to the Series D Preferred Stock (other than a dividend in shares of the Corporation's Common Stock or in any other class of Stock ranking junior to the Series D Preferred Stock as to dividends and upon liquidation) for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series D Preferred Stock for all past dividend periods and the then current dividend period.

(e) When dividends are not paid in full (and a sum sufficient for such full payment is not so set apart) upon the Series D Preferred Stock and the shares of any other series of Preferred Stock ranking on a parity as to dividends with the Series D Preferred Stock, all dividends declared upon the Series D Preferred Stock and any other series of Preferred Stock ranking on a parity as to dividends with the Series D Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series D Preferred Stock and such other series of Preferred Stock shall in all cases bear to each other the same ratio that accrued dividends per share on the Series D Preferred Stock and such other series of Preferred Stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such Preferred Stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on Series D Preferred Stock

which may be in arrears.

(f) Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series D Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than in shares of Common Stock or other shares of Stock ranking junior to the Series D Preferred Stock as to

dividends and upon liquidation) shall be declared or paid or set aside for payment, nor shall any other distribution be declared or made, upon the Common Stock or any other Stock of the Corporation ranking junior to or on a parity with the Series D Preferred Stock as to dividends or upon liquidation, nor shall any shares of Common Stock, or any other shares of Stock of the Corporation ranking junior to or on a parity with the Series D Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any monies be paid to or made available for a sinking fund for the redemption of any such shares) by the Corporation (except by conversion into or exchange for other Stock of the Corporation ranking junior to the Series D Preferred Stock as to dividends and upon liquidation).

(g) Any dividend payment made on shares of the Series D Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable. Holders of the Series D Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock in excess of full cumulative dividends on the Series D Preferred Stock as described above.

14.4.4 Liquidation Preference.

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of shares of Series D Preferred Stock then outstanding are entitled to be paid out of the assets of the Corporation legally available for distribution to its stockholders a liquidation preference of $25.00 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, before any distribution of assets is made to holders of Common Stock or any other class or series of Stock of the Corporation that ranks junior to the Series D Preferred Stock as to liquidation rights.

(b) In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, the available assets of the Corporation are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series D Preferred Stock and the corresponding amounts payable on all shares of other classes or series of Stock of the Corporation ranking on a parity with the Series D Preferred Stock in the distribution of assets, then the holders of the Series D Preferred Stock and all other such classes or series of Stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

(c) After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series D Preferred Stock will have no right or claim to any of the remaining assets of the Corporation.

(d) Written notice of any such liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage pre-paid, not less than 30 nor more than 60 days prior to the payment date stated therein, to each record holder of the Series D Preferred Stock at the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation.

(e) The consolidation or merger of the Corporation with or into any other

corporation, trust or entity or of any other corporation with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

14.4.5 Redemption.

(a) Right of Optional Redemption. The Series D Preferred Stock is not redeemable prior to December 15, 2002. However, in order to ensure that the Corporation remains qualified as a REIT for federal income tax purposes, shares of Series D Preferred Stock which have been converted into Excess Stock shall be subject to repurchase by the Corporation in accordance with Section 7.4.10 of Article VII. On and after December 15, 2002, the Corporation, at its option and upon not less than 30 nor more than 60 days' written notice, may redeem shares of the Series D Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends thereon to the date fixed for redemption (except as provided in Section 14.4.5(c) below), without interest. If less than all of the outstanding Series D Preferred Stock is to be redeemed, the Series D Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by the Corporation.

(b) Limitations on Redemption.

(i) The redemption price of the Series D Preferred Stock (other than the portion thereof consisting of accrued and unpaid dividends) is payable solely out of the sale proceeds of other capital stock of the Corporation, which may include other series of Preferred Stock, and from no other source. For purposes of the preceding sentence, "capital stock" means any equity securities (including Common Stock and Preferred Stock), shares, interest, participation or other ownership interests (however designated) and any rights (other than debt securities convertible into or exchangeable for equity securities) or options to purchase any of the foregoing.

(ii) Unless full cumulative dividends on all shares of Series D Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series D Preferred Stock shall be redeemed unless all outstanding shares of Series D Preferred Stock are simultaneously redeemed, and the Corporation shall not purchase or otherwise acquire directly or indirectly any shares of Series D Preferred Stock, (except by exchange for Stock of the Corporation ranking junior to the Series D Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by the Corporation of shares of Excess Stock in order to ensure that the Corporation remains qualified as a REIT for federal income tax purposes or the purchase or acquisition of shares of Series D Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series D Preferred Stock.

(c) Immediately prior to any redemption of Series D Preferred Stock, the

Corporation shall pay, in cash, any accumulated and unpaid dividends through the redemption date, unless a redemption date falls after a Series D Dividend Record Date and prior to the corresponding Series D Dividend Payment Date, in which case each holder of Series D Preferred Stock at the close of business on such Series D Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Series D Dividend Payment Date notwithstanding the redemption of such shares before such Series D Dividend Payment Date. Except as provided above, the Corporation will make no payment or allowance for unpaid dividends, whether or not in arrears, on Series D Preferred Stock which is redeemed.

(d) Procedures for Redemption.

(i) Notice of redemption will be (A) given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the redemption date, and (B) mailed by the Corporation, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series D Preferred Stock to be redeemed at their respective addresses as they appear on the stock transfer records of the Corporation. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series D Preferred Stock except as to the holder to whom notice was defective or not given.

(ii) In addition to any information required by law or by the applicable rules of any exchange upon which Series D Preferred Stock may be listed or admitted to trading, such notice shall state: (A) the redemption date; (B) the redemption price; (C) the number of shares of Series D Preferred Stock to be redeemed; (D) the place or places where the Series D Preferred Stock is to be surrendered for payment of the redemption price; and (E) that dividends on the shares to be redeemed will cease to accrue on such redemption date. If less than all of the Series D Preferred Stock held by any holder is to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series D Preferred Stock held by such holder to be redeemed.

(iii) If notice of redemption of any shares of Series D Preferred Stock has been given and if the funds necessary for such redemption have been set aside by the Corporation in trust for the benefit of the holders of any shares of Series D Preferred Stock so called for redemption, then from and after the redemption date dividends will cease to accrue on such shares of Series D Preferred Stock, such shares of Series D Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. Holders of Series D Preferred Stock to be redeemed shall surrender such Series D Preferred Stock at the place designated in such notice and, upon surrender in accordance with said notice of the certificates for shares of Series D Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Corporation shall so require and the notice shall so state), such shares of Series D Preferred Stock shall be redeemed by the Corporation at the redemption price plus any accrued and unpaid dividends payable upon such redemption.

In case less than all the shares of Series D Preferred Stock represented by any such certificate are redeemed, a new certificate or certificates shall be issued representing the unredeemed shares of Series D Preferred Stock without cost to the holder thereof.

(iv) The deposit of funds with a bank or trust corporation for the purpose of redeeming Series D Preferred Stock shall be irrevocable except that:

(A) the Corporation shall be entitled to receive from such bank or trust corporation the interest or other earnings, if any, earned on any money so deposited in trust, and the holders of any shares redeemed shall have no claim to such interest or other earnings; and

(B) any balance of monies so deposited by the Corporation and unclaimed by the holders of the Series D Preferred Stock entitled thereto at the expiration of two years from the applicable redemption dates shall be repaid,together with any interest or other earnings thereon, to the Corporation, and after any such repayment, the holders of the shares entitled to the funds so repaid to the Corporation shall look only to the Corporation for payment without interest or other earnings.

(e) The shares of Series D Preferred Stock are subject to the provisions of Section 7.4 of Article VII and Article IX of the Articles relating to Excess Stock. Excess Stock issued upon exchange of shares of Series D Preferred Stock pursuant to such provisions may be redeemed, in whole or in part, at any time when outstanding shares of Series D Preferred Stock are being redeemed, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends on the shares of Series D Preferred, which were exchanged for such Excess Stock, through the date of such exchange, without interest. If the Corporation elects to redeem Excess Stock pursuant to the redemption right set forth in the preceding sentence, such Excess Stock shall be redeemed in such proportion and in accordance with such procedures as shares of Series D Preferred Stock are being redeemed.

(f) Any shares of Series D Preferred Stock that shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued Preferred Stock, without designation as to series until such shares are thereafter designated as part of a particular series by the Board of Directors.

14.4.6 Voting Rights.

(a) Holders of the Series D Preferred Stock will not have any voting rights, except as set forth below or as otherwise from time to time required by law.

(b) Whenever dividends on any shares of Series D Preferred Stock shall be in arrears for six or more quarterly periods (a "Series D Preferred Dividend Default"), the Board of Directors shall take such action as may be necessary to increase the number of Directors of the Corporation by two and the holders of such shares of Series D Preferred Stock (voting separately

as a class with the holders of all other series of Preferred Stock ranking on a parity with the Series D Preferred Stock as to dividends or upon liquidation ("Series D Parity Preferred") upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two Directors of the Corporation (the "Series D Preferred Stock Directors") at a special meeting called by the holders of record of at least 20% of the Series D Preferred Stock or the holders of any other series of Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series D Preferred Stock for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment.

(c) If and when all accumulated dividends and the dividend for the then current dividend period on the Series D Preferred Stock shall have been paid in full or set aside for payment in full, the holders of shares of Series D Preferred Stock shall be divested of the voting rights set forth in Section 14.4.6(b) hereof (subject to revesting in the event of each and every Series D Preferred Dividend Default) and, if all accumulated dividends and the dividend for the current dividend period have been paid in full or set aside for payment in full on all other series of Series D Parity Preferred upon which like voting rights have been conferred and are exercisable, the term of office of each Series D Preferred Stock Director so elected shall terminate and the Board of Directors shall take such action as may be necessary to reduce the number of Directors by two. Any Series D Preferred Stock Director may be removed at any time with or without cause by the vote of, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series D Preferred Stock when they have the voting rights set forth in Section 14.4.6(b) (voting separately as a class with all other series of Series D Parity Preferred upon which like voting rights have been conferred and are exercisable). So long as a Series D Preferred Dividend Default shall continue, any vacancy in the office of a Series D Preferred Stock Director may be filled by written consent of the Series D Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series D Preferred Stock when they have the voting rights set forth in Section 14.4.6(b) (voting separately as a class with all other series of Series D Parity Preferred upon which like voting rights have been conferred and are exercisable). The Series D Preferred Stock Directors shall each be entitled to one vote per director on any matter.

(d) So long as any shares of Series D Preferred Stock remain outstanding, the Corporation shall not, without the affirmative vote of the holders of at least two-thirds of the shares of the Series D Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class), (i) authorize or create, or increase the authorized or issued amount of, any class or series of Stock ranking senior to the Series D Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or reclassify any authorized Stock of the Corporation into any such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares or (ii) amend, alter or repeal the provisions of the Articles, whether by merger, consolidation or otherwise, so as to materially and adversely

affect any right, preference, privilege or voting power of the Series D Preferred Stock or the holders thereof; provided, however, that with respect to the occurrence of any event set forth in (ii) above, so long as the Series D Preferred Stock remains outstanding with the terms thereof materially unchanged or, if the Corporation is not the surviving entity in such transaction, is exchanged for a security of the surviving entity with terms that are materially the same as the Series D Preferred Stock, the occurrence of any such event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers of the holders of the Series D Preferred Stock; and, provided further, that any increase in the amount of the

authorized Preferred Stock or the creation or issuance of any other series of Preferred Stock, or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series D Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

(e) The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series D Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

14.4.7 Conversion. The Series D Preferred Stock is not convertible into or exchangeable for any other property or securities of the Corporation, except that the shares of Series D Preferred Stock will automatically be converted by the Corporation into shares of Excess Stock and transferred to a Trust in accordance with Section 7.4 of Article VII and Article IX of the Articles in the same manner that Common Stock is converted into Excess Stock and transferred to a Trust pursuant thereto, in order to ensure that the Company remains qualified as a REIT for federal income tax purposes.

14.5 Series E Junior Participating Cumulative Preferred Stock. The Board of Directors has duly divided and classified 1,000,000 shares of the Preferred Stock of the Corporation into a series designated Series E Junior Participating Cumulative Preferred Stock and has provided for the issuance of such series. Subject in all cases to the provisions of Section 7.4 of Article VII and Article IX of the Articles with respect to Excess Stock, the following is a description of the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the Series E Junior Cumulative Preferred Stock of the Corporation:

14.5.1 Designation and Amount. The designation of the Preferred Stock described in Section 14.5 hereof shall be "Series E Junior Participating Cumulative Preferred Stock," par value $.01 per share (hereinafter called "Series E Preferred Stock"), and the number of shares constituting such series shall be 1,000,000. Such number of shares may be increased or decreased by resolution of the Board of Directors and by the filing of articles of amendment pursuant to the provisions of the MGCL stating that such increase or reduction has been so authorized; provided, however, that no decrease shall reduce the number of shares of Series E Preferred

Stock to a number less than that of the shares then outstanding plus the number of shares of Series E Preferred Stock issuable upon exercise of outstanding rights, options or warrants or upon conversion of outstanding securities issued by the Corporation.

14.5.2 Dividends and Distributions.

(a) (i) Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar Stock) ranking prior and superior to the Series E Preferred Stock with respect to dividends, the holders of shares of Series E Preferred Stock, in preference to the holders of shares of Common Stock and of any other junior Stock, shall be entitled to receive, when, as and if authorized by the Board of Directors out of funds legally available for the purpose, quarterly dividends payable in cash on the first day of March, June, September and December in each year (each such date being referred to herein as a "Series E Quarterly Dividend Payment Date"), commencing on the first Series E Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series E Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (x) $1.00 or (y) subject to the provisions for adjustment hereinafter set forth, 1,000 times the aggregate per share amount of all cash dividends, and 1,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the shares of Common Stock since the immediately preceding Series E Quarterly Dividend Payment Date, or, with respect to the first Series E Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series E Preferred Stock. The multiple of cash and non-cash dividends declared on the Common Stock to which holders of the Series E Preferred Stock are entitled, which shall be

1,000 initially but which shall be adjusted from time to time as hereinafter provided, is hereinafter referred to as the "Series E Dividend Multiple." In the event the Corporation shall at any time after March 9, 1998 (the "Series E Rights Declaration Date") (i) declare or pay any dividend on the shares of Common Stock payable in shares of Common Stock, or (ii) effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the Series E Dividend Multiple thereafter applicable to the determination of the amount of dividends which holders of shares of Series E Preferred Stock shall be entitled to receive shall be the Series E Dividend Multiple applicable immediately prior to such event multiplied by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(ii) Notwithstanding anything else contained in this paragraph (a), the Corporation shall, out of funds legally available for that purpose, declare a dividend or distribution on the Series E Preferred Stock as provided in this paragraph

(a) immediately after it declares a dividend or distribution on the shares of Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the shares of Common Stock during the period between any Series E Quarterly Dividend Payment Date and the next subsequent Series E Quarterly Dividend Payment Date, a dividend of $1.00 per share on the Series E Preferred Stock shall nevertheless be payable on such subsequent Series E Quarterly Dividend Payment Date.

(b) Dividends shall begin to accrue and be cumulative on outstanding shares of Series E Preferred Stock from the Series E Quarterly Dividend Payment Date next preceding the date of issue of such shares of Series E Preferred Stock, unless the date of issue of such shares is prior to the record date for the first Series E Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Series E Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series E Preferred Stock entitled to receive a quarterly dividend and before such Series E Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Series E Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series E Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix in accordance with applicable law a record date for the determination of holders of shares of Series E Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than such number of days prior to the date fixed for the payment thereof as may be allowed by applicable law.

14.5.3 Voting Rights. In addition to any other voting rights required by law, the holders of shares of Series E Preferred Stock shall have the following voting rights:

(a) Subject to the provision for adjustment hereinafter set forth, each share of Series E Preferred Stock shall entitle the holder thereof to 1,000 votes on all matters submitted to a vote of the stockholders of the Corporation. The number of votes which a holder of a share of Series E Preferred Stock is entitled to cast, which shall initially be 1,000 but which may be adjusted from time to time as hereinafter provided, is hereinafter referred to as the "Vote Multiple." In the event the Corporation shall at any time after the Series E Rights Declaration Date (i) declare or pay any dividend on shares of Common Stock payable in shares of Common Stock, or (ii) effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the Vote Multiple thereafter applicable to the determination of the number of votes per share to which holders of shares of Series E Preferred Stock shall be entitled shall be the Vote Multiple immediately prior to such event multiplied by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after

such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

(b) Except as otherwise provided herein or by law, the holders of shares of Series E Preferred Stock and the holders of shares of Common Stock and the holders of shares of any other Stock of this Corporation having general voting rights, shall vote together as one class on all matters submitted to a vote of stockholders of the Corporation.

(c) (i) Whenever, at any time or times, dividends payable on any shares of Series E Preferred Stock shall be in arrears in an amount equal to at least two full quarter dividends (whether or not declared and whether or not consecutive), the holders of record of the outstanding shares of Series E Preferred Stock shall have the exclusive right, voting separately as a single class, to elect two Directors of the Corporation at a special meeting of stockholders of the Corporation or at the Corporation's next annual meeting of stockholders, and at each subsequent annual meeting of shareholders, as provided below. At elections for such Directors, each Series E Preferred Share shall entitle the holder thereof to 1,000 votes in such elections.

(ii) Upon the vesting of such right of the holders of shares of Series E Preferred Stock, the maximum authorized number of members of the Board of Directors shall automatically be increased by two and the two vacancies so created shall be filled by vote of the holders of the outstanding shares of Series E Preferred Stock as hereinafter set forth. A special meeting of the stockholders of the Corporation then entitled to vote shall be called by the Chairman of the Board of Directors or the President or the Secretary of the Corporation, if requested in writing by the holders of record of not less than 10% of the shares of Series E Preferred Stock then outstanding. At such special meeting, or, if no such special meeting shall have been called, then at the next annual meeting of stockholders of the Corporation, the holders of the shares of Series E Preferred Stock shall elect, voting as above provided, two Directors of the Corporation to fill the aforesaid vacancies created by the automatic increase in the number of members of the Board of Directors. At any and all such meetings for such election, the holders of a majority of the outstanding shares of Series E Preferred Stock shall be necessary to constitute a quorum for such election, whether present in person or proxy, and such two Directors shall be elected by the vote of at least a majority of the shares of Series E Preferred Stock held by such stockholders present or represented at the meeting. Any director elected by holders of shares of Series E Preferred Stock pursuant to this Section may be removed at any annual or special meeting, by vote of a majority of the shareholders voting as a class who elected such Director, with or without cause. In case any vacancy shall occur among the Directors elected by the holders of shares of Series E Preferred Stock pursuant to this Section, such vacancy may be filled by the remaining director so elected, or his successor then in office, and the director so elected to fill such vacancy shall serve until the next meeting of shareholders for the election of Directors. After the holders of shares of Series E Preferred Stock shall have exercised their right to elect Directors in any default period and during the continuance of such period, the number of Directors shall not be further increased or decreased except by vote of the holders of shares of Series E Preferred

Stock as herein provided or pursuant to the rights of any equity securities ranking senior to or pari passu with the Series E Preferred Stock.

(iii) The right of the holders of shares of Series E Preferred Stock, voting separately as a class, to elect two members of the Board of Directors of the Corporation as aforesaid shall continue until, and only until, such time as all arrears in dividends (whether or not declared) on the Series E Preferred Stock shall have been paid or declared and set apart for payment, at which time such right shall terminate, except as herein or by law expressly provided subject to revesting in the event of each and every subsequent default of the character above-mentioned. Upon any termination of the right of the holders of the Series E Preferred Stock as a class to vote for Directors as herein provided, the term of office of all Directors then in office elected by the holders of shares of Series E Preferred Stock pursuant to this Section shall terminate immediately. Whenever the term of office of the Directors elected by the holders of shares of

Series E Preferred Stock pursuant to this Section shall terminate and the special voting powers vested in the holders of the Series E Preferred Stock pursuant to this Section shall have expired, the maximum number of members of this Board of Directors of the Corporation shall be such number as may be provided for in the By-laws of the Corporation, irrespective of any increase made pursuant to the provisions of this Section.

(d) Except as otherwise required by applicable law or as set forth herein, holders of Series E Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of shares of Common Stock as set forth herein) for taking any corporate action.

14.5.4 Certain Restrictions.

(a) Whenever dividends or distributions payable on the Series E Preferred Stock as provided in Section 14.5.2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series E Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends on, make any other distributions on, or redeem or purchase or otherwise acquire for consideration any shares of Stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series E Preferred Stock;

(ii) declare or pay dividends on or make any other distributions on any shares of Stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series E Preferred Stock, except dividends paid ratably on the Series E Preferred Stock and all such parity Stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) except as permitted in subsection 14.5.4(a)(iv) below, redeem, purchase or otherwise acquire for consideration shares of any Stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series E Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such parity Stock in exchange for shares of any Stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series E Preferred Stock; or

(iv) purchase or otherwise acquire for consideration any shares of Series E Preferred Stock, or any shares of any Stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series E Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

(b) The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of Stock of the Corporation unless the Corporation could, under subsection (a) of this Section 14.5.4, purchase or otherwise acquire such shares at such time and in such manner.

14.5.5 Reacquired Shares. Any shares of Series E Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock to be created by resolution or resolutions of the Board of Directors, subject to the conditions and restrictions on issuance set forth herein.

14.5.6 Liquidation, Dissolution or Winding Up. Upon any liquidation (voluntary or otherwise), dissolution or winding up of the Corporation, no distribution shall be made (x) to the holders of shares of Stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series E Preferred Stock unless, prior thereto, the holders of Series E Preferred Stock shall have received an amount equal to accrued and unpaid dividends

and distributions thereon, whether or not declared, to the date of such payment, plus an amount equal to the greater of (1) $1,000.00 per share or (2) an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (y) to the holders of Stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series E Preferred Stock, except distributions made ratably on the Series E Preferred Stock and all other such parity Stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation,

dissolution or winding up. In the event the Corporation shall at any time after the Series E Rights Declaration Date (i) declare or pay any dividend on shares of Common Stock payable in shares of Common Stock, or (ii) effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount per share to which holders of shares of Series E Preferred Stock were entitled immediately prior to such event under clause (x) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Neither the consolidation of nor merging of the Corporation with or into any other corporation or corporations, nor the sale or other transfer of all or substantially all of the assets of the Corporation, shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this Section 14.5.6.

14.5.7 Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case the shares of Series E Preferred Stock shall at the same time be similarly exchanged or changed in an amount per share (subject to the provision for adjustment hereinafter set forth) equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged, plus accrued and unpaid dividends, if any, payable with respect to the Series E Preferred Stock. In the event the Corporation shall at any time after the Series E Rights Declaration Date (i) declare or pay any dividend on shares of Common Stock payable in shares of Common Stock, or (ii) effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series E Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

14.5.8 Redemption. The shares of Series E Preferred Stock shall not be redeemable; provided, however, that the foregoing shall not limit the ability of the Corporation to purchase or otherwise deal in such shares to the extent otherwise permitted hereby and by law.

14.5.9 Ranking. Unless otherwise expressly provided in the Articles or

Articles Supplementary relating to any other series of Preferred Stock of the Corporation, the Series E Preferred Stock shall rank junior to every other series of the Corporation's Preferred Stock previously or hereafter authorized, as to the payment of dividends and the distribution of assets on liquidation, dissolution or winding up and shall rank senior to the Common Stock.

14.5.10 Amendment. The Articles may not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series E Preferred Stock so as to affect them adversely without the affirmative vote of the holders of a majority or more of the outstanding shares of Series E Preferred Stock, voting separately as a class.

14.5.11 Fractional Shares. Shares of Series E Preferred Stock may be issued in whole shares or in any fraction of a share that is one ten-thousandth (1/1,000th) of a share or any integral multiple of such fraction, which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of shares of Series E Preferred Stock. In lieu of fractional shares, the Corporation may elect to make a cash payment as provided in the Rights Agreement for fractions of a share other than one ten-thousandth (1/1,000th) of a share or any integral multiple thereof.

14.6 9.00% Series F Cumulative Redeemable Preferred Stock. The Board of Directors has, by resolution, duly divided and classified 4,455,000 shares of the Preferred Stock of the Corporation into a series designated 9.00% Series F Cumulative Redeemable Preferred Stock and has provided for the issuance of such series. Subject in all cases to the provisions of the Articles, including, without limitation, Section 7.4 of Article VII and Article IX with respect to limitations on the transfer and ownership of Stock, the following is a description of the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the 9.00% Series F Cumulative Redeemable Preferred Stock of the Corporation:

14.6.1 Designation and Number. A series of Preferred Stock, designated the "9.00% Series F Cumulative Redeemable Preferred Stock" (the "Series F Preferred Stock"), has been established. The number of authorized shares of the Series F Preferred Stock shall be 4,455,000.

14.6.2 Rank. The Series F Preferred Stock shall, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) senior to the Corporation's Series A Preferred Stock, Series B Preferred Stock, Series E Preferred Stock, and all classes or series of Common Stock of the Corporation, and to all equity securities issued by the Corporation ranking junior to such Series F Preferred Stock; (b) on a parity with the Corporation's Series C Preferred Stock, Series D Preferred Stock, Series G Preferred Stock and all equity securities

issued by the Corporation the terms of which specifically provide that such equity securities rank on a parity with the Series F Preferred Stock; and (c) junior to all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank senior to the Series F Preferred Stock. The term "equity securities" shall not include convertible debt securities.

14.6.3 Dividends.

(a) Holders of the then outstanding shares of Series F Preferred Stock shall be entitled to receive, when and as authorized by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 9.00% of the $25.00 liquidation preference per annum (equivalent to a fixed annual amount of $2.25 per share). Such dividends shall be cumulative from the first date on which any Series F Preferred Stock is issued and shall be payable quarterly in arrears on or before the fifteenth day of February, May, August and November or, if not a business day, the next succeeding business day (each, a "Series F Dividend Payment Date"). Any dividend payable on the Series F Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in the stock records of the Corporation at the close of business on the applicable record date, which shall be the first day of the calendar month in which the applicable Series F Dividend Payment Date falls or on such other date designated by the Board of Directors of the Corporation as the record date for the payment of dividends on the Series F Preferred Stock that is not more than 30 nor less than 10 days prior to such Series F Dividend Payment Date (each, a "Series F Dividend Record Date").

(b) No dividends on shares of Series F Preferred Stock shall be authorized by the Board of Directors of the Corporation or paid or set

apart for payment by the Corporation at such time as the terms and provisions of any agreement of the Corporation, including any agreement relating to its indebtedness, prohibits such authorization, payment or setting apart for payment or provides that such authorization, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such authorization or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series F Preferred Stock shall accrue whether or not the terms and provisions set forth in Section 14.6.3(b) hereof at any time prohibit the current payment of dividends, whether or not the Corporation has earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Series F Preferred Stock will accumulate as of the Series F Dividend Payment Date on which they first become payable.

(d) Except as provided in Section 14.6.3(e) below, no dividends will be declared or paid or set apart for payment on any Stock of the Corporation or any other series of Preferred Stock ranking, as to dividends, on a parity with or junior to the Series F Preferred Stock (other than a dividend in shares of the Corporation's Common Stock or in any other class of Stock ranking junior to the Series F Preferred Stock as to dividends and upon

liquidation) for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series F Preferred Stock for all past dividend periods and the then current dividend period.

(e) When dividends are not paid in full (and a sum sufficient for such full payment is not so set apart) upon the Series F Preferred Stock and the shares of any other series of Preferred Stock ranking on a parity as to dividends with the Series F Preferred Stock, all dividends declared upon the Series F Preferred Stock and any other series of Preferred Stock ranking on a parity as to dividends with the Series F Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series F Preferred Stock and such other series of Preferred Stock shall in all cases bear to each other the same ratio that accrued dividends per share on the Series F Preferred Stock and such other series of Preferred Stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such Preferred Stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on Series F Preferred Stock which may be in arrears.

(f) Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series F Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than in shares of Common Stock or other shares of Stock ranking junior to the Series F Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be declared or made upon the Common Stock, or any other Stock of the Corporation ranking junior to or on a parity with the Series F Preferred Stock as to dividends or upon liquidation, nor shall any shares of Common Stock, or any other shares of Stock of the Corporation ranking junior to or on a parity with the Series F Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any monies be paid to or made available for a sinking fund for the redemption of any such shares) by the Corporation (except by conversion into or exchange for other Stock of the Corporation ranking junior to the Series F Preferred Stock as to dividends and upon liquidation).

(g) Any dividend payment made on shares of the Series F Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable. Holders of the Series F Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or Stock in excess of full cumulative dividends on the Series F Preferred Stock as described above.

14.6.4 Liquidation Preference.

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of shares of Series F Preferred Stock then outstanding are entitled to be paid out of the assets of the Corporation legally available for

distribution to its stockholders a liquidation preference of $25.00 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, before any distribution of assets is made to holders of Common Stock or any other class or series of Stock of the Corporation that ranks junior to the Series F Preferred Stock as to liquidation rights.

(b) In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, the available assets of the Corporation are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series F Preferred Stock and the corresponding amounts payable on all shares of other classes or series of Stock of the Corporation ranking on a parity with the Series F Preferred Stock in the distribution of assets, then the holders of the Series F Preferred Stock and all other such classes or series of Stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

(c) After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series F Preferred Stock will have no right or claim to any of the remaining assets of the Corporation.

(d) Written notice of any such liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage pre-paid, not less than 30 nor more than 60 days prior to the payment date stated therein, to each record holder of the Series F Preferred Stock at the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation.

(e) The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

14.6.5 Redemption.

(a) Right of Optional Redemption. The Series F Preferred Stock is not redeemable prior to February 15, 2001. However, in order to ensure that the Corporation remains qualified as a REIT for federal income tax purposes, shares of Series F Preferred Stock which have been converted into Excess Stock shall be subject to repurchase by the Corporation in accordance with Section 7.4.10 of Article VII. On and after February 15, 2001, the Corporation, at its option and upon not less than 30 nor more than 60 days' written notice, may redeem shares of the Series F Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends thereon to the date fixed for redemption (except as provided in Section 14.6.5(c) below), without interest. If less than all of the outstanding Series F Preferred Stock is to be redeemed, the Series F Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method

determined by the Corporation.

(b) Limitations on Redemption.

(i) The redemption price of the Series F Preferred Stock (other than the portion thereof consisting of accrued and unpaid dividends) is payable solely out of the sale proceeds of other capital stock of the Corporation, which may include other series of Preferred Stock, and from no other source. For purposes of the preceding sentence, "capital stock" means any equity securities (including Common Stock and Preferred Stock), shares, interest, participation or other ownership interests (however designated) and any rights (other than debt securities convertible into or exchangeable for equity securities) or options to purchase any of the foregoing.

(ii) Unless full cumulative dividends on all shares of Series F Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series F Preferred Stock shall be redeemed unless all outstanding

shares of Series F Preferred Stock are simultaneously redeemed, and the Corporation shall not purchase or otherwise acquire directly or indirectly any shares of Series F Preferred Stock (except by exchange for Stock of the Corporation ranking junior to the Series F Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by the Corporation of shares of Excess Stock in order to ensure that the Corporation remains qualified as a REIT for federal income tax purposes or the purchase or acquisition of shares of Series F Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series F Preferred Stock.

(c) Rights to Dividends on Shares Called for Redemption. Immediately prior to any redemption of Series F Preferred Stock, the Corporation shall pay, in cash, any accumulated and unpaid dividends through the redemption date, unless a redemption date falls after a Series F Dividend Record Date and prior to the corresponding Series F Dividend Payment Date, in which case each holder of Series F Preferred Stock at the close of business on such Series F Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Series F Dividend Payment Date notwithstanding the redemption of such shares before such Series F Dividend Payment Date. Except as provided above, the Corporation will make no payment or allowance for unpaid dividends, whether or not in arrears, on Series F Preferred Stock which is redeemed.

(d) Procedures for Redemption.

(i) Notice of redemption will be (A) given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the redemption date, and (B) mailed by the Corporation, postage prepaid, not

less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series F Preferred Stock to be redeemed at their respective addresses as they appear on the stock transfer records of the Corporation. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series F Preferred Stock except as to the holder to whom notice was defective or not given.

(ii) In addition to any information required by law or by the applicable rules of any exchange upon which Series F Preferred may be listed or admitted to trading, such notice shall state: (A) the redemption date; (B) the redemption price; (C) the number of shares of Series F Preferred Stock to be redeemed; (D) the place or places where the Series F Preferred Stock is to be surrendered for payment of the redemption price; and (E) that dividends on the shares to be redeemed will cease to accrue on such redemption date. If less than all of the Series F Preferred Stock held by any holder is to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series F Preferred Stock held by such holder to be redeemed.

(iii) If notice of redemption of any shares of Series F Preferred Stock has been given and if the funds necessary for such redemption have been set aside by the Corporation in trust for the benefit of the holders of any shares of Series F Preferred Stock so called for redemption, then from and after the redemption date dividends will cease to accrue on such shares of Series F Preferred Stock, such shares of Series F Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. Holders of Series F Preferred Stock to be redeemed shall surrender such Series F Preferred Stock at the place designated in such notice and, upon surrender in accordance with said notice of the certificates for shares of Series F Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Corporation shall so require and the notice shall so state), such shares of Series F Preferred Stock shall be redeemed by the Corporation at the redemption price plus any accrued and unpaid dividends payable upon such redemption. In case less than all the shares of Series F Preferred Stock represented by any such certificate are redeemed, a new certificate or certificates shall be issued representing the unredeemed shares of Series F Preferred Stock without cost to the holder thereof.

(iv) The deposit of funds with a bank or trust corporation for the purpose of redeeming Series F Preferred Stock

shall be irrevocable except that:

(A) the Corporation shall be entitled to receive from such bank or trust corporation the interest or other earnings, if any, earned on any money so deposited in trust, and the holders of any shares redeemed shall have no claim to such interest or other earnings; and

(B) any balance of monies so deposited by the Corporation

and unclaimed by the holders of the Series F Preferred Stock entitled thereto at the expiration of two years from the applicable redemption dates shall be repaid, together with any interest or other earnings thereon, to the Corporation, and after any such repayment, the holders of the shares entitled to the funds so repaid to the Corporation shall look only to the Corporation for payment without interest or other earnings.

(e) The shares of Series F Preferred Stock are subject to the provisions of Section 7.4 of Article VII and Article IX of the Articles relating to Excess Stock. Excess Stock issued upon exchange of shares of Series F Preferred Stock pursuant to such provisions may be redeemed, in whole or in part, at any time when outstanding shares of Series F Preferred Stock are being redeemed, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends on the shares of Series F Preferred Stock, which are exchanged for such Excess Stock, through the date of such exchange, without interest. If the Corporation elects to redeem Excess Stock pursuant to the redemption right set forth in the preceding sentence, such Excess Stock shall be redeemed in such proportion and in accordance with such procedures as shares of Series F Preferred Stock are being redeemed.

(f) Any shares of Series F Preferred Stock that shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued Preferred Stock, without designation as to series until such shares are thereafter designated as part of a particular series by the Board of Directors.

14.6.6 Voting Rights.

(a) Holders of the Series F Preferred Stock will not have any voting rights, except as set forth below or as otherwise from time to time required by law.

(b) Whenever dividends on any shares of Series F Preferred Stock shall be in arrears for six or more quarterly periods (a "Series F Preferred Dividend Default"), the Board of Directors shall take such action as may be necessary to increase the number of Directors of the Corporation by two and the holders of such shares of Series F Preferred Stock (voting separately as a class with the holders of all other series of Preferred Stock ranking on a parity with the Series F Preferred Stock as to dividends or upon liquidation ("Series F Parity Preferred") upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two Directors of the Corporation (the "Series F Preferred Stock Directors") at a special meeting called by the holders of record of at least 10% of the Series F Parity Preferred or the holders of any other series of Series F Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series F Preferred Stock for the past dividend periods and the dividends for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment.

(c) If and when all accumulated dividends and the dividend for the then current dividend period on the Series F Preferred Stock shall have been paid in full or set aside for payment in full, the holders of shares of Series F Preferred Stock shall be divested of the voting rights set forth in Section 14.6.6(b) hereof (subject to revesting in the event of each and every Series F Preferred Dividend Default) and the term of office of each Series F Preferred Stock Director so elected shall terminate and the Board of Directors shall take such action as may be necessary to reduce the number of Directors by two. Any Series F Preferred Stock Director may be removed at any time with or without cause by the vote of, and shall not be removed otherwise

than by the vote of, the holders of record of a majority of the outstanding shares of the Series F Preferred Stock when they have the voting rights set forth in Section 14.6.6(b) (voting separately as a class with all other series of Series F Parity Preferred upon which like voting rights have been conferred and are exercisable). So long as a Series F Preferred Dividend Default shall continue, any vacancy in the office of a Series F Preferred Stock Director may be filled by written consent of the Series F Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series F Preferred Stock when they have voting rights as set forth in Section 14.6.6(b) (voting separately as a class with all other series of Series F Parity Preferred upon which like voting rights have been conferred and are exercisable). The Series F Preferred Stock Directors shall each be entitled to one vote per director on any matter.

(d) So long as any shares of Series F Preferred Stock remain outstanding, the Corporation shall not, without the affirmative vote of the holders of at least two thirds of the shares of the Series F Preferred Stock outstanding at the time given in person or by proxy, either in writing or at a meeting (voting separately as a class), (i) authorize or create, or increase the authorized or issued amount of, any class or series of Stock ranking senior to the Series F Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or reclassify any authorized Stock of the Corporation into any such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares, or (ii) amend, alter or repeal the provisions of the Articles, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series F Preferred Stock or the holders thereof; provided, however, that any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other series of Preferred Stock, or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series F Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

(e) The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series F Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

14.6.7 Conversion. The Series F Preferred Stock is not convertible into or

exchangeable for any other property or securities of the Corporation, except that the shares of Series F Preferred Stock will automatically be converted by the Corporation into shares of Excess Stock and transferred to a Trust in accordance with Section 7.4 of Article VII and Article IX of the Articles in the same manner that Common Stock is converted into Excess Stock and transferred to a Trust pursuant thereto, in order to ensure that the Corporation remains qualified as a REIT for federal income tax purposes.

14.7 8.96% Series G Cumulative Redeemable Preferred Stock. The Board of Directors has, by resolution, duly divided and classified 4,300,000 shares of the Preferred Stock of the Corporation into a series designated 8.96% Series G Cumulative Redeemable Preferred Stock and has provided for the issuance of such series. Subject in all cases to the provisions of the Articles, including, without limitation, Section 7.4 of Article VII and Article IX with respect to limitations on the transfer and ownership of Stock, the following is a description of the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the 8.96% Series G Cumulative Redeemable Preferred Stock of the Corporation:

14.7.1 Designation and Number. A series of Preferred Stock, designated the "8.96% Series G Cumulative Redeemable Preferred Stock" (the "Series G Preferred Stock"), has been established. The number of authorized shares of the Series G Preferred Stock shall be 4,300,000.

14.7.2 Rank. The Series G Preferred Stock shall, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) senior to the Corporation's Series A Preferred Stock, Series B Preferred Stock, Series E Preferred Stock, and all classes or series of Common Stock of the Corporation, and to all equity securities issued by the Corporation ranking junior to such Series G Preferred Stock; (b) on a parity with the

Corporation's Series C Preferred Stock, Series D Preferred Stock, Series F Preferred Stock and all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank on a parity with the Series G Preferred Stock; and (c) junior to all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank senior to the Series G Preferred Stock. The term "equity securities" shall not include convertible debt securities.

14.7.3 Dividends.

(a) Holders of the then outstanding shares of Series G Preferred Stock shall be entitled to receive, when and as authorized by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 8.96% of the $25.00 liquidation preference per annum (equivalent to a fixed annual amount of $2.24 per share). Such dividends shall be cumulative from the first date on which any Series G Preferred Stock is issued and shall be payable quarterly in arrears on or before the fifteenth day of February, May, August and November or, if not a business day, the next

succeeding business day (each, a "Series G Dividend Payment Date"). Any dividend payable on the Series G Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in the stock records of the Corporation at the close of business on the applicable record date, which shall be the first day of the calendar month in which the applicable Series G Dividend Payment Date falls or on such other date designated by the Board of Directors of the Corporation as the record date for the payment of dividends on the Series G Preferred Stock that is not more than 30 nor less than 10 days prior to such Series G Dividend Payment Date (each, a "Series G Dividend Record Date").

(b) No dividends on shares of Series G Preferred Stock shall be authorized by the Board of Directors of the Corporation or paid or set apart for payment by the Corporation at such time as the terms and provisions of any agreement of the Corporation, including any agreement relating to its indebtedness, prohibits such authorization, payment or setting apart for payment or provides that such authorization, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such authorization or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series G Preferred Stock shall accrue whether or not the terms and provisions set forth in Section 14.7.3(b) hereof at any time prohibit the current payment of dividends, whether or not the Corporation has earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Series G Preferred Stock will accumulate as of the Series G Dividend Payment Date on which they first become payable.

(d) Except as provided in Section 14.7.3(e) below, no dividends will be declared or paid or set apart for payment on any Stock of the Corporation or any other series of Preferred Stock ranking, as to dividends, on a parity with or junior to the Series G Preferred Stock (other than a dividend in shares of the Corporation's Common Stock or in any other class of Stock ranking junior to the Series G Preferred Stock as to dividends and upon liquidation) for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series G Preferred Stock for all past dividend periods and the then current dividend period.

(e) When dividends are not paid in full (and a sum sufficient for such full payment is not so set apart) upon the Series G Preferred Stock and the shares of any other series of Preferred Stock ranking on a parity as to dividends with the Series G Preferred Stock, all dividends declared upon the Series G Preferred Stock and any other series of Preferred Stock ranking on a parity as to dividends with the Series G Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series G Preferred Stock and such other series of Preferred Stock shall in all cases bear to each other the same ratio that accrued dividends per share on the Series G Preferred Stock and such other series of Preferred Stock (which shall not include any accrual in respect of unpaid dividends for prior dividend

periods if such Preferred Stock does not have a cumulative dividend) bear to

each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on Series G Preferred Stock which may be in arrears.

(f) Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series G Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than in shares of Common Stock or other shares of Stock ranking junior to the Series G Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment nor shall any other distribution be declared or made upon the Common Stock, or any other Stock of the Corporation ranking junior to or on a parity with the Series G Preferred Stock as to dividends or upon liquidation, nor shall any shares of Common Stock, or any other shares of Stock of the Corporation ranking junior to or on a parity with the Series G Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any monies be paid to or made available for a sinking fund for the redemption of any such shares) by the Corporation (except by conversion into or exchange for other Stock of the Corporation ranking junior to the Series G Preferred Stock as to dividends and upon liquidation).

(g) Any dividend payment made on shares of the Series G Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable. Holders of the Series G Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or Stock, in excess of full cumulative dividends on the Series G Preferred Stock as described above.

14.7.4 Liquidation Preference.

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of shares of Series G Preferred Stock then outstanding are entitled to be paid out of the assets of the Corporation legally available for distribution to its stockholders a liquidation preference of $25.00 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, before any distribution of assets is made to holders of Common Stock or any other class or series of Stock of the Corporation that ranks junior to the Series G Preferred Stock as to liquidation rights.

(b) In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, the available assets of the Corporation are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series G Preferred Stock and the corresponding amounts payable on all shares of other classes or series of Stock of the Corporation ranking on a parity with the Series G Preferred Stock in the distribution of assets, then the holders of the Series G Preferred Stock and all other such classes or series of Stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

(c) After payment of the full amount of the liquidating distributions to which

they are entitled, the holders of Series G Preferred Stock will have no right or claim to any of the remaining assets of the Corporation.

(d) Written notice of any such liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage pre-paid, not less than 30 nor more than 60 days prior to the payment date stated therein, to each record holder of the Series G Preferred Stock at the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation.

(e) The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

14.7.5 Redemption.

(a) Right of Optional Redemption. The Series G Preferred Stock is not redeemable prior to October 15, 2001. However, in order to ensure that the Corporation remains qualified as a REIT for federal income tax purposes, shares of Series G Preferred Stock which have been converted into

Excess Stock shall be subject to repurchase by the Corporation in accordance with Section 7.4.10 of Article VII. On and after October 15, 2001, the Corporation, at its option and upon not less than 30 nor more than 60 days' written notice, may redeem shares of the Series G Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends thereon to the date fixed for redemption (except as provided in Section 14.7.5(c) below), without interest. If less than all of the outstanding Series G Preferred Stock is to be redeemed, the Series G Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by the Corporation.

(b) Limitations on Redemption.

(i) The redemption price of the Series G Preferred Stock (other than the portion thereof consisting of accrued and unpaid dividends) is payable solely out of the sale proceeds of other capital stock of the Corporation, which may include other series of Preferred Stock, and from no other source. For purposes of the preceding sentence, "capital stock" means any equity securities (including Common Stock and Preferred Stock), shares, interest, participation or other ownership interests (however designated) and any rights (other than debt securities convertible into or exchangeable for equity securities) or options to purchase any of the foregoing.

(ii) Unless full cumulative dividends on all shares of Series G Preferred Stock shall have been or contemporaneously are declared and paid or

declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series G Preferred Stock shall be redeemed unless all outstanding shares of Series G Preferred Stock are simultaneously redeemed, and the Corporation shall not purchase or otherwise acquire directly or indirectly any shares of Series G Preferred Stock (except by exchange for Stock of the Corporation ranking junior to the Series G Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by the Corporation of shares of Excess Stock in order to ensure that the Corporation remains qualified as a REIT for federal income tax purposes or the purchase or acquisition of shares of Series G Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series G Preferred Stock.

(c) Rights to Dividends on Shares Called for Redemption. Immediately prior to any redemption of Series G Preferred Stock, the Corporation shall pay, in cash, any accumulated and unpaid dividends through the redemption date, unless a redemption date falls after a Series G Dividend Record Date and prior to the corresponding Series G Dividend Payment Date, in which case each holder of Series G Preferred Stock at the close of business on such Series G Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Series G Dividend Payment Date notwithstanding the redemption of such shares before such Series G Dividend Payment Date. Except as provided above, the Corporation will make no payment or allowance for unpaid dividends, whether or not in arrears, on Series G Preferred Stock which is redeemed.

(d) Procedures for Redemption.

(i) Notice of redemption will be (A) given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the redemption date, and (B) mailed by the Corporation, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series G Preferred Stock to be redeemed at their respective addresses as they appear on the stock transfer records of the Corporation. No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series G Preferred Stock except as to the holder to whom notice was defective or not given.

(ii) In addition to any information required by law or by the applicable rules of any exchange upon which Series G Preferred may be listed or admitted to trading, such notice shall state: (A) the redemption date; (B) the redemption price; (C) the number of shares of Series G Preferred Stock to be redeemed; (D) the place or places where the Series G Preferred Stock is to be

surrendered for payment of the redemption price; and (E) that dividends on the shares to be redeemed will cease to accrue on such redemption date. If less than all of the Series G Preferred Stock held by any holder is to be redeemed, the notice mailed to

such holder shall also specify the number of shares of Series G Preferred Stock held by such holder to be redeemed.

(iii) If notice of redemption of any shares of Series G Preferred Stock has been given and if the funds necessary for such redemption have been set aside by the Corporation in trust for the benefit of the holders of any shares of Series G Preferred Stock so called for redemption, then from and after the redemption date dividends will cease to accrue on such shares of Series G Preferred Stock, such shares of Series G Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. Holders of Series G Preferred Stock to be redeemed shall surrender such Series G Preferred Stock at the place designated in such notice and, upon surrender in accordance with said notice of the certificates for shares of Series G Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Corporation shall so require and the notice shall so state), such shares of Series G Preferred Stock shall be redeemed by the Corporation at the redemption price plus any accrued and unpaid dividends payable upon such redemption. In case less than all the shares of Series G Preferred Stock represented by any such certificate are redeemed, a new certificate or certificates shall be issued representing the unredeemed shares of Series G Preferred Stock without cost to the holder thereof.

(iv) The deposit of funds with a bank or trust corporation for the purpose of redeeming Series G Preferred Stock shall be irrevocable except that:

(A) the Corporation shall be entitled to receive from such bank or trust corporation the interest or other earnings, if any, earned on any money so deposited in trust, and the holders of any shares redeemed shall have no claim to such interest or other earnings; and

(B) any balance of monies so deposited by the Corporation and unclaimed by the holders of the Series G Preferred Stock entitled thereto at the expiration of two years from the applicable redemption dates shall be repaid, together with any interest or other earnings thereon, to the Corporation, and after any such repayment, the holders of the shares entitled to the funds so repaid to the Corporation shall look only to the Corporation for payment without interest or other earnings.

(e) The shares of Series G Preferred Stock are subject to the provisions of Section 7.4 of Article VII and Article IX of the Articles relating to Excess Stock. Excess Stock issued upon exchange of shares of Series G Preferred Stock pursuant to such provisions may be redeemed, in whole or in part, at any time when outstanding shares of Series G Preferred Stock are being redeemed, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends on the shares of Series G Preferred Stock, which are exchanged for such Excess Stock, through the date of such exchange, without interest. If the Corporation elects to redeem Excess Stock pursuant to the redemption right set forth in the

preceding sentence, such Excess Stock shall be redeemed in such proportion and in accordance with such procedures as shares of Series G Preferred Stock are being redeemed.

(f) Any shares of Series G Preferred Stock that shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued Preferred Stock, without designation as to series until such shares are thereafter designated as part of a particular series by the Board of Directors.

14.7.6 Voting Rights.

(a) Holders of the Series G Preferred Stock will not have any voting rights, except as set forth below or as otherwise from time to time

required by law.

(b) Whenever dividends on any shares of Series G Preferred Stock shall be in arrears for six or more quarterly periods (a "Series G Preferred Dividend Default"), the Board of Directors shall take such action as may be necessary to increase the number of Directors of the Corporation by two and the holders of such shares of Series G Preferred Stock (voting separately as a class with the holders of all other series of Preferred Stock ranking on a parity with the Series G Preferred Stock as to dividends or upon liquidation ("Series G Parity Preferred") upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two Directors of the Corporation (the "Series G Preferred Stock Directors") at a special meeting called by the holders of record of at least 10% of the Series G Parity Preferred or the holders of any other series of Series G Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series G Preferred Stock for the past dividend periods and the dividends for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment.

(c) If and when all accumulated dividends and the dividend for the then current dividend period on the Series G Preferred Stock shall have been paid in full or set aside for payment in full, the holders of shares of Series G Preferred Stock shall be divested of the voting rights set forth in Section 14.7.6(b) hereof (subject to revesting in the event of each and every Series G Preferred Dividend Default) and the term of office of each Series G Preferred Stock Director so elected shall terminate and the Board of Directors shall take such action as may be necessary to reduce the number of Directors by two. Any Series G Preferred Stock Director may be removed at any time with or without cause by the vote of, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series G Preferred Stock when they have the voting rights set forth in Section 14.7.6(b) (voting separately as a class with all other series of Series G Parity Preferred upon which like voting rights have been conferred and are exercisable). So long as a Series G Preferred Dividend Default shall continue, any vacancy in the office of a Series G Preferred Stock Director may be filled by written consent of the Series G Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a

majority of the outstanding shares of Series G Preferred Stock when they have voting rights as set forth in Section 14.7.6(b) (voting separately as a class with all other series of Series G Parity Preferred upon which like voting rights have been conferred and are exercisable). The Series G Preferred Stock Directors shall each be entitled to one vote per director on any matter.

(d) So long as any shares of Series G Preferred Stock remain outstanding, the Corporation shall not, without the affirmative vote of the holders of at least two thirds of the shares of the Series G Preferred Stock outstanding at the time given in person or by proxy, either in writing or at a meeting (voting separately as a class), (i) authorize or create, or increase the authorized or issued amount of, any class or series of Stock ranking senior to the Series G Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or reclassify any authorized Stock of the Corporation into any such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares, or (ii) amend, alter or repeal the provisions of the Articles, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series G Preferred Stock or the holders thereof; provided, however, that any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other series of Preferred Stock, or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series G Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

(e) The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series G Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

14.7.7 Conversion. The Series G Preferred Stock is not convertible into or exchangeable for any other property or securities

of the Corporation, except that the shares of Series G Preferred Stock will automatically be converted by the Corporation into shares of Excess Stock and transferred to a Trust in accordance with Section 7.4 of Article VII and Article IX of the Articles in the same manner that Common Stock is converted into Excess Stock and transferred to a Trust pursuant thereto, in order to ensure that the Corporation remains qualified as a REIT for federal income tax purposes.

Exhibit 3(i).2

ARTICLES OF AMENDMENT

AMENDING THE CHARTER OF

AVALON BAY COMMUNITIES, INC.

Avalon Bay Communities, Inc., a Maryland corporation (the "Corporation"), certifies as follows:

FIRST: That the Corporation's Charter is hereby amended by:

(A) deleting Article I, Section 1.3 in its entirety and inserting the following in lieu thereof:

1.3 The total number of shares of Stock which the Corporation has authority to issue is two hundred ten million (210,000,000) shares, consisting of (i) fifty million (50,000,000) shares of Preferred Stock; (ii) one hundred forty million (140,000,000) shares of Common Stock; and (iii) twenty million (20,000,000) shares of excess stock, par value $.01 per share ("Excess Stock"). The aggregate par value of all the shares of all classes of Stock is $2,100,000.

(B) deleting Article II in its entirety and inserting the following in lieu thereof:

ARTICLE II

NAME

The name of the Corporation is:

"AvalonBay Communities, Inc."

(C) deleting the first two sentences of Article VII, Section 7.1 in their entirety and inserting the following in lieu thereof:

7.1 AUTHORIZED STOCK. The total number of shares of Stock which the Corporation has authority to issue is two hundred ten million (210,000,000) shares, consisting of (i) fifty million (50,000,000) shares of Preferred Stock, par value $.01 per share; (ii) one hundred forty million (140,000,000) shares of Common Stock, par value $.01 per share; and (iii) twenty million (20,000,000) shares of Excess Stock, par value $.01 per share. The aggregate par value of all the shares of all classes of Stock is $2,100,000.

SECOND: The foregoing amendments to the Corporation's Charter were advised by the Board of Directors of the Corporation and were approved by the stockholders of the Corporation at a Special Meeting of Stockholders held on October 2, 1998.

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IN WITNESS WHEREOF, the Corporation has caused these Articles of Amendment to the Charter of the Corporation to be executed in its name and on its behalf on this 2nd day of October 1998, by the President of the Corporation who acknowledges that these Articles of Amendment are the act of the Corporation and that to the best of his knowledge, information and belief and under penalties for perjury, all matters and facts contained in these Articles of Amendment are true in all material respects.

AVALON BAY COMMUNITIES, INC.

(seal)

By: /s/ Charles H. Berman

Charles H. Berman
President

ATTEST

By: /s/ Jeffrey B. Van Horn

Jeffrey B. Van Horn
Secretary

EXHIBIT 3(i).3

AVALONBAY COMMUNITIES, INC.

ARTICLES SUPPLEMENTARY

ESTABLISHING AND FIXING THE RIGHTS AND
PREFERENCES OF A SERIES OF SHARES OF PREFERRED STOCK

AvalonBay Communities, Inc., a Maryland corporation (the "Corporation"), having its principal office in Alexandria, Virginia, hereby certifies to the State Department of Assessments and Taxation of the State of Maryland that:

FIRST: Pursuant to the authority expressly vested in the Board of Directors of the Corporation by Section 7.2 of Article VII of its Articles of Amendment and Restatement of Articles of Incorporation, as heretofore amended (which, as hereafter restated or amended from time to time, are together with these Articles Supplementary herein called the "Articles"), the Board of Directors has, by resolution, duly divided and classified 4,600,000 shares of the Preferred Stock of the Corporation into a series designated 8.70% Series H Cumulative Redeemable Preferred Stock, par value $.01 per share, and has provided for the issuance of such series.

SECOND: Subject in all cases to the provisions of the Articles, including, without limitation, Section 7.4 of Article VII and Article IX with respect to limitations on the transfer and ownership of Stock, the following is a description of the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications and terms and conditions of redemption of the 8.70% Series H Cumulative Redeemable Preferred Stock of the Corporation:

(1) DESIGNATION AND NUMBER. A series of Preferred Stock, designated the "8.70% Series H Cumulative Redeemable Preferred Stock," par value $.01 per share (the "Series H Preferred Stock"), is hereby established. The number of authorized shares of Series H Preferred Stock is 4,600,000.

(2) RANK. The Series H Preferred Stock shall, with respect to dividend rights and rights upon liquidation, dissolution or winding up of the Corporation, rank (a) senior to the Corporation's Series E Preferred Stock and all classes or series of Common Stock of the Corporation, and to all equity securities issued by the Corporation ranking junior to such Series H Preferred Stock; (b) on a parity with the Corporation's Series C Preferred Stock, Series D Preferred Stock, Series F Preferred Stock, Series G Preferred Stock and all other equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank on a parity with the Series H Preferred Stock; and (c) junior to all equity securities issued by the Corporation the terms of which specifically provide that such equity securities rank senior to the Series H Preferred Stock. The term "equity securities" shall not include convertible debt securities.

(3) DIVIDENDS.

(a) Holders of the then outstanding shares of Series H Preferred Stock shall be entitled to receive, when and as authorized by the Board of Directors, out of funds legally available for the payment of dividends, cumulative preferential cash dividends at the rate of 8.70% of the $25.00 liquidation preference per annum (equivalent to a fixed annual amount of $2.175 per share). Such dividends shall be cumulative from the first date on which any Series H Preferred Stock is issued and shall be payable quarterly in arrears on or before March 15, June 15, September 15 and December 15 of each year or, if not a business day, the next succeeding business day (each, a "Series H Dividend Payment Date"). The first dividend, which will be paid on December 15, 1998, will be for less than a full quarter. Such dividend and any dividend payable on the Series H Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in the stock records of the Corporation at the close of business on the applicable record date, which shall be the first day of the calendar month in which the applicable Series H Dividend Payment Date falls or on such other date designated by the Board of Directors of the Corporation as the record date for the payment of dividends on the Series H Preferred Stock that is not more than 30 nor less than 10 days prior to such Dividend Payment Date (each, a "Series H Dividend Record Date").

(b) No dividends on shares of Series H Preferred Stock shall be authorized by the Board of Directors of the Corporation or paid or set apart for payment by the Corporation at such time as the terms and provisions of any agreement of the Corporation, including any agreement relating to its indebtedness, prohibits such authorization, payment or setting apart for payment or provides that such authorization, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such authorization or payment shall be restricted or prohibited by law.

(c) Notwithstanding the foregoing, dividends on the Series H Preferred Stock shall accrue whether or not the terms and provisions set forth in Section 3(b) hereof at any time prohibit the current payment of dividends, whether or not the Corporation has earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Series H Preferred Stock will accumulate as of the Series H Dividend Payment Date on which they first become payable.

(d) Except as provided in Section 3(e) below, no dividends will be declared or paid or set apart for payment on any Stock of the Corporation or any other series of Preferred Stock ranking, as to dividends, on a parity with or junior to the Series H Preferred Stock (other than a dividend in shares of the Corporation's Common Stock or in any other class of Stock ranking junior to the Series H Preferred Stock as to dividends and upon liquidation) for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series H Preferred Stock for all past dividend periods and the then current dividend period.

(e) When dividends are not paid in full (and a sum sufficient for such full payment is not so set apart) upon the Series H Preferred Stock and the shares of any other series of Preferred Stock ranking on a parity as to dividends with the Series H Preferred Stock, all dividends declared upon the Series H Preferred Stock and any other series of Preferred Stock ranking on a parity as to dividends with the Series H Preferred Stock shall be declared pro rata so that the amount of dividends declared per share of Series H Preferred Stock and such other series of Preferred Stock shall in all cases bear to each other the same ratio that accrued dividends per share on the Series H Preferred Stock and such other series of Preferred Stock (which shall not include any accrual in respect of unpaid dividends for prior dividend periods if such Preferred Stock does not have a cumulative dividend) bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on Series H Preferred Stock which may be in arrears.

(f) Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series H Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all past dividend periods and the then current dividend period, no dividends (other than in shares of Common Stock or other shares of Stock ranking junior to the Series H Preferred Stock as to dividends and upon liquidation) shall be declared or paid or set aside for payment, nor shall any other distribution be declared or made, upon the Common Stock or any other Stock of the Corporation ranking junior to or on a parity with the Series H Preferred Stock as to dividends or upon liquidation, nor shall any shares of Common Stock, or any other shares of Stock of the Corporation ranking junior to or on a parity with the Series H Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any monies be paid to or made available for a sinking fund for the redemption of any such shares) by the Corporation (except by conversion into or exchange for other Stock of the Corporation ranking junior to the Series H Preferred Stock as to dividends and upon liquidation).

(g) Any dividend payment made on shares of the Series H Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable. Holders of the Series H Preferred Stock shall not be entitled to any dividend, whether payable in cash, property or stock in excess of full cumulative dividends on the Series H Preferred Stock as described above.

(4) LIQUIDATION PREFERENCE.

(a) Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the holders of shares of Series H Preferred Stock then outstanding are entitled to be paid out of the assets of the Corporation legally available for distribution to its stockholders a liquidation preference of $25.00 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, before any distribution of assets is made to holders of Common Stock or any other class or series of Stock of the Corporation that ranks junior to the Series H Preferred Stock as to liquidation rights.

(b) In the event that, upon any such voluntary or involuntary liquidation, dissolution or winding up, the available assets of the Corporation are insufficient to pay the amount of the liquidating distributions on all outstanding shares of Series H Preferred Stock and the corresponding amounts payable on all shares of other classes or series of Stock of the Corporation ranking on a parity with the Series H Preferred Stock in the distribution of

assets, then the holders of the Series H Preferred Stock and all other such classes or series of Stock shall share ratably in any such distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

(c) After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series H Preferred Stock will have no right or claim to any of the remaining assets of the Corporation.

(d) Written notice of any such liquidation, dissolution or winding up of the Corporation, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by first class mail, postage pre-paid, not less than 30 nor more than 60 days prior to the payment date stated therein, to each record holder of the Series H Preferred Stock at the respective addresses of such holders as the same shall appear on the stock transfer records of the Corporation.

(e) The consolidation or merger of the Corporation with or into any other corporation, trust or entity or of any other corporation with or into the Corporation, or the sale, lease or conveyance of all or substantially all of the property or business of the Corporation, shall not be deemed to constitute a liquidation, dissolution or winding up of the Corporation.

(5) REDEMPTION.

(a) RIGHT OF OPTIONAL REDEMPTION. The Series H Preferred Stock is not redeemable prior to October 15, 2008. However, in order to ensure that the Corporation remains a qualified real estate investment trust ("REIT") for federal income tax purposes, shares of Series H Preferred Stock which have been converted into Excess Stock shall be subject to repurchase by the Corporation in accordance with Section 7.4.10 of Article VII of the Articles. On and after October 15, 2008, the Corporation, at its option and upon not less than 30 nor more than 60 days written notice, may redeem shares of the Series H Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends thereon to the date fixed for redemption (except as provided in Section 5(c) below), without interest. If less than all of the outstanding Series H Preferred Stock is to be redeemed, the Series H Preferred Stock to be redeemed shall be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by the Corporation.

(b) LIMITATIONS ON REDEMPTION.

(i) The redemption price of the Series H Preferred Stock (other than the portion thereof consisting of accrued and unpaid dividends) is payable solely out of the sale proceeds of other capital stock of the Corporation, which may include other series of Preferred Stock, and from no other source. For purposes of the preceding sentence, "capital stock" means any equity securities (including Common Stock and Preferred Stock), shares, interest, participation or other ownership interests (however designated) and any rights (other than debt securities convertible into or exchangeable for equity securities) or options to purchase any of the foregoing.

(ii) Unless full cumulative dividends on all shares of Series H Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period, no shares of Series H Preferred Stock shall be redeemed unless all outstanding shares of Series H Preferred Stock are simultaneously redeemed, and the Corporation shall not purchase or otherwise acquire directly or indirectly any shares of Series H Preferred Stock (except by exchange for Stock of the Corporation ranking junior to the Series H Preferred Stock as to dividends and upon liquidation); provided, however, that the foregoing shall not prevent the purchase by the Corporation of shares of Excess Stock in order to ensure that the Corporation remains qualified as a REIT for federal income tax purposes or the purchase or acquisition of shares of Series H Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series H Preferred Stock.

(c) RIGHTS TO DIVIDENDS ON SHARES CALLED FOR REDEMPTION. Immediately prior to any redemption of Series H Preferred Stock, the Corporation shall pay, in cash, any accumulated and unpaid dividends through the redemption date, unless a redemption date falls after a Series H Dividend Record Date and prior to the corresponding Series H Dividend Payment Date, in which case each holder of Series H Preferred Stock at the close of business on such Series H Dividend Record Date shall be entitled to the dividend payable on such shares on the corresponding Series H Dividend Payment Date notwithstanding the redemption of such shares before such Series H Dividend Payment Date. Except as provided above, the Corporation will make no payment or allowance for unpaid dividends, whether or not in arrears, on Series H Preferred Stock which is redeemed.

(d) PROCEDURES FOR REDEMPTION.

(i) Notice of redemption will be (A) given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than 30 nor more than 60 days prior to the redemption date, and (B) mailed by the Corporation, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series H Preferred Stock to be redeemed at their respective addresses as they appear on the stock transfer records of the Corporation.

No failure to give such notice or any defect thereto or in the mailing thereof shall affect the validity of the proceedings for the redemption of any shares of Series H Preferred Stock except as to the holder to whom notice was defective or not given.

(ii) In addition to any information required by law or by the applicable rules of any exchange upon which Series H Preferred Stock may be listed or admitted to trading, such notice shall state: (A) the redemption date; (B) the redemption price; (C) the number of shares of Series H Preferred Stock to be redeemed; (D) the place or places where the Series H Preferred Stock is to be surrendered for payment of the redemption price; and (E) that dividends on the shares to be redeemed will cease to accrue on such redemption date. If less than all of the Series H Preferred Stock held by any holder is to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series H Preferred Stock held by such holder to be redeemed.

(iii) If notice of redemption of any shares of Series H Preferred Stock has been given and if the funds necessary for such redemption have been set aside by the Corporation in trust for the benefit of the holders of any shares of Series H Preferred Stock so called for redemption, then from and after the redemption date dividends will cease to accrue on such shares of Series H Preferred Stock, such shares of Series H Preferred Stock shall no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. Holders of Series H Preferred Stock to be redeemed shall surrender such Series H Preferred Stock at the place designated in such notice and, upon surrender in accordance with said notice of the certificates for shares of Series H Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Corporation shall so require and the notice shall so state), such shares of Series H Preferred Stock shall be redeemed by the Corporation at the redemption price plus any accrued and unpaid dividends payable upon such redemption. In case less than all the shares of Series H Preferred Stock represented by any such certificate are redeemed, a new certificate or certificates shall be issued representing the unredeemed shares of Series H Preferred Stock without cost to the holder thereof.

(iv) The deposit of funds with a bank or trust corporation for the purpose of redeeming Series H Preferred Stock shall be irrevocable except that:

(A) the Corporation shall be entitled to receive from such bank or trust corporation the interest or other earnings, if any, earned on any money so deposited in trust, and the holders of any shares redeemed shall have no claim to such interest or other earnings; and

(B) any balance of monies so deposited by the Corporation and unclaimed by the holders of the Series H Preferred Stock entitled thereto at the expiration of two years from the applicable redemption dates shall be repaid, together with any interest or other earnings thereon, to the Corporation, and after any such repayment, the holders of the shares entitled to the funds so

repaid to the Corporation shall look only to the Corporation for payment without interest or other earnings.

(e) The shares of Series H Preferred Stock are subject to the provisions of Section 7.4 of Article VII and Article IX of the Articles relating to Excess Stock. Excess Stock issued upon exchange of shares of Series H Preferred Stock pursuant to such provisions may be redeemed, in whole or in part, at any time when outstanding shares of Series H Preferred Stock are being redeemed, for cash at a redemption price of $25.00 per share, plus all accrued and unpaid dividends on the shares of Series H Preferred Stock, which are exchanged for such Excess Stock, through the date of such exchange, without interest. If the Corporation elects to redeem Excess Stock pursuant to the redemption right set forth in the preceding sentence, such Excess Stock shall be redeemed in such proportion and in accordance with such procedures as shares of Series H Preferred Stock are

being redeemed.

(f) Any shares of Series H Preferred Stock that shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued Preferred Stock, without designation as to series until such shares are thereafter designated as part of a particular series by the Board of Directors.

(6) VOTING RIGHTS.

(a) Holders of the Series H Preferred Stock will not have any voting rights, except as set forth below or as otherwise from time to time required by law.

(b) Whenever dividends on any shares of Series H Preferred Stock shall be in arrears for six or more quarterly periods (a "Series H Preferred Dividend Default"), the Board of Directors shall take such action as may be necessary to increase the number of Directors of the Corporation by two and the holders of such shares of Series H Preferred Stock (voting separately as a class with the holders of all other series of Preferred Stock ranking on a parity with the Series H Preferred Stock as to dividends or upon liquidation ("Series H Parity Preferred") upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of a total of two directors of the Corporation (the "Series H Preferred Stock Directors") at a special meeting called by the holders of record of at least 20% of the Series H Preferred Stock or the holders of any other series of Series H Parity Preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series H Preferred Stock for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment.

(c) If and when all accumulated dividends and the dividend for the then current dividend period on the Series H Preferred Stock shall have been paid in full or set aside for payment in full, the holders of shares of Series H Preferred Stock shall be divested of the voting rights set forth in Section 6(b) hereof (subject to revesting in the event of each and every Series H Preferred Dividend Default) and, if all accumulated dividends and the dividend

for the current dividend period have been paid in full or set aside for payment in full on all other series of Series H Parity Preferred upon which like voting rights have been conferred and are exercisable, the term of office of each Series H Preferred Stock Director so elected shall terminate and the Board of Directors shall take such action as may be necessary to reduce the number of Directors by two. Any Series H Preferred Stock Director may be removed at any time with or without cause by the vote of, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series H Preferred Stock when they have the voting rights set forth in Section 6(b) (voting separately as a class with all other series of Series H Parity Preferred upon which like voting rights have been conferred and are exercisable). So long as a Series H Preferred Dividend Default shall continue, any vacancy in the office of a Series H Preferred Stock Director may be filled by written consent of the Series H Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series H Preferred Stock when they have the voting rights set forth in Section 6(b) hereof (voting separately as a class with all other series of Series H Parity Preferred upon which like voting rights have been conferred and are exercisable). The Series H Preferred Stock Directors shall each be entitled to one vote per director on any matter.

(d) So long as any shares of Series H Preferred Stock remain outstanding, the Corporation shall not, without the affirmative vote of the holders of at least two-thirds of the shares of the Series H Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class), (i) authorize or create, or increase the authorized or issued amount of, any class or series of Stock ranking senior to the Series H Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up or reclassify any authorized Stock of the Corporation into any such shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase any such shares or (ii) amend, alter or repeal the provisions of the Articles, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series H Preferred Stock or the holders thereof; provided, however, that with respect to the occurrence of any event set forth in (ii) above, so long as the Series H Preferred Stock remains outstanding with the terms thereof materially unchanged or, if the Corporation is not the surviving entity in such transaction, is exchanged for a security of the surviving entity with terms that are materially the same as the Series H Preferred Stock, the occurrence of any such event shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers of the holders of the Series H Preferred Stock; and,

provided, further, that any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other series of Preferred Stock, or any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series H Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

(e) The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required shall be effected, all outstanding shares of Series H Preferred Stock shall have been redeemed or called for

redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

(f) Except as otherwise required by law or provided in the Articles, the holders of Common Stock shall not be entitled to vote on any matter submitted to a vote of the holders of Series H Preferred Stock pursuant to Section 6 hereof.

(7) CONVERSION.The Series H Preferred Stock is not convertible into or exchangeable for any other property or securities of the Corporation, except that the shares of Series H Preferred Stock will automatically be converted by the Corporation into shares of Excess Stock and transferred to a Trust in accordance with Section 7.4 of Article VII and Article IX of the Articles in the same manner that Common Stock is exchanged for Excess Stock and transferred to a Trust pursuant thereto, in order to ensure that the Corporation remains qualified as a REIT for federal income tax purposes.

THIRD: These Articles Supplementary shall be effective at the time the State Department of Assessments and Taxation of Maryland accepts these Articles Supplementary for record.

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EXHIBIT 10.8

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this "AGREEMENT") made as of the 26th day of February, 2001 (the "EFFECTIVE DATE") by and between Timothy J. Naughton and AvalonBay Communities, Inc., a Maryland corporation (the "COMPANY").

WHEREAS, Executive has been performing services for the Company; and

WHEREAS, Executive and the Company desire to enter into an employment agreement, effective as of the date of execution of this Agreement.

NOW, THEREFORE, the parties hereto do hereby agree as follows.

1. TERM. The Company hereby agrees to employ Executive, and Executive hereby agrees to remain in the employ of the Company subject to the terms and conditions of this Agreement for the period commencing on the Effective Date and terminating on February 25, 2004 (the "ORIGINAL TERM"), unless earlier terminated as provided in Section 7. The Original Term shall be extended automatically for additional one year periods measured from February 26, 2004 (each a "RENEWAL TERM"), unless notice that this Agreement will not be extended is given by either party to the other ninety (90) days prior to the expiration of the Original Term or any Renewal Term. Notwithstanding the foregoing, upon a Change in Control, the Employment Period shall be extended automatically to three years from the date of such Change in Control. (The period of Executive's employment hereunder within the Original Term and any Renewal Terms is herein referred to as the "EMPLOYMENT PERIOD.")

2. EMPLOYMENT DUTIES.

(a) During the Employment Period, Executive shall be employed in the business of the Company and its affiliates. Executive shall serve as a corporate officer of the Company with the title of CHIEF OPERATING OFFICER. In the performance of his duties, Executive shall be subject to the direction of the Board of Directors of the Company (the "Board"), including any committee of the Board designated by the Board, if any, and the President and/or Chief Executive Officer of the Company ("CEO", which term refers to the President and/or Chief Executive Officer, each with authority acting alone to give direction hereunder in the event that both titles are not held by the same person) and shall not be required to take direction from or report to any other person. Executive's duties, title and/or authority, as assigned by the Board or CEO, shall include responsibility for overseeing the Company's overall (i) development activities, (ii) construction activities, (iii) investment activities, (iv) marketing activities, and (v) property operations activities (in each case, to the extent the same relate to the multifamily rental business), PROVIDED, HOWEVER, that it will not be a violation of this Section 2(a), or otherwise be a breach by the Company under any term of this Agreement, if (a) the Company modifies Executive's duties so that they include only three out of the aforementioned five functional areas, or (b) the Executive's duties are modified from time to time as Executive and Company mutually reasonably agree.

(b) Executive agrees to his employment as described in this Section 2 and agrees to devote substantially all of his working time and efforts to the performance of his duties under this Agreement; provided that nothing in this Section 2(b) shall be interpreted to preclude Executive from (i) participating with the prior written consent of the Board as an officer or director of, or advisor to, any other entity or organization that is not a customer or material service provider to the Company or a Competing Enterprise, as defined in Section 8, so long as such participation does not interfere with the performance of

Executive's duties hereunder, whether or not such entity or organization is engaged in religious, charitable or other community or non-profit activities, (ii) investing in any entity or organization which is not a customer or material service provider to the Company or a Competing Enterprise, so long as such investment does not interfere with the performance of Executive's duties hereunder, or (iii) delivering lectures or fulfilling speaking engagements so long as such lectures or engagements do not interfere with the performance of Executive's duties hereunder.

(c) In performing his duties hereunder, Executive shall be available for reasonable travel as the needs of the business require. Executive shall be based in Alexandria, Virginia (or otherwise in the Washington Baltimore, DC-MD-VA-WV Consolidated Metropolitan Statistical Area as defined by the U.S. Census Bureau ("Metropolitan D.C.")).

(d) Breach by either party of any of his or its respective

obligations under this Section 2 shall be deemed a material breach of that party's obligations hereunder.

3. COMPENSATION/BENEFITS. In consideration of Executive's services hereunder, the Company shall provide Executive the following:

(a) BASE SALARY. During the Employment Period, the Executive shall receive an annual rate of base salary ("BASE SALARY") in an amount not less than $350,000. Executive's Base Salary will be reviewed by the Company annually and may be adjusted upward (but not downward) at such time. Base Salary shall be payable in accordance with the Company's normal business practices, but in no event less frequently than monthly.

(b) BONUSES. Commencing at the close of each fiscal year during the Employment Period, the Company shall review the performance of the Company and of Executive during the prior fiscal year, and the Company may provide Executive with additional compensation in the form of a cash bonus ("CASH BONUS") and/or in the form of long term equity incentives such as stock options and restricted stock grants ("LT EQUITY BONUS") if the Board, or any compensation committee thereof, in its discretion, determines that the performance of the Company and Executive's contribution to the Company warrants such additional payment and the Company's anticipated financial performance of the present period permits such payment. Any Cash Bonuses hereunder shall be paid as a lump sum not later than 75 days after the end of the Company's preceding fiscal year.

(c) MEDICAL AND DISABILITY INSURANCE/PHYSICAL. During the Employment Period, the Company shall provide to Executive and Executive's immediate family a comprehensive policy of health insurance in accordance with the Company's general practice applicable to officers (including payment of all or a portion of the premiums due thereon) and shall provide to Executive a disability policy in accordance with the Company's general practice applicable to officers (including payment of all or a portion of the premiums due thereon). During the Employment Period, Executive shall be entitled to a comprehensive annual physical performed, at the expense of the Company (but not including any related travel expense), by the physician or medical group of Executive's choosing.

(d) SPLIT DOLLAR LIFE INSURANCE. During the Employment Period, the Company shall keep in force and pay the premiums on the split-dollar life insurance policy referenced in the Split Dollar Insurance Agreement between the Company and Executive, subject to reimbursement by Executive as provided in such Split Dollar Insurance Agreement. Executive agrees to submit to such medical examinations as may be required in order to maintain such policy of insurance.

(e) VACATIONS. Executive shall be entitled to reasonable paid vacations during the Employment Period in accordance with the then regular procedures of the Company governing officers.

(f) OFFICE/SECRETARY, ETC. During the Employment Period, Executive shall be entitled to secretarial services and a private office commensurate with his title and duties.

(g) ANNUAL ALLOWANCE. The Company will provide the Executive with an annual allowance of up to $5,000 per year (the "ALLOWANCE"). The Executive may draw on the Allowance for expenses incurred in his discretion for items such as country club membership, financial counseling or tax preparation. Payment of the Allowance shall be subject to substantiation of expenses in accordance with the Company's policies in effect from time to time for executive officers of the Company. Unused portions of the Allowance shall not be carried over from year to year. For purposes of this Section 3(g), a new year shall be deemed to commence on each January 1.

(h) AUTOMOBILE. The Company shall provide Executive with a monthly car allowance during the Employment Period in accordance with the Company's current practices but in no event less than Executive's current monthly car allowance.

(i) OTHER BENEFITS. During the Employment Period, the Company shall provide to Executive such other benefits, excluding severance benefits, but including the right to participate in such retirement or pension plans, as are made generally available to officers of the Company from time to time. Executive shall be given credit for purposes of eligibility and vesting of employee benefits and benefit accrual for service prior to the Effective Date with Avalon Properties, Inc. and its affiliates ("AVALON"), and Trammell Crow Residential ("TCR") under each benefit plan of the Company and its subsidiaries to the extent such service had been credited under employee benefit plans of Avalon or TCR, provided that no such crediting of service results in duplication of benefits.

(j) TOTAL COMPENSATION. The Company acknowledges that the Executive's Cash Bonus and LT Equity Bonus awarded to the Executive by the Board

or Compensation Committee of the Board in its discretion from time-to-time, are a material part of total compensation for the Executive. The Company will endeavor to provide Executive with a reasonable Cash Bonus and/or reasonable LT Equity Bonus on an annual basis such that the Executive's total compensation, in light of the Company's performance and his performance in his role of COO, is reasonable under the circumstances and reasonable relative to the Cash Bonuses and LT Equity Bonuses awarded other officers of the Company. The Company shall not be in breach of this provision unless it can be demonstrated that the Company acted in bad faith in determining whether to award (or the size of an award of) a Cash Bonus or LT Equity Bonus, which determination of bad faith shall specifically be made with reference to the target awards set for other officers and the actual awards paid other officers.

4. EXPENSES/INDEMNIFICATION.

(a) During the Employment Period, the Company shall reimburse Executive for the reasonable business expenses incurred by Executive in the course of performing his duties for the Company hereunder, upon submission of invoices, vouchers or other appropriate documentation, as may be required in accordance with the policies in effect from time to time for executive employees of the Company.

(b) To the fullest extent permitted by law, the Company shall indemnify Executive with respect to any actions commenced against Executive in his capacity as an officer or director or former officer or director of the Company, or any affiliate thereof for which he may render service in such capacity, whether by or on behalf of the Company, its shareholders or third parties, and the Company shall advance to Executive on a timely basis an amount equal to the reasonable fees and expenses incurred in defending such actions, after receipt of an itemized request for such advance, and an undertaking from Executive to repay the amount of such advance, with interest at a reasonable rate from the date of the request, as determined by the Company, if it shall ultimately be determined that he is not entitled to be indemnified against such expenses. Notwithstanding the foregoing, the Company shall not indemnify

Executive with respect to any acts or omissions attributable, directly or indirectly, to Executive's gross negligence, willful misconduct or material breach of this Agreement. The Company agrees that it shall use reasonable best efforts to secure and maintain officers' and directors' liability insurance that shall include coverage with respect to Executive.

5. EMPLOYER'S AUTHORITY/POLICIES.

(a) GENERAL. Executive agrees to observe and comply with the rules and regulations of the Company as adopted by its Board respecting the performance of his duties and to carry out and perform orders, directions and policies communicated to him from time to time by the Board or the CEO.

(b) ETHICS POLICIES. Executive agrees to comply with and be bound by the Ethics Policies of the Company, as reflected in the attachment at ANNEX A hereto and made a part hereof. Executive agrees to comply with and be bound by the Company's insider trading policies and procedures that are generally applicable to employees and/or senior officers.

6. RECORDS/NONDISCLOSURE/COMPANY POLICIES.

(a) GENERAL. All records, manuals, financial statements and similar documents obtained, reviewed or compiled by Executive in the course of the performance by him of services for the Company, whether or not confidential information or trade secrets, shall be the exclusive property of the Company. Executive shall have no rights in such documents upon any termination of this Agreement.

(b) NONDISCLOSURE AGREEMENT. Without limitation of the Company's rights under Section 6(a), Executive agrees to abide by and be bound by the Nondisclosure Agreement of the Company executed by Executive and the Company as reflected in the attachment at ANNEX B and made a part hereof.

7. TERMINATION; SEVERANCE AND RELATED MATTERS.

(a) AT-WILL EMPLOYMENT. Executive's employment hereunder is "at will" and, therefore, may be terminated at any time, with or without Cause, at the option of the Company, subject only to the severance obligations under this Section 7. Upon any termination hereunder, the Employment Period shall expire.

(b) DEFINITIONS. For purposes of this Section 7, the following terms shall have the indicated definitions:

(1) CAUSE. "Cause" shall mean:

(i) Executive is convicted of or enters a

plea of nolo contendere to an act which is defined as a felony under any federal, state or local law, not based upon a traffic violation, which conviction or plea has or can be expected to have, in the good faith opinion of the Board, a material adverse impact on the business or reputation of the Company;

(ii) any one or more acts of theft, larceny, embezzlement, fraud or material intentional misappropriation from or with respect to the Company;

(iii) a breach by Executive of his fiduciary duties under Maryland law as an officer; or material breach by Executive of any rule, regulation, policy or procedure, the Company (including, without limitation, as described in Section 5 hereof);

(iv) Executive's commission of any one or more acts of gross negligence or willful misconduct which in the good faith opinion of the Board has resulted in material harm to the business or reputation of the Company; or

(v) default by Executive in the performance of his material duties under this Agreement, without correction of such action within 15 days of written notice thereof.

Notwithstanding the foregoing, no termination of Executive's employment by the Company shall be treated as for Cause or be effective until and unless all of the steps described in subparagraphs (A) through (C) below have been complied with:

(A) Notice of intention to terminate for Cause has been given by the Company within 120 days after the Board learns of the act, failure or event (or latest in a series of acts, failures or events) constituting "Cause";

(B) The Board has voted (at a meeting of the Board duly called and held as to which termination of Executive is an agenda item) to terminate Executive for Cause after Executive has been given notice of the particular acts or circumstances which are the basis for the termination for Cause and has been afforded at least 20 days notice of the meeting and an opportunity to present his position in writing; and

(C) The Board has given a Notice of Termination to Executive within 20 days after such Board meeting.

The Company may suspend Executive with pay at any time during the period commencing with the giving of notice to Executive under clause (A) above until final Notice of Termination is given under clause (C) above. Upon the giving of notice as provided in clause (C) above, no further payments shall be due Executive except as provided in Section 7(c)(vii).

(2) CHANGE IN CONTROL. A "Change in Control" shall mean the occurrence of any one or more of the following events following the Effective Date:

(i) Any individual, entity or group (a "Person") within the meaning of Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 (the "Act") (other than the Company, any corporation, partnership, trust or other entity controlled by the Company (a "Subsidiary"), or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of the Company or any of its Subsidiaries), together with all "affiliates" and "associates" (as such terms are defined in Rule 12b-2 under the Act) of such Person, shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Act) of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities having the right to vote generally in an election of the Company's Board of Directors ("Voting Securities"), other than as a result of (A) an acquisition of securities directly from the Company or any Subsidiary or (B) an

acquisition by any corporation pursuant to a reorganization, consolidation or merger if, following such reorganization, consolidation or merger the conditions described in clauses (A), (B) and (C) of subparagraph (iii) of this Section 7(b)(2) are satisfied; or

(ii) Individuals who, as of the Effective Date, constitute the Company's Board (the "Incumbent Directors") cease for any reason to constitute at least a

majority of the Board, provided, however, that any individual becoming a director of the Company subsequent to the date hereof (excluding, for this purpose, (A) any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of members of the Board or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation, and (B) any individual whose initial assumption of office is in connection with a reorganization, merger or consolidation, involving an unrelated entity and occurring during the Employment Period), whose election or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the persons then comprising Incumbent Directors shall for purposes of this Agreement be considered an Incumbent Director; or

(iii) Consummation of a reorganization, merger or consolidation of the Company, unless, following such reorganization, merger or consolidation, (A) more than 50% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Voting Securities immediately prior to such reorganization, merger or consolidation, (B) no Person (excluding the Company, any employee benefit plan (or related trust) of the Company, a Subsidiary or the corporation resulting from such reorganization, merger or consolidation or any subsidiary thereof, and any Person beneficially owning, immediately prior to such reorganization, merger or consolidation, directly or indirectly, 30% or more of the outstanding Voting Securities), beneficially owns, directly or indirectly, 30% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors, and (C) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the Incumbent Board at the time of the execution of the initial agreement providing for such reorganization, merger or consolidation;

(iv) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company; or

(v) The sale, lease, exchange or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which following such sale, lease, exchange or other disposition (A) more than 50% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners of the outstanding Voting Securities immediately prior to such sale, lease, exchange or other disposition, (B) no Person (excluding the Company and any employee benefit plan (or related trust) of the Company or a Subsidiary or such corporation or a subsidiary thereof and any Person beneficially owning, immediately prior to such sale, lease, exchange or other disposition, directly or indirectly, 30% or more of the outstanding Voting Securities), beneficially owns, directly or indirectly, 30% or more of, respectively, the then outstanding shares of common stock of

such corporation and the combined voting

power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (C) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board of Directors providing for such sale, lease, exchange or other disposition of assets of the Company.

Notwithstanding the foregoing, a "Change in Control" shall not be deemed to have occurred for purposes of this Agreement solely as the result of an acquisition of securities by the Company which, by reducing the number of shares of Voting Securities outstanding, increases the proportionate voting power represented by the Voting Securities beneficially owned by any Person to 30% or more of the combined voting power of all then outstanding Voting Securities; provided, however, that if any Person referred to in this sentence shall thereafter become the beneficial owner of any additional shares of Stock or other Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction), then a "Change in Control" shall be deemed to have occurred for purposes of this Agreement.

(3) COMPLETE CHANGE IN CONTROL. A "Complete Change in Control" shall mean that a Change in Control has occurred, after modifying the definition of "Change in Control" by deleting clause (i) from Section 7(b)(2) of this Agreement.

(4) CONSTRUCTIVE TERMINATION WITHOUT CAUSE. "Constructive Termination Without Cause" shall mean a termination of Executive's employment initiated by Executive not later than 12 months following the occurrence (not including any time during which an arbitration proceeding referenced below is pending), without Executive's prior written consent, of one or more of the following events (or the latest to occur in a series of events), and effected after giving the Company not less than 10 working days' written notice of the specific act or acts relied upon and right to cure:

(i) a material adverse change in the functions, duties or responsibilities of Executive's position which is inconsistent with Section 2(a), except in connection with the termination of Executive's employment for Disability, Cause, as a result of Executive's death or by Executive other than for a Constructive Termination Without Cause;

(ii) any material breach by the Company of this Agreement;

(iii) any purported termination of Executive's employment for Cause by the Company which does not comply with the terms of Section 7(b)(1) of this Agreement;

(iv) the failure of the Company to obtain an agreement, satisfactory to the Executive, from any successor or assign of the Company, to assume and agree to perform this Agreement, as contemplated in Section 10 of this Agreement;

(v) the failure by the Company to continue in effect any compensation plan in which Executive participates immediately prior to a Change in Control which is material to Executive's total compensation, unless comparable alternative arrangements (embodied in ongoing substitute or alternative plans) have been implemented with respect to such plans, or the failure by the Company to continue Executive's participation therein (or in such substitute or alternative plans) on a basis not materially less favorable, in terms of the amount of benefits provided and the level of Executive's participation relative to

other participants, as existed during the last completed fiscal year of the Company prior to the Change in Control;

(vi) the relocation of the Company's Alexandria offices to a new location outside of Metropolitan D.C. or the failure to locate Executive's own office at the Alexandria office (or at the office to which such office is relocated

which is within Metropolitan D.C.) ("RELOCATION TERMINATION"); or

(vii) any voluntary termination of employment by the Executive for any reason during the 12-month period immediately following a Complete Change in Control of the Company if such Complete Change in Control occurs during the Employment Period.

Notwithstanding the foregoing, a Constructive Termination Without Cause shall not be treated as having occurred unless Executive has given a final Notice of Termination delivered after expiration of the Company's cure period. Executive or the Company may, at any time after the expiration of the Company's cure period and either prior to or up until three months after giving a final Notice of Termination, commence an arbitration proceeding to determine the question of whether, taking into account the actions complained of and any efforts made by the Company to cure such actions, a termination by Executive of his employment should be treated as a Constructive Termination Without Cause for purposes of this Agreement. If the Executive or the Company commences such a proceeding prior to delivery by Executive of a final Notice of Termination, the commencement of such a proceeding shall be without prejudice to either party and Executive's and the Company's rights and obligations under this Agreement shall continue unaffected unless and until the arbitrator has determined such question in the affirmative, or, if earlier, the date on which Executive or the Company has delivered a Notice of Termination in accordance with the provisions of this Agreement.

(5) AVERAGE COVERED TOTAL COMPENSATION. "Average Covered Total Compensation" shall mean the sum of Executive's Covered Total Compensation as calculated for the calendar year in which the Date of Termination occurs and for each of the two preceding calendar years, divided by three, PROVIDED, HOWEVER, that if the Date of Termination occurs before the second anniversary of the Effective Date, then "Average Covered Total Compensation" shall mean the sum of Executive's Covered Total Compensation as calculated for the calendar year in which the Date of Termination occurs and for the preceding calendar year, divided by two. "Average Covered Base And Cash Bonus Compensation," "Average Covered Cash Bonus Compensation" and "Average Covered LT Equity Compensation" shall have analogous meanings but with reference to Covered Base And Cash Bonus Compensation, Covered Cash Bonus Compensation and Covered LT Equity Compensation, respectively.

(6) COVERED COMPENSATION DEFINITIONS. "Covered Total Compensation," for any calendar year, shall mean an amount equal to the sum of (i) Executive's Base Salary for the calendar year (disregarding any decreases made effective during the Employment Period), (ii) the cash bonus actually earned by Executive with respect to such calendar year, and (iii) the value of all stock and other equity-based compensation awards made to Executive during such calendar year. In the event that the Company has or hereafter makes any special, mid-year or other non-routine grant of equity outside of the Company's recurring annual equity compensation programs, or in the event that the Company grants, outside of the current recurring annual equity compensation programs, any equity based compensation pursuant to any long-term plan under which equity grants may be made based on multi-year Company results, the value of any such mid-year, special, or long-term plan equity based compensation shall not be included in clause (iii) of the preceding sentence and therefore shall not be included in the calculation of Covered Compensation definitions,

and the value of such equity shall have no impact on any cash payments made under Section 7(c) of the Agreement.

"Covered Base And Cash Bonus Compensation" for any calendar year shall mean Covered Total Compensation for such year but without the inclusion of amounts attributable to clause (iii) of the definition of Covered Total Compensation.

"Covered Cash Bonus Compensation" for any calendar year shall mean Covered Total Compensation for such year but without the inclusion of amounts attributable to clauses (i) and (iii) of the definition of Covered Total Compensation.

"Covered LT Equity Compensation" for any calendar year shall mean Covered Total Compensation for such year but without the inclusion of clauses (i) and (ii) of the definition of Covered Total Compensation.

For purposes of applying the Covered Compensation definitions set forth above, the following rules shall apply:

(A) In valuing awards for purposes of clause (iii) of the definition of Covered Total Compensation, all such awards shall be treated as if fully vested when granted, stock grants shall be valued by reference to the fair market value on the date of grant of the Company's common stock, par value $.01 per share, and other equity-based compensation awards shall be valued at the value established in good faith by the Compensation Committee of the Board. Reference is made to Section 7(c)(viii) for further clarification regarding this matter.

(B) In determining the cash bonus actually paid with respect to a calendar year, if no cash bonus has been paid with respect to the calendar year in which the Date of Termination occurs, the cash bonus paid with respect to the immediately preceding calendar year shall be assumed to have been paid in each of the current and immediately preceding calendar years, and if no cash bonus has been paid by the Date of Termination with respect to the immediately preceding calendar year, the cash bonus paid with respect to the second preceding calendar year shall be assumed to have been paid in all three (or two, as applicable) of the calendar years taken into account in determining Average Covered Total Compensation (or any of the derivative definitions under Section 7(b)(5)).

(C) If (i) any cash bonus paid with respect to the current or immediately preceding calendar year was paid within three months of Executive's Date of Termination, (ii) such cash bonus is lower than the last cash bonus paid more than three months from the Date of Termination, and (iii) it is determined that the Board acted in bad faith in setting such cash bonus (which determination of bad faith shall specifically be made with reference to the target cash bonuses set for other officers and the actual cash bonuses paid other officers), then in such event any such cash bonus paid within three months of the Date of Termination shall be disregarded and the last cash bonus paid more than three months from the Date of Termination shall be substituted for each cash bonus so disregarded.

(D) In determining the amount of stock and other equity-based compensation awards made during a calendar year during the averaging period, rules similar to those set forth in subparagraphs (B) and (C) of this Section 7(b)(6) shall be followed except that all awards made in connection with the Company's initial public offering shall be disregarded.

(7) DISABILITY. "Disability" shall mean Executive has been determined to be disabled and to qualify for long-term disability benefits under the long-term disability insurance policy obtained pursuant to Section 3(d) of this Agreement.

(C) RIGHTS UPON TERMINATION.

(i) PAYMENT OF BENEFITS EARNED THROUGH DATE OF TERMINATION. Upon any termination of Executive's employment during the Employment Period, Executive, or his estate, shall in all events be paid (I) all accrued but unpaid Base Salary and (II) (except in the case of a termination by the Company for Cause or a voluntary termination by Executive which is not due to a Constructive Termination Without Cause, in either of which cases this clause (II) shall not apply) a pro rata portion of the Executive's Cash Bonus and LT Equity Bonus. For purposes of fulfilling the requirements of clause (II) of the prior sentence, the following shall apply:

(a) In all events, any stock options issued will be issued prior to Executive's Date of Termination so that such stock options are employee stock options. Such stock options shall have an exercise price equal to the closing price of the Company's stock on the date of grant of such options, and such options shall expire one year after the date of grant.

(b) The Company and Executive shall work in good faith to

determine an appropriate Cash Bonus and LT Equity Bonus for the year in which the Date of Termination occurs. Such determination shall be based in good faith on an evaluation of Executive's and the Company's performance. If the Company and Executive cannot agree on appropriate amounts, then:

(A) The Company may defer the determination of the Cash Bonus and the restricted stock portion of the LT Equity Bonus until such bonuses in respect of such year are determined for other officers, and at such time the amounts to be used for determining Executive's pro rata bonuses shall be a percentage of his target Cash Bonus and a percentage of his target number of restricted shares with such percentages being equal to the average of the percentages that apply to the Cash Bonus and restricted shares, respectively, of other officers ranked Senior Vice President or higher; and

(B) The Company may grant to Executive a number of stock options based on the assumption that the percentage of the target number of options Executive would have received in respect of the year in which the Date of Termination occurs would equal the average of the percentage realization applied to options granted with respect to the prior three calendar years.

(c) Once the determination in the preceding paragraph is made, the pro rata portion of such amounts shall equal such amounts multiplied by a fraction, the numerator of which is the number of days from January 1 to the Date of Termination in the year of termination and the denominator of which is 365.

Executive shall also retain all such rights with respect to vested equity-based awards as are provided under the circumstances under the applicable grant or award agreement, and shall

be entitled to all other benefits which are provided under the circumstances in accordance with the provisions of the Company's generally applicable employee benefit plans, practices and policies, other than severance plans.

(ii) DEATH. In the event of Executive's death during the Employment Period, the Company shall, in addition to paying the amounts set forth in Section 7(c)(i), take whatever action is necessary to cause all of Executive's unvested equity-based awards to become fully vested as of the date of death and, in the case of equity-based awards which have an exercise schedule, to become fully exercisable and continue to be exercisable for such period as is provided in the case of vested and exercisable awards in the event of death under the terms of the applicable award agreements.

(iii) DISABILITY. In the event the Company elects to terminate Executive's employment during the Employment Period on account of Disability, the Company shall, in addition to paying the amounts set forth in Section 7(c)(i) and subject to Executive first entering into a separation agreement, including a general release of all claims, in a form reasonably acceptable to the Company ("SEPARATION AGREEMENT"), pay to Executive, in one lump sum, no later than the later of the effective date of said Separation Agreement or 31 days following the Date of Termination, an amount equal to one times Average Covered Total Compensation. The Company shall also, commencing upon the Date of Termination and subject to Executive entering into a Separation Agreement:

(A) Continue, without cost to Executive, benefits comparable to the medical benefits provided to Executive immediately prior to the Date of Termination under Section 3(c) for a period of 12 months following the Date of Termination or until such earlier date as Executive obtains comparable benefits through other employment;

(B) Continue to pay, or reimburse Executive, for all premiums then due or thereafter payable on the whole-life portion of the split-dollar insurance policy referenced under Section 3(d) for so long as such payments are due; PROVIDED, that the Company's obligations under this Section 7(c)(iii)(B) are contingent on Executive's timely payment of the premiums then due or thereafter payable on the term portion of said split-dollar insurance policy; and

(C) Take whatever action is necessary to cause

Executive to become vested as of the Date of Termination in all stock options, restricted stock grants, and all other equity-based awards and be entitled to exercise and continue to exercise all stock options and all other equity-based awards having an exercise schedule and to retain such grants and awards to the same extent as if they were vested upon termination of employment in accordance with their terms.

(D) If Executive obtains a disability policy on commercially reasonable terms with the same or similar coverage as provided by the Company prior to the Date of Termination then, until that date that is 12 months following the Date of Termination (or, if earlier, until Executive obtains comparable benefits through other employment), reimburse Executive for an amount equal to the difference between (i) the monthly premiums for such disability policy, less (ii) the amount paid by Executive in respect of a portion of the premiums on the disability policy provided by Company prior to the Date of Termination.

(iv) NON-RENEWAL BY THE COMPANY. In the event the Company gives Executive a notice of non-renewal pursuant to Section 1 above, and either (I) within one year after expiration of the Employment Period the Executive voluntarily terminates his employment ("POST-EXPIRATION RESIGNATION") or (II) within two years after expiration of the Employment Period the Executive's employment is terminated by the Company without Cause or Constructively Terminated without Cause ("POST-EXPIRATION TERMINATION"), then, in either such case, the Company shall, in addition to paying the amounts set forth in Section 7(c)(i), and subject to Executive first entering into a Separation Agreement, pay to Executive, for 12 consecutive months beginning with the first business day of the calendar month following the Effective Date of said Separation Agreement, a monthly amount equal to one-twelfth (1/12) of the sum of one times his then applicable Base Salary plus one times Average Covered Cash Bonus Compensation. The Company shall also, commencing upon the Date of Termination and subject to Executive entering into a Separation Agreement, continue, without cost to Executive, benefits comparable to the medical benefits provided to Executive immediately prior to the Date of Termination under Section 3(c) for a period of 12 months following the Date of Termination or until such earlier date as Executive obtains comparable benefits through other employment. In addition, if Executive obtains a disability policy on commercially reasonable terms with the same or similar coverage as provided by the Company prior to the Date of Termination then, until that date that is 12 months following the Date of Termination (or, if earlier, until Executive obtains comparable benefits through other employment), reimburse Executive for an amount equal to the difference between (i) the monthly premiums for such disability policy, less (ii) the amount paid by Executive in respect of a portion of the premiums on the disability policy provided by Company prior to the Date of Termination.

In addition to the above, in the case of a Post-Expiration Termination the Company additionally shall:

I. Take whatever action is necessary to cause Executive to become vested as of the Date of Termination in all stock options, restricted stock grants, and all other equity-based awards and be entitled to exercise and continue to exercise all stock options and all other equity-based awards having an exercise schedule and to retain such grants and awards to the same extent as if they were vested upon termination of employment in accordance with their terms; and

II. Continue to pay, or reimburse Executive for, all premiums then due or thereafter payable on the whole-life portion of the split-dollar insurance policy referenced under Section 3(d) for so long as such payments are due; PROVIDED, that the Company's obligations under this Section 7(c)(iv)(B)(II) are contingent on Executive's timely payment of the premiums then due or thereafter payable on the term portion of said split-dollar insurance

policy;

(V) TERMINATION WITHOUT CAUSE OR CONSTRUCTIVE TERMINATION WITHOUT CAUSE PRIOR TO CHANGE IN CONTROL OF COMPANY. In the event the Company or any successor to the Company terminates Executive's employment without Cause, or if Executive terminates his employment in a Constructive Termination without Cause, in either case prior to the effective time of any Change in Control of the Company or at any time after two years after a Change in Control of the Company, the Company shall, in addition to paying the amounts provided under Section 7(c)(i), and subject to Executive first entering

into a Separation Agreement, pay to Executive, in one lump sum no later than the later of the Effective Date of said Separation Agreement or 31 days following the Date of Termination, an amount equal to the sum of (x) two times Average Covered Base And Cash Bonus Compensation PLUS (y) one times Average Covered LT Equity Compensation (such sum, the "SECTION 7(c)(v) PAYMENT"); PROVIDED, HOWEVER, that in the event that the Constructive Termination Without Cause is a Relocation Termination, the payment shall be in an amount equal to one times Average Covered Total Compensation. The Company shall also, commencing upon the Date of Termination and subject to the Executive entering into a Separation Agreement:

(A) Continue, without cost to Executive, benefits comparable to the medical benefits provided to Executive immediately prior to the Date of Termination under Section 3(c) for a period of 24 months (12 months in the case of a Relocation Termination) following the Date of Termination or until such earlier date as Executive obtains comparable benefits through other employment;

(B) Continue to pay, or reimburse Executive, for so long as such payments are due, all premiums then due or payable on the whole-life portion of the split-dollar insurance policy referenced under Section 3(d); PROVIDED that the Company's obligations under this Section 7(c)(v)(B) are contingent on Executive's timely payment of the premiums then due or thereafter payable on the term portion of said split-dollar insurance policy; and

(C) Take whatever action is necessary to cause Executive to become vested as of the Date of Termination in all stock options, restricted stock grants, and all other equity-based awards and be entitled to exercise and continue to exercise all stock options and all other equity-based awards having an exercise schedule and to retain such grants and awards to the same extent as if they were vested upon termination of employment in accordance with their terms.

(D) If Executive obtains a disability policy on commercially reasonable terms with the same or similar coverage as provided by the Company prior to the Date of Termination then, until that date that is 24 months (12 months in the case of a Relocation Termination) following the Date of Termination (or, if earlier, until Executive obtains comparable benefits through other employment), reimburse Executive for an amount equal to the difference between (i) the premium for such disability policy, less (ii) the amount paid by Executive in respect of a portion of the premiums on the disability policy provided by Company prior to the Date of Termination.

In the event that, within six months after the Notice of Termination which gave rise to the termination of Executive's employment under this Section 7(c)(v), a Change in Control of

the Company occurs, then (provided Executive previously signed a Separation Agreement), Executive shall be entitled to receive the payments and benefits under Section 7(c)(vi) rather than this Section 7(c)(v). To effect this increase in payments and benefits, within 31 days of the Change in Control the Company shall pay to Executive, in one lump sum, an amount equal to the difference between (A) three times Average Covered Total Compensation (calculated as of the Date of Termination) less (B) the Section 7(c)(v) Payment. No payment in the nature of interest or for the time value of money shall be paid by the Company. In addition, the benefits described in Section 7(c)(v)(A) shall continue for 36 months following the Date of Termination (or until such earlier date as Executive obtains comparable benefits through other employment) rather than 24 months.

(VI) TERMINATION WITHOUT CAUSE WITHIN TWO YEARS FOLLOWING A CHANGE IN CONTROL. In the event the Company or any successor to the Company terminates Executive's employment without Cause (or Executive's employment is Constructively Terminated without Cause) within two years following the effective time of a Change in Control of the Company, the Company shall, in addition to paying the amounts provided under Section 7(c)(i), and subject to the Executive first entering into a Separation Agreement, pay to the Executive, in one lump sum no later than the later of the effective date of said Separation Agreement or 31 days following the Date of Termination, an amount equal to three times Average Covered Total Compensation. The Company shall also, commencing upon the Date of Termination:

(A) Continue, without cost to Executive, benefits comparable to the medical benefits provided to Executive immediately prior to the Date of Termination under Section 3(c) for a period of 36 months following the Date of Termination or until such earlier date as Executive obtains comparable benefits through other employment;

(B) Continue to pay, or reimburse Executive, for so long as such payments are due, all premiums then due or payable on the whole-life portion of the split-dollar insurance policy referenced under Section 3(d);); PROVIDED that the Company's obligations under this Section 7(c)(vi)(B) are contingent on Executive's timely payment of the premiums then due or thereafter payable on the term portion of said split-dollar insurance policy; and

(C) Take whatever action is necessary to cause Executive to become vested as of the Date of Termination in all stock options, restricted stock grants, and all other equity-based awards and be entitled to exercise and continue to exercise all stock options and all other equity-based awards having an exercise schedule and to retain such grants and awards to the same extent as if they were vested upon termination of employment in accordance with their terms.

(D) If Executive obtains a disability policy on commercially reasonable terms with the same or similar coverage as provided by the Company prior to the Date of Termination then, until that date that is 36 months following the Date of Termination (or, if earlier, until Executive obtains comparable benefits through other employment), reimburse Executive for an amount equal to the difference between (i) the monthly premiums for such disability policy, less (ii) the amount paid by Executive in respect of a portion of the premiums on the disability policy provided by Company prior to the Date of Termination.

(vii) TERMINATION FOR CAUSE; VOLUNTARY RESIGNATION. In the event Executive's employment terminates during the Employment Period other than in connection with a termination meeting the conditions of subparagraphs (ii), (iii), (iv), (v) or (vi) of this Section 7(c), Executive shall receive the amounts set forth in Section 7(c)(i) in full satisfaction of all of his entitlements from the Company. All equity-based awards not vested as of the Date of Termination shall terminate (unless otherwise provided in the applicable award agreement) and Executive shall have no further entitlements with respect thereto.

(viii) CLARIFICATION REGARDING TREATMENT OF OPTIONS AND RESTRICTED STOCK. The stock option and restricted stock agreements (the "EQUITY AWARD AGREEMENTS")

that Executive has or may receive may contain language regarding the effect of a termination of Executive's employment under certain circumstances.

(A) Notwithstanding such language in the Equity Award Agreements, for so long as this Agreement is in effect, the Company will be obligated, if the terms of this Agreement are more favorable in this regard than the terms of the Equity Award Agreements, to take the actions required under Sections 7(c)(ii), 7(c)(iii)(C), 7(c)(iv)(for a Post-Expiration Termination), 7(c)(v)(C) and 7(c)(vi)(C) hereof upon the happening of the circumstances described therein. Those sections provide that in certain situations the Company will cause the Executive to become vested as of the Date of Termination in all or certain equity-based awards, and that such equity-based awards will thereafter be subject to the provisions of the applicable Equity Award Agreement as it applies to vested awards upon a termination. For purposes of clarification, although an option grant may VEST in accordance with these above-referenced Sections, such option will thereafter be EXERCISABLE only for so long as the related option agreement provides, except that the Compensation Committee of the Board of Directors may, in its sole discretion, elect to extend the expiration date of such option. For example, in general Executive's option agreements granted prior to the date hereof provide that (in the absence of an extension by the Compensation Committee) upon a termination of employment for any reason other than death, disability, retirement or cause, any vested options will only be exercisable for three months from the date of termination or, if earlier, the expiration date of the option.

(B) Notwithstanding the definition of "Cause" which may appear in the Equity Award Agreements, for so long as this Agreement is in effect (X) any "for Cause" termination must be in compliance with the terms of this Agreement, including the definition of "Cause" set forth herein, and (Y) only in the event of a "for Cause" termination that meets both the definition in this Agreement and the definition in the Equity Award Agreement will the disposition of options and restricted stock under such Equity Award Agreement be treated in the manner described in such Equity Award Agreement in the case of a termination "for Cause."

(C) For purposes of Section 7(b)(6)(A), the value of any option may be determined by the Compensation Committee of the Board at any time after its grant date by setting such value at the value determined by a nationally recognized accounting firm or employee benefits compensation firm, selected by such Committee, that calculates such value in accordance with a Black-Scholes formula or variations thereof using such parameters and procedures (including, without limitation, parameters and procedures used to measure the historical volatility of the Company's common stock as of the relevant grant date) as the Compensation Committee and/or such firm deems reasonably appropriate. In all events, if the parameters used for valuing any option for purposes of Section 7(b)(6)(A) are the same as the parameters used for valuing any other options for purposes of disclosure or inclusion in the Company's financial statements or financial statement footnotes, then such parameters shall be deemed reasonable.

(D) During the Employment Period any stock options issued to Executive shall provide that if Executive's employment is terminated in any manner which gives rise to an obligation under this Agreement (or any successor Agreement or other severance arrangement) to cause the acceleration of vesting of

stock options, then in such event such stock options shall not expire until one year after the Date of Termination (or, if earlier, the expiration of their ordinary term). The Company represents that the stock options awarded to Executive in February 2001 have a provision to the same effect. This

covenant of the Company shall not apply to any stock options issued prior to 2001 or to any stock options issued after the expiration of the Employment Period.

(d) ADDITIONAL BENEFITS.

(i) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of Executive, whether paid or payable or distributed or distributable (1) pursuant to the terms of Section 7 of this Agreement, (2) pursuant to or in connection with any compensatory or employee benefit plan, agreement or arrangement, including but not limited to any stock options, restricted or unrestricted stock grants issued to or for the benefit of Executive and forgiveness of any loans by the Company to Executive or (3) otherwise (collectively, "Severance Payments"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), and any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment from the Company (a "Partial Gross-Up Payment"), such that the net amount retained by Executive, before accrual or payment of any Federal, state or local income tax or employment tax, but after accrual or payment of the Excise Tax attributable to the Partial Gross-Up Payment, is equal to the Excise Tax on the Severance Payments.

(ii) Subject to the provisions of Section 7(d)(iii), all determinations required to be made under this Section 7, including whether a Partial Gross-Up Payment is required and the amount of such Partial Gross-Up Payment, shall be made by Arthur Andersen LLP or such other nationally recognized accounting firm as may at that time be the Company's independent public accountants immediately prior to the Change in Control (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and Executive as soon as practicable after the Date of Termination, if applicable. The initial Partial Gross-Up Payment, if any, as determined pursuant to this Section 7(d)(ii), shall be paid to Executive within five days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Executive, the Company shall furnish Executive with an opinion of counsel that failure to report the Excise Tax on Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Partial Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"). In the event that the Company exhausts its remedies pursuant to Section 7(d)(iii) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred, consistent with the calculations required to be made hereunder, and any such Underpayment, and any interest and penalties imposed on the Underpayment and required to be paid by Executive in connection with the proceedings described in Section 7(d)(iii), and any related legal and accounting expenses, shall be promptly paid by the Company to or for the benefit of Executive.

(iii) Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Partial Gross-Up Payment. Such notification shall be given as soon as practicable but no later than 10 business days after Executive acquires actual knowledge of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which he gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(A) give the Company any information reasonably requested by the Company relating to such claim,

(B) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company,

(C) cooperate with the Company in good faith in order effectively to contest such claim, and

(D) permit the Company to participate in any proceedings relating to such claim; provided, however that the Company shall bear and pay directly all costs and expenses attributable to the failure to pay the Excise Tax (including related additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, for any Excise Tax up to an amount not exceeding the Partial Gross-Up Payment, including interest and penalties with respect thereto, imposed as a result of such representation, and payment of related legal and accounting costs and expenses (the "Indemnification Limit"). Without limitation on the foregoing provisions of this Section 7(d)(iii), the Company shall control all proceedings taken in connection with such contest and, at its sole option may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance so much of the amount of such payment as does not exceed the Excise Tax, and related interest and penalties, to Executive on an interest-free basis and shall indemnify and hold Executive harmless, from any related legal and accounting costs and expenses, and from any Excise Tax, including related interest or penalties imposed with respect to such advance or with respect to any imputed income with respect to such advance up to an amount not exceeding the Indemnification Limit; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Partial Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case

may be, any other issues raised by the Internal Revenue Service or any other taxing authority.

(iv) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 7(d)(iii), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Section 7(d)(iii)) promptly pay to the Company so much of such refund (together with any interest paid or credited thereon after taxes applicable thereto) (the "Refund") as is equal to (A) if the Company advanced or paid the entire amount required to be so advanced or paid pursuant to Section 7(d)(iii) hereof (the "Required Section 7(d) Advance"), the aggregate amount advanced or paid by the Company pursuant to this Section 7(d) less the portion of such amount advanced to Executive to reimburse him for related legal and accounting costs, or (B) if the Company advanced or paid less than the Required Section 7(d) Advance, so much of the aggregate amount so advanced or paid by the Company pursuant to this Section 7(d) as is equal to the difference, if any, between (C) the amount refunded to Executive with respect to such claim and (D) the sum of the portion of the Required Section 7(d) Advance that was paid by Executive and not paid or advanced by the Company plus Executive's related legal and accounting fees, as applicable. If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 7(d)(iii), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Partial Gross-Up Payment required to be paid.

(e) NOTICE OF TERMINATION. Notice of non-renewal of this Agreement pursuant to Section 1 hereof or of any termination of Executive's employment (other than by reason of death) shall be communicated by written notice (a "Notice of Termination") from one party hereto to the other party hereto in

accordance with this Section 7 and Section 9.

(f) DATE OF TERMINATION. "Date of Termination," with respect to any termination of Executive's employment during the Employment Period, shall mean (i) if Executive's employment is terminated for Disability, 30 days after Notice of Termination is given (provided that Executive shall not have returned to the full-time performance of Executive's duties during such 30 day period), (ii) if Executive's employment is terminated for Cause, the date on which a Notice of Termination is given which complies with the requirements of Section 7(b)(1) hereof, and (iii) if Executive's employment is terminated for any other reason, the date specified in the Notice of Termination. In the case of a termination by the Company other than for Cause, the Date of Termination shall not be less than 30 days after the Notice of Termination is given. In the case of a termination by Executive, the Date of Termination shall not be less than 15 days from the date such Notice of Termination is given. Notwithstanding the foregoing, in the event that Executive gives a Notice of Termination to the Company, the Company may unilaterally accelerate the Date of Termination and such acceleration shall not result in the termination being treated as a termination without Cause. Upon any termination of his employment, Executive will concurrently resign his membership as a director and/or officer of the Company and all subsidiaries of the Company, to the extent applicable.

(g) NO MITIGATION. The Company agrees that, if Executive's employment by the Company is terminated during the term of this Agreement, Executive is not required to seek other employment, or to attempt in any way to reduce any amounts payable to Executive by the Company pursuant to Section 7(d)(i) hereof. Further, the amount of any payment provided for in this Agreement shall not be reduced by any compensation earned by Executive as the result of employment by another employer,

by retirement benefits, or, except for amounts then due and payable in accordance with the terms of any promissory notes given by Executive in favor of the Company, by offset against any amount claimed to be owed by Executive to the Company or otherwise.

(h) NATURE OF PAYMENTS. The amounts due under this Section 7 are in the nature of severance payments considered to be reasonable by the Company and are not in the nature of a penalty. Such amounts are in full satisfaction of all claims Executive may have in respect of his employment by the Company or its affiliates and are provided as the sole and exclusive benefits to be provided to Executive, his estate, or his beneficiaries in respect of his termination of employment from the Company or its affiliates.

8. NON-COMPETITION; NON-SOLICITATION; SPECIFIC ENFORCEMENT.

(a) NON-COMPETITION. Because Executive's services to the Company are special and because Executive has access to the Company's confidential information, Executive covenants and agrees that, during the Employment Period and, for a period of one year following the Date of Termination by the Company for Cause or Disability, or a termination by Executive (other than a Constructive Termination Without Cause) prior to a Change in Control, Executive shall not, without the prior written consent of the Board of Directors, become associated with, or engage in any "Restricted Activities" with respect to any "Competing Enterprise," as such terms are hereinafter defined, whether as an officer, employee, principal, partner, agent, consultant, independent contractor or shareholder. "Competing Enterprise," for purposes of this Agreement, shall mean any person, corporation, partnership, venture or other entity which is engaged in the business of managing, owning, leasing or joint venturing multifamily rental real estate within 30 miles of multifamily rental real estate owned or under management by the Company or its affiliates. "Restricted Activities," for purposes of this Agreement, shall mean executive, managerial, directorial, administrative, strategic, business development or supervisory responsibilities and activities relating to all aspects of multifamily rental real estate ownership, management, multifamily rental real estate franchising, and multifamily rental real estate joint-venturing.

(b) NON-SOLICITATION. For so long as the Executive remains employed by the Company (or any successor thereto) and for one year following termination of employment, regardless of reason, Executive shall not, without the prior written consent of the Company, except in the course of carrying out his duties hereunder, solicit or attempt to solicit for employment with or on behalf of any corporation, partnership, venture or other business entity, any employee of the Company or any of its affiliates or any person who was formerly employed by the Company or any of its affiliates within the preceding six months, unless such person's employment was terminated by the Company or any of such affiliates.

(c) SPECIFIC ENFORCEMENT. Executive and the Company agree that the restrictions, prohibitions and other provisions of this Section 8 are reasonable, fair and equitable in scope, terms, and duration, are necessary to protect the legitimate business interests of the Company and are a material inducement to the Company to enter into this Agreement. Should a decision be made by a court of competent jurisdiction that the character, duration or

geographical scope of the provisions of this Section 8 is unreasonable, the parties intend and agree that this Agreement shall be construed by the court in such a manner as to impose all of those restrictions on Executive's conduct that are reasonable in light of the circumstances and as are necessary to assure to the Company the benefits of this Agreement. The Company and Executive further agree that the services to be rendered under this Agreement by Executive are special, unique and of extraordinary character, and that in the event of the breach by Executive of the terms and conditions of this Agreement or if Executive, without the prior consent of the Board of Directors, shall take any action in violation of this Section 8, the Company will suffer irreparable harm for which there is no adequate remedy at law. Accordingly, Executive hereby consents to the entry of a temporary restraining order or ex parte injunction, in addition to any other remedies available at law or in equity, to enforce the provisions hereof. Any proceeding or action seeking equitable relief for violation of this Section 8 must be commenced in the federal or state courts, in either case in Virginia. Executive and the Company

irrevocably and unconditionally submit to the jurisdiction of such courts and agree to take any and all future action necessary to submit to the jurisdiction of and venue in such courts.

9. NOTICE. Any notice required or permitted hereunder shall be in writing and shall be deemed sufficient when given by hand or by nationally recognized overnight courier or by Express, registered or certified mail, postage prepaid, return receipt requested, and addressed, if to the Company at 2900 Eisenhower Avenue, Suite 300, Alexandria, VA 22303, Attention: Chief Executive Officer (with a second copy, sent by the same means and to the same address, Attention: General Counsel), and if to Executive at the address set forth in the Company's records (or to such other address as may be provided by notice).

10. MISCELLANEOUS. This Agreement, together with Annex A and Annex B and the Split Dollar Insurance Agreement and any Equity Award Agreements now or hereafter in effect, constitutes the entire agreement between the parties concerning the subjects hereof and supersedes any and all prior agreements or understandings, including, without limitation, any plan or agreement providing benefits in the nature of severance, but excluding benefits provided under other Company plans or agreements, except to the extent this Agreement provides greater rights than are provided under such other plans or agreements. This Agreement may not be assigned by Executive without the prior written consent of the Company, and may be assigned by the Company and shall be binding upon, and inure to the benefit of, the Company's successors and assigns. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise. Headings herein are for convenience of reference only and shall not define, limit or interpret the contents hereof.

11. AMENDMENT. This Agreement may be amended, modified or supplemented by the mutual consent of the parties in writing, but no oral amendment, modification or supplement shall be effective. No waiver by either party of any breach by the other party of any condition or provision contained in this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by Executive or an authorized officer of the Company, as the case may be.

12. SEVERABILITY. The provisions of this Agreement are severable. The invalidity of any provision shall not affect the validity of any other provision, and each provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

13. RESOLUTION OF DISPUTES.

(a) PROCEDURES AND SCOPE OF ARBITRATION. Except for any controversy or claim seeking equitable relief pursuant to Section 8 of this Agreement, all controversies and claims arising under or in connection with this Agreement or relating to the interpretation, breach or enforcement thereof and all other disputes between the parties, shall be resolved by expedited, binding arbitration, to be held in the District of Columbia metropolitan area in accordance with the applicable rules of the American Arbitration Association governing employment disputes (the "National Rules"). In any proceeding relating to the amount owed to Executive in connection with his termination of employment, it is the contemplation of the parties that the only remedy that the arbitrator may award in such a proceeding is an amount equal to the termination payments, if any, required to be provided under the applicable provisions of Section 7(c) and, if applicable, Section 7(d) hereof, to the extent not previously paid, plus the costs of arbitration and Executive's reasonable

attorneys fees and expenses as provided below. Any award made by such arbitrator shall be

final, binding and conclusive on the parties for all purposes, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

(b) ATTORNEYS FEES.

(i) REIMBURSEMENT AFTER EXECUTIVE PREVAILS. Except as otherwise provided in this paragraph, each party shall pay the cost of his or its own legal fees and expenses incurred in connection with an arbitration proceeding. Provided an award is made in favor of Executive in such proceeding, all of his reasonable attorneys fees and expenses incurred in pursuing or defending such proceeding shall be promptly reimbursed to Executive by the Company within five days of the entry of the award. Any award of reasonable attorneys' fees shall take into account any offer of the Company, such that an award of attorneys' fees to the Executive may be limited or eliminated to the extent that the final decision in favor of the Executive does not represent a material increase in value over the offer that was made by the Company during the course of such proceeding. However, any elimination or limitation on attorneys' fees shall only apply to those attorneys' fees incurred after the offer by the Company.

(ii) REIMBURSEMENT IN ACTIONS TO STAY, ENJOIN OR COLLECT. In any case where the Company or any other person seeks to stay or enjoin the commencement or continuation of an arbitration proceeding, whether before or after an award has been made, or where Executive seeks recovery of amounts due after an award has been made, or where the Company brings any proceeding challenging or contesting the award, all of Executive's reasonable attorneys fees and expenses incurred in connection therewith shall be promptly reimbursed by the Company to Executive, within five days of presentation of an itemized request for reimbursement, regardless of whether Executive prevails, regardless of the forum in which such proceeding is brought, and regardless of whether a Change in Control has occurred.

(iii) REIMBURSEMENT AFTER A CHANGE IN CONTROL. Without limitation on the foregoing, solely in a proceeding commenced by the Company or by Executive after a Change in Control has occurred, the Company shall advance to Executive, within five days of presentation of an itemized request for reimbursement, all of Executive's legal fees and expenses incurred in connection therewith, regardless of the forum in which such proceeding was commenced, subject to delivery of an undertaking by Executive to reimburse the Company for such advance if he does not prevail in such proceeding (unless such fees are to be reimbursed regardless of whether Executive prevails as provided in clause (ii) above).

14. SURVIVORSHIP. The provisions of Sections 4(b), 6, 8 (to the extent described below) and 13 of this Agreement shall survive Executive's termination of employment. Other provisions of this Agreement shall survive any termination of Executive's employment to the extent necessary to the intended preservation of each party's respective rights and obligations. The provisions of Section 8(a) shall in no event apply if Executive's employment terminates for any reason after the expiration of the Employment Period (for clarification, this means that if Executive's employment terminates on or prior to the expiration of the Original Term or any later Renewal Term then the one year post-termination non-compete set forth in Section 8(a) will apply if the termination is for one of the reasons set forth in Section 8(a)). The provisions of Section 8(b) shall apply during the Employment Period, and shall also apply with respect to any termination of Executive's employment for any reason during the two year period following the expiration of the Employment Period (for clarification, this means that if Executive's employment terminates for any reason on or prior to the second anniversary of the expiration of the Original Term or any later Renewal Term, then the non-solicitation requirement of Section 8(b) shall apply to Executive for one year following

termination of employment).

15. BOARD ACTION. Where an action called for under this Agreement is required to be taken by the Board of Directors, such action shall be taken by the vote of not less than a majority of the members then in office and authorized to vote on the matter.

16. WITHHOLDING. All amounts required to be paid by the Company shall be subject to reduction in order to comply with applicable federal, state and local tax withholding requirements.

17. COUNTERPARTS. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

18. GOVERNING LAW. This Agreement shall be construed and regulated in all respects under the laws of the State of Maryland.

IN WITNESS WHEREOF, this Agreement is entered into as of the date and year first above written.

AVALONBAY COMMUNITIES, INC.

By: /s/ BRYCE BLAIR

Bryce Blair
Its: Chief Executive Officer

/s/ TIMOTHY J. NAUGHTON

Timothy J. Naughton

Exhibit 10.10

EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT (this "Agreement") made as of the 10th day of September, 2001 (the "Effective Date") by and between Leo S. Horey and AvalonBay Communities, Inc., a Maryland corporation (the "Company").

WHEREAS, Executive has been performing services for the Company; and

WHEREAS, Executive and the Company desire to enter into an employment agreement, effective as of the date of execution of this Agreement.

NOW, THEREFORE, the parties hereto do hereby agree as follows.

1. Term. The Company hereby agrees to employ Executive, and Executive hereby agrees to remain in the employ of the Company subject to the terms and conditions of this Agreement for the period commencing on the Effective Date and terminating on December 24, 2003 (the "Original Term"), unless earlier terminated as provided in Section 7. The Original Term shall be extended automatically for additional one year periods measured from December 25, 2003 (each a "Renewal Term"), unless notice that this Agreement will not be extended is given by either party to the other at least 90 days prior to the expiration of the Original Term or any Renewal Term. Notwithstanding the foregoing, upon a Change in Control, the Employment Period shall be extended automatically to three years from the date of such Change in Control. (The period of Executive's employment hereunder within the Original Term and any Renewal Terms is herein referred to as the "Employment Period.")

2. Employment Duties.

(a) During the Employment Period, Executive shall be employed in the business of the Company and its affiliates. Executive shall serve as a corporate officer of the Company with the title of **Senior Vice President – Property Operations**. In the performance of his duties, Executive shall be subject to the direction of the Board of Directors of the Company (the "Board"), including any committee of the Board designated by the Board, if any, and the Company's Chief Operating Officer and any officer senior to the Chief Operating Officer ("CEO", which term refers to the Chief Operating Officer and any officer senior to the Chief Operating Officer (such as the President, Chief Executive Officer and Executive Chairman), each with authority acting alone to give direction hereunder in the event that more than one person holds these positions) and shall not be required to take direction from or report to any other person. Executive will report directly to the Chief Operating Officer of the Company. Executive's duties and authority shall be commensurate with Executive's title and position with the Company, and shall not be materially diminished from, or materially inconsistent with, Executive's duties and responsibilities with the Company immediately prior to the date of this Agreement, provided, however, that it will not be a violation of this Section 2(a), or otherwise be a breach by the Company under any term of this Agreement, if either (x) or (y) immediately below are true:

(x) The Company modifies Executive's title or duties, provided that all of the following conditions are met:

(i) Executive remains on the Management Investment Committee, or a similar successor committee of management that considers and approves investment proposals developed by management; and

(ii) Executive's title is Senior Vice President or a higher ranking title; and

(iii) Executive reports directly to the CEO (which term, as noted above, includes the Chief Operating Officer); and

(iv) Executive either

(I) remains as the most senior officer (other than the CEO) in charge of at least one "current national principal business function" (which is defined to mean any business function which is headed by a senior vice president or higher ranking officer of the Company as of the date hereof — i.e., finance, human resources, property operations, development or construction) or,

(II) if the Company's management structure is reorganized to give effect to two or more major geographic regions, Executive is put in charge of at least three "major business functions" for a major geographic region of the Company. "Major business functions" means any of the five "current national principal business functions" cited above plus, as a sixth major business function, acquisitions and dispositions. By way of example only, titles in such a case could include President of the West Coast Division or Senior Vice President of Construction, Development and Acquistions and Dispositions of the West Coast Division; and

(v) Executive's targeted total compensation is not less than what it would have been had Executive remained in the position of Senior Vice President — Property Operations for AvalonBay Communities (e.g., in determining total compensation in accordance with Section 3(j), Executive's targeted total compensation will not be reduced because, for example, it is determined by the Company to be appropriate for a "Senior Vice President of Construction, Development and Property Operations of the West Coast Division" to receive less compensation than the Senior Vice President of Property Operations of a national company).

(y) The Executive's duties are modified from time to time as Executive and Company mutually reasonably agree.

(b) Executive agrees to his employment as described in this Section 2 and agrees to devote substantially all of his working time and efforts to the performance of his duties under this Agreement; provided that nothing in this Section 2(b) shall be interpreted to preclude Executive from (i) participating with the prior written consent of the Board as an officer or director of, or advisor to, any other entity or organization that is not a customer or material service provider to the Company or a Competing Enterprise, as defined in Section 8, so long as such participation does not interfere with the performance of Executive's duties hereunder, whether or not such entity or organization is engaged in religious, charitable or other community or non–profit activities, (ii) investing in any entity or organization which is not a customer or material service provider to the Company or a Competing Enterprise, so long as such investment does not interfere with the performance of Executive's duties hereunder, or (iii) delivering lectures or fulfilling speaking engagements so long as such lectures or engagements do not interfere with the performance of Executive's duties hereunder.

(c) In performing his duties hereunder, Executive shall be available for reasonable travel as the needs of the business require. Executive shall be based in Alexandria, Virginia (or otherwise in the Washington, Baltimore, DC-MD-VA-WV Consolidated Metropolitan Statistical Area as defined by the U.S. Census Bureau (the "Metropolitan Area")).

(d) Breach by either party of any of his or its respective obligations under this Section 2 shall be deemed a material breach of that party's obligations hereunder.

3. Compensation/Benefits. In consideration of Executive's services hereunder, the Company shall provide Executive the following:

(a) Base Salary. During the Employment Period, the Executive shall receive an annual rate of base salary ("Base Salary") in an amount not less than $285,000. Executive's Base Salary will be reviewed by the Company annually and may be adjusted upward (but not downward) at such time. Base Salary shall be payable in accordance with the Company's normal business practices, but in no event less frequently than monthly.

(b) Bonuses. Commencing at the close of each fiscal year during the Employment Period, the Company shall review the performance of the Company and of Executive during the prior fiscal year, and the Company may provide Executive with additional compensation in the form of a cash bonus ("Cash Bonus") and/or in the form of long term equity incentives such as stock options and restricted stock grants ("LT Equity Bonus") if the Board, or any compensation committee thereof, in its discretion, determines that the performance of the Company and Executive's contribution to the Company warrants such additional payment and the Company's anticipated financial performance of the present period permits such payment. Any Cash Bonuses hereunder shall be paid as a lump sum not later than 75 days after the end of the Company's preceding fiscal year.

(c) Medical and Disability Insurance/Physical. During the Employment Period, the Company shall provide to Executive and Executive's immediate family a comprehensive policy of health insurance in accordance with the Company's general practice applicable to officers (including payment of all or a portion of the premiums due thereon) and shall provide to Executive a disability policy in accordance with the Company's general practice applicable to officers (including payment of all or a portion of the premiums due thereon). During the Employment Period, Executive shall be entitled to a comprehensive annual physical performed, at the expense of the Company (but not including any related travel expense), by the physician or medical group of Executive's choosing.

(d) Split Dollar Life Insurance. During the Employment Period, the Company shall keep in force and pay the premiums on the split–dollar life insurance policy referenced in the Split Dollar Insurance Agreement between the Company and Executive, subject to reimbursement by Executive as provided in such Split Dollar Insurance Agreement. Executive agrees to submit to such medical examinations as may be required in order to maintain such policy of insurance.

(e) Vacations. Executive shall be entitled to reasonable paid vacations during the Employment Period in accordance with the then regular procedures of the Company governing officers.

(f) Office/Secretary, etc. During the Employment Period, Executive shall be entitled to secretarial services and a private office commensurate with his title and duties.

(g) Annual Allowance. The Company will provide the Executive with an annual allowance of up to $5,000 per year (the "Allowance"). The Executive may draw on the Allowance for expenses incurred in his discretion for items such as country club membership, financial counseling or tax preparation. Payment of the Allowance shall be subject to substantiation of expenses in accordance with the Company's policies in effect from time to time for executive officers of the Company. Unused portions of the Allowance shall not be carried over from year to year. For purposes of this Section 3(g), a new year shall be deemed to commence on each January 1. For the 2001 calendar year, Executive will receive the full, unprorated $5,000 Allowance.

(h) Automobile. The Company shall provide Executive with a monthly car allowance during the Employment Period in accordance with the Company's current practices but in no event less than Executive's current monthly car allowance.

(i) Other Benefits. During the Employment Period, the Company shall provide to Executive such other benefits, excluding severance benefits, but including the right to participate in such retirement or pension plans, as are made generally available to officers of the Company from time to time. Executive shall be given credit for purposes of eligibility and vesting of employee benefits and benefit accrual for service prior to the Effective Date with Avalon Properties, Inc. and its affiliates ("Avalon"), and Trammell Crow Residential ("TCR") under each benefit plan of the Company and its subsidiaries to the extent such service had been credited under employee benefit plans of Avalon or TCR, provided that no such crediting of service results in duplication of benefits.

(j) Total Compensation. The Company acknowledges that the Executive's Cash Bonus and LT Equity Bonus awarded to the Executive by the Board or Compensation Committee of the Board in its discretion from time-to-time, are a material part of total compensation for the Executive. The Company will endeavor to provide Executive with a reasonable Cash Bonus and/or reasonable LT Equity Bonus on an annual basis such that the Executive's total compensation, in light of the Company's performance and his performance in his role as provided in this Agreement, is reasonable under the circumstances and reasonable relative to the Cash Bonuses and LT Equity Bonuses awarded other officers of the Company. The Company shall not be in breach of this provision unless it can be demonstrated that the Company acted in bad faith in determining whether to award (or the size of an award of) a Cash Bonus or LT Equity Bonus, which determination of bad faith shall specifically be made with reference to the target awards set for other officers and the actual awards paid other officers.

4. Expenses/Indemnification.

(a) During the Employment Period, the Company shall reimburse Executive for the reasonable business expenses incurred by Executive in the course of performing his duties for the Company hereunder, upon submission of invoices, vouchers or other appropriate documentation, as may be required in accordance with the policies in effect from time to time for executive employees of the Company.

(b) To the fullest extent permitted by law, the Company shall indemnify Executive with respect to any actions commenced against Executive in his capacity as an officer or director or former officer or director of the Company, or any affiliate thereof for which he may render service in such capacity, whether by or on behalf of the Company, its shareholders or third parties, and the Company shall advance to Executive on a timely basis an amount equal to the reasonable fees and expenses incurred in defending such actions, after receipt of an itemized request for such advance, and an undertaking from Executive to repay the amount of such advance, with interest at a reasonable rate from the date of the request, as determined by the Company, if it shall ultimately be determined that he is not entitled to be indemnified against such expenses. Notwithstanding the foregoing, the Company shall not indemnify Executive with respect to any acts or omissions attributable, directly or indirectly, to Executive's gross negligence, willful misconduct or material breach of this Agreement. The Company agrees that it shall use reasonable best efforts to secure and maintain officers' and directors' liability insurance that shall include coverage with respect to Executive.

5. Employer's Authority/Policies.

(a) General. Executive agrees to observe and comply with the rules and regulations of the Company as adopted by its Board respecting the performance of his duties and to carry out and perform orders, directions and policies communicated to him from time to time by the Board or the CEO.

(b) Ethics Policies. Executive agrees to comply with and be bound by the Ethics Policies of the Company, as reflected in the attachment at Annex A hereto and made a part hereof. Executive agrees to comply with and be bound by the Company's insider trading policies and procedures that are generally applicable to employees and/or senior officers.

6. Records/Nondisclosure/Company Policies.

(a) General. All records, manuals, financial statements and similar documents obtained, reviewed or compiled by Executive in the course of the performance by him of services for the Company, whether or not confidential information or trade secrets, shall be the exclusive property of the Company. Executive shall have no rights in such documents upon any termination of this Agreement.

(b) Nondisclosure Agreement. Without limitation of the Company's rights under Section 6(a), Executive agrees to abide by and be bound by the Nondisclosure Agreement of the Company executed by Executive and the Company as reflected in the attachment at Annex B and made a part hereof.

7. Termination; Severance and Related Matters.

(a) At–Will Employment. Executive's employment hereunder is "at will" and, therefore, may be terminated at any time, with or without Cause, at the option of the Company, subject only to the severance obligations under this Section 7. Upon any termination hereunder, the Employment Period shall expire.

(b) Definitions. For purposes of this Section 7, the following terms shall have the indicated definitions:

(1) Cause. "Cause" shall mean:

(i) Executive is convicted of or enters a plea of nolo contendere to an act which is defined as a felony under any federal, state or local law, not based upon a traffic violation, which conviction or plea has or can be expected to have, in the good faith opinion of the Board, a material adverse impact on the business or reputation of the Company;

(ii) any one or more acts of theft, larceny, embezzlement, fraud or material intentional misappropriation from or with respect to the Company;

(iii) a breach by Executive of his fiduciary duties under Maryland law as an officer; or material breach by Executive of any rule, regulation, policy or procedure, the Company (including, without limitation, as described in Section 5 hereof);

(iv) Executive's commission of any one or more acts of gross negligence or willful misconduct which in the good faith opinion of the Board has resulted in material harm to the business or reputation of the Company; or

(v) default by Executive in the performance of his material duties under this Agreement, without correction of such action within 15 days of written notice thereof.

Notwithstanding the foregoing, no termination of Executive's employment by the Company shall be treated as for Cause or be effective until and unless all of the steps described in subparagraphs (A) through (C) below have been complied with:

(A) Notice of intention to terminate for Cause has been given by the Company within 120 days after the Board learns of the act, failure or event (or latest in a series of acts, failures or events) constituting "Cause";

(B) The Board has voted (at a meeting of the Board duly called and held as to which termination of Executive is an agenda item) to terminate Executive for Cause after Executive has been given notice of the particular acts or circumstances which are the basis for the termination for Cause and has been afforded at least 20 days notice of the meeting and an opportunity to present his position in writing; and

(C) The Board has given a Notice of Termination to Executive within 20 days after such Board meeting.

The Company may suspend Executive with pay at any time during the period commencing with the giving of notice to Executive under clause (A) above until final Notice of Termination is given under clause (C) above. Upon the giving of notice as provided in clause (C) above, no further payments shall be due Executive except as provided in Section 7(c)(vii).

(2) Change in Control. A "Change in Control" shall mean the occurrence of any one or more of the following events following the Effective Date:

(i) Any individual, entity or group (a "Person") within the meaning of Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 (the "Act") (other than the Company, any corporation, partnership, trust or other entity controlled by the Company (a "Subsidiary"), or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of the Company or any of its Subsidiaries), together with all "affiliates" and "associates" (as such terms are defined in Rule 12b–2 under the Act) of such Person, shall become the "beneficial owner" (as such term is defined in Rule 13d–3 under the Act) of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities having the right to vote generally in an election of the Company's Board of Directors ("Voting Securities"), other than as a result of (A) an acquisition of securities directly from the Company or any Subsidiary or (B) an acquisition by any corporation pursuant to a reorganization, consolidation or merger if, following such reorganization, consolidation or merger the conditions described in clauses (A), (B) and (C) of subparagraph (iii) of this Section 7(b)(2) are satisfied; or

(ii) Individuals who, as of the Effective Date, constitute the Company's Board (the "Incumbent Directors") cease for any reason to constitute at least a majority of the Board, provided, however, that any individual becoming a director of the Company subsequent to the date hereof (excluding, for this purpose, (A) any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of members of the Board or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation, and (B) any individual whose initial assumption of office is in connection with a reorganization, merger or consolidation, involving an unrelated entity and occurring during the Employment Period), whose election or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the persons then comprising Incumbent Directors shall for purposes of this Agreement be considered an Incumbent Director; or

(iii) Consummation of a reorganization, merger or consolidation of the Company, unless, following such reorganization, merger or consolidation, (A) more than 50% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Voting Securities immediately prior to such reorganization, merger or consolidation, (B) no Person (excluding the Company, any employee benefit plan (or related trust) of the Company, a Subsidiary or the corporation resulting from such reorganization, merger or consolidation or any subsidiary thereof, and any Person beneficially owning, immediately prior to such reorganization, merger or consolidation, directly or indirectly, 30% or more of the outstanding Voting Securities), beneficially owns, directly or indirectly, 30% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors, and (C) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the Incumbent Board at the time of the execution of the initial agreement providing for such reorganization, merger or consolidation;

(iv) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company; or

(v) The sale, lease, exchange or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which following such sale, lease, exchange or other disposition (A) more than 50% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners of the outstanding Voting Securities immediately prior to such sale, lease, exchange or other disposition, (B) no Person (excluding the Company and any employee benefit plan (or related trust) of the Company or a Subsidiary or such corporation or a subsidiary thereof and any Person beneficially owning, immediately prior to such sale, lease, exchange or other disposition, directly or indirectly, 30% or more of the outstanding Voting Securities), beneficially owns, directly or indirectly, 30% or more of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (C) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board of Directors providing for such sale, lease, exchange or other disposition of assets of the Company.

Notwithstanding the foregoing, a “Change in Control” shall not be deemed to have occurred for purposes of this Agreement solely as the result of an acquisition of securities by the Company which, by reducing the number of shares of Voting Securities outstanding, increases the proportionate voting power represented by the Voting Securities beneficially owned by any Person to 30% or more of the combined voting power of all then outstanding Voting Securities; provided, however, that if any

Person referred to in this sentence shall thereafter become the beneficial owner of any additional shares of Stock or other Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction), then a "Change in Control" shall be deemed to have occurred for purposes of this Agreement.

(3) Complete Change in Control. A "Complete Change in Control" shall mean that a Change in Control has occurred, after modifying the definition of "Change in Control" by deleting clause (i) from Section 7(b)(2) of this Agreement.

(4) Constructive Termination Without Cause. "Constructive Termination Without Cause" shall mean a termination of Executive's employment initiated by Executive not later than 12 months following the occurrence (not including any time during which an arbitration proceeding referenced below is pending), without Executive's prior written consent, of one or more of the following events (or the latest to occur in a series of events), and effected after giving the Company not less than 10 working days' written notice of the specific act or acts relied upon and right to cure:

(i) a material adverse change in the functions, duties or responsibilities of Executive's position which is inconsistent with Section 2(a), except in connection with the termination of Executive's employment for Disability, Cause, as a result of Executive's death or by Executive other than for a Constructive Termination Without Cause;

(ii) any material breach by the Company of this Agreement;

(iii) any purported termination of Executive's employment for Cause by the Company which does not comply with the terms of Section 7(b)(1) of this Agreement;

(iv) the failure of the Company to obtain an agreement, satisfactory to the Executive, from any successor or assign of the Company, to assume and agree to perform this Agreement, as contemplated in Section 10 of this Agreement;

(v) the failure by the Company to continue in effect any compensation plan in which Executive participates immediately prior to a Change in Control which is material to Executive's total compensation, unless comparable alternative arrangements (embodied in ongoing substitute or alternative plans) have been implemented with respect to such plans, or the failure by the Company to continue Executive's participation therein (or in such substitute or alternative plans) on a basis not materially less favorable, in terms of the amount of benefits provided and the level of Executive's participation relative to other participants, as existed during the last completed fiscal year of the Company prior to the Change in Control;

(vi) the relocation of the Company's Alexandria, Virginia offices to a new location outside of the Metropolitan Area or the failure to locate Executive's own office at the Alexandria, Virginia office (or at the office to which such office is relocated which is within the Metropolitan Area) ("Relocation Termination"); or

(vii) any voluntary termination of employment by the Executive for any reason during the 12–month period immediately following a Complete Change in Control of the Company if such Complete Change in Control occurs during the Employment Period (a "CIC Pull").

Notwithstanding the foregoing, a Constructive Termination Without Cause shall not be treated as having occurred unless Executive has given a final Notice of Termination delivered after expiration of the Company's cure period. Executive or the Company may, at any time after the expiration of the Company's cure period and either prior to or up until three months after giving a final Notice of Termination, commence an arbitration proceeding to determine the question of whether, taking into account the actions complained of and any efforts made by the Company to cure such actions, a termination by Executive of his employment should be treated as a Constructive Termination Without Cause for purposes of this Agreement. If the Executive or the Company commences such a proceeding prior to delivery by Executive of a final Notice of Termination, the commencement of such a proceeding shall be without prejudice to either party and Executive's and the Company's rights and obligations under this Agreement shall continue unaffected unless and until the arbitrator has determined such question in the affirmative, or, if earlier, the date on which Executive or the Company has delivered a Notice of Termination in accordance with the provisions of this Agreement.

(5) Average Covered Total Compensation. "Average Covered Total Compensation" shall mean the sum of Executive's Covered Total Compensation as calculated for the calendar year in which the Date of Termination occurs and for each of the two preceding calendar years, divided by three, provided, however, that if the Date of Termination occurs before February 26, 2003, then "Average Covered Total Compensation" shall mean the sum of Executive's Covered Total Compensation as calculated for the calendar year in which the Date of Termination occurs and for the preceding calendar year, divided by two. "Average Covered Base And Cash Bonus Compensation," "Average Covered Cash Bonus Compensation" and "Average Covered LT Equity Compensation" shall have analogous meanings but with reference to Covered Base And Cash Bonus Compensation, Covered Cash Bonus Compensation and Covered LT Equity Compensation, respectively.

(6) Covered Compensation Definitions. "Covered Total Compensation," for any calendar year, shall mean an amount equal to the sum of (i) Executive's Base Salary for the calendar year, (ii) the cash bonus actually earned by Executive with respect to such calendar year, and (iii) the value of all stock and other equity–based compensation awards made to Executive during such calendar year. In the event that the Company has or hereafter makes any special, mid-year or other non-routine grant of equity outside of the Company's recurring annual equity compensation programs, or in the event that the Company grants, outside of the current recurring annual equity compensation programs, any equity based compensation pursuant to any long-term plan under which equity grants may be made based on multi-year Company results, the value of any such mid-year, special, or long-term plan equity based compensation shall not be included in clause (iii) of the preceding sentence and therefore shall not be included in the calculation of Covered Compensation definitions, and the value of such equity shall have no impact on any cash payments made under Section 7(c) of the Agreement.

"Covered Base And Cash Bonus Compensation" for any calendar year shall mean Covered Total Compensation for such year but without the inclusion of amounts attributable to clause (iii) of the definition of Covered Total Compensation.

"Covered Cash Bonus Compensation" for any calendar year shall mean Covered Total Compensation for such year but without the inclusion of amounts attributable to clauses (i) and (iii) of the definition of Covered Total Compensation.

"Covered LT Equity Compensation" for any calendar year shall mean Covered Total Compensation for such year but without the inclusion of clauses (i) and (ii) of the definition of Covered Total Compensation.

For purposes of applying the Covered Compensation definitions set forth above, the following rules shall apply:

(A) In valuing awards for purposes of clause (iii) of the definition of Covered Total Compensation, all such awards shall be treated as if fully vested when granted, stock grants shall be valued by reference to the fair market value on the date of grant of the Company's common stock, par value $.01 per share, and other equity–based compensation awards shall be valued at the value established in good faith by the Compensation Committee of the Board. Reference is made to Section 7(c)(viii) for further clarification regarding this matter.

(B) In determining the cash bonus actually paid with respect to a calendar year, if no cash bonus has been paid with respect to the calendar year in which the Date of Termination occurs, the cash bonus paid with respect to the immediately preceding calendar year shall be assumed to have been paid in each of the current and immediately preceding calendar years, and if no cash bonus has been paid by the Date of Termination with respect to the immediately preceding calendar year, the cash bonus paid with respect to the second preceding calendar year shall be assumed to have been paid in all three (or two, as applicable) of the calendar years taken into account in determining Average Covered Total Compensation (or any of the derivative definitions under Section 7(b)(5)).

(C) If (i) any cash bonus paid with respect to the current or immediately preceding calendar year was paid within three months of Executive's Date of Termination, (ii) such cash bonus is lower than the last cash bonus paid more than three months from the Date of Termination, and (iii) it is determined that the Board acted in bad faith in setting such cash bonus (which determination of bad faith shall specifically be made with reference to the target cash bonuses set for other officers and the actual cash bonuses paid other officers), then in such event any such cash bonus paid within three months of the Date of Termination shall be disregarded and the last cash bonus paid more than three months from the Date of Termination shall be substituted for each cash bonus so disregarded.

(D) In determining the amount of stock and other equity–based compensation awards made during a calendar year during the averaging period, rules similar to those set forth in subparagraphs (B) and (C) of this Section 7(b)(6) shall be followed except that all awards made in connection with the Company's initial public offering shall be disregarded.

(7) Disability. "Disability" shall mean Executive has been determined to be disabled and to qualify for long–term disability benefits under the long–term disability insurance policy obtained pursuant to Section 3(d) of this Agreement.

(c) Rights Upon Termination.

(i) Payment of Benefits Earned Through Date of Termination. Upon any termination of Executive's employment during the Employment Period, Executive, or his estate, shall in all events be paid (I) all accrued but unpaid Base Salary and (II) (except in the case of a termination by the Company for Cause or a voluntary termination by Executive which is not due to a Constructive Termination Without Cause, in either of which cases this clause (II) shall not apply) a pro rata portion of the Executive's Cash Bonus and LT Equity Bonus. For purposes of fulfilling the requirements of clause (II) of the prior sentence, the following shall apply:

(a) In all events, any stock options issued will be issued prior to Executive's Date of Termination so that such stock options are employee stock options. Such stock options shall have an exercise price equal to the closing price of the Company's stock on the date of grant of such options, and such options shall expire one year after the date of grant.

(b) The Company and Executive shall work in good faith to determine an appropriate Cash Bonus and LT Equity Bonus for the year in which the Date of Termination occurs. Such determination shall be based in good faith on an evaluation of Executive's and the Company's performance. If the Company and Executive cannot agree on appropriate amounts, then:

(A) The Company may defer the determination of the Cash Bonus and the restricted stock portion of the LT Equity Bonus until such bonuses in respect of such year are determined for other officers, and at such time the amounts to be used for determining Executive's pro rata bonuses shall be a percentage of his target Cash Bonus and a percentage of his target number of restricted shares with such percentages being equal to the average of the percentages that apply to the Cash Bonus and restricted shares, respectively, of other officers ranked Senior Vice President or higher; and

(B) The Company may grant to Executive a number of stock options based on the assumption that the percentage of the target number of options Executive would have received in respect of the year in which the Date of Termination occurs would equal the average of the percentage realization applied to options granted with respect to the prior three calendar years.

(c) Once the determination in the preceding paragraph is made, the pro rata portion of such amounts shall equal such amounts multiplied by a fraction, the numerator of which is the number of days from January 1 to the Date of Termination in the year of termination and the denominator of which is 365.

Executive shall also retain all such rights with respect to vested equity–based awards as are provided under the circumstances under the applicable grant or award agreement, and shall be entitled to all other benefits which are provided under the circumstances in accordance with the provisions of the Company's generally applicable employee benefit plans, practices and policies, other than severance plans.

(ii) Death. In the event of Executive's death during the Employment Period, the Company shall, in addition to paying the amounts set forth in Section 7(c)(i), take whatever action is necessary to cause all of Executive's unvested equity–based awards to become fully vested as of the date of death and, in the case of equity–based awards which have an exercise schedule, to become fully exercisable and continue to be exercisable for such period as is provided in the case of vested and exercisable awards in the event of death under the terms of the applicable award agreements.

(iii) Disability. In the event the Company elects to terminate Executive's employment during the Employment Period on account of Disability, the Company shall, in addition to paying the amounts set forth in Section 7(c)(i) and subject to Executive first entering into a separation agreement, including a general release of all claims, in a form reasonably acceptable to the Company ("Separation Agreement"), pay to Executive, in one lump sum, no later than the later of the effective date of said Separation Agreement or 31 days following the Date of Termination, an amount equal to one times Average Covered Total Compensation. The Company shall also, commencing upon the Date of Termination and subject to Executive entering into a Separation Agreement:

(A) Continue, without cost to Executive, benefits comparable to the medical benefits provided to Executive immediately prior to the Date of Termination under Section 3(c) for a period of 12 months following the Date of Termination or until such earlier date as Executive obtains comparable benefits through other employment;

(B) Continue to pay, or reimburse Executive, for all premiums then due or thereafter payable on the whole–life portion of the split–dollar insurance policy referenced under Section 3(d) for so long as such payments are due; provided, that the Company's obligations under this Section 7(c)(iii)(B) are contingent on Executive's timely payment of the premiums then due or thereafter payable on the term portion of said split-dollar insurance policy; and

(C) Take whatever action is necessary to cause Executive to become vested as of the Date of Termination in all stock options, restricted stock grants, and all other equity–based awards and be entitled to exercise and continue to exercise all stock options and all other equity–based awards having an exercise schedule and to retain such grants and awards to the same extent as if they were vested upon termination of employment in accordance with their terms.

(D) If Executive obtains a disability policy on commercially reasonable terms with the same or similar coverage as provided by the Company prior to the Date of Termination then, until that date that is 12 months following the Date of Termination (or, if earlier, until Executive obtains comparable benefits through other employment), reimburse Executive for an amount equal to the difference between (i) the monthly premiums for such disability policy, less (ii) the amount paid by Executive in respect of a portion of the premiums on the disability policy provided by Company prior to the Date of Termination.

(iv) Non–Renewal by the Company. In the event the Company gives Executive a notice of non–renewal pursuant to Section 1 above, and either (I) within one year after expiration of the Employment Period the Executive voluntarily terminates his employment ("Post-Expiration Resignation") or (II) within two years after expiration of the Employment Period the Executive's employment is terminated by the Company without Cause or Constructively Terminated without Cause ("Post-Expiration Termination"), then, in either such case, the Company shall, in addition to paying the amounts set forth in Section 7(c)(i), and subject to Executive first entering into a Separation Agreement, pay to Executive, for 12 consecutive months beginning with the first business day of the calendar month following the Effective Date of said Separation Agreement, a monthly amount equal to one-twelfth ($^{1}/_{12}$) of the sum of one times his then applicable Base Salary plus one times Average Covered Cash Bonus Compensation. The Company shall also, commencing upon the Date of Termination and subject to Executive entering into a Separation Agreement, continue, without cost to Executive, benefits comparable to the medical benefits provided to Executive immediately prior to the Date of Termination under Section 3(c) for a period of 12 months following the Date of Termination or until such earlier date as Executive obtains comparable benefits through other employment. In addition, if Executive obtains a disability policy on commercially reasonable terms with the same or similar coverage as provided by the Company prior to the Date of Termination then, until that date that is 12 months following the Date of Termination (or, if earlier, until Executive obtains comparable benefits through other employment), reimburse Executive for an amount equal to the difference between (i) the monthly premiums for such disability policy, less (ii) the amount paid by Executive in respect of a portion of the premiums on the disability policy provided by Company prior to the Date of Termination.

In addition to the above, in the case of a Post-Expiration Termination the Company additionally shall:

I. Take whatever action is necessary to cause Executive to become vested as of the Date of Termination in all stock options, restricted stock grants, and all other equity–based awards and be entitled to exercise and continue to exercise all stock options and all other equity–based awards having an exercise schedule and to retain such grants and awards to the same extent as if they were vested upon termination of employment in accordance with their terms; and

II. Continue to pay, or reimburse Executive for, all premiums then due or thereafter payable on the whole–life portion of the split–dollar insurance policy referenced under Section 3(d) for so long as such payments are due; provided, that the Company's obligations under this Section 7(c)(iv)(B)(II) are contingent on Executive's timely payment of the premiums then due or thereafter payable on the term portion of said split-dollar insurance policy;

(v) Termination Without Cause or Constructive Termination Without Cause Prior to Change in Control of Company. In the event the Company or any successor to the Company terminates Executive's employment without Cause, or if Executive terminates his employment in a Constructive Termination without Cause, in either case prior to the effective time of any Change in Control of the Company or at any time after two years after a Change in Control of the Company, the Company shall, in addition to paying the amounts provided under Section 7(c)(i), and subject to Executive first entering into a Separation Agreement, pay to Executive, in one lump sum no later than the later of the Effective Date of said Separation Agreement or 31 days following the Date of Termination, an amount equal to the sum of (x) two times Average Covered Base And Cash Bonus Compensation plus (y) one times Average Covered LT Equity Compensation (such sum, the "Section 7(c)(v) Payment"); provided, however, that in the event that the Constructive Termination Without Cause is a Relocation Termination, the Section 7(c)(v) Payment shall be an amount equal to one times Average Covered Total Compensation. The Company shall also, commencing upon the Date of Termination and subject to the Executive entering into a Separation Agreement:

(A) Continue, without cost to Executive, benefits comparable to the medical benefits provided to Executive immediately prior to the Date of Termination under Section 3(c) for a period of 24 months (12 months in the case of a Relocation Termination) following the Date of Termination or until such earlier date as Executive obtains comparable benefits through other employment;

(B) Continue to pay, or reimburse Executive, for so long as such payments are due, all premiums then due or payable on the whole–life portion of the split–dollar insurance policy referenced under Section 3(d); provided that the Company's obligations under this Section 7(c)(v)(B) are contingent on Executive's timely payment of the premiums then due or thereafter payable on the term portion of said split-dollar insurance policy; and

(C) Take whatever action is necessary to cause Executive to become vested as of the Date of Termination in all stock options, restricted stock grants, and all other equity–based awards and be entitled to exercise and continue to exercise all stock options and all other equity–based awards having an exercise schedule and to retain such grants and awards to the same extent as if they were vested upon termination of employment in accordance with their terms.

(D) If Executive obtains a disability policy on commercially reasonable terms with the same or similar coverage as provided by the Company prior to the Date of Termination then, until that date that is 24 months (12 months in the case of a Relocation Termination) following the Date of Termination (or, if earlier, until Executive obtains comparable benefits through other employment), reimburse Executive for an amount equal to the difference between (i) the premium for such disability policy, less (ii) the amount paid by Executive in respect of a portion of the premiums on the disability policy provided by Company prior to the Date of Termination.

In the event that, within six months after the Notice of Termination which gave rise to the termination of Executive's employment under this Section 7(c)(v), a Change in Control of the Company occurs, then (provided Executive previously signed a Separation Agreement), Executive shall be entitled to receive the payments and benefits under Section 7(c)(vi) rather than this Section 7(c)(v). To effect this increase in payments and benefits, within 31 days of the Change in Control the Company shall pay to Executive, in one lump sum, an amount equal to the difference between (A) three times Average Covered Total Compensation (calculated as of the Date of Termination) less (B) the Section 7(c)(v) Payment. No payment in the nature of interest or for the time value of money shall be paid by the Company. In addition, the benefits described in Section 7(c)(v)(A) shall continue for 36 months following the Date of Termination (or until such earlier date as Executive obtains comparable benefits through other employment) rather than 24 months.

(vi) Termination without Cause within Two Years Following a Change in Control. In the event the Company or any successor to the Company terminates Executive's employment without Cause (or Executive's employment is Constructively Terminated without Cause) within two years following the effective time of a Change in Control of the Company, the Company shall, in addition to paying the amounts provided under Section 7(c)(i), and subject to the Executive first entering into a Separation Agreement, pay to the Executive, in one lump sum no later than the later of the effective date of said Separation Agreement or 31 days following the Date of Termination, an amount equal to three times Average Covered Total Compensation, provided, however, that in the event the termination is due to a CIC Pull, then the payment shall be an amount equal to two times Average Covered Total Compensation. The Company shall also, commencing upon the Date of Termination:

(A) Continue, without cost to Executive, benefits comparable to the medical benefits provided to Executive immediately prior to the Date of Termination under Section 3(c) for a period of 36 months (24 months in the case of a termination due to a CIC Pull) following the Date of Termination or until such earlier date as Executive obtains comparable benefits through other employment;

(B) Continue to pay, or reimburse Executive, for so long as such payments are due, all premiums then due or payable on the whole–life portion of the split–dollar insurance policy referenced under Section 3(d); provided that the Company's obligations under this Section 7(c)(vi)(B) are contingent on Executive's timely payment of the premiums then due or thereafter payable on the term portion of said split-dollar insurance policy; and

(C) Take whatever action is necessary to cause Executive to become vested as of the Date of Termination in all stock options, restricted stock grants, and all other equity–based awards and be entitled to exercise and continue to exercise all stock options and all other equity–based awards having an exercise schedule and to retain such grants and awards to the same extent as if they were vested upon termination of employment in accordance with their terms.

(D) If Executive obtains a disability policy on commercially reasonable terms with the same or similar coverage as provided by the Company prior to the Date of Termination then, until that date that is 36 months (24 months in the case of a termination due to a CIC Pull) following the Date of Termination (or, if earlier, until Executive obtains comparable benefits through other employment), reimburse Executive for an amount equal to the difference between (i) the monthly premiums for such disability policy, less (ii) the amount paid by Executive in respect of a portion of the premiums on the disability policy provided by Company prior to the Date of Termination.

(vii) Termination for Cause; Voluntary Resignation. In the event Executive's employment terminates during the Employment Period other than in connection with a termination meeting the conditions of subparagraphs (ii), (iii), (iv), (v) or (vi) of this Section 7(c), Executive shall receive the amounts set forth in Section 7(c)(i) in full satisfaction of all of his entitlements from the Company. All equity–based awards not vested as of the Date of Termination shall terminate (unless otherwise provided in the applicable award agreement) and Executive shall have no further entitlements with respect thereto.

(viii) Clarification Regarding Treatment of Options and Restricted Stock. The stock option and restricted stock agreements (the "Equity Award Agreements") that Executive has or may receive may contain language regarding the effect of a termination of Executive's employment under certain circumstances.

(A) Notwithstanding such language in the Equity Award Agreements, for so long as this Agreement is in effect, the Company will be obligated, if the terms of this Agreement are more favorable in this regard than the terms of the Equity Award Agreements, to take the actions required under Sections 7(c)(ii), 7(c)(iii)(C), 7(c)(iv)(for a Post-Expiration Termination), 7(c)(v)(C) and 7(c)(vi)(C) hereof upon the happening of the circumstances described therein. Those sections provide that in certain situations the Company will cause the Executive to become vested as of the Date of Termination in all or certain equity-based awards, and that such equity-based awards will thereafter be subject to the provisions of the applicable Equity Award Agreement as it applies to vested awards upon a termination. For purposes of clarification, although an option grant may *vest* in accordance with these above-referenced Sections, such optionwill thereafter be *exercisable* only for so long as the related option agreement provides, except that the Compensation Committee of the Board of Directors may, in its sole discretion, elect to extend the expiration date of such option. For example, in general Executive's option agreements granted prior to the date hereof provide that (in the absence of an extension by the Compensation Committee) upon a termination of employment for any reason other than death, disability, retirement or cause, any vested options will only be exercisable for three months from the date of termination or, if earlier, the expiration date of the option.

(B) Notwithstanding the definition of "Cause" which may appear in the Equity Award Agreements, for so long as this Agreement is in effect (X) any "for Cause" termination must be in compliance with the terms of this Agreement, including the definition of "Cause" set forth herein, and (Y) only in the event of a "for Cause" termination that meets both the definition in this Agreement and the definition in the Equity Award Agreement will the disposition of options and restricted stock under such Equity Award Agreement be treated in the manner described in such Equity Award Agreement in the case of a termination "for Cause."

(C) For purposes of Section 7(b)(6)(A), the value of any option may be determined by the Compensation Committee of the Board at any time after its grant date by setting such value at the value determined by a nationally recognized accounting firm or employee benefits compensation firm, selected by such Committee, that calculates such value in accordance with a Black-Scholes formula or variations thereof using such parameters and procedures (including, without limitation, parameters and procedures used to measure the historical volatility of the Company's common stock as of the relevant grant date) as the Compensation Committee and/or such firm deems reasonably appropriate. In all events, if the parameters used for valuing any option for purposes of Section 7(b)(6)(A) are the same as the parameters used for valuing any other options for purposes of disclosure or inclusion in the Company's financial statements or financial statement footnotes, then such parameters shall be deemed reasonable.

(D) During the Employment Period any stock options issued to Executive shall provide that if Executive's employment is terminated in any manner which gives rise to an obligation under this Agreement (or any successor Agreement or other severance arrangement) to cause the acceleration of vesting of stock options, then in such event such stock options shall not expire until one year after the Date of Termination (or, if earlier, the expiration of their ordinary term). This covenant of the Company shall not apply to any stock options issued prior to June 1, 2001 or to any stock options issued after the expiration of the Employment Period.

(d) Additional Benefits.

(i) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution by the Company to or for the benefit of Executive, whether paid or payable or distributed or distributable (1) pursuant to the terms of Section 7 of this Agreement, (2) pursuant to or in connection with any compensatory or employee benefit plan, agreement or arrangement, including but not limited to any stock options, restricted or unrestricted stock grants issued to or for the benefit of Executive and forgiveness of any loans by the Company to Executive or (3) otherwise (collectively, "Severance Payments"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), and any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment from the Company (a "Partial Gross–Up Payment"), such that the net amount retained by Executive, before accrual or payment of any Federal, state or local income tax or employment tax, but after accrual or payment of the Excise Tax attributable to the Partial Gross–Up Payment, is equal to the Excise Tax on the Severance Payments.

(ii) Subject to the provisions of Section 7(d)(iii), all determinations required to be made under this Section 7, including whether a Partial Gross–Up Payment is required and the amount of such Partial Gross–Up Payment, shall be made by Arthur Andersen LLP or such other nationally recognized accounting firm as may at that time be the Company's independent public accountants immediately prior to the Change in Control (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and Executive as soon as practicable after the Date of Termination, if applicable. The initial Partial Gross–Up Payment, if any, as determined pursuant to this Section 7(d)(ii), shall be paid to Executive within five days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Executive, the Company shall furnish Executive with an opinion of counsel that failure to report the Excise Tax on Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Partial Gross–Up Payments which will not have been made by the Company should have been made (an "Underpayment"). In the event that the Company exhausts its remedies pursuant to Section 7(d)(iii) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred, consistent with the calculations required to be made hereunder, and any such Underpayment, and any interest and penalties imposed on the Underpayment and required to be paid by Executive in connection with the proceedings described in Section 7(d)(iii), and any related legal and accounting expenses, shall be promptly paid by the Company to or for the benefit of Executive.

(iii) Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Partial Gross–Up Payment. Such notification shall be given as soon as practicable but no later than 10 business days after Executive acquires actual knowledge of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30–day period following the date on which he gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, Executive shall:

(A) give the Company any information reasonably requested by the Company relating to such claim,

(B) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company,

(C) cooperate with the Company in good faith in order effectively to contest such claim, and

(D) permit the Company to participate in any proceedings relating to such claim; provided, however that the Company shall bear and pay directly all costs and expenses attributable to the failure to pay the Excise Tax (including related additional interest and penalties) incurred in connection with such contest and shall indemnify and hold Executive harmless, for any Excise Tax up to an amount not exceeding the Partial Gross–Up Payment, including interest and penalties with respect thereto, imposed as a result of such representation, and payment of related legal and accounting costs and expenses (the "Indemnification Limit").

Without limitation on the foregoing provisions of this Section 7(d)(iii), the Company shall control all proceedings taken in connection with such contest and, at its sole option may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance so much of the amount of such payment as does not exceed the Excise Tax, and related interest and penalties, to Executive on an interest–free basis and shall indemnify and hold Executive harmless, from any related legal and accounting costs and expenses, and from any Excise Tax, including related interest or penalties imposed with respect to such advance or with respect to any imputed income with respect to such advance up to an amount not exceeding the Indemnification Limit; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Partial Gross–Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issues raised by the Internal Revenue Service or any other taxing authority.

(iv) If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 7(d)(iii), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Section 7(d)(iii)) promptly pay to the Company so much of such refund (together with any interest paid or credited thereon after taxes applicable thereto) (the "Refund") as is equal to (A) if the Company advanced or paid the entire amount required to be so advanced or paid pursuant to Section 7(d)(iii) hereof (the "Required Section 7(d) Advance"), the aggregate amount advanced or paid by the Company pursuant to this Section 7(d) less the portion of such amount advanced to Executive to reimburse him for related legal and accounting costs, or (B) if the Company advanced or paid less than the Required Section 7(d) Advance, so much of the aggregate amount so advanced or paid by the Company pursuant to this Section 7(d) as is equal to the difference, if any, between (C) the amount refunded to Executive with respect to such claim and (D) the sum of the portion of the Required Section 7(d) Advance that was paid by Executive and not paid or advanced by the Company plus Executive's related legal and accounting fees, as applicable. If, after the receipt by Executive of an amount advanced by the Company pursuant to Section 7(d)(iii), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Partial Gross–Up Payment required to be paid.

(e) Notice of Termination. Notice of non–renewal of this Agreement pursuant to Section 1 hereof or of any termination of Executive's employment (other than by reason of death) shall be communicated by written notice (a "Notice of Termination") from one party hereto to the other party hereto in accordance with this Section 7 and Section 9.

(f) Date of Termination. "Date of Termination," with respect to any termination of Executive's employment during the Employment Period, shall mean (i) if Executive's employment is terminated for Disability, 30 days after Notice of Termination is given (provided that Executive shall not have returned to the full–time performance of Executive's duties during such 30 day period), (ii) if Executive's employment is terminated for Cause, the date on which a Notice of Termination is given which complies with the requirements of Section 7(b)(1) hereof, and (iii) if Executive's employment is terminated for any other reason, the date specified in the Notice of Termination. In the case of a termination by the Company other than for Cause, the Date of Termination shall not be less than 30 days after the Notice of Termination is given. In the case of a termination by Executive, the Date of Termination shall not be less than 15 days from the date such Notice of Termination is given. Notwithstanding the foregoing, in the event that Executive gives a Notice of Termination to the Company, the Company may unilaterally accelerate the Date of Termination and such acceleration shall not result in the termination being treated as a termination without Cause. Upon any termination of his employment, Executive will concurrently resign his membership as a director and/or officer of the Company and all subsidiaries of the Company, to the extent applicable.

(g) No Mitigation. The Company agrees that, if Executive's employment by the Company is terminated during the term of this Agreement, Executive is not required to seek other employment, or to attempt in any way to reduce any amounts payable to Executive by the Company pursuant to Section 7(d)(i) hereof. Further, the amount of any payment provided for in this Agreement shall not be reduced by any compensation earned by Executive as the result of employment by another employer, by retirement benefits, or, except for amounts then due and payable in accordance with the terms of any promissory notes given by Executive in favor of the Company, by offset against any amount claimed to be owed by Executive to the Company or otherwise.

(h) Nature of Payments. The amounts due under this Section 7 are in the nature of severance payments considered to be reasonable by the Company and are not in the nature of a penalty. Such amounts are in full satisfaction of all claims Executive may have in respect of his employment by the Company or its affiliates and are provided as the sole and exclusive benefits to be provided to Executive, his estate, or his beneficiaries in respect of his termination of employment from the Company or its affiliates.

8. Non–Competition; Non–Solicitation; Specific Enforcement.

(a) Non–Competition. Because Executive's services to the Company are special and because Executive has access to the Company's confidential information, Executive covenants and agrees that, during the Employment Period and, for a period of one year following the Date of Termination by the Company for Cause or Disability, or a termination by Executive (other than a Constructive Termination Without Cause) prior to a Change in Control, Executive shall not, without the prior written consent of the Board of Directors, become associated with, or engage in any "Restricted Activities" with respect to any "Competing Enterprise," as such terms are hereinafter defined, whether as an officer, employee, principal, partner, agent, consultant, independent contractor or shareholder. "Competing Enterprise," for purposes of this Agreement, shall mean any person, corporation, partnership, venture or other entity which is engaged in the business of managing, owning, leasing or joint venturing multifamily rental real estate within 30 miles of multifamily rental real estate owned or under management by the Company or its affiliates. "Restricted Activities," for purposes of this Agreement, shall mean executive, managerial, directorial, administrative, strategic, business development or supervisory responsibilities and activities relating to all aspects of multifamily rental real estate ownership, management, multifamily rental real estate franchising, and multifamily rental real estate joint–venturing.

(b) Non–Solicitation. For so long as the Executive remains employed by the Company (or any successor thereto) and for one year following termination of employment, regardless of reason, Executive shall not, without the prior written consent of the Company, except in the course of carrying out his duties hereunder, solicit or attempt to solicit for employment with or on behalf of any corporation, partnership, venture or other business entity, any employee of the Company or any of its affiliates or any person who was formerly employed by the Company or any of its affiliates within the preceding six months, unless such person's employment was terminated by the Company or any of such affiliates.

(c) Specific Enforcement. Executive and the Company agree that the restrictions, prohibitions and other provisions of this Section 8 are reasonable, fair and equitable in scope, terms, and duration, are necessary to protect the legitimate business interests of the Company and are a material inducement to the Company to enter into this Agreement. Should a decision be made by a court of competent jurisdiction that the character, duration or geographical scope of the provisions of this Section 8 is unreasonable, the parties intend and agree that this Agreement shall be construed by the court in such a manner as to impose all of those restrictions on Executive's conduct that are reasonable in light of the circumstances and as are necessary to assure to the Company the benefits of this Agreement. The Company and Executive further agree that the services to be rendered under this Agreement by Executive are special, unique and of extraordinary character, and that in the event of the breach by Executive of the terms and conditions of this Agreement or if Executive, without the prior consent of the Board of Directors, shall take any action in violation of this Section 8, the Company will suffer irreparable harm for which there is no adequate remedy at law. Accordingly, Executive hereby consents to the entry of a temporary restraining order or ex parte injunction, in addition to any other remedies available at law or in equity, to enforce the provisions hereof. Any proceeding or action seeking equitable relief for violation of this Section 8 must be commenced in the federal or state courts, in either case in Virginia. Executive and the Company irrevocably and unconditionally submit to the jurisdiction of such courts and agree to take any and all future action necessary to submit to the jurisdiction of and venue in such courts.

9. Notice. Any notice required or permitted hereunder shall be in writing and shall be deemed sufficient when given by hand or by nationally recognized overnight courier or by Express, registered or certified mail, postage prepaid, return receipt requested, and addressed, if to the Company at 2900 Eisenhower Avenue, Suite 300, Alexandria, VA 22303, Attention: Chief Executive Officer (with a second copy, sent by the same means and to the same address, Attention: General Counsel), and if to Executive at the address set forth in the Company's records (or to such other address as may be provided by notice).

10. Miscellaneous. This Agreement, together with Annex A and Annex B and the Split Dollar Insurance Agreement and any Equity Award Agreements now or hereafter in effect, constitutes the entire agreement between the parties concerning the subjects hereof and supersedes any and all prior agreements or understandings, including, without limitation, any plan or agreement providing benefits in the nature of severance, but excluding benefits provided under other Company plans or agreements, except to the extent this Agreement provides greater rights than are provided under such other plans or agreements. This Agreement may not be assigned by Executive without the prior written consent of the Company, and may be assigned by the Company and shall be binding upon, and inure to the benefit of, the Company's successors and assigns. The Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to assume expressly and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement by operation of law, or otherwise. Headings herein are for convenience of reference only and shall not define, limit or interpret the contents hereof.

11. Amendment. This Agreement may be amended, modified or supplemented by the mutual consent of the parties in writing, but no oral amendment, modification or supplement shall be effective. No waiver by either party of any breach by the other party of any condition or provision contained in this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same or any prior or subsequent time. Any waiver must be in writing and signed by Executive or an authorized officer of the Company, as the case may be.

12. Severability. The provisions of this Agreement are severable. The invalidity of any provision shall not affect the validity of any other provision, and each provision of this Agreement shall be valid and enforceable to the fullest extent permitted by law.

13. Resolution of Disputes.

(a) Procedures and Scope of Arbitration. Except for any controversy or claim seeking equitable relief pursuant to Section 8 of this Agreement, all controversies and claims arising under or in connection with this Agreement or relating to the interpretation, breach or enforcement thereof and all other disputes between the parties, shall be resolved by expedited, binding arbitration, to be held in the District of Columbia metropolitan area in accordance with the applicable rules of the American Arbitration Association governing employment disputes (the "National Rules"). In any proceeding relating to the amount owed to Executive in connection with his termination of employment, it is the contemplation of the parties that the only remedy that the arbitrator may award in such a proceeding is an amount equal to the termination payments, if any, required to be provided under the applicable provisions of Section 7(c) and, if applicable, Section 7(d) hereof, to the extent not previously paid, plus the costs of arbitration and Executive's reasonable attorneys fees and expenses as provided below. Any award made by such arbitrator shall be final, binding and conclusive on the parties for all purposes, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

(b) Attorneys Fees.

(i) Reimbursement After Executive Prevails. Except as otherwise provided in this paragraph, each party shall pay the cost of his or its own legal fees and expenses incurred in connection with an arbitration proceeding. Provided an award is made in favor of Executive in such proceeding, all of his reasonable attorneys fees and expenses incurred in pursuing or defending such proceeding shall be promptly reimbursed to Executive by the Company within five days of the entry of the award. Any award of reasonable attorneys' fees shall take into account any offer of the Company, such that an award of attorneys' fees to the Executive may be limited or eliminated to the extent that the final decision in favor of the Executive does not represent a material increase in value over the offer that was made by the Company during the course of such proceeding. However, any elimination or limitation on attorneys' fees shall only apply to those attorneys' fees incurred after the offer by the Company.

(ii) Reimbursement in Actions to Stay, Enjoin or Collect. In any case where the Company or any other person seeks to stay or enjoin the commencement or continuation of an arbitration proceeding, whether before or after an award has been made, or where Executive seeks recovery of amounts due after an award has been made, or where the Company brings any proceeding challenging or contesting the award, all of Executive's reasonable attorneys fees and expenses incurred in connection therewith shall be promptly reimbursed by the Company to Executive, within five days of presentation of an itemized request for reimbursement, regardless of whether Executive prevails, regardless of the forum in which such proceeding is brought, and regardless of whether a Change in Control has occurred.

(iii) Reimbursement After a Change in Control. Without limitation on the foregoing, solely in a proceeding commenced by the Company or by Executive after a Change in Control has occurred, the Company shall advance to Executive, within five days of presentation of an itemized request for reimbursement, all of Executive's legal fees and expenses incurred in connection therewith, regardless of the forum in which such proceeding was commenced, subject to delivery of an undertaking by Executive to reimburse the Company for such advance if he does not prevail in such proceeding (unless such fees are to be reimbursed regardless of whether Executive prevails as provided in clause (ii) above).

14. Survivorship. The provisions of Sections 4(b), 6, 8 (to the extent described below) and 13 of this Agreement shall survive Executive's termination of employment. Other provisions of this Agreement shall survive any termination of Executive's employment to the extent necessary to the intended preservation of each party's respective rights and obligations. The provisions of Section 8(a) shall in no event apply if Executive's employment terminates for any reason after the expiration of the Employment Period (for clarification, this means that if Executive's employment terminates on or prior to the expiration of the Original Term or any later Renewal Term then the one year post-termination non-compete set forth in Section 8(a) will apply if the termination is for one of the reasons set forth in Section 8(a)). The provisions of Section 8(b) shall apply during the Employment Period, and shall also apply with respect to any termination of Executive's employment for any reason during the two year period following the expiration of the Employment Period (for clarification, this means that if Executive's employment terminates for any reason on or prior to the second anniversary of the expiration of the Original Term or any later Renewal Term, then the non-solicitation requirement of Section 8(b) shall apply to Executive for one year following termination of employment).

15. Board Action. Where an action called for under this Agreement is required to be taken by the Board of Directors, such action shall be taken by the vote of not less than a majority of the members then in office and authorized to vote on the matter.

16. Withholding. All amounts required to be paid by the Company shall be subject to reduction in order to comply with applicable federal, state and local tax withholding requirements.

17. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

18. Governing Law. This Agreement shall be construed and regulated in all respects under the laws of the State of Maryland.

IN WITNESS WHEREOF, this Agreement is entered into as of the date and year first above written.

AVALONBAY COMMUNITIES, INC.

By: /s/ Bryce Blair
Bryce Blair
Its: Chief Executive Officer

/s/ Leo S. Horey
Leo S. Horey

Exhibit 10.15

AVALONBAY COMMUNITIES, INC.
2900 EISENHOWER AVENUE, THIRD FLOOR
ALEXANDRIA, VA 22314
MARCH 24, 2000

Gilbert M. Meyer
26007 Torello Lane
Los Altos Hills, CA 94022

RE: RETIREMENT AGREEMENT

Dear Mr. Meyer:

This letter agreement (the "Agreement") confirms the terms that will govern your resignation, by reason of retirement, from your offices and employment with AvalonBay Communities, Inc. (the "Company," a term which for purposes of this Agreement includes its related or affiliated entities).

1. Retirement; Nomination as Director at 2000 Annual Meeting. You and the Company hereby confirm that you will retire (i) effective immediately following the next annual meeting of the shareholders of the Company if held in May 2000, or (ii) if such annual meeting is held after May 2000, effective as of May 10, 2000 (such date as may apply, the "Date of Retirement"). Accordingly, you hereby irrevocably tender your resignation, as of the Date of Retirement, as Executive Chairman of the Company and (except for your position as a Director of AvalonBay Communities, Inc.) from all positions and offices you hold with the Company or any of its affiliated entities. The Company hereby acknowledges your retirement and accepts your resignations effective as of the Date of Retirement.

Subject to the execution in good faith by the Company's Board of Directors of its fiduciary duties, the Company agrees that the Board (i) shall nominate you for re-election at the Company's 2000 annual meeting of stockholders as a Director of the Company and, (ii) following the 2000 annual meeting shall grant you the honorary title of "Founder". Following the Date of Retirement and upon your re-election as a Director, if applicable, in calendar year 2001 and thereafter for so long as you remain a Director, you will receive the same compensation as other outside non-employee Directors of the Company. You waive your right, if any, to receive compensation, whether in the form of stock grants, options awards or otherwise, as an outside non-employee Director during calendar year 2000.

The Company will make a public announcement on or promptly following the date hereof, in a mutually acceptable form, regarding your retirement in May 2000.

2. Compensation Through Date of Retirement.

(a) Through the Date of Retirement, you will continue to receive a base salary at a rate of $410,000 per year (subject to applicable withholding).

(b) On the Date of Retirement, you will be paid in lieu of a prorated cash bonus for calendar year 2000 the amount of $73,374.32 (subject to applicable withholding).

(c) As of the date of this letter, your accrued but unused vacation is 56 days. From and after the date hereof, you will no longer accrue additional vacation per bi-weekly pay period and/or be charged against such accrual for vacation days you reasonably use between the date of this letter and the Date of Retirement. You will be paid $62,904.11 (i.e., 56/365 ($410,000)) for all accrued but unused vacation days on the Date of Retirement (subject to applicable withholding).

(d) Through the Date of Retirement, you will receive the benefits for which you are eligible under the Company's other generally applicable employee benefit plans, practices and policies.

(e) By vote of the Compensation Committee on February 28, 2000, your cash bonus and equity awards in respect of service during 1999 are as follows: $243,200 cash bonus (which is fully vested and has been paid to you in accordance with the Company's practice for senior managers); 7,260 restricted shares of common stock; and 59,400 stock options with an exercise

price equal to the market closing price on February 28, 2000. Such options and shares will vest in accordance with the customary terms provided therein, subject, in the case of options, to acceleration on the Date of Retirement as provided herein, and, in the case of restricted shares, subject to Section 4 hereinbelow.

3. Split Dollar Life Insurance/Term Life.

(a) In recognition of your services to the Company, the Company will continue to pay, for so long as such payments are due, all premiums then due and payable on, but only to the extent relating to, the whole-life portion of, the split dollar life insurance policy obtained for you pursuant to Section 3(d) of the Employment Agreement dated March 9, 1998, by and between you and the Bay Apartment Communities, Inc. (a predecessor name of the Company) (the "Employment Agreement"); provided that the Company's obligations to pay under this Section 3 are conditioned upon your payment of all premiums payable on, but only to the extent relating to, the term-life portion of, said split dollar life insurance policy. You agree to cooperate with the Company in verifying your continuing satisfaction of the foregoing condition. The Company agrees to promptly notify you and you agree to promptly notify the Company of any premium notice or other notice it or you receive from the insurer relating to the policy. In the event that the Company determines that its obligation to make payments under this Section 3 has ceased by reason of your non-payment of premiums relating to the term-life portion of said split dollar life insurance policy, the Company shall provide you with thirty (30) days advance written notice of its intent to terminate payments hereunder. Such notice shall identify specifically your non-payment of the term life premium that is the basis on which the Company asserts its right to cease payments and shall provide you with a

reasonable opportunity to cure.

(b) As an additional retirement benefit, the Company has agreed to provide you with the following death benefit, which shall provide assurances to you that the fees payable to you under the Consulting Agreement in respect of your services during the three year period following the date hereof will accrue to you or your estate in the event of your death during such period:

(i) In the event that you die during the three year period following the Date of Retirement, the Company will pay in accordance with Sections 14(j) below, on the date or dates when such payments would otherwise have been due, the remaining cash consulting Fees due to you under the Consulting Agreement.

(ii) You agree to use reasonable best efforts to cause a life insurance company to tender to you an offer of a term life insurance policy with reasonable commercial rates that will provide a death benefit approximately equal to the cash consulting Fees still due you under the Consulting Agreement. You will advise the Company of the premiums due therefor prior to entering into such life insurance policy, and the Company will advise you as to whether the Company intends to reimburse you for the premiums therefor in accordance with the next clause (iii). To satisfy this clause (ii), you may procure two policies, one of which may lapse after one year.

(iii) If the Company reimburses you for the premiums therefore, you will enter into such policy, whereupon, during the term of such policy, the Company's obligations under clause (i) shall not apply. You shall have the right to designate, and from time to time change, the beneficiary(ies) under such policy.

(iv) If the Consulting Period is terminated by the Company for Cause (as set forth in the Consulting Agreement), the Company's obligations in this Section 3(b) shall not apply after the date of such termination.

(v) By way of clarification, you and the Company agree that in no event shall you or your estate or other beneficiaries be paid in the aggregate, by virtue of the Company's obligations hereunder, or under the Consulting Agreement, or by virtue of the term life insurance policy that may be procured as contemplated hereby, an

amount in cash that exceeds the cash consulting Fees that you otherwise would have received under the Consulting Agreement for full service thereunder, and, in the event that you or your estate does receive such excess cash payments, the amount of such excess shall be promptly reported to and remitted to the Company.

(c) As an additional retirement benefit, the Company further has agreed that, in the event you die before all common stock deliverable to you as Additional Fees under the Consulting Agreement has been delivered, the Company shall deliver such installment or installments of common stock in accordance with Section 14(j) below, on the date or dates when such deliveries would otherwise have been due under Section 1(b) of the Consulting Agreement.

4. Restricted Stock, Deferred Stock Awards and Founder's Stock.

(a) You and the Company agree and acknowledge that the Company's 1994 Stock Incentive Plan, as amended (the "Stock Incentive Plan") provides that all remaining shares of the restricted common stock of the Company that you were granted as Restricted Stock Awards are to continue to vest from and after the Date of Retirement in accordance with the terms of each such grant. For clarification, Exhibit A hereto describes all such Restricted Stock. Notwithstanding the foregoing, for good and valuable consideration, you hereby waive your right to and forfeit, as of the Date of Retirement, all then remaining unvested Restricted Stock. To the extent the Company has not already done so with respect to previously vested Restricted Stock, the Company shall (or shall cause the Company's transfer agent to) (i) promptly deliver to you certificates representing such stock with no restrictive legends, and such stock shall be freely transferable by you subject to applicable securities laws and the Company's insider trading policy, which shall apply to you in your capacity as a Director; and (ii) remove all restrictive legends on shares previously issued to you. In the event that you hold or were given certificates regarding such restricted shares, the Company's obligation in the preceding sentence is subject to: (A) delivery by you to the Company or its agent of such certificate; or (B) your delivery to the Company or its agent of a loss affidavit. You acknowledge that the Company has advised you to consult an attorney regarding your continuing obligations under Section 16 of the Securities Exchange Act of 1934, as amended, as well as other federal and state securities (including insider trading) laws. You agree that you shall continue to be bound by the Company's insider trading policy for so long as you are a Director.

(b) The Company acknowledges that as of the date hereof, you have 24,977 Deferred Stock Awards, which number will continue to grow as a result of the reinvestment of "phantom" dividends in accordance with the Company's current practice and shall be adjusted equitably to reflect stock splits, stock dividends or similar changes

affecting the common stock of the Company prior to your conversion of such Deferred Stock as provided hereinbelow. The Company agrees that you may convert some or all of your Deferred Stock Awards into common stock of the Company at any time after May 10, 2000 upon ten (10) business days written notice (with stock certificates promptly delivered to you). Your right to convert the Deferred Stock Awards remains subject to all applicable securities laws. Promptly upon your ceasing to serve as a Director, any remaining Deferred Stock Awards promptly shall be converted into common stock of the Company and paid to you. Your right to have the Deferred Stock Awards convert into common stock and be paid to you will in no way depend on your service under the Consulting Agreement or any defaults by you thereunder.

(c) The Company shall (or shall cause the Company's transfer agent to) remove all restrictive legends from your founder's shares (i.e., stock you held in Bay Apartment Communities, Inc. at the time of its initial public offering). In the event that you hold or were given certificates regarding such founder's shares, the Company's obligation in the preceding sentence is subject to: (i) delivery by you to the Company or its agent of such certificate; or (ii) your delivery to the Company or its agent of a loss affidavit.

5. Stock Options.

(a) You and the Company agree and acknowledge that the Stock Incentive Plan provides that by reason of your retirement, all options to

purchase shares of the Company's common stock that you were granted shall automatically vest as of the Date of Retirement. For clarification, Exhibit B hereto lists all such options and their respective exercise prices. The Company acknowledges that, assuming that you continue to serve as a Director immediately following your retirement, the exercise periods with respect to your various options are unaffected by your retirement. Accordingly, (i) you have until the earlier of (A) the expiration of three (3) months following the termination of your membership on the Company's board of directors (or six (6) months from your death if you die while a director) or (B) the expiration of the original term of such option (i.e., ten years after its grant date), in which to exercise those options granted to you prior to 1999; and (ii) you have until the earlier of (A) the expiration of twelve months following the termination of your membership on the Company's board of directors (or six (6) months from your death if you die while a director) or (B) the expiration of the original term of such option (i.e., ten years after its grant date) in which to exercise those options granted to you in or after 1999.

(b) Notwithstanding the foregoing, the Board of Directors, or the Compensation Committee of the Board of Directors of the Company, has taken such action as is necessary so that with respect to options granted on January 24, 1997, January 30, 1998, and February 28, 2000 you will have until January 24, 2007,

January 30, 2008 and February 28, 2010, respectively in which to exercise such options (collectively, the "Extended Options") subject to the following provisions. In the event that you wilfully and materially breach the terms of the Consulting Agreement or the Mutual Release and Separation Agreement each dated as of March 24, 2000, by and between you and the Company (respectively, the "Consulting Agreement" and the "Separation Agreement"), (a "Material Breach") at any time after the date hereof and within thirty-six (36) months of the Date of Retirement, in addition to the Company's rights to obtain equitable relief or damages for such breach, the Company may suspend thirty-three percent (33%) of the original amount of each tranche of the Extended Options (or, with respect to a tranche of Extended Options for which less than thirty-three percent (33%) of the original amount is outstanding at that time, all such tranche of Extended Options) ("Suspended Options"). The Company shall suspend your right to exercise the Suspended Options by (i) filing a request for arbitration within a reasonable time after any Senior Manager (i.e., any individual holding the title of Senior Vice President or higher) learns of the Material Breach, which request specifically states that the Company is suspending your right to exercise, or (ii) in the event the Company reasonably determines that your asserted Material Breach is curable, by sending you a written notice describing the Material Breach and the steps you must take to cure such Material Breach. In the event that the Company asks you to cure a Material Breach and you fail to cure such breach to the Company's satisfaction within five (5) business days following delivery to you of written notice from the Company, the Company then may commence an arbitration proceeding, in which case your right to exercise the Suspended Options will remain suspended. In the event that an arbitrator determines that you have not committed a Material Breach, the arbitrator may award you damages directly caused by the suspension of your right to exercise the Suspended Options. In the event that an arbitrator determines that you have committed a Material Breach, the exercise period of the Suspended Options shall terminate immediately, without prejudice to the Company's right to obtain equitable relief or damages for such Material Breach; provided that an award of additional damages (if any) shall take into account termination of the Suspended Options. Nothing contained herein otherwise shall be deemed to limit the Company's right to obtain equitable relief or damages for a Material Breach that occurs before or after thirty-six (36) months after the date you execute this Agreement.

In the event of your death, your options shall be exercisable by your legal representative or legatee in accordance with their terms.

6. Loan Forgiveness. The Company will forgive, on the Date of Retirement, the amount you owe in consideration of loans the Company made to you in connection with the grant of restricted stock prior to the date hereof (i.e., approximately $72,500). On or promptly following the Date of Retirement, the promissory notes representing the

approximately said indebtedness shall be returned to you marked "Paid in Full." You understand and acknowledge that the Company will not make any further loans to you with respect to restricted stock awarded to you in calendar year 2000.

7. Expense Reimbursement. You shall continue to be entitled to reimbursement of reasonable business expenses incurred through the Date of Retirement in accordance with Section 4(a) of the Employment Agreement. As a

Director, you will be entitled to reimbursement of reasonable business expenses in accordance with the Company's customary practices, from and after the Date of Retirement.

8. Status of Other Benefits. Except as expressly provided hereinabove, your eligibility to participate in any of the Company's employee benefit plans or programs ceases on or after the Date of Retirement in accordance with the terms and conditions of each of those benefit plans and programs and your rights to benefits under any of the employee benefit plans or programs, if any, are governed by the terms and conditions of each of those employee benefit plans and programs; provided, that nothing in this Section 8 shall be construed to affect you or your dependents' rights thereafter to receive continuation coverage to the extent authorized by and consistent with 29 U.S.C. Section 1161, et. seq. (commonly known as "COBRA") and applicable group health and dental plan terms, entirely at your or their own cost (as determined for COBRA premium purposes). Notwithstanding any shorter period that may be provided under COBRA, the Company will make its group health and dental plans (or reasonably comparable health and dental insurance) available to you and your qualified dependents for three years following the Date of Retirement, such coverage to be entirely at your or their own cost (as determined for COBRA premium purposes).

9. Return of Property. In accordance with Section 4 of the Nondisclosure Agreement, dated as of March 9, 1998, by and between you and Bay Apartment Communities, Inc. (a predecessor name to the Company), and incorporated in the Employment Agreement as Annex B ("Nondisclosure Agreement"), you agree that, on or promptly following the Date of Retirement, you will promptly return to the Company (a) all records, correspondence, notes, financial statements, computer printouts and other documents and recorded material of every nature (including copies thereof) that may be in your possession or control dealing with Confidential Information (as defined in Section 8 of the Nondisclosure Agreement), provided, however, that you may keep your laptop computer and personal home computer, but at the Company's request, you will allow the Company to delete all Company records therefrom and to discontinue computer access to the Company's computer files. Additionally, you may keep materials you properly possess in your capacity as a Director, and may download and keep your calendar and rolodex (except to the extent that the Company reasonably and specifically notifies you that any such information constitutes Confidential Information, in which case the specifically cited information may not be downloaded).

10. Non-Compete Section 8(a) of the Employment Agreement is hereby amended and restated and incorporated herein as of the Effective Date as follows:

> For so long as Executive remains a Director of the Company, Executive shall not, without the prior written consent of the Board of Directors, become associated with, or engage in any "Restricted Activities" with respect to any "Competing Enterprise," as such terms are hereinafter defined, whether as an officer, employee, principal, partner, agent, consultant, independent contractor or shareholder. "Competing Enterprise," for purposes of this Agreement, shall mean any person, corporation, partnership, venture or other entity which (a) is a publicly traded real estate investment trust, or (b) is engaged in the business of managing, owning, leasing or joint venturing residential real estate within 30 miles of residential real estate owned or under management by the Company or its affiliates. "Restricted Activities," for purposes of this Agreement, shall mean executive, managerial, directorial, administrative, strategic, business development or supervisory responsibilities and activities relating to all aspects of residential real estate ownership, management, residential real estate franchising, and residential real estate joint-venturing.
>
> (a) The Executive's interest in and performance of services for Greenbriar Homes Communities, Inc. and its affiliates (collectively, "Greenbriar"), shall not be deemed to be an association with or engaging in Restricted Activities with respect to any Competing Enterprise within the meaning of this Section 8(a) of the Employment Agreement, but only to the extent that his association with or involvement with Greenbriar relates to the single family, for-sale home business.

(b) The Executive's investment of personal funds in apartment buildings, developments or complexes and the Executive's investment of personal funds in partnerships that invest in apartment buildings, developments or complexes shall not be deemed to be an association with or engaging in Restricted Activities with respect to any Competing Enterprise within the meaning of this Section 8(a) of the Employment Agreement, but only to the extent that (i) such personal investments of equity capital do not exceed $20,000,000 in the aggregate (inclusive of such investments already made) for all such investments (which value is determined at cost as of the date of the Executive's initial

cash investment) and (ii) such personal funds account for at least 75% of the equity capital invested in any such building, development, complex or partnership. Personal funds include the funds of the Executive's immediate family, any family trusts and any family partnership.

(c) In addition the Executive may request consent from the Board to engage in any activity that he believes is not competitive with the Company's then current business or prospective business, and the Board will not unreasonably withhold its consent if the Board concludes in good faith that such activity is not in competition with the Company's then current business or prospective business.

(d) The provisions regarding non-competition above in no way shall limit the Executive's fiduciary and common law obligations to the Company in his role as a Director of the Company.

11. Exclusivity. This Agreement sets forth all the consideration to which you are entitled by reason of your retirement and resulting termination of your employment, and you agree that you shall not be entitled to or eligible for any payments or benefits under any other Company severance, bonus, retention or incentive policy, arrangement or plan.

12. Tax Matters. All payments and other consideration provided to you pursuant to this Agreement shall be subject to any deductions, withholding or tax reporting that the Company reasonably determines to be required for tax purposes; provided, that nothing contained in this Section 12 affects your independent obligation and primary responsibility, which obligation and responsibility you hereby affirm, to determine and make proper judgments regarding the payment of taxes under applicable law. In the case of non-cash compensation (i.e., vesting of restricted stock, loan forgiveness, etc.) you hereby authorize the Company to offset amounts required to be withheld against any other cash compensation or fees then payable by the Company to you, including Fees under the Consulting Agreement.

13. Sale of Equity Interests. On or prior to the Date of Retirement, you will sell to Bryce Blair or another designee of the Company all of your interests in AvalonBay Services I, Inc. and AvalonBay Services II, Inc. pursuant to documents substantially similar in terms to those used when you purchased such shares from Charles Berman. The price therefor will be the fair price as determined by you and the Company, which price you acknowledge has not changed significantly since you purchased said shares from Charles Berman.

14. Notices, Acknowledgments and Other Terms

(a) This Agreement shall become effective on the Effective Date of the Separation Agreement (as defined in Section 7(d) thereof) (the "Effective Date").

(b) You are advised to consult with an attorney and tax advisor before signing this Agreement. You acknowledge that you have consulted with an attorney of your choice.

(c) By signing this Agreement, you acknowledge that you are doing so voluntarily and knowingly, fully intending to be bound by this Agreement. You also acknowledge that you are not relying on any representations by any representative of the Company concerning the meaning of any aspect of this Agreement.

(d) In the event of any dispute, this Agreement will be construed as a whole, will be interpreted in accordance with its fair meaning, and will not be construed strictly for or against either you or the Company. Section headings and parenthetical explanations of section references are for convenience only and shall not be used to interpret the meaning of any provision or term of this Agreement.

(e) Any notices required to be given under this Agreement shall be provided in writing and delivered by hand or certified mail, and shall be deemed to have been duly given when received at the following addresses, unless and to the extent that notice of change of address has been duly given hereunder

If to you at:

Mr. Gilbert M. Meyer
26007 Torello Lane
Los Altos Hills, CA 94022

with a copy to:

Ethan Lipsig, Esq.
Paul, Hastings, Janofsky & Walker LLP
555 South Flower Street
Los Angeles, CA 90071-2371

If to the Company, to it at:

AvalonBay Communities, Inc.

2900 Eisenhower Avenue, Third Floor
Alexandria, VA 22314
Attention: Chief Executive Officer

with a copy to:

AvalonBay Communities, Inc.
2900 Eisenhower Avenue, Third Floor
Alexandria, VA 22314
Attention: General Counsel

and a copy to:

Joseph A. Piacquad, Esq,
Goodwin, Procter & Hoar LLP
Exchange Place
Boston, MA 02109-2881

(f) The law of the State of Maryland will govern any dispute about this Agreement, including any interpretation or enforcement of this Agreement.

(g) In the event that any provision or portion of a provision of this Agreement shall be determined to be illegal, invalid or unenforceable, the remainder of this Agreement shall be enforced to the fullest extent possible and the illegal, invalid or unenforceable provision or portion of a provision will be amended by a court of competent jurisdiction, or otherwise thereafter shall be interpreted, to reflect as nearly as possible without being illegal, invalid or unenforceable the parties' intent if possible. If such amendment or interpretation is not possible, the illegal, invalid or unenforceable provision or portion of a provision will be severed from the remainder of this Agreement and the remainder of this Agreement shall be enforced to the fullest extent possible as if such illegal, invalid or unenforceable provision or portion of a provision was not included.

(h) This Agreement may be modified only by a written agreement signed by you and an authorized representative of the Company.

(i) This Agreement, the Separation Agreement and the Consulting Agreement and Sections 4(b), 6, 7(d), 8(a) (as amended by Section 10 of the Retirement Agreement), 8(b) (as clarified hereinbelow), 8(c) and 13(a) (as amended by Section 5 of the Separation Agreement), and Annex B of the Employment Agreement which are incorporated herein, constitute the entire agreement between the parties with respect to the subject matter hereof and, except as expressly provided therein, supersede all prior

agreements between the parties with respect to any related subject matter. Without limiting your fiduciary duties as a Director, it is hereby acknowledged that the contractual one year non-solicitation clause in Section 8(b) of the Employment Agreement expires one year after the May 10, 2000, Date of Retirement.

(j) Subject in all events to applicable law, in the event of your death any payments or other consideration then due and payable or deliverable to you by the Company under this Agreement will be paid or delivered to your designated beneficiary, or, if you are not survived by such designated beneficiary, or you fail to effectively designate a beneficiary, to your estate. The Company acknowledges that you have designated The Meyer 1997 Irrevocable Trust, dated February 10, 1997, Jo Ann Conner, or her successor, Trustee, as the beneficiary. You may designate a beneficiary or change such designation from time-to-time in accordance with the notice provisions of this Agreement. The Company will reasonably cooperate with you to modify this provision to the extent reasonably necessary so as to give effect to the purpose of this provision in a manner that complies with applicable laws.

(k) This Agreement shall be binding upon each of the parties and upon their respective heirs, administrators, representatives, executors, successors and assigns, and shall inure to the benefit of each party and to their heirs, administrators, representatives, executors, successors, and assigns.

If you agree to these terms, please sign and date below and return this Agreement to the Company's Chief Executive Officer. This Agreement may be executed in counterparts and/or by facsimile transmission, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

Sincerely,

AvalonBay Communities, Inc.

By: /s/ RICHARD L. MICHAUX

Richard L. Michaux
Its: Chief Executive Officer

Accepted and Agreed to:

/s/ GILBERT M. MEYER
- - ---
Gilbert M. Meyer

Dated: March 24, 2000

EXHIBIT A

RESTRICTED STOCK GRANTS

<TABLE>
<CAPTION>

Issue Date	Total Shares
<S>	<C>
1/24/97	20,000
1/30/98	10,000

2/17/99	6,200
2/28/00	7,260
TOTAL:	43,460

</TABLE>

EXHIBIT B

STOCK OPTIONS

<TABLE>
<CAPTION>

ISSUE DATE	SHARES	STRIKE $	EXERCISED	OUTSTANDING
<S>	<C>	<C>	<C>	<C>
3/10/94	100,000	$20.0000	--	100,000
3/31/95	60,000	$18.3750	--	60,000
1/26/96	40,000	$23.3750	--	40,000
1/24/97	100,000	$36.6250	--	100,000
1/30/98	100,000	$37.9375	--	100,000
2/17/99	62,000	$32.0000	--	62,000
2/28/00	59,400	$33.7500	--	59,400
TOTAL:	521,400	N/A	--	521,400

</TABLE>

EXHIBIT 10.17

AVALON PROPERTIES, INC.
1993 STOCK OPTION AND INCENTIVE PLAN

SECTION 1. GENERAL PURPOSE OF THE PLAN; DEFINITIONS

The name of the plan is the Avalon Properties, Inc. 1993 Stock Option and Incentive Plan (the "Plan"). The purpose of the Plan is to encourage and enable the officers, employees and Directors of Avalon Properties, Inc. (the "Company") and its Subsidiaries upon whose judgment, initiative and efforts the Company largely depends for the successful conduct of its business to acquire a proprietary interest in the Company. It is anticipated that providing such persons with a direct stake in the Company's welfare will assure a closer identification of their interests with those of the Company, thereby stimulating their efforts on the Company's behalf and strengthening their desire to remain with the Company.

The following terms shall be defined as set forth below:

"ACT" means the Securities Exchange Act of 1934, as amended.

"AWARD" or "AWARDS," except where referring to a particular category of grant under the Plan, shall include Incentive Stock Options and Non-Qualified Stock Options.

"BOARD" means the Board of Directors of the Company.

"CAUSE" means and shall be limited to a vote of the Board of Directors resolving that the participant should be dismissed as a result of (i) any material breach by the participant of any agreement to which the participant and the Company are parties, (ii) any act (other than retirement) or omission to act by the participant which may have a material and adverse effect on the business of the Company or any Subsidiary or on the participant's ability to perform services for the Company or any Subsidiary, including, without limitation, the participant being convicted of any crime (other than ordinary traffic violations), or (iii) any material misconduct or neglect of duties by the participant in connection with the business or affairs of the Company or any Subsidiary.

"CHANGE OF CONTROL" is defined in Section 10.

"CODE" means the Internal Revenue Code of 1986, as amended, and any successor Code, and related rules, regulations and interpretations.

"COMMITTEE" means the Board or any Committee of the Board referred to in Section 2.

"DISABILITY" means disability as set forth in Section 22(e)(3) of the Code.

"DISINTERESTED PERSON" means a Non-Employee Director who qualifies as such under Rule 16b-3(c)(2)(i) promulgated under the Act, or any successor definition under the Act.

"EFFECTIVE DATE" means the date on which the Plan is approved by shareholders as set forth in Section 12.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended, and the related rules, regulations and interpretations.

"FAIR MARKET VALUE" on any given date means the last reported sale price at which Stock is traded on such date or, if no Stock is traded on such date, the most recent date on which Stock was traded, as reflected on the New York Stock Exchange or, if applicable, any other national stock exchange on which the Stock is traded. Notwithstanding the foregoing, the Fair Market Value on the first day of the Company's initial public offering shall mean the initial public offering price.

"INCENTIVE STOCK OPTION" means any Stock Option designated and qualified as an "incentive stock option" as defined in Section 422 of the Code.

"NON-EMPLOYEE DIRECTOR" means a member of the Board who is not also an employee of the Company or any Subsidiary.

"NON-QUALIFIED STOCK OPTION" means any Stock Option that is not an

Incentive Stock Option.

"OPTION" or "STOCK OPTION" means any option to purchase shares of Stock granted pursuant to Section 5.

"STOCK" means the Common Stock, $.01 par value per share, of the Company, subject to adjustments pursuant to Section 3.

"SUBSIDIARY" means any corporation or other entity (other than the Company) in any unbroken chain of corporations or other entities, beginning with the Company if each of the corporations or entities (other than the last corporation or entity in the unbroken chain) owns stock or other interests possessing 50% or more of the total combined voting power of all classes of stock or other interests in one of the other corporations or entities in the chain.

SECTION 2. ADMINISTRATION OF PLAN; COMMITTEE AUTHORITY TO SELECT PARTICIPANTS AND DETERMINE AWARDS

(a) COMMITTEE. Prior to the date of the closing of the Company's initial public offering, the Plan shall be administered by the Board. On and after the date of the closing

of the Company's initial public offering, the Plan shall be administered by all of the Non-Employee Director members of the Compensation Committee of the Board, or any other committee of not less than two Non-Employee Directors performing similar functions, as appointed by the Board from time to time. Each member of the Committee shall be a Disinterested Person on and after the date of the closing of the Company's initial public offering.

(b) POWERS OF COMMITTEE. The Committee shall have the power and authority to grant Awards consistent with the terms of the Plan, including the power and authority:

(i) to select the officers and other employees of the Company and its Subsidiaries to whom Awards may from time to time be granted;

(ii) to determine the time or times of grant, and the extent, if any, of Incentive Stock Options or Non-Qualified Stock Options granted to any one or more participants;

(iii) to determine the number of shares to be covered by any Award;

(iv) to determine and modify the terms and conditions, including restrictions, not inconsistent with the terms of the Plan, of any Award, which terms and conditions may differ among individual Awards and participants, and to approve the form of written instruments evidencing the Awards;

(v) to accelerate the exercisability or vesting of all or any portion of any Option;

(vi) subject to the provisions of Section 5(a)(iii), to extend the period in which Stock Options may be exercised; and

(vii) to adopt, alter and repeal such rules, guidelines and practices for administration of the Plan and for its own acts and proceedings as it shall deem advisable; to interpret the terms and provisions of the Plan and any Award (including related written instruments); to make all determinations it deems advisable for the administration of the Plan; to decide all disputes arising in connection with the Plan; and to otherwise supervise the administration of the Plan.

All decisions and interpretations of the Committee shall be binding on all persons, including the Company and Plan participants.

SECTION 3. SHARES ISSUABLE UNDER THE PLAN; MERGERS; SUBSTITUTION

(a) SHARES ISSUABLE. The maximum number of shares of Stock reserved and available for issuance under the Plan shall be 10% of the shares of Stock sold in the Company's initial public offering. For purposes of this limitation, the shares of Stock

underlying any Awards which are forfeited, cancelled, reacquired by the Company, satisfied without the issuance of Stock or otherwise terminated (other than by exercise) shall be added back to the shares of Stock available for issuance under the Plan so long as the participants to whom such Awards had been

previously granted received no benefits of ownership of the underlying shares of Stock to which the Award related. Subject to such overall limitation, shares may be issued up to such maximum number pursuant to any type or types of Award, including Incentive Stock Options. Shares issued under the Plan may be authorized but unissued shares or shares reacquired by the Company.

(b) STOCK DIVIDENDS, MERGERS, ETC. In the event of a stock dividend, stock split or similar change in capitalization affecting the Stock, the Committee shall make appropriate adjustments in (i) the number and kind of shares of stock or securities on which Awards may thereafter be granted, (ii) the number and kind of shares remaining subject to outstanding Awards, and (iii) the option or purchase price in respect of such shares. In the event of any merger, consolidation, dissolution or liquidation of the Company, the Committee in its sole discretion may, as to any outstanding Awards, make such substitution or adjustment in the aggregate number of shares reserved for issuance under the Plan and in the number and purchase price (if any) of shares subject to such Awards as it may determine and as may be permitted by the terms of such transaction, or amend or terminate such Awards upon such terms and conditions as it shall provide (which, in the case of the termination of the vested portion of any Award, shall require payment or other consideration which the Committee deems equitable in the circumstances).

(c) SUBSTITUTE AWARDS. The Committee may grant Awards under the Plan in substitution for stock and stock based awards held by employees of another corporation who concurrently become employees of the Company or a Subsidiary as the result of a merger or consolidation of the employing corporation with the Company or a Subsidiary or the acquisition by the Company or a Subsidiary of property or stock of the employing corporation. The Committee may direct that the substitute awards be granted on such terms and conditions as the Committee considers appropriate in the circumstances.

SECTION 4. ELIGIBILITY

Participants in the Plan will be such full or part-time officers and other employees of the Company and its Subsidiaries who are responsible for or contribute to the management, growth or profitability of the Company and its Subsidiaries and who are selected from time to time by the Committee, in its sole discretion. Non-Employee Directors are also eligible to participate in the Plan but only to the extent provided in Section 5(c) below.

SECTION 5. STOCK OPTIONS

Any Stock Option granted under the Plan shall be in such form as the Committee may from time to time approve.

Stock Options granted under the Plan may be either Incentive Stock Options or Non-Qualified Stock Options. To the extent that any Stock Option does not qualify as an Incentive Stock Option, it shall constitute a Non-Qualified Stock Option.

No Incentive Stock Option shall be granted under the Plan after November 11, 2003.

(a) STOCK OPTIONS GRANTED TO EMPLOYEES. The Committee in its discretion may grant Stock Options to employees of the Company or any Subsidiary. Stock Options granted to employees pursuant to this Section 5(a) shall be subject to the following terms and conditions and shall contain such additional terms and conditions, not inconsistent with the terms of the Plan, as the Committee shall deem desirable:

(i) EXERCISE PRICE. The exercise price per share for the Stock covered by a Stock Option granted pursuant to this Section 5(a) shall be determined by the Committee at the time of grant but shall be not less than 100% of Fair Market Value on the date of grant. If an employee owns or is deemed to own (by reason of the attribution rules applicable under Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation and an Incentive Stock Option is granted to such employee, the option price shall be not less than 110% of Fair Market Value on the grant date.

(ii) GRANT OF OPTIONS IN LIEU OF CASH BONUS. Upon the request of an employee and with the consent of the Committee, such employee may elect to receive a Stock Option each calendar year in lieu of cash bonus to which he may become entitled during the following year pursuant to any other plan of the Company, but only if such employee makes an irrevocable election to waive receipt of all or a portion of such cash bonus. Such election shall be made no later than 15 days preceding January 1 of the calendar year in which the cash bonus would otherwise be paid. A Stock Option shall be granted to each employee who made such an irrevocable election on the date the waived cash bonus would otherwise be paid; provided, however, that with respect to an

employee who is subject to Section 16 of the Act, if such grant date is not at least six months and one day from the date of the election, the grant shall be delayed until the date which is six months and one day from the date of the election (or the next following business day, if such date is not a business day). The exercise price per share shall be the Fair Market Value of the Stock on the date the Stock Option is granted. The number of shares subject to the Stock Option shall be determined by dividing the amount of the waived cash bonus by the Fair Market Value of the Stock on the date the Stock Option is granted. The Stock Option shall be granted for whole number of shares so determined; the value of any fractional share shall be paid in cash. An employee may revoke his election under this Section 5(a)(ii) on a prospective basis at any time; provided, however, that with respect to an employee who is subject to Section 16 of the Act, such revocation shall only be effective six months and one day following the date of such revocation.

(iii) OPTION TERM. The term of each Stock Option shall be fixed by the Committee, but except as provided in Sections 5(a)(vii) and (viii) no Incentive Stock Option shall be exercisable more than ten years after the date the option is granted. If an employee owns or is deemed to own (by reason of the attribution rules of Section 424(d) of the Code) more than 10% of the combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation and an Incentive Stock Option is granted to such employee, the term of such option shall be no more than five years from the date of grant.

(iv) EXERCISABILITY; RIGHTS OF A SHAREHOLDER. Stock Options shall become vested and exercisable at such time or times, whether or not in installments, as shall be determined by the Committee at or after the grant date; provided, however, that Stock Options in lieu of cash bonus shall be exercisable immediately. The Committee may at any time accelerate the exercisability of all or any portion of any Stock Option. An optionee shall have the rights of a shareholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(v) METHOD OF EXERCISE. Stock Options may be exercised in whole or in part, by giving written notice of exercise to the Company, specifying the number of shares to be purchased. Payment of the purchase price may be made by one or more of the following methods:

(A) In cash, by certified or bank check or other instrument acceptable to the Committee;

(B) In the form of shares of Stock that are not then subject to restrictions under any Company plan and that have been held by the optionee for at least six months, if permitted by the Committee in its discretion. Such surrendered shares shall be valued at Fair Market Value on the exercise date; or

(C) By the optionee delivering to the Company a properly executed exercise notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company to pay the purchase price; provided that in the event the optionee chooses to pay the purchase price as so provided, the optionee and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Committee shall prescribe as a condition of such payment procedure. Payment instruments will be received subject to collection.

The delivery of certificates representing shares of Stock to be purchased pursuant to the exercise of a Stock Option will be contingent upon receipt from the Optionee (or a purchaser acting in his stead in accordance with the provisions of the Stock Option) by

the Company of the full purchase price for such shares and the fulfillment of any other requirements contained in the Stock Option or applicable provisions of laws.

(vi) NON-TRANSFERABILITY OF OPTIONS. No Stock Option shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution and all Stock Options shall be exercisable, during the optionee's lifetime, only by the optionee.

(vii) TERMINATION BY DEATH. If any optionee's employment by the Company and its Subsidiaries terminates by reason of death, the

Stock Option may thereafter be exercised, to the extent exercisable at the date of death, by the legal representative or legatee of the optionee, for a period of six months (or such longer period as the Committee shall specify at any time) from the date of death.

(viii) TERMINATION BY REASON OF DISABILITY.

(A) Any Stock Option held by an optionee whose employment by the Company and its Subsidiaries has terminated by reason of Disability may thereafter be exercised, to the extent it was exercisable at the time of such termination, for a period of twelve months (or such longer period as the Committee shall specify at any time) from the date of such termination of employment.

(B) The Committee shall have sole authority and discretion to determine whether a participant's employment has been terminated by reason of Disability.

(C) Except as otherwise provided by the Committee at the time of grant, the death of an optionee during a period provided in this Section 5(a)(viii) for the exercise of a Non-Qualified Stock Option shall extend such period for six months from the date of death.

(ix) TERMINATION FOR CAUSE. If any optionee's employment by the Company and its Subsidiaries has been terminated for Cause, any Stock Option held by such optionee shall terminate and be of no further force and effect after 30 days from the date of termination of employment or at the expiration of the stated term of the Option, if earlier.

(x) OTHER TERMINATION. Unless otherwise determined by the Committee, if an optionee's employment by the Company and its Subsidiaries terminates for any reason other than death, Disability, or for Cause, any Stock Option held by such optionee may thereafter be exercised, to the extent it was exercisable on the date of termination of employment, for three months (or such longer period as the Committee shall specify at any time) from the date of termination of employment or until the expiration of the stated term of the Option, if earlier.

(xi) ANNUAL LIMIT ON INCENTIVE STOCK OPTIONS. To the extent required for "incentive stock option" treatment under Section 422 of the Code, the aggregate Fair Market Value (determined as of the time of grant) of the Stock with respect to which Incentive Stock Options granted under this Plan and any other plan of the Company or its Subsidiaries become exercisable for the first time by an optionee during any calendar year shall not exceed $100,000.

(xii) FORM OF SETTLEMENT. Shares of Stock issued upon exercise of a Stock Option shall be free of all restrictions under the Plan, except as otherwise provided in this Plan.

(b) RELOAD OPTIONS. At the discretion of the Committee, Options granted under Section 5(a) may include a so-called "reload" feature pursuant to which an optionee exercising an option by the delivery of a number of shares of Stock in accordance with Section 5(a)(v)(B) hereof would automatically be granted an additional Option (with an exercise price equal to the Fair Market Value of the Stock on the date the additional Option is granted and with the same expiration date as the original Option being exercised, and with such other terms as the Committee may provide) to purchase that number of shares of Stock equal to the number delivered to exercise the original Option.

(c) STOCK OPTIONS GRANTED TO NON-EMPLOYEE DIRECTORS.

(i) AUTOMATIC GRANT OF OPTIONS. Each Non-Employee Director who becomes a Director of the Company on or before the date 30 days after the closing of the Company's initial public offering shall automatically be granted a Non-Qualified Stock Option to purchase 5,000 shares of Stock on such date at a price per share equal to the greater of the Fair Market Value on the date of grant or $20.50. Each Non-Employee Director who is serving as Director of the Company on the fifth business day after each annual meeting of stockholders, beginning with the 1994 annual meeting, shall automatically be granted on such day a Non-Qualified Stock Option to acquire 3,000 shares of Stock. Except as provided in the preceding sentence, the exercise price per share for the Stock covered by a Stock Option granted hereunder shall be equal to the Fair Market Value of the Stock on the date the Stock Option is granted.

(ii) GRANT OF OPTIONS IN LIEU OF DIRECTOR'S FEES. Each Non-Employee Director shall receive a Non-Qualified Stock Option each

calendar year in lieu of cash director's fees he would otherwise receive for such year, but only if the Non-Employee Director makes an irrevocable election to waive receipt of all or a portion of such cash director's fees. Such election shall be made during the 30-day period immediately preceding January 1 of a calendar year and shall be effective six months and one day following the date of such election. A Non-Qualified Stock Option shall be granted to each Non-Employee Director who made such an irrevocable election on each July 15 and January 15 (or the next following business day, if such date is not a business day) with respect to the waived amount of director's fees earned for the six-month period ending June 30 and December 31,

respectively. The exercise price per share shall be the Fair Market Value of the Stock on the date the Stock Option is granted. The number of shares subject to the Stock Option shall be determined by dividing the amount of the waived directors' fees for the applicable six-month period by the Fair Market Value of the Stock on the date the Stock Option is granted. The Stock Option shall be granted for whole number of shares so determined; the value of any fractional share shall be paid in cash. A Non-Employee Director may revoke his election under this Section 5(c)(ii) at any time; provided, however, that such revocation shall only be effective six months and one day following the date of such revocation.

(iii) EXERCISE; TERMINATION; NON-TRANSFERABILITY.

(A) Except as provided in Section 10, no Option granted under Section 5(c)(i) may be exercised before the first anniversary of the date upon which it was granted; provided, however, that any Option so granted shall become exercisable upon the termination of service of the Non-Employee Director because of Disability or death. All Options granted under Section 5(c)(ii) shall be immediately exercisable. No Option issued under this Section 5(c) shall be exercisable after the expiration of ten years from the date upon which such Option is granted.

(B) The rights of a Non-Employee Director in an Option granted under Section 5(c) shall terminate six months after such Director ceases to be a Director of the Company or the specified expiration date, if earlier; provided, however, that if the Non-Employee Director ceases to be a Director for Cause, the rights shall terminate immediately on the date on which he ceases to be a Director.

(C) No Stock Option granted under this Section 5(c) shall be transferable by the optionee otherwise than by will or by the laws of descent and distribution, and such Options shall be exercisable, during the optionee's lifetime only by the optionee. Any Option granted to a Non-Employee Director and outstanding on the date of his death may be exercised by the legal representative or legatee of the optionee for a period of six months from the date of death or until the expiration of the stated term of the option, if earlier.

(D) Options granted under this Section 5(c) may be exercised only by written notice to the Company specifying the number of shares to be purchased. Payment of the full purchase price of the shares to be purchased may be made by one or more of the methods specified in Section 5(a)(v). An optionee shall have the rights of a shareholder only as to shares acquired upon the exercise of a Stock Option and not as to unexercised Stock Options.

(iv) LIMITED TO NON-EMPLOYEE DIRECTORS. The provisions of this Section 5(c) shall apply only to Options granted or to be granted to Non-Employee

Directors, and shall not be deemed to modify, limit or otherwise apply to any other provision of this Plan or to any Option issued under this Plan to a participant who is not a Non-Employee Director of the Company. To the extent inconsistent with the provisions of any other Section of this Plan, the provisions of this Section 5(c) shall govern the rights and obligations of the Company and Non-Employee Directors respecting Options granted or to be granted to Non-Employee Directors. The provisions of this Section 5(c) which affect the price, date of exercisability, option period or amount of shares under an option shall not be amended more than once in any six-month period, other than to

comport with changes in the Code or ERISA.

SECTION 6. TAX WITHHOLDING

(a) PAYMENT BY PARTICIPANT. Each participant shall, no later than the date as of which the value of an Award or of any Stock or other amounts received thereunder first becomes includable in the gross income of the participant for Federal income tax purposes, pay to the Company, or make arrangements satisfactory to the Committee regarding payment of any Federal, state, or local taxes of any kind required by law to be withheld with respect to such income. The Company and its Subsidiaries shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the participant.

(b) PAYMENT IN SHARES. A participant may elect to have such tax withholding obligation satisfied, in whole or in part, by (i) authorizing the Company to withhold from shares of Stock to be issued pursuant to any Award a number of shares with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due, or (ii) transferring to the Company shares of Stock owned by the participant with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due. With respect to any participant who is subject to Section 16 of the Act, the following additional restrictions shall apply:

(A) the election to satisfy tax withholding obligations relating to an Award in the manner permitted by this Section 6(b) shall be made either (1) during the period beginning on the third business day following the date of release of quarterly or annual summary statements of revenues of the Company and ending on the twelfth business day following such date, or (2) at least six months prior to the date as of which the receipt of such an Award first becomes a taxable event for Federal income tax purposes;

(B) such election shall be irrevocable;

(C) such election shall be subject to the consent or disapproval of the Committee; and

(D) the Stock withheld to satisfy tax withholding, if granted at the discretion of the Committee, must pertain to an Award which has been held by the participant for at least six months from the date of grant of the Award.

Notwithstanding the foregoing, the first sentence of Section 6(b)(A) shall not be applicable until the Company has been subject to the reporting requirements of the Act for at least a year prior to the election and has filed all reports and statements required to be filed pursuant to that Section for that year.

SECTION 7. TRANSFER, LEAVE OF ABSENCE, ETC.

For purposes of the Plan, the following events shall not be deemed a termination of employment:

(a) a transfer to the employment of the Company from a Subsidiary or from the Company to a Subsidiary, or from one Subsidiary to another; or

(b) an approved leave of absence for military service or sickness, or for any other purpose approved by the Company, if the employee's right to re-employment is guaranteed either by a statute or by contract or under the policy pursuant to which the leave of absence was granted or if the Committee otherwise so provides in writing.

SECTION 8. AMENDMENTS AND TERMINATION

The Board may at any time amend or discontinue the Plan and the Committee may at any time amend or cancel any outstanding Award (or provide substitute Awards at the same or reduced exercise or purchase price or with no exercise or purchase price, but such price, if any, must satisfy the requirements which would apply to the substitute or amended Award if it were then initially granted under this Plan) for the purpose of satisfying changes in law or for any other lawful purpose, but no such action shall adversely affect rights under any outstanding Award without the holder's consent. To the extent required by the Code to ensure that Options granted hereunder qualify as Incentive Stock Options and to the extent required by the Act to ensure that Awards and Options granted under the Plan are exempt under Rule 16b-3 promulgated under the Act, Plan amendments shall be subject to approval by the Company's stockholders.

SECTION 9. STATUS OF PLAN

With respect to the portion of any Award which has not been exercised and any payments in cash, Stock or other consideration not received by a participant, a participant shall have no rights greater than those of a general creditor of the Company unless the Committee shall otherwise expressly determine in connection with any Award or Awards.

SECTION 10. CHANGE OF CONTROL PROVISIONS

Upon the occurrence of a Change of Control as defined in this Section 10:

(a) Each Stock Option shall automatically become fully exercisable notwithstanding any provision to the contrary herein.

(b) "CHANGE OF CONTROL" shall mean the occurrence of any one of the following events:

(i) any "PERSON," as such term is used in Sections 13(d) and 14(d) of the Act (other than the Company, any of its Subsidiaries, any trustee, fiduciary or other person or entity holding securities under any employee benefit plan of the Company or any of its Subsidiaries), together with all "affiliates" and "associates" (as such terms are defined in Rule 12b-2 under the Act) of such person, shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Company representing 30% or more of either (A) the combined voting power of the Company's then outstanding securities having the right to vote in an election of the Company's Board of Directors ("Voting Securities") or (B) the then outstanding shares of Stock of the Company (in either such case other than as a result of acquisition of securities directly from the Company); or

(ii) persons who, as of the date of the closing of the Company's initial public offering, constitute the Company's Board of Directors (the "Incumbent Directors") cease for any reason, including, without limitation, as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board, provided that any person becoming a director of the Company subsequent to the Closing of the Company's initial public offering whose election or nomination for election was approved by a vote of at least a majority of the Incumbent Directors shall, for purposes of this Plan, be considered an Incumbent Director; or

(iii) the stockholders of the Company shall approve (A) any consolidation or merger of the Company or any Subsidiary where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, shares representing in the aggregate 30% of the voting stock of the corporation issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any), (B) any sale, lease, exchange or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company or (C) any plan or proposal for the liquidation or dissolution of the Company.

Notwithstanding the foregoing, a "Change of Control" shall not be deemed to have occurred for purposes of the foregoing clause (i) solely as the result of an acquisition of securities by the Company which, by reducing the number of shares of Stock or other Voting Securities outstanding, increases (x) the proportionate number of shares of Stock beneficially owned by any person to 30% or more of the shares of Stock then outstanding or (y) the proportionate voting power represented by the Voting Securities beneficially owned by any person to 30% or more of the combined voting power of all then

outstanding Voting Securities; PROVIDED, HOWEVER, that if any person referred to in clause (x) or (y) of this sentence shall thereafter become the beneficial owner of any additional shares of Stock or other Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction), then a "CHANGE OF CONTROL" shall be deemed to have occurred for purposes of the foregoing clause (i).

SECTION 11. GENERAL PROVISIONS

(a) NO DISTRIBUTION; COMPLIANCE WITH LEGAL REQUIREMENTS. The Committee may require each person acquiring shares pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to distribution thereof.

No shares of Stock shall be issued pursuant to an Award until all applicable securities law and other legal and stock exchange requirements have been satisfied. The Committee may require the placing of such stop-orders and restrictive legends on certificates for Stock and Awards as it deems appropriate.

(b) DELIVERY OF STOCK CERTIFICATES. Delivery of stock certificates to participants under this Plan shall be deemed effected for all purposes when the Company or a stock transfer agent of the Company shall have delivered such certificates in the United States mail, addressed to the participant, at the participant's last known address on file with the Company.

(c) OTHER COMPENSATION ARRANGEMENTS; NO EMPLOYMENT RIGHTS. Nothing contained in this Plan shall prevent the Board from adopting other or additional compensation arrangements, including trusts, subject to stockholder approval if such approval is required; and such arrangements may be either generally applicable or applicable only in specific cases. The adoption of the Plan and the grant of Awards do not confer upon any employee any right to continued employment with the Company or any Subsidiary.

SECTION 12. EFFECTIVE DATE OF PLAN

The Plan shall become effective upon approval by the holders of a majority of the shares of capital stock of the Company present or represented and entitled to vote at a meeting of stockholders. Subject to such approval by the stockholders, and to the requirement that no Stock may be issued hereunder prior to such approval, Stock Options and other Awards may be granted hereunder on and after adoption of the Plan by the Board.

SECTION 13. GOVERNING LAW

This Plan shall be governed by Maryland law except to the extent such law is preempted by federal law.

EXHIBIT 10.18

AVALON PROPERTIES, INC.

1995 ANNUAL INCENTIVE PLAN

1. PURPOSE. The purpose of the Avalon Properties, Inc. (the "Company") Annual Incentive Plan (the "Plan ") is to enhance the Company's ability to attract, motivate, reward, and retain key employees, to strengthen their commitment to the success of the Company and to align their interests with those of the Company's shareholders by providing additional compensation to designated key employees of the Company based on the achievement of performance objectives. To this end, the Plan provides a means of rewarding participants based on the performance of the Company.

2. DEFINITIONS.

"Award" means a Threshold Award, Target Award or Maximum Award, any of which may not be a Code Section 163(m) Award, paid pursuant to this Plan.

"Award Agreement" means the agreement entered into between the Company and a participant, setting forth the terms and conditions applicable to an award granted to the participant.

"Code" means the Internal Revenue Code of 1986, and any successor statute, and the regulations promulgated thereunder, as it or they may be amended from time to time.

"Code Section 162(m) Aware" means an Award intended to satisfy the requirements of Code Section 162(m) and designated as such in the Award Agreement.

"Covered Employee" means a Covered Employee within the meaning of Cede Section 162(m)(3).

"FFO" means _____.

"Maximum Award" means the amount payable for achieving [150%] of the Performance Goals for the Performance Period.

"Performance Criteria" means one or more of the following criteria selected by, and as further defined by, the Committee each Year to measure achievement of Performance Goals for a Year:

1. A. [FFO Growth];

B. [Stock Price]; and

C. [FFO Multiple].

2. Any other criteria related to performance of the Company, individual performance or any other category of performance selected by the Committee.

"Performance Goals" are the performance objectives applicable to each Performance Period with respect to Performance Criteria established by the Committee for the Company for the purpose of determining whether, and the extent to which, awards under the Plan will be made for that Performance Period.

"Performance Period" means each three-year period commencing on January 1 in any Year under the Plan and ending on December 31 in the third succeeding Year.

"Target Award" means the amount payable for achieving 100% of the Performance Goals for the Performance Period.

"Threshold Award" means the amount payable for achieving [50%] of the Performance Goals for the Performance Period.

"Year" means the Company's fiscal year.

3. ADMINISTRATION. The Plan shall be administered by the Compensation Committee (the "Committee") of the Company's Board of Directors (the "Board").

The Committee's determinations under the Plan need not be uniform and may be made by it selectively among persons who receive, or are eligible to

receive, awards under the Plan, whether or not such persons are similarly situated. Without limiting the generality of the foregoing, the Committee will be entitled, among other things, to make non-uniform and selective determinations and to establish non-uniform and selective Performance Criteria, Performance Goals, the weightings thereof, and Threshold, Target and Maximum Awards. Whenever the Plan refers to a determination being made by the Committee, it shall be deemed to mean a determination by the Committee in its sole discretion.

It is the intent of the Company that this Plan and Code Section 162(m) Awards hereunder satisfy and be interpreted in a manner that satisfy, in the case of participants who are or may be Covered Employees, the applicable requirements of Code Section 162(m), including the administration requirement of Code Section 162(m)(4)(C), so that the Company's tax deduction for remuneration in respect of such an award for services performed by such Covered Employees is not disallowed in whole or in part by the operation of such Code section. If any provision of this Plan would otherwise frustrate or conflict with the intent expressed in this Article, that provision, to the extent possible, shall be interpreted and deemed amended so as to avoid such conflict. To the extent of any remaining irreconcilable conflict with such intent, [such provision shall be deemed void as applicable to Covered Employees with respect to whom such conflict exists.] Nothing herein shall be interpreted so as to preclude a participant who is or may be a Covered Employee from receiving an award that is not a Code Section 162(m) Award.

The Committee shall have the discretion, subject to the limitations described in Article 4 below relating to Code 162(m) Awards, to (a) determine the Plan participants; (b) determine who will be treated as a Covered Employee; (c) determine Performance Criteria and Performance Goals for each Performance Period within the time period required by Code Section 162(m); (d) establish an Award Schedule; (e) establish performance thresholds for payment of any awards; (f) determine whether and to what extent the Performance Goals have been met or exceeded; (g) make discretionary awards as may be appropriate in order to assure the proper motivation and retention of personnel and attainment of business goals; (h) to make adjustments to Performance Criteria, Performance Goals and thresholds; and (i) determine the aggregate number of shares of the

Company's common stock, par value $.01 per share ("Common Stock") available for distribution as awards for each Performance Period. Subject to the provisions of the Plan, the Committee shall be authorized to interpret the Plan, the make, amend and rescind such rules as it deems necessary for the proper administration of the Plan, to make all other determination necessary or advisable for the administration of the Plan and to correct any defect or supply any omission or reconcile any inconsistency in the Plan in the manner and to the extent the Committee deems desirable to carry the Plan into effect. Any action taken or determination made by the Committee shall be conclusive on all parties.

4. CODE SECTION 162(m) AWARDS. A participant who is or may be a Covered Employee may receive a Code Section 162(m) Aware and/or an award that is not a Code Section 162(m) Award. The Committee will determine who is to be treated as a Covered Employee, determine who is eligible to be granted Code Section 162(m) Awards and establish the Target Awards and Award Schedules for Code Section 162(m) Awards. Such determinations will be made in a timely manner, as required by Code Section 162(m). Each award shall be evidenced by an Award Agreement setting forth the Award Schedule and such other terms and conditions applicable to the award, as determined by the Committee, not inconsistent with the terms of the Plan. Notwithstanding anything else in this Plan to the contrary, the aggregate maximum amount payable under the Plan to a Covered Employee with respect to a Performance Period shall be [_____]. In the event of any conflict between an Award Agreement and the Plan, the terms of the Plan shall govern.

5. ALL AWARDS. Performance Criteria and Performance Goals will be established by the Committee for each Performance Period, which, in the case of Performance Criteria and Performance Goals for Covered Persons, will be established within the time period required by Code Section 162(m). The Committee also shall determine the extent to which each Performance Criteria shall be weighted in determining awards. The Committee will establish an Award Schedule for each award to each participant setting forth the Threshold, Target and Maximum Awards for such participant payable at specified levels of performance, based on the Performance Goal for each of the Performance Criteria and the weighting established for such criteria. The Committee may vary the Performance Criteria, performance Goals and weightings from participant to participant, award to award and from Performance Period to Performance Period. Notwithstanding the foregoing, the Performance Criteria with respect to a Code Section 162(m) Award shall be limited to the Performance Criteria set forth in Article 2.g.1.

6. ELIGIBLE PERSONS. Any key employee of the Company who the Committee determines, in its discretion, is responsible for producing profits for the Company or otherwise has a significant effect on the operations of the Company

shall be eligible to participate in the Plan. Committee members are not eligible to participate in the Plan. No employee shall have a right (a) to be selected under the Plan, or (b) having once been selected, to (i) be selected again or (ii) continue as an employee.

7. AMOUNT AVAILABLE FOR AWARDS. The amount available for awards (the "Bonus Pool") for each Performance Period shall be determined by the Committee. The Bonus Pool created in respect of any fiscal year shall be allocated among Plan participants in the manner established by the Committee prior to the beginning of such fiscal year; provided, however, that the Committee in its sole discretion may reduce at any time, including during or following the fiscal year, the amount of the bonus payable to any or all participants in respect of such fiscal year.

8. DETERMINATION OF AWARDS. The Committee shall select the participants and determine which participants, if any, are to be treated as Covered Employees and which awards, if

any, are to be Code Section 162(m) Awards. Except in the case of Code Section 162(m) Awards, the Committee shall determine the actual award to each participant for each Performance Period, taking into consideration, as it deems appropriate, the performance for such Performance Period of the Company in relation to the Performance Goals theretofore established by the Committee, and the performance of the respective participants during such Performance Period. The fact that an employee is selected as a participant for any Performance Period shall not mean that such employee necessarily will receive an award for that Performance Period. Except in the case of Code Section 162(m) Awards, notwithstanding any other provisions of the Plan to the contrary, the Committee may make discretionary awards as it sees fit under the Plan.

A Code Section 162(m) Award payable to any Covered Employee may range from zero (0) to [one hundred and fifty (150)] percent of the Covered Employee's Target Award, depending upon whether, or the extent to which, the Performance Goals with respect to such Code Section 162(m) Award have been achieved. Actual Code Section 162(m) Awards will be derived from the Award Schedule based on the level of performance achieved. All such determinations regarding the achievement of Performance Goals and the determination of actual Code Section 162(m) Awards will be made by the Committee; [provided, however, that with respect to a Code Section 162(m) Award, the Committee may, in its sole discretion, decrease, but not increase, the amount of the Award that otherwise would be payable].

9. DISTRIBUTION OF AWARDS. Awards under the Plan for a particular Performance Period shall be paid in shares of Common Stock as soon as practicable after the end of that Performance Period. To the extent that the Company's tax deduction for remuneration in respect of the payment of an Award to a Covered Employee would be disallowed under Code Section 162(m) by reason of the fact that such Covered Employee's applicable employee remuneration, as defined in Code Section 162(m)(4), either exceeds or, if such Award were paid, would exceed the $1,000,000 limitation in Code Section 162(m)(1), the Committee may, in its sole discretion, defer the payment of such Award, but only to the extent that, and for so long as, the Company's tax deduction in respect of the payment thereof would be so disallowed; provided that the Committee may, nevertheless, accelerate the payment of previously deferred Awards if it determines that the amount of the tax deduction that would be disallowed is not significant. Deferred Awards will be deemed credited with interest at a rate determined by the Committee from time to time.

10. TERMINATION OF EMPLOYMENT. A participant must be actively employed by the Company on the date his or her award is determined by the Committee (the "Payment Date") in order to be entitled to payment of any award for that Performance Period. [In the event active employment of a participant shall be terminated before the Payment Date for any reason other than discharge for cause or voluntary resignation, such participant may receive such portion of his or her award for the Year as may be determined by the Committee.] A participant discharged for cause shall not be entitled to receive any award for the Performance Period. A participant who voluntarily resigns prior to the Payment Date shall not be entitled to receive any award for the Performance Period unless otherwise determined by the Committee.

11. MISCELLANEOUS.

a. NONASSIGNABILITY. No award will be assignable or transferable without the written consent of the Committee in its sole discretion, except by will or by the laws of descent and distribution.

b. WITHHOLDING TAXES. Whenever payments under the Plan are to be made, the Company will withhold therefrom an amount sufficient to satisfy any applicable governmental withholding tax requirements related thereto.

c. AMENDMENT OR TERMINATION OF THE PLAN. The Board of Directors of the Company may at any time amend, suspend or discontinue the Plan, in whole or in part. The Committee may at any time alter or amend any or all Award Agreements under the Plan to the extent permitted by law. No such action may, however, without approval of the stockholders of the Company, be effective with respect to any Code Section 162(m) Award to any Covered Employee if such approval is required by Code Section 162(m)(4)(C).

d. OTHER PAYMENTS OR AWARDS. Nothing contained in the Plan will be deemed in any way to limit or restrict the Company from making any award or payment to any person under any other plan, arrangement or understanding, whether now existing or hereafter in effect.

e. PAYMENTS TO OTHER PERSONS. If payments are legally required to be made to any person other than the person to whom any amount is available under the Plan, payments will be made accordingly. Any such payment will be a complete discharge of the liability of the Company.

f. LIMITS OF LIABILITY.

1. Any liability of the Company to any participant with respect to an award shall be based solely upon contractual obligations created by the Plan and the Award Agreement.

2. Neither the Company, nor any member of its Board of Directors or the Committee, nor any other person participating in any determination of any question under the Plan, or in the interpretation, administration or application of the Plan, shall have any liability to any party for any action taken or not taken in good faith under the Plan.

g. RIGHTS OF EMPLOYEES.

1. Status as an employee eligible to receive an award under the Plan shall not be construed as a commitment that any award will be made under this Plan to such employee or to other such employees generally.

2. Nothing contained in this Plan or in any Award Agreement (or in any other documents related to this Plan or to any Award Agreement) shall confer upon any employee or participant any right to continue in the employ or other service of the Company or constitute any contract or limit in any way the right of the Company to change such person's compensation or other benefits or to terminate the employment or other service of such person with or without cause.

h. SECTION HEADINGS. The section headings contained herein are for the purposes of convenience only, and in the event of any conflict, the text of the Plan, rather than the section headings, will control.

i. INVALIDITY. If any term or provision contained herein will to any extent be invalid or unenforceable, such term or provision will be reformed so that it is valid, and such invalidity or unenforceability will not affect any other provision or part thereof.

j. APPLICABLE LAW. The Plan, the Award Agreements and all actions taken hereunder or thereunder shall be governed by, and construed in accordance with, the laws of the State of California without regard to the conflict of law principles thereof.

k. EFFECTIVE DATE. The Plan shall be effective as of _____, 1995.

l. SHAREHOLDER APPROVAL. The adoption of this Plan is subject to the approval of the shareholders of the Company.

EXHIBIT 10.19

AVALONBAY COMMUNITIES, INC.

SECRETARY'S CERTIFICATE

AMENDMENTS TO
THE AVALONBAY COMMUNITIES, INC.
1994 STOCK INCENTIVE PLAN
AS AMENDED AND RESTATED ON APRIL 13, 1998

On May 6, 1999, at a duly called and held meeting of the Compensation Committee of the Board of Directors of AvalonBay Communities, Inc. (the "Company") and at a duly called and held meeting of the full Board of Directors of the Company, such Committee and the Board adopted the following amendments to the AvalonBay Communities, Inc. 1994 Stock Incentive Plan, as amended and restated on April 13, 1998 (the "Plan"):

1. The definition of "Retirement" set forth in Section 1 of the Plan refers to the "retirement policy" of the Company. To clarify its retirement policy for the purposes of the Plan, the Company adopted the following retirement policy for purposes of interpreting the operation of the Plan after May 6, 1999:

> "Retirement" means (i) the employee's termination of employment with the Company and its Subsidiaries, other than for Cause, after attainment of age 55, but only if upon such termination of employment the employee has been employed in the aggregate for a period of at least 120 contiguous months by the Company, by any company of which the Company is the successor by name change or reincorporation, by Avalon Properties, Inc. or by Trammell Crow Residential, or any affiliate of any of the foregoing; and (ii) with respect to any employee of the Company who as of May 5, 1999 has attained the age of 50 or more and who, upon retirement, has served in the capacity of senior vice president or a more senior position for at least one year (including service with Avalon Properties), "retirement" means the employee's termination of employment with the Company and its Subsidiaries other than for Cause."

2. A new Section 5(a)(vii)(C) to the Plan was adopted, such section reading in its entirety as follows:

> "Any Stock Option held by an optionee whose employment by the Company and its Subsidiaries is terminated by reason of Retirement (but not if such termination qualifies as a retirement only under clause (ii) of the definition of Retirement) shall be automatically vested as of the date of termination of such employee's Retirement notwithstanding that the provisions of the related stock option agreement provide for forfeiture of the unvested portion of the award upon termination."

3. The following sentence was added at the end of Section 6(a) (Nature of Restricted Stock Awards), such sentence reading in its entirety as follows:

> "In the event of termination of an employee by reason of Retirement (but not if such termination qualifies as a retirement only under clause (ii) of the definition of Retirement), then in such event any Restricted Stock Awards held by such employee on the date of termination shall continue to vest in accordance with
>
> their terms following such termination, notwithstanding that the provisions of the Restricted Stock Award agreement provide for forfeiture of the unvested portion of the award upon termination."

4. The following sentence was added at the end of Section 7(a) (Nature of Deferred Stock Award), such sentence

reading in its entirety as follows:

> "In the event of termination of an employee by reason of Retirement (but not if such termination qualifies as a retirement only under clause (ii) of the definition of Retirement), then in such event any Deferred Stock Awards held by such employee on the date of termination shall continue to vest in accordance with their terms following such termination, notwithstanding that the provisions of the Deferred Stock Award agreement provide for forfeiture of the unvested portion of the award upon termination."

IN WITNESS WHEREOF, the undersigned has signed this certificate as of May 6, 1999.

AVALONBAY COMMUNITIES, INC.

/s/ Edward M. Schulman

Name: Edward M. Schulman
Title: Secretary

EXHIBIT 10.22

AVALONBAY COMMUNITIES, INC.

SECRETARY'S CERTIFICATE

The undersigned, Edward M. Schulman, hereby certifies that he is the Secretary of AvalonBay Communities, Inc., a Maryland corporation (the "Company"), and does further certify as follows:

On December 6, 2006, at a duly called and held meeting of the Board of Directors of the Company, the Board adopted the following resolutions amending the Company's 1994 Stock Incentive Plan, as amended and restated on December 8, 2004, and further amended on February 9, 2006:

RESOLVED: Paragraph Section 3(b) of the Company's 1994 Stock Incentive Plan, as amended and restated on December 8, 2004, as subsequently amended on February 9, 2006, is hereby amended by adding the following sentences at the end of the first sentence thereof:

The Committee shall also make equitable or proportionate adjustments in the number of shares subject to outstanding Awards and the exercise price and/or the terms of outstanding Awards to take into account cash dividends declared and paid other than in the ordinary course or any other extraordinary corporate event, other than those contemplated by Section 3(c) hereof, to the extent determined to be necessary by the Committee to avoid distortion in the value of the Awards. Notwithstanding anything to the contrary set forth in this Section 3(b), no adjustment shall be required pursuant to this Section 3(b) if the Committee determines that such action could cause an Award to fail to satisfy the conditions of any applicable exception from the requirements of Section 409A of the Code or otherwise could subject a participant to the additional tax imposed under Section 409A of the Code in respect of an outstanding Award or would constitute a modification, extension or renewal of an Incentive Stock Option within the meaning of Section 424(b) of the Code.

RESOLVED: Section 7(a) of the Company's 1994 Stock Incentive Plan, as amended and restated on December 8, 2004, as subsequently amended on February 9, 2006, is hereby amended by adding the following sentences at the end thereof:

"Participants may not elect to accelerate or postpone the deferral period. Any payment of shares of Stock under a Deferred Stock Award subject to Section 409A of the Code to a participant on account of the participant's separation of service may not be made before the date that is six months after the date of separation from service if the participant is a 'specified employee' within the meaning of Section 409A(a)(2)(B)(i) of the Code.

IN WITNESS WHEREOF, the undersigned has signed this certificate as of December 6, 2006

AVALONBAY COMMUNITIES, INC.

/s/ Edward M. Schulman

Name: Edward M. Schulman
Title: Secretary

Exhibit 10.26

AVALONBAY COMMUNITIES, INC.

SUMMARY OF PRINCIPAL TERMS OF OFFICER SEVERANCE PROGRAM

The Company's Officer Severance Program is designed to provide severance protection to officers whose employment is terminated in connection with a change in control of the Company and who do not have severance protection under an employment agreement with the Company. The principal features of the program are described below. This is just a summary and is qualified in its entirety by reference to the complete text of the Officer Severance Program, which is available to all officers.

FEATURE	SUMMARY OF PROVISION
1. Officers covered by program	All Vice Presidents. Officers with more senior positions who are not covered by severance arrangements under an agreement with the Company that provides greater severance benefits are also covered by the program.
2. Circumstances under which severance protection provided	This is a "double trigger" program -- i.e., there must be a change in control AND the officer's employment must be terminated or constructively terminated without cause by the Company. Officers will NOT receive severance benefits in connection with the following terminations: a voluntary resignation by the officer under circumstances which do not constitute a "constructive termination" by the Company; a termination by the Company for cause; a termination of the officer's employment on account of death or disability.
3. Definition of "change in control"	"Change in Control" is defined in the same way as in the Company's stock option plan.
4. Period of time in which severance benefit protection is provided.	Severance benefits are provided if the officer is terminated or constructively terminated during the two years following a change in control or during the six months prior to a change in control.
5. Amount of cash severance	An amount of cash equal to one times the sum of (i) base salary plus (ii) the average cash bonus paid during the prior two years. (The multiplier is reduced to one-half in the case of a constructive termination due to a requirement that the officer relocate to a different metropolitan area). The officer will also receive all accrued base salary and incentive cash compensation through the date of termination.
6. Treatment of equity-based awards	Accelerated vesting of all unvested options and restricted stock grants. Options will thereafter be exercisable for the period of time provided in the applicable option agreement.
7. Welfare benefits (health, dental, life, etc.)	Continuation of all benefits for 18 months with COBRA eligibility thereafter. The Company will not be obligated to continue contributing the whole life portion of the premiums on split dollar life insurance policies.
8. Gross-up for excise tax ("golden parachute tax").	In the event that the officer is subject to the "golden parachute tax" rules, the severance benefits will be capped at the Internal Revenue Code Section 280(G) maximum if the officer is, on a net after tax basis, better off by so capping the severance benefits.
9. Effect of subsequent employment on severance benefits.	Cash severance will not be reduced as result of compensation that the officer receives from a subsequent employer. However, the welfare (i.e., insurance) benefits will be reduced to the extent that the officer obtains comparable benefits from a subsequent employer.
10. Enforcement of agreement	The Company will reimburse the officer for all reasonable legal fees and expenses incurred in enforcing the agreement. There is a compulsory arbitration clause.

11. Constructive termination	The following constitute a "constructive termination" by the Company such that the officer can resign during the 24 months following a change in control (or during the 6 months prior to a change in control) and receive the severance benefits under the program: - a material adverse change in functions, duties or responsibilities - involuntary relocation of the officer's offices to a location outside of the metropolitan area where the employee is principally employed prior to the change in control or anticipated change in control (note: a termination on account of a relocation receives a one-half cash lump sum rather than a 1x cash lump sum) - Reduction or elimination of any material compensation program unless comparable or substitute benefits are provided - Acquiring company fails to honor any compensation arrangement
12. Release	As a condition to receiving the severance benefits, an officer will be required to sign a release of all claims and a one-year non-solicitation agreement.
13. Other terms	The text of the formal program contains a number of important defined terms and other provisions.

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AVALONBAY COMMUNITIES, INC.

OFFICER SEVERANCE PLAN

1. PURPOSE. AvalonBay Communities, Inc. (the "COMPANY") considers it essential to the best interests of its stockholders to foster the continuous employment of key management personnel. The Board of Directors of the Company (the "BOARD") recognizes, however, that, as is the case with many publicly held corporations, the possibility of a Change in Control (as defined in Section 2 hereof) exists and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders. Therefore, the Board has determined that the AvalonBay Communities, Inc. Officer Severance Plan (the "PLAN") should be adopted to reinforce and encourage the continued attention and dedication of the Covered Employees (as defined below) to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a Change in Control. The term "Covered Employee" means any officer of the Company holding the position of Vice President or higher (it being noted that any officer receiving severance payments under any other agreement or arrangement with the Company shall be subject to the limitation on benefits hereunder set forth in the last sentence of Section 4 hereof) (each, a "COVERED EMPLOYEE"). Nothing in this Plan shall be construed as creating an express or implied contract of employment and, except as otherwise agreed in writing between the Covered Employee and the Company or any of its subsidiaries or affiliates (together with the Company, the "EMPLOYERS"), the Covered Employee shall not have any right to be retained in the employ of the Employers.

2. CHANGE IN CONTROL. For purposes of this Plan, a "Change in Control" shall mean the occurrence of any one of the following events:

(a) Any individual, entity or group (a "PERSON") within the meaning of Sections 13(d) and 14(d) of the Securities Exchange Act of 1934 (the "ACT") (other than the Company, any corporation, partnership, trust or other entity controlled by the Company (a "SUBSIDIARY"), or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of the Company or any of its Subsidiaries), together with all "affiliates" and "associates" (as such terms are defined in Rule 12b-2 under the Act) of such Person, shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Act) of securities of the Company representing 30% or more of the combined voting power of the Company's then outstanding securities having the right to vote generally in an election of the Company's Board of Directors ("VOTING SECURITIES"), other than as a result of (i) an acquisition of securities directly from the Company or any Subsidiary or (ii) an acquisition by any corporation pursuant to a reorganization, consolidation or merger if, following such

reorganization, consolidation or merger the conditions described in clauses (i), (ii) and (iii) of subparagraph (c) of this Section 2 are satisfied; or

(b) Individuals who, as of the Effective Date, constitute the Company's Board of Directors (the "INCUMBENT DIRECTORS") cease for any reason to constitute at least a majority of the Board, provided, however, that any individual becoming a director of the Company subsequent to the date hereof (excluding, for this purpose, (i) any such individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of members of the Board of Directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board of Directors, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation, and (ii) any individual whose initial assumption of office is in connection with a reorganization, merger or consolidation, involving an unrelated entity and occurring after the date hereof), whose election or nomination for election by the Company's shareholders was approved by a vote of at least a majority of the persons then comprising Incumbent Directors shall for purposes of this Plan be considered an Incumbent Director; or

(c) Consummation of a reorganization, merger or consolidation of the Company, unless, following such reorganization, merger or consolidation, (i) more than 50% of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the outstanding Voting Securities immediately prior to such reorganization, merger or consolidation, (ii) no Person (excluding the Company, any employee benefit plan (or related trust) of the Company, a Subsidiary or the corporation resulting from such reorganization, merger or consolidation or any subsidiary thereof, and any Person beneficially owning, immediately prior to such reorganization, merger or consolidation, directly or indirectly, 30% or more of the outstanding Voting Securities), beneficially owns, directly or indirectly, 30% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such reorganization, merger or consolidation or the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors, and (iii) at least a majority of the members of the board of directors of the corporation resulting from such reorganization, merger or consolidation were members of the Incumbent Board at the time of the execution of the initial agreement providing for such reorganization, merger or consolidation;

(d) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company; or

(e) The sale, lease, exchange or other disposition of all or substantially all of the assets of the Company, other than to a corporation, with respect to which following such sale, lease, exchange or other disposition (i) more than 50% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners of the outstanding Voting Securities immediately prior to such sale, lease, exchange or other disposition, (ii) no Person (excluding the Company and any employee benefit plan (or related trust) of the Company or a Subsidiary or such corporation or a subsidiary thereof and any Person beneficially owning, immediately prior to such sale, lease, exchange or other disposition, directly or indirectly, 30% or more of the outstanding Voting Securities), beneficially owns, directly or indirectly, 30% or more of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors and (iii) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement or action of the Board of Directors providing for such sale, lease, exchange or other disposition of assets of the Company.

Notwithstanding the foregoing, a "Change in Control" shall not be deemed to have occurred for purposes of this Plan solely as the result of an

acquisition of securities by the Company which, by reducing the number of shares of Voting Securities outstanding, increases the proportionate voting power represented by the Voting Securities beneficially owned by any Person to 30% or more of the combined voting power of all then outstanding Voting Securities; provided, however, that if any Person referred to in this sentence shall thereafter become the beneficial owner of any additional shares of Stock or other Voting Securities (other than pursuant to a stock split, stock dividend, or similar transaction), then a "Change in Control" shall be deemed to have occurred for purposes of this Plan.

3. TERMINATING EVENT. A "Terminating Event" shall mean the termination of employment of a Covered Employee in connection with any of the events provided in this Section 3 occurring within twenty-four (24) months following a Change in Control. In addition, notwithstanding the foregoing, in the event of the termination of employment of a Covered Employee in connection with any of the events provided in this Section 3 within six (6) months prior to the occurrence of a Change in Control (based on an event, such as a Notice of Termination, that occurred within such six (6) month period prior to a Change in Control), such termination shall,

upon the occurrence of a Change in Control, be deemed a Terminating Event under this Plan. To give effect to the prior sentence, references in Sections 3(b)(ii), (iii) and (iv) to circumstances existing "immediately prior to a Change in Control" will be interpreted to mean, in a case where the six month look-back of the prior sentence is being applied, to circumstances existing immediately prior to the change in circumstances.

(a) termination by the Employers of the employment of the Covered Employee with the Employers for any reason other than (i) for Cause or (ii) as a result of the death or disability (as determined under the Employers' then existing long-term disability coverage) of such Covered Employee. "Cause" shall mean, and shall be limited to, the occurrence of any one or more of the following events:

(i) the Covered Employee is convicted of or enters a plea of nolo contendere to an act which is defined as a felony under any federal, state or local law, not based upon a traffic violation, which conviction or plea has or can be expected to have, in the good faith opinion of the Board of Directors or the CEO, a material adverse impact on the business or reputation of the Company; or

(ii) any one or more acts of theft, larceny, embezzlement, fraud or material intentional misappropriation from or with respect to the Company; or

(iii) a breach by the Covered Employee of his fiduciary duties under Maryland law as an officer, or a material breach by the Covered Employee of any rule, regulation, policy or procedure of the Company that is generally announced or distributed to, and applies to, all employees of the Company or a subset of employees that includes the Covered Employee (including, without limitation, in all events the Company's ethics, sexual harassment and insider trading policies); or

(iv) the Covered Employee's commission of any one or more acts of gross negligence or willful misconduct which in the good faith opinion of the Board of Directors or the CEO has resulted in material harm to the business or reputation of the Company; or

(v) the deliberate or willful failure by the Covered Employee (other than by reason of the Covered Employee's physical or mental illness, incapacity or disability) to substantially perform the Covered Employee's duties with the Employers and the continuation of such failure for a period of fifteen (15) days after written notice thereof.

A Terminating Event shall not be deemed to have occurred pursuant to this Section 3(a) solely as a result of the Covered Employee being an employee of any direct or indirect successor to the business or assets of any of the Employers, rather than continuing as an employee of the Employers following a Change in Control. For purposes of clauses (iv) and (v) of this Section 3(a), no act, or failure to act, on the Covered Employee's part shall be deemed "willful" unless done, or omitted to be done, by the Covered Employee without reasonable belief that the Covered Employee's act, or failure to act, was in the best interest of the Employers; or

(b) termination by the Covered Employee of the Covered

Employee's employment with the Employers for Good Reason. "Good Reason" shall mean the occurrence of any of the following events:

(i) a material adverse change in the functions, duties or responsibilities of the Covered Employee's position (other than a termination of employment for Cause) which would reduce the level, importance or scope of such position (a change in the person and/or department to whom the Covered Employee is required to report, or a change in the personnel that report to the Covered Employee, shall not by itself constitute a material adverse change in the Covered Employee's position); or

(ii) the relocation of the office at which the Covered Employee is principally located immediately prior to the Change in Control (the "Original Office") to a new location outside of the metropolitan area of the Original Office or the failure to locate the Covered Employee's own office at the Original Office (or at the office to which such office is relocated which is within the metropolitan area of the Original Office); or

(iii) either (X) the failure by the Company to continue in effect any compensation plan or program in which the Covered Employee participates immediately prior to a Change in Control which is material to the Covered Employee's total compensation, unless comparable alternative arrangements (embodied in ongoing substitute or alternative plans or programs) have been implemented with respect to such plans or programs, or (Y) the failure by the Company to continue the Covered Employee's participation therein following a Change in Control (or in such substitute or alternative plans or programs) on a basis not materially less favorable, in terms of the amount of benefits provided and the level of the Covered Employee's participation relative to other participants, as existed during the last completed fiscal year of the Company prior to the Change in Control (the occurrence of either failure in clause (X) or (Y), a "CIC COMPENSATION FAILURE"); PROVIDED, HOWEVER, that in no event shall a CIC Compensation Failure have occurred if:

(A) the value of the Covered Employee's total annual compensation following a Change in Control, including, but not limited to, cash compensation (including salary and bonus), stock grants (valued using stock price less consideration paid), stock options (valued using the Black-Scholes method or a variation thereof, as determined by the Board of Directors or a compensation consultant engaged by the Board of Directors) and benefits (valued using an actuarial or similar valuation method), is at least 90% of the Covered Employee's total annual compensation in the last fiscal year prior to the Change in Control; or

(B) (I) the Covered Employee's total annual cash compensation (including salary and bonus) following a Change in Control is at least 90% of what it was in the year prior to the Change in Control, with such reasonable adjustments thereto as are necessary to give effect to performance based bonuses (with respect to which the performance criteria may reasonably be modified) and the level of performance achieved with respect thereto;

(II) the total value of the Covered Employee's annual stock grants (valued using stock price less consideration paid) following a Change in Control are at least 90% of what they were in the year prior to the Change in Control, with such reasonable adjustments thereto as are necessary to give effect to (x) performance based bonuses (with respect to which the performance criteria may reasonably be

modified) and the level of performance achieved with respect thereto, and (y) to changes in the price of the Company's or the successor's stock due to market fluctuations;

(III) the Covered Employee's total annual stock option grants (measured either by (a) total value, as determined as described in the preceding paragraph (A), or (b) total "leverage potential" (i.e., the number of options granted multiplied by the exercise price, after giving effect to changes in the price of the Company's or the successor's stock due to market fluctuations)) are at least 90% of what they were in the year prior to the Change in Control, with such reasonable adjustments thereto as are necessary to give effect to performance based bonuses (with respect to

which the performance criteria may reasonably be modified) and the level of performance achieved with respect thereto; and

(IV) there is not a material reduction in the Covered Employee's benefits as compared to the last fiscal year prior to the Change in Control; or

(iv) the failure by the Employers to obtain an effective agreement from any successor to assume and agree to perform this Plan.

4. SPECIAL TERMINATION BENEFITS. In the event a Terminating Event occurs with respect to a Covered Employee,

(a) the Employers shall pay to the Covered Employee an amount equal to all accrued but unpaid annual base salary and all earned but unpaid cash incentive compensation earned through such Covered Employee's Date of Termination. Said amount shall be paid in one lump sum payment no later than thirty-one (31) days following the Date of Termination (as such term is defined in Section 8(b)); and

(b) if and only if such Terminating Event is not described in Section 3(b)(ii), the Employers shall pay to the Covered Employee an amount equal to the sum of the following:

(i) one times the amount of the current annual base salary of the Covered Employee, determined prior to any reductions for pre-tax contributions to a cash or deferred arrangement or a cafeteria plan; and

(ii) one times the amount of the average annual cash bonus earned by the Covered Employee with respect to the two (2) calendar years immediately prior to the Change in Control determined prior to any reductions for pre-tax contributions to a cash or deferred arrangement or a cafeteria plan (provided, however, that if the Covered Employee's tenure with the Company is such that prior to the Terminating Event the Covered Employee has earned an annual bonus only with respect to the calendar year immediately prior to the Change in Control, then such annual bonus shall be deemed to have been earned with respect to the two (2) calendar years immediately prior to the Change in Control; and, provided further, however, that if the Covered Employee's tenure with the Company is such that prior to the Terminating Event the Covered Employee has not earned an annual bonus, then the Covered Employee's target annual bonus immediately prior to the Change in Control shall be deemed to have been earned with respect to the two (2) calendar years immediately prior to the Change in Control).

Said amount shall be paid in one lump sum payment no later than thirty-one (31) days following the Date of Termination; and

(c) if and only if such Terminating Event is described in Section 3(b)(ii), the Employers shall pay to the Covered Employee an

amount equal to the sum of the following:

(i) one-half times (0.5) the amount of the current annual base salary of the Covered Employee, determined prior to any reductions for pre-tax contributions to a cash or deferred arrangement or a cafeteria plan; and

(ii) one-half times (0.5) times the amount of the average annual cash bonus earned by the Covered Employee with respect to the two (2) calendar years immediately prior to the Change in Control determined prior to any reductions for pre-tax contributions to a cash or deferred arrangement or a cafeteria plan, with procedures similar to those described in Section 4(b)(ii) to determine such average.

Said amount shall be paid in one lump sum payment no later than thirty-one (31) days following the Date of Termination (as such term is defined in Section 8(b)); and

(d) the Employers shall continue to provide health, dental and life insurance (or contribute a portion of the cost thereof) to the Covered Employee, on the same terms and conditions as though the Covered Employee had remained an active employee, for eighteen (18) months after the Terminating Event or until such earlier date as the Covered Employee obtains comparable benefits through other employment or payment to the Covered Employee of a present value equivalent of the costs of such benefits to the Company (provided, however, that this clause (d) shall in no event obligate the Company to continue to fund the premiums on any split dollar life insurance policy pursuant to arrangements that were in effect while the Covered Employee was employed); and

(e) the Employers shall take whatever action is necessary (i) to cause the Covered Employee to become vested as of the Date of Termination in all stock options, restricted stock grants, and all other equity-based awards and (ii) to be entitled (A) to exercise and continue to exercise all stock options and all other equity-based awards having an exercise schedule and (B) to retain such grants and awards, but in each case under clauses (A) and (B) such right to exercise and retain shall last only for so long as, and shall apply only to the same extent as, if such options, grants and awards had vested prior to termination of employment and their treatment following such termination were determined in accordance with the terms of the applicable stock option agreement, grant agreement or other equity award agreement and the incentive plans governing such agreements. Reference in this regard is made to the clarification set forth in Section 5; and

(f) the Employers shall provide COBRA benefits to the Covered Employee following the end of the period referred to in Section 4(d) above, such benefits to be determined as though the Covered Employee's employment had terminated at the end of such period; and

(g) notwithstanding the foregoing, if the Terminating Event occurs before the Change in Control, the special termination benefits required by this Section 4 shall be paid, or commence, as the case may be, no later than thirty-one (31) days after the consummation of the Change in Control.

Notwithstanding the foregoing, the special termination benefits required by Sections 4(b) or 4(c) shall be reduced by any amount paid or payable to the Covered Employee by the Employers under the terms of any employment agreement or other plan or arrangement providing for compensation upon such Covered Employee's termination of employment (other than payment of accrued vacation benefits and payments under any deferred compensation plan). Other benefits under this Plan shall also be reduced or eliminated to the extent provided to the Covered Employee under other agreements or arrangements. Therefore, a Covered Employee with an employment agreement or arrangement that provides greater severance benefits than those provided in this Officer Severance Program will receive no payments or benefits under this Officer Severance Program.

5. CLARIFICATION REGARDING TREATMENT OF OPTIONS AND RESTRICTED STOCK. The stock option and restricted stock agreements (the "EQUITY AWARD AGREEMENTS") that the Covered Employee has or may receive may contain language regarding the effect of a termination of the Covered Employee's employment under certain circumstances. Notwithstanding such language in the Equity Award Agreements, for so long as this Plan is in effect, the Company will be obligated, if the terms of this Plan are more favorable in this regard than the terms of the Equity Award Agreements, to take the actions required under Section 4(e) hereof upon the happening of a Terminating Event. That section provides that the Company

will cause the Covered Employee to become vested as of the Date of Termination in all equity-based awards, and that such equity-based awards will thereafter be subject to the provisions of the applicable Equity Award Agreement as it applies to vested awards upon a termination. For purposes of clarification, although an option grant may vest under termination circumstances described above, such option will thereafter be exercisable only for so long as the related option agreement provides, except that the Compensation Committee of the Board of Directors may, in its sole discretion, elect to extend the expiration date of such option. For example, in general the Covered Employees' option agreements provide that (in the absence of an extension by the Compensation Committee) upon a termination of employment for any reason other than death,

disability, retirement or cause, any vested options will only be exercisable for three months from the date of termination or, if earlier, the expiration date of the option.

6. ADDITIONAL BENEFITS.

(a) Anything in this Plan to the contrary notwithstanding, in the event that any compensation, payment or distribution by the Employers to or for the benefit of a Covered Employee, whether paid or payable or distributed or distributable pursuant to the terms of this Plan or otherwise, (the "SEVERANCE PAYMENTS"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "CODE"), the following provisions shall apply to such Covered Employee:

(i) If the Severance Payments, reduced by the sum of (1) the Excise Tax and (2) the total of the Federal, state, and local income and employment taxes payable by the Covered Employee on the amount of the Severance Payments which are in excess of the Threshold Amount, are greater than or equal to the Threshold Amount, the Covered Employee shall be entitled to the full benefits payable under this Plan.

(ii) If the Threshold Amount is less than (x) the Severance Payments, but greater than (y) the Severance Payments reduced by the sum of (1) the Excise Tax and (2) the total of the Federal, state, and local income and employment taxes on the amount of the Severance Payments which are in excess of the Threshold Amount, then the benefits payable under this Plan shall be reduced (but not below zero) to the extent necessary so that the maximum Severance Payments shall not exceed the Threshold Amount. To the extent that there is more than one method of reducing the payments to bring them within the Threshold Amount, the Covered Employee shall determine which method shall be followed; provided that if the Covered Employee fails to make such determination within 45 days after the Employers have sent the Covered Employee written notice of the need for such reduction, the Employers may determine the amount of such reduction in its sole discretion.

For the purposes of this Section 6, "Threshold Amount" shall mean three times the Covered Employee's "base amount" within the meaning of Section 280G(b)(3) of the Code and the regulations promulgated thereunder less one dollar ($1.00); and "Excise Tax" shall mean the excise tax imposed by Section 4999 of the Code, or any interest or penalties incurred by the Covered Employee with respect to such excise tax.

(b) The determination as to which of the alternative provisions of Section 6(a) shall apply to the Covered Employee shall be made by such nationally recognized accounting firm as may at that time be the Company's independent public accountants immediately prior to the Change in Control (the "ACCOUNTING FIRM"), which shall provide detailed supporting calculations both to the Employers and the Covered Employee within 15 business days of the Date of Termination, if applicable, or at such earlier time as is reasonably requested by the Employers or the Covered Employee. For purposes of determining which of the alternative provisions of Section 6(a) shall apply, the Covered Employee shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation applicable to individuals for the calendar year in which the determination is to be made, and state and local income taxes at the highest marginal rates of individual taxation in the state and locality of the Covered Employee's residence on the Date of Termination, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes. Any determination by the Accounting Firm shall be binding upon the Employers and the Covered Employee.

7. WITHHOLDING. All payments made by the Employers under this Plan shall be net of any tax or other amounts required to be withheld by the Employers under applicable law.

8. NOTICE AND DATE OF TERMINATION; ETC.

(a) NOTICE OF TERMINATION. Any purported termination by the Employer of a Covered Employee's employment (other than by reason of death) within 24 months following a Change in Control shall be communicated by written Notice of Termination from the Employers to the Covered Employee in accordance with this Section 8. For purposes of this Plan, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Plan relied upon and the Date of Termination. Further, a Notice of Termination for Cause is required to include a written explanation as to the basis for such termination.

(b) DATE OF TERMINATION. "Date of Termination," with respect to any purported termination of a Covered Employee's employment by the Employers within twenty-four (24) months after a Change in Control, shall mean the date specified in the Notice of Termination which, in the case of a termination by the Employers other than a termination for Cause (which may be effective immediately), shall not be less than 30 days after the Notice of Termination is given. Notwithstanding Section 3(a) of this Plan, in the event that a Covered Employee gives a Notice of Termination to the Employers, the Employers may unilaterally accelerate the date of termination of such Covered Employee and such acceleration shall not constitute an independent Terminating Event for purposes of Section 3(a) of this Plan or a violation of the preceding sentence (I.E., the Covered Employee will be entitled to severance payments and benefits hereunder only if such Covered Employee's Notice of Termination was with respect to a termination for Good Reason).

(c) NO MITIGATION. The Covered Employee is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Covered Employee by the Employers under this Plan. Further, the amount of any payment provided for in this Plan shall not be reduced by any compensation earned by the Covered Employee as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Covered Employee to the Employers, or otherwise.

9. OF DISPUTES; PROCEDURES AND SCOPE OF ARBITRATION.

(a) All controversies and claims arising under or in connection with this Plan or relating to the interpretation, breach or enforcement thereof and all other disputes between a Covered Employee and the Company, shall be resolved by expedited, binding arbitration, to be held in California or Virginia, as selected by the Covered Employee, in accordance with the applicable rules of the American Arbitration Association governing employment disputes. In any proceeding relating to the amount owed to a Covered Employee in connection with his termination of employment, it is the contemplation under this Plan that the only remedy that the arbitrator may award in such a proceeding is an amount equal to the termination payments and benefits required to be provided under the applicable provisions of Section 4 and, if applicable, Section 6 hereof, to the extent not previously paid, plus the costs of arbitration and the Covered Employee's reasonable attorneys fees and expenses as provided below. Any award made by such arbitrator shall be final, binding and conclusive on the Company and the Covered Employee for all purposes, and judgment upon the award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

(b) Except as otherwise provided in this paragraph, each party shall pay the cost of his or its own legal fees and expenses incurred in connection with an arbitration proceeding. Provided an award is made in favor of the Covered Employee in such proceeding, all of his reasonable attorneys fees and expenses incurred in pursuing or defending such proceeding shall be promptly reimbursed to the Covered Employee by the Company within five days of the entry of the award. Any award of reasonable attorneys' fees shall take into account any offer of the Company, such that an award of attorneys' fees to the Covered Employee may be limited or eliminated to the extent that the final decision in favor of the Covered Employee does not represent a material increase in value over the offer that was made by the Company during the course of such proceeding. However, any elimination or limitation on attorneys' fees shall only apply to those attorneys' fees incurred after the offer by the Company.

(c) In any case where the Company or any other person seeks to stay or enjoin the commencement or continuation of an arbitration proceeding, whether before or after an award has been made, or where a Covered Employee seeks recovery of amounts due after an award has been made, or where the Company brings any proceeding challenging or contesting the award, all of a Covered Employee's reasonable attorneys fees and expenses incurred in connection therewith shall be promptly reimbursed by the Company to the Covered Employee, within five days of presentation of an itemized request for reimbursement, regardless of whether the Covered Employee prevails and regardless of the forum in which such proceeding is brought.

10. BENEFITS AND BURDENS. This Plan shall inure to the benefit of and be binding upon the Employers and the Covered Employees, their respective successors, executors, administrators, heirs and permitted assigns. In the event of a Covered Employee's death after a Terminating Event but prior to the completion by the Employers of all payments due him under this Plan, the Employers shall continue such payments to the Covered Employee's beneficiary designated in writing to the Employers prior to his death (or to his estate, if the Covered Employee fails to make such designation).

11. ENFORCEABILITY. If any portion or provision of this Plan shall to any extent be declared illegal or unenforceable by a court of competent jurisdiction, then the remainder of this Plan, or the application of such portion or provision in circumstances other than those as to which it is so declared illegal or unenforceable, shall not be affected thereby, and each portion and provision of this Plan shall be valid and enforceable to the fullest extent permitted by law.

12. WAIVER. No waiver of any provision hereof shall be effective unless made in writing and signed by the waiving party. The failure of any party to require the performance of any term or obligation of this Plan, or the waiver by any party of any breach of this Plan, shall not prevent any subsequent enforcement of such term or obligation or be deemed a waiver of any subsequent breach.

13. NOTICES. Any notices, requests, demands, and other communications provided for by this Plan shall be sufficient if in writing and delivered in person or sent by registered or certified mail, postage prepaid, to a

Covered Employee at the last address the Covered Employee has filed in writing with the Employers, or to the Employers at their main office, attention of the Board of Directors.

14. EFFECT ON OTHER PLANS. Nothing in this Plan shall be construed to limit the rights of the Covered Employees under the Employers' benefit plans, programs or policies.

15. NATURE OF PAYMENTS; REQUIREMENT FOR RELEASE, CONFIDENTIALITY AND NON-SOLICITATION AGREEMENT. The amounts due pursuant to this Plan, except for payment of accrued base salary through the Date of Termination, are in the nature of severance payments considered to be reasonable by the Company and are not in the nature of a penalty. The Company may require, as a condition to making the payments and providing the benefits required hereby, that a Covered Employee execute and deliver to the Company a Release and a Non-Solicitation Agreement (as such terms are defined below), and may also require that the Covered Employee acknowledge in writing that he or she is resigning as an officer from the Company and as a director and officer of any subsidiary of the Company for which the Covered Employee serves in such capacity, before any amounts or benefits under this Plan are paid or provided. A "RELEASE" shall mean a written release of all employment-related claims by Covered Employee of the Company in a form and manner reasonably satisfactory to the Company. Such Release shall in all events preserve Covered Employee's continuing rights under this Plan except with respect to any amount paid prior to or simultaneously with the execution of such Release, in which event Covered Employee shall acknowledge receipt of such amount and (if such is the case) that such amount was properly calculated and is in full satisfaction of the Company's obligation to pay such amount. "NON-SOLICITATION AGREEMENT" means an agreement of Covered Employee with the Company that Covered Employee shall not, without the prior written consent of the Company for a period of one year following the Covered Employee's date of termination, solicit or attempt to solicit for employment with or on behalf of any corporation, partnership, venture or other business entity, any employee of the Company or any of its affiliates or any person who was formerly employed by the Company or any of its affiliates within the preceding six months, unless such person's employment was terminated by the Company or any of such affiliates.

16. AMENDMENT OR TERMINATION OF PLAN. The Company may, upon one year's advance written notice to the Covered Employees, amend or terminate this Plan at any time or from time to time; PROVIDED, HOWEVER, that, with respect to any such notice given on or prior to March 29, 2002, the amendment or termination set

forth in such notice shall not, without the written consent of a Covered Employee, in any material adverse way affect the rights of such Covered Employee; and PROVIDED, FURTHER, that during the 24 months following a Change in Control no such amendment or termination shall have a material adverse effect on the rights of a Covered Employee with respect to such Change in Control.

17. GOVERNING LAW. This Plan shall be construed under and be governed in all respects by the laws of the State of Maryland.

18. OBLIGATIONS OF SUCCESSORS. In addition to any obligations imposed by law upon any successor to the Employers, the Employers will use their best efforts to require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business or assets of the Employers to expressly assume and agree to perform this Plan in the same manner and to the same extent that the Employers would be required to perform if no such succession had taken place.

Adopted by the Compensation Committee of the Board of Directors: as of September 9, 1999

EXHIBIT 10.33

RULES AND PROCEDURES
FOR
NON-EMPLOYEE DIRECTORS' DEFERRED COMPENSATION PROGRAM

The following rules and procedures have been adopted by the Compensation Committee (the "Committee") of the Board of Directors of AvalonBay Communities, Inc. (the "Company") to govern the deferral by a Non-Employee Director pursuant to Section 7(b) of the AvalonBay Communities, Inc. 1994 Stock Option and Incentive Plan, as amended and restated on December 8, 2004 and as subsequently amended (the "Plan"). All capitalized terms used herein shall have the same meaning as used in the Plan unless otherwise specifically provided herein.

1. Election to Defer. A Non-Employee Director may elect in advance to receive all or a portion of the cash compensation or Restricted Stock Award otherwise due him in the form of a Deferred Stock Award. To make such an election, the Non-Employee Director must execute and deliver to the Company an election form specifying the percentage of his cash compensation he wishes to defer and whether or not he wishes to receive his Restricted Stock Award in the form of a Deferred Stock Award. Except with respect to a newly elected or appointed Non-Employee Director, any election under this paragraph shall apply only to cash fees that are earned with respect to services to be performed beginning on or after the start of the next calendar year after such receipt and to stock awards to be granted after the start of the next calendar year. A newly elected or appointed Non-Employee Director, may, no later than 30 days after becoming a Non-Employee Director, file a deferral election which shall apply only to cash fees that are earned with respect to services to be performed subsequent to the election and to stock awards to be granted subsequent to the election. An election shall remain in effect from year to year, until a new election becomes effective with respect to cash fees payable, and a stock award to be granted, in the next calendar year. A Non-Employee Director may revoke or modify his deferral election with respect to cash fees that are payable, and a stock award to be granted, in the calendar year beginning after receipt by the Company of his written revocation (for clarification, this means that in the absence of a revocation or modification, an election will remain in effect for subsequent calendar years)..

2. Deferred Account. As of the last day of each calendar quarter, a Non-Employee Director's deferred account ("Account") shall be credited with a number of whole and fractional stock units determined by dividing his aggregate deferred cash fees for the calendar quarter by the Fair Market Value of a share of Stock. If a Non-Employee Director has elected to receive his Restricted Stock Award in the form of a Deferred Stock Award, at such time as provided in Section 6(b)(i) of the Plan for issuance of Restricted Stock, his Account shall also be credited with a number of stock units determined pursuant to the provisions of Section 6(b)(i) of the Plan. Except as otherwise provided in the award agreement, the stock units credited in lieu of a Restricted Stock Award shall vest twenty percent (20%) on the date of issuance and twenty percent (20%) on each of the four anniversaries of the date of issuance.

3. Dividend Equivalent Amounts. Whenever dividends (other than dividends payable only in shares of Stock) are paid with respect to Stock, each Account shall be credited with a number of whole and fractional stock units determined by multiplying the dividend value per share by the stock unit balance of the Account on the record date and dividing the result by the Fair Market Value of a share of Stock on the dividend payment date.

4. Period of Deferral. The period of deferral shall cease when a Non-Employee Director ceases to serve as a member of the Board of Directors of the Company.

5. Designation of Beneficiary. A Non-Employee Director may designate one or more beneficiaries to receive payments from his Account in the event of his death. A designation of beneficiary shall apply to a specified percentage of a Non-Employee Director's entire interest in his Account. Such designation, or any change therein, must be in writing and shall be effective upon receipt by the Company. If there is no effective designation of beneficiary, or if no beneficiary survives the Non-Employee Director, the estate of the Non-Employee Director shall be deemed to be the beneficiary. All payments to a beneficiary or estate shall be made in a lump sum in shares of Stock, with any fractional share paid in cash.

6. Payment. All vested stock units credited to a Non-Employee Director's Account shall be paid in shares of Stock to the Non-Employee Director, or his designated beneficiary (or beneficiaries) or estate, in a lump sum within 30 days after the Non-Employee Director ceases to serve on the Board; provided, however, that fractional shares shall be paid in cash. Notwithstanding the foregoing, in the event of a Change in Control of the Company (as defined in Section 16(b) of the Plan), all Accounts under this deferred compensation arrangement shall become immediately payable in a lump sum.

7. Adjustments. In the event of a stock dividend, stock split or similar change in capitalization affecting the Stock, the Committee shall make appropriate adjustments in the number of stock units credited to Non-Employee Directors' Accounts.

8. Nontransferability of Rights. During a Non-Employee Director's lifetime, any payment under this deferred compensation arrangement shall be made only to him. No sum or other interest under this deferred compensation arrangement shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt by a Non-Employee Director or any beneficiary under this deferred compensation arrangement to do so shall be void. No interest under this deferred compensation arrangement shall in any manner be liable for or subject to the debts, contracts, liabilities, engagements or torts of a Non-Employee Director or beneficiary entitled thereto.

9. Company's Obligations to Be Unfunded and Unsecured. The Accounts maintained under this deferred compensation arrangement shall at all times be entirely unfunded, and no provision shall at any time be made with respect to segregating assets of the Company (including Stock) for payment of any amounts hereunder. No Non-Employee Director or other person shall have any interest in any particular assets of the Company (including Stock) by reason of the right to receive payment under this deferred compensation arrangement, and any Non-Employee Director or other person shall have only the rights of a general unsecured creditor of the Company with respect to any rights under this deferred compensation arrangement.

Adopted by the Compensation Committee of the Board of Directors on November 20, 2006.

Exhibit 12.1

AVALONBAY COMMUNITIES, INC.
RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
Income before gain on sale of communities and cumulative effect of change in accounting principle	$ 179,840	$ 112,149	$ 72,777	$ 80,401	$ 80,002
(Plus):					
Minority interest in consolidated partnerships	573	1,481	150	950	865
Amortization of capitalized interest (1)	7,503	5,957	5,114	4,429	3,605
Earnings before fixed charges	$ 187,916	$ 119,587	$ 78,041	$ 85,780	$ 84,472
(Plus) Fixed charges:					
Portion of rents representative of the interest factor	$ 518	$ 354	$ 323	$ 503	$ 527
Interest expense	111,046	127,099	131,103	130,178	114,282
Interest capitalized	46,388	25,284	20,566	24,709	29,937
Preferred dividend	8,700	8,700	8,700	10,744	17,896
Total fixed charges (2)	$ 166,652	$ 161,437	$ 160,692	$ 166,134	$ 162,642
(Less):					
Interest capitalized	46,388	25,284	20,566	24,709	29,937
Preferred dividend	8,700	8,700	8,700	10,744	17,896
Earnings (3)	$ 299,480	$ 247,040	$ 209,467	$ 216,461	$ 199,281
Ratio (3 divided by 2)	1.80	1.53	1.30	1.30	1.23

Exhibit 12.1 (continued)

AVALONBAY COMMUNITIES, INC.
RATIOS OF EARNINGS TO FIXED CHARGES

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003	Year Ended December 31, 2002
Income before gain on sale of communities and extraordinary item	$ 179,840	$ 112,149	$ 72,777	$ 80,401	$ 80,002
(Plus):					
Minority interest in consolidated partnerships	573	1,481	150	950	865
Amortization of capitalized interest (1)	7,503	5,957	5,114	4,429	3,605
Earnings before fixed charges	$ 187,916	$ 119,587	$ 78,041	$ 85,780	$ 84,472
(Plus) Fixed charges:					
Portion of rents representative of the interest factor	$ 518	$ 354	$ 323	$ 503	$ 527
Interest expense	111,046	127,099	131,103	130,178	114,282
Interest capitalized	46,388	25,284	20,566	24,709	29,937
Total fixed charges (2)	$ 157,952	$ 152,737	$ 151,992	$ 155,390	$ 144,746
(Less):					
Interest capitalized	46,388	25,284	20,566	24,709	29,937
Earnings (3)	$ 299,480	$ 247,040	$ 209,467	$ 216,461	$ 199,281
Ratio (3 divided by 2)	1.90	1.62	1.38	1.39	1.38

(1) Represents an estimate of capitalized interest costs based on the Company's established depreciation policy and an analysis of interest costs capitalized since 1998 (the year in which AvalonBay was formed).

SUBSIDIARY LIST (BY JURISDICTION)

California

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.

Connecticut

Bronxville West, LLC
Forestbroad LLC
Smithtown Galleria Associates Limited Partnership
Town Close Associates Limited Partnership
Town Grove, LLC

Delaware

4600 Eisenhower Avenue, LLC
Acton FS, LLC
AIV I, LLC
Albee Residential, LLC
AMP Apartments, LLC
AMV I, LLC
AMV II, LLC
AMV III, LLC
AMV IV, LLC
Aria at Hathorne Hill, LLC
Aria at Laurel Hill, LLC
Avalon Albee, LLC
Avalon — Alfran North Bergen, LLC
Avalon Arbor, LLC
Avalon California Value I, LLC
Avalon California Value II, LLC
Avalon California Value III, LLC
Avalon California Value IV, LLC
Avalon California Value V, LLC
Avalon California Value VI, LLC
Avalon Del Rey Apartments, LLC
Avalon DownREIT V, L.P.
Avalon Estates LLC
Avalon Fremont LLC
Avalon Gold, LLC
Avalon Grosvenor, L.P.
Avalon Illinois Value I, LLC
Avalon Illinois Value II, LLC
Avalon Illinois Value III, LLC
Avalon Lowlands, LLC
Avalon Maryland Value I, LLC
Avalon Maryland Value II, LLC
Avalon Maryland Value III, LLC
Avalon Massachusetts Value I, LLC
Avalon New Jersey Urban Renewal Entity I, LLC
Avalon New Rochelle II, LLC
Avalon New York Value I, LLC
Avalon Oyster, LLC
Avalon Park Tower, LLC
Avalon Riverview I, LLC

Avalon Riverview North, LLC
Avalon Run, LLC
Avalon Shipyard, LLC
Avalon Terrace LLC
Avalon Upper Falls Limited Partnership
Avalon Upper Falls, LLC
Avalon Washington Value Ravenswood, LLC
Avalon WFS, LLC
Avalon WP I, LLC
Avalon WP II, LLC
Avalon WP III, LLC
Avalon WP IV, LLC
Avalon WP V, LLC
AvalonBay Redevelopment LLC
AvalonBay VAF Acquisition, LLC
AvalonBay Value Added Fund, L.P.
Bay Countrybrook L.P.
Bay Pacific Northwest, L.P.
Centerpoint Master Tenant LLC
Chrystie Venture Partners, LLC
CVP I, LLC
CVP II, LLC
CVP III, LLC
Downtown Manhattan Residential LLC
Dune Beach Associates, LLC
ER Cedar, L.L.C.
Garden City Duplex, LLC
Garden City SF, LLC
Glen Cove Development LLC
Glen Cove II Development LLC
Hathorne FS Holdings, LLC
Laurel Hill Private Sewer Treatment Facility, LLC
MVP I, LLC
Norwalk Retail, LLC
Pleasant Hill Manager, LLC
Pleasant Hill Transit Village Associates LLC
Roselle Park VP, LLC
Tysons West, LLC
Wheaton Land Investment, LLC
WLBVP, LLC

District of Columbia

4100 Massachusetts Avenue Associates, L.P.

Maryland

Avalon at Chestnut Hill, Inc.
Avalon at Great Meadow, Inc.
Avalon at St. Clare, Inc.
Avalon 4100 Massachusetts Avenue, Inc.
Avalon Acton, Inc.
Avalon BFG, Inc.
Avalon Chase Glen, Inc.
Avalon Chase Grove, Inc.
Avalon Cohasset, Inc.
Avalon Collateral, Inc.
Avalon Commons, Inc.
Avalon Decoverly, Inc.
Avalon DownREIT V, Inc.

Avalon Estates TRS, Inc.
Avalon Fremont TRS, Inc.
Avalon Fairway Hills I Associates
Avalon Fairway Hills II Associates
Avalon Fairway II, Inc.
Avalon Grosvenor LLC
Avalon Hingham PM, Inc.
Avalon Mills, Inc.
Avalon Oaks, Inc.
Avalon Oaks West, 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.
AvalonBay Arna Valley, Inc.
AvalonBay Capital Management, Inc.
AvalonBay Construction Services, Inc.
AvalonBay Grosvenor, Inc.
AvalonBay Ledges, Inc.
AvalonBay Milford II Development, Inc.
AvalonBay NYC Development, Inc.
AvalonBay Orchards, Inc.
AvalonBay Parking, Inc.
AvalonBay Shrewsbury, Inc.
AvalonBay Traville, LLC
AvalonBay Value Added Fund, Inc.
AVB Acton FS, Inc.
AVB Development Transactions, Inc.
AVB West Long Branch, Inc.
AVB Service Provider, Inc.
Bay Asset Group, Inc.
Bay Development Partners, Inc.
Bay GP, Inc.
Bay Waterford, Inc.
Centerpoint Tower LLC
Centerpoint Garage LLC
Centerpoint Eutaw/Howard Holdings LLC
Centerpoint Development II LLC
Centerpoint Howard LLC
Centerpoint Eutaw LLC
Centerpoint Tower/Garage Holdings LLC
Georgia Avenue, Inc.
JP Construction in Milford, Inc.
Juanita Construction, Inc.
Lexington Ridge-Avalon, Inc.
Shady Grove Road Property, LLC
Traville Senior Living, LLC

Massachusetts

AvalonBay BFG Limited Partnership
Hingham Shipyard East Property Owners Association, Inc.

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 Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements of AvalonBay Communities, Inc. and in the related Prospectus of our reports dated February 26, 2007, with respect to the consolidated financial statements and schedule of AvalonBay Communities, Inc., AvalonBay Communities, Inc. management's assessment of the effectiveness of internal control over financial reporting, and the effectiveness of internal control over financial reporting of AvalonBay Communities, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2006.

Form S-3	Form S-8
No. 333-87063	No. 333-16837
No. 333-15407	No. 333-56089
No. 333-62855	No. 333-115290
No. 333-87219	No.333-134935
No. 333-103755	
No. 333-107413	
No. 333-132435	
No.333-135243	
No.333-139839	

/s/ Ernst & Young LLP

Mclean, Virginia
February 26, 2007

Exhibit 31.1

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a — 15(f) and 15d — 15(f)) for the registrant and have:

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

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

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

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

Date: February 28, 2007

/s/ Bryce Blair
Bryce Blair
Chief Executive Officer

Exhibit 31.2

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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a — 15(f) and 15d — 15(f)) for the registrant and have:

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

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent functions):

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

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

Date: February 28, 2007

/s/ Thomas J. Sargeant
Thomas J. Sargeant
Chief Financial Officer

Exhibit 32

CERTIFICATION

The undersigned officers of AvalonBay Communities, Inc. (the "Company") hereby certify that the Company's annual report on Form 10-K to which this certification is attached (the "Report"), as filed with the Securities and Exchange Commission on the date hereof, fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and that the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 28, 2007

/s/ Bryce Blair
Bryce Blair
Chief Executive Officer

/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.