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

FORM 10–Q

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

For the quarterly period ended September 30, 2001

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 offices, including zip code)

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

(Former name, if changed since last report)

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

Yes ý No o

APPLICABLE ONLY TO CORPORATE ISSUERS

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

69,597,014 shares outstanding as of November 1, 2001

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Part I – FINANCIAL INFORMATION
Item 1. Financial Statements

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

	9-30-01 (unaudited)	12-31-00 (audited)
ASSETS		
Real estate:		
Land	$ 816,407	$ 742,863
Buildings and improvements	3,394,622	3,047,560
Furniture, fixtures and equipment	106,110	98,880
	4,317,139	3,889,303
Less accumulated depreciation	(410,789)	(316,045)
Net operating real estate	3,906,350	3,573,258
Construction in progress (including land)	336,634	418,583
Communities held for sale, net	73,851	208,118
Total real estate, net	4,316,835	4,199,959
Cash and cash equivalents	201,393	57,234
Cash in escrow	78,207	16,733
Resident security deposits	19,967	18,281
Investments in unconsolidated real estate joint ventures	13,131	12,215
Deferred financing costs, net	20,942	15,265
Deferred development costs, net	20,273	16,359
Participating mortgage notes	21,483	21,483
Prepaid expenses and other assets	37,237	39,696
Total assets	$ 4,729,468	$ 4,397,225
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unsecured notes	$ 1,635,000	$ 1,335,000
Variable rate unsecured credit facility	--	--
Mortgage notes payable	444,463	394,924
Dividends payable	50,814	47,572
Payables for construction	36,816	19,997
Accrued expenses and other liabilities	61,281	46,771
Accrued interest payable	21,858	32,829
Resident security deposits	30,452	28,138
Total liabilities	2,280,684	1,905,231
Minority interest of unitholders in consolidated partnerships	48,706	49,501
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $.01 par value; $25 liquidation preference; 50,000,000 shares authorized at both September 30, 2001 and December 31, 2000; 13,867,700 and 18,322,700 shares outstanding at September 30, 2001 and December 31, 2000, respectively.	139	183
Common stock, $.01 par value; 140,000,000 shares authorized at both September 30, 2001 and December 31, 2000; 68,571,151 and 67,191,542 shares both issued and outstanding at September 30, 2001 and December 31, 2000, respectively.	686	672
Additional paid-in capital	2,435,564	2,493,033
Deferred compensation	(7,648)	(3,550)
Dividends in excess of accumulated earnings	(16,700)	(47,845)
Accumulated other comprehensive loss	(11,963)	--
Total stockholders' equity	2,400,078	2,442,493
Total liabilities and stockholders' equity	$ 4,729,468	$ 4,397,225

See accompanying notes to Condensed Consolidated Financial Statements.

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

	For the three months ended		For the nine months ended	
	9-30-01	9-30-00	9-30-01	9-30-00
Revenue:				

Rental income	$ 162,822	$ 145,954	$ 480,083	$ 420,371
Management fees	336	261	985	761
Other income	111	136	317	265
Total revenue	163,269	146,351	481,385	421,397
Expenses:				
Operating expenses, excluding property taxes	42,205	36,390	122,837	104,860
Property taxes	13,371	12,158	39,081	34,717
Interest expense	26,701	21,385	75,138	61,815
Depreciation expense	32,165	30,599	95,455	91,227
General and administrative	3,421	3,359	10,969	9,591
Total expenses	117,863	103,891	343,480	302,210
Equity in income of unconsolidated joint ventures	599	721	527	2,117
Interest income	1,599	1,277	4,876	3,245
Minority interest in consolidated partnerships	(34)	(485)	(522)	(1,499)
Income before gain on sale of communities	47,570	43,973	142,786	123,050
Gain on sale of communities	39,098	14,521	43,999	33,273
Net income	86,668	58,494	186,785	156,323
Dividends attributable to preferred stock	(7,439)	(9,944)	(26,771)	(29,834)
Net income available to common stockholders	$ 79,229	$ 48,550	$ 160,014	$ 126,489
Other comprehensive income:				
Unrealized loss on derivative instruments	(5,447)	--	(11,963)	--
Other comprehensive loss	(5,447)	--	(11,963)	--
Comprehensive income	$ 73,782	$ 48,550	$ 148,051	$ 126,489
Dividends declared per common share	$ 0.64	$ 0.56	$ 1.92	$ 1.68
Earnings per common share:				
Basic	$ 1.16	$ 0.73	$ 2.37	$ 1.91
Diluted	$ 1.14	$ 0.71	$ 2.32	$ 1.88

See accompanying notes to Condensed Consolidated Financial Statements.

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

	For the nine months ended	
	9-30-01	**9-30-00**
Cash flows from operating activities:		
Net income	$ 186,785	$ 156,323
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation expense	95,455	91,227
Amortization of deferred financing costs	2,729	2,168
Amortization of deferred compensation	2,105	2,394
Undistributed earnings from unconsolidated real estate joint ventures	(300)	--
Income allocated to minority interest in consolidated partnerships	522	1,499
Gain on sale of communities	(43,999)	(33,273)
Decrease (increase) in cash in operating escrows	(616)	115
Increase in resident security deposits, accrued interest receivable on participating mortgage notes, prepaid expenses and other assets	(3,187)	(22,472)
Increase (decrease) in accrued expenses, other liabilities and accrued interest payable	(4,140)	6,286
Net cash provided by operating activities	235,354	204,267
Cash flows used in investing activities:		
Purchase and development of real estate	(343,571)	(304,008)
Proceeds from sale of communities, net of selling costs	175,257	120,418
Increase in payables for construction	16,819	1,769
Increase in cash in investing escrows	(60,858)	(25,473)
Increase in investments in unconsolidated real estate joint ventures	(616)	(349)
Net cash used in investing activities	(212,969)	(207,643)
Cash flows from financing activities:		
Issuance of common stock	45,810	25,513
Redemption of preferred stock and related costs	(111,472)	--
Dividends paid	(152,398)	(138,186)
Net repayments of unsecured credit facility	--	(32,600)
Issuance of secured mortgage notes payable	71,014	--
Proceeds from sale of unsecured notes	300,000	150,000
Repayments of notes payable	(21,475)	(21,616)
Payment of deferred financing costs	(8,406)	(1,482)
Contributions from (distributions to) minority partners	(1,299)	24,488
Net cash provided by financing activities	121,774	6,117

Net increase in cash and cash equivalents		144,159		2,741
Cash and cash equivalents, beginning of period		57,234		7,621
Cash and cash equivalents, end of period	$	201,393	$	10,362
Cash paid during period for interest, net of amount capitalized	$	79,975	$	68,158

See accompanying notes to Condensed Consolidated Financial Statements.

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

During the nine months ended September 30, 2001, 762 units of limited partnership, valued at $36, were presented for redemption to the DownREIT partnership that issued such units and were acquired by the Company in exchange for an equal number of shares of the Company's common stock.

During the nine months ended September 30, 2000, 147,060 units of limited partnership, valued at $6,070, were presented for redemption to the DownREIT partnership that issued such units and were acquired by the Company in exchange for an equal number of shares of the Company's common stock. In addition, the Company issued $60 in limited partnership units as consideration for acquisitions of apartment communities that were pursuant to the terms of a forward purchase contract agreed to in 1997 with an unaffiliated party.

Common and preferred dividends declared but not paid as of September 30, 2001 and 2000 totaled $50,814 and $47,320, respectively.

During the nine months ended September 30, 2001, the Company issued 187,077 shares of restricted common stock, net of forfeitures, valued at $8,572. During the nine months ended September 30, 2000, the Company issued 133,456 shares of restricted common stock valued at $3,035.

During the nine months ended September 30, 2001, the Company recorded a liability and a corresponding charge to Other Comprehensive Loss of $11,963 to adjust the Company's Swap Agreements (as defined in Note 5 of the notes to the Condensed Consolidated Financial Statements) to their fair value.

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

1. Organization and Significant Accounting Policies

Organization and Recent Developments

AvalonBay Communities, Inc. (the "Company," which term, unless the context otherwise requires, refers to AvalonBay Communities, Inc. together with its subsidiaries) is a Maryland corporation that has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended. The Company focuses on the ownership and operation of upscale 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 September 30, 2001, the Company owned or held a direct or indirect ownership interest in 126 operating apartment communities containing 37,354 apartment homes in eleven states and the District of Columbia, of which three communities containing 1,917 apartment homes were under reconstruction. In addition, the Company also owned fifteen communities with 3,886 apartment homes under construction and rights to develop an additional 31 communities that, if developed as expected, will contain an estimated 9,196 apartment homes.

During the three months ended September 30, 2001:

- The Company completed the development of Avalon at Arlington Square I, a 510 apartment home community located in Arlington, Virginia.
- The Company commenced development of two communities in the Northeast region, Avalon at Flanders Hill, located in Westborough, Massachusetts, and Avalon New Canaan, located in New Canaan, Connecticut. These communities are expected to contain 384 apartment homes with a projected combined total investment of approximately $65,600.
- The Company commenced development of one community in the Mid-Atlantic region, Avalon at Arlington Square II, located in Arlington, Virginia. The community is expected to contain 332 apartment homes with a projected total investment of approximately $43,900.

As further discussed in Note 7, "Communities Held for Sale", the Company has adopted a strategy of disposing of certain assets in markets that do not meet its long-term investment criteria and redeploying the proceeds from such sales to help fund the Company's development and redevelopment activities. In connection with this strategy, the Company sold three communities containing a total of 1,708 apartment homes for net proceeds of approximately $152,600 during the three months ended September 30, 2001. The net proceeds from these dispositions will be redeployed to develop or redevelop communities currently under construction or reconstruction. Pending such redeployment, the proceeds from the sale of two of these communities were used to reduce amounts outstanding under the Company's variable rate unsecured credit facility. The net proceeds from one of these communities were deposited into an escrow account to facilitate a like-kind exchange transaction.

The interim unaudited financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements required by GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited financial statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. The results of operations for the three and nine months ended September 30, 2001 are not necessarily indicative of the operating results for the full year. Management believes the disclosures are adequate to ensure the information presented is not misleading. In the opinion of management, all adjustments and eliminations, consisting only of normal, recurring adjustments necessary for a fair presentation of the financial statements for the interim periods, have been included.

Principles of Consolidation

The accompanying Condensed Consolidated Financial Statements include the accounts of the Company and its wholly-owned partnerships and certain joint venture partnerships in addition to subsidiary partnerships structured as DownREITs. All significant intercompany balances and transactions have been eliminated in consolidation.

In each of the partnerships structured as DownREITs, either the Company or one of the Company's wholly-owned subsidiaries is the general partner, and there are one or more limited partners whose interest in the partnership is represented by units of limited partnership interest. For each DownREIT partnership, limited partners are entitled to receive

distributions 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 approximate the Company's current common stock dividend per share. Each DownREIT partnership has been structured so that it is unlikely the limited partners will be entitled to a distribution greater than the initial distribution provided for in the partnership agreement. The holders of units of limited partnership interest have the right to present each unit of limited partnership interest for redemption for cash equal to the fair market value of a share of the Company's common stock on the date of redemption. In lieu of a cash redemption of a limited partner's unit, the Company may elect to acquire any unit presented for redemption for one share of common stock.

The Company has minority interest investments in five technology companies. The Company accounts for these unconsolidated entities in accordance with Accounting Principles Board ("APB") Opinion No. 18, "The Equity Method of Accounting for Investments in Common Stock." The Company applies the equity method of accounting to its investment in Realeum, Inc., a company involved in the development and deployment of a property management and leasing automation system. The remaining investments are accounted for under the cost method of accounting. As of September 30, 2001, the aggregate investment in these five companies, net of an allowance of $934, was $2,955.

Revenue Recognition

Rental income related to leases is recognized when due from residents in accordance with SEC Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." In accordance with the Company's standard lease terms, rental payments are generally due on a monthly basis.

Real Estate

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

The capitalization of costs during the development of assets (including interest and related loan fees, property taxes and other direct and indirect costs) begins when active development commences and ends when the asset is delivered and a final certificate of occupancy is issued. 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 placed in-service.

With few exceptions, we capitalize pre-development costs incurred in pursuit of new development opportunities. The accompanying Condensed Consolidated Financial Statements include a charge to expense for unrecoverable deferred development costs related to pre-development communities that are unlikely to be developed.

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

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

Earnings per Common Share

In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share", basic earnings per share for the three and nine months ended September 30, 2001 and 2000 is computed by dividing earnings available to common shares 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:

	Three months ended		Nine months ended	
	9-30-01	**9-30-00**	**9-30-01**	**9-30-00**
Basic and Diluted shares outstanding				
Weighted average common shares - basic	68,100,249	66,490,846	67,652,285	66,109,093
Weighted average DownREIT units outstanding	671,083	851,677	670,992	901,854
Effect of dilutive securities	1,344,541	1,273,141	1,298,254	854,312
Weighted average common shares and DownREIT units - diluted	70,115,873	68,615,664	69,621,531	67,865,259
Calculation of Earnings per Share - Basic				
Net income available to common stockholders	$ 79,229	$ 48,550	$ 160,014	$ 126,489
Weighted average common shares - basic	68,100,249	66,490,846	67,652,285	66,109,093
Earnings per common share - basic	$ 1.16	$ 0.73	$ 2.37	$ 1.91
Calculation of Earnings per Share - Diluted				
Net income available to common stockholders	$ 79,229	$ 48,550	$ 160,014	$ 126,489
Add: Minority interest of DownREIT unitholders in consolidated partnerships	393	439	1,176	1,399
Adjusted net income available to common stockholders	$ 79,622	$ 48,989	$ 161,190	$ 127,888
Weighted average common shares and DownREIT units - diluted	70,115,873	68,615,664	69,621,531	67,865,259
Earnings per common share - diluted	$ 1.14	$ 0.71	$ 2.32	$ 1.88

Certain options to purchase shares of common stock in the amounts of 1,000 and 15,269 were outstanding during the three and nine months ended September 30, 2001, respectively, and 3,000 and 65,500 were outstanding during the three and nine months ended September 30, 2000, 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.

Executive Separation Costs

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

Recently Issued Accounting Standards

During the third quarter of 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," SFAS No. 142, "Goodwill and Intangible Assets," SFAS No. 143, "Accounting for Asset Retirement Obligations," and SFAS No. 144. "Accounting for the Impairment or Disposal of Long-Lived Assets." In the opinion of management the adoption of these statements will not have a material effect on the Company's Condensed Consolidated Financial Statements.

Use of Estimates

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

Reclassifications

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

2. Interest Capitalized

Capitalized interest associated with communities under development or redevelopment totaled $7,221 and $5,255 for the three months ended September 30, 2001 and 2000, respectively, and $19,340 and $12,912 for the nine months ended September 30, 2001 and 2000, respectively.

3. Notes Payable, Unsecured Notes and Credit Facility

The Company's notes payable, unsecured notes and credit facility are summarized as follows:

		9-30-01		12-31-00
Fixed rate unsecured notes	$	1,635,000	$	1,335,000
Fixed rate mortgage notes payable - conventional and tax-exempt (1)		323,285		326,964
Variable rate mortgage notes payable - tax-exempt		67,960		67,960
Total mortgage notes payable and unsecured notes		2,026,245		1,729,924
Variable rate short term construction loan		53,218		--
Variable rate unsecured credit facility		--		--
Total mortgage notes payable, unsecured notes and unsecured credit facility	$	2,079,463	$	1,729,924

(1) Includes $167,587 of variable rate notes effectively fixed through swap agreements.

Mortgage notes payable are collateralized by certain apartment communities and mature at various dates from March 2002 through February 2041. The weighted average interest rate of the Company's variable rate notes and unsecured credit facility, including certain financing related fees, was 5.6% at September 30, 2001. The weighted average interest rate of the Company's fixed rate mortgage notes (conventional and tax-exempt) was 6.7% at September 30, 2001.

The maturity schedule for the Company's unsecured notes is as follows:

Year of maturity		Principal	Interest rate
2002	$	100,000	7.375%
2003	$	50,000	6.250%
	$	100,000	6.500%
2004	$	125,000	6.580%
2005	$	100,000	6.625%
	$	50,000	6.500%
2006	$	150,000	6.800%
2007	$	110,000	6.875%
2008	$	50,000	6.625%
	$	150,000	8.250%
2009	$	150,000	7.500%
2010	$	200,000	7.500%
2011	$	300,000	6.625%

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 a $500,000 variable rate unsecured credit facility with J.P. Morgan Chase and Fleet National Bank serving as co-agents for a syndicate of commercial banks, which had zero outstanding on September 30, 2001. Under the terms of the unsecured credit facility, the Company has the option of increasing the facility up to $650,000. The unsecured credit facility bears interest at a spread over the London Interbank Offered Rate ("LIBOR") based on 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 0.6% per annum (3.2% on September 30, 2001). In addition, the unsecured credit facility includes a competitive bid option, which allows banks that are part of the lender consortium to bid to make loans to the Company at a rate that is lower than the stated rate provided by the unsecured credit facility for up to $400,000. The 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, minimum unencumbered assets and equity levels and restrictions on paying dividends in amounts that exceed 95% of the Company's Funds from Operations, as defined therein. The existing facility matures in May 2005 after all applicable extensions.

4. Stockholders' Equity

The following summarizes the changes in stockholders' equity for the nine months ended September 30, 2001:

	Preferred Stock	Common Stock	Additional paid-in capital	Deferred compensation	Dividends in excess of accumulated earnings	Accumulated other comprehensive income	Stockholders' equity
Stockholders' equity, December 31, 2000	$ 183	$ 672	$ 2,493,033	$ (3,550)	$ (47,845)	$ --	$ 2,442,493
Net income	--	--	--	--	186,785	--	186,785
Other comprehensive income	--	--	--	--	--	(11,963)	(11,963)
Dividends declared to common and preferred stockholders	--	--	--	--	(155,640)	--	(155,640)
Redemption of Preferred Stock Series F	(44)	--	(111,428)	--	--	--	(111,472)
Issuance of Common Stock	--	14	53,959	(6,203)	--	--	47,770
Amortization of deferred compensation	--	--	--	2,105	--	--	2,105
Stockholders' equity, September 30, 2001	$ 139	$ 686	$ 2,435,564	$ (7,648)	$ (16,700)	$ (11,963)	$ 2,400,078

During the nine months ended September 30, 2001, the Company issued 711,230 shares of common stock in connection with stock options exercised, 485,556 shares through the Company's Dividend Reinvestment and Stock Purchase Plan, 762 shares to acquire DownREIT partnership units from a third party, 187,077 shares in connection with restricted stock grants to employees, less 5,016 shares of forfeited restricted stock.

In June 2001, the Company redeemed all 4,455,000 outstanding shares of its 9.00% Series F Cumulative Redeemable Preferred Stock at a price of $25.00 per share, plus $0.1625 in accrued and unpaid dividends, for an aggregate redemption price of $25.1625 per share.

5. Derivative Instruments and Hedging Activities

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133, as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of SFAS No. 133," and SFAS No. 138, "Accounting for Certain Instruments and Certain Hedging Activities, an amendment of Statement 133," was adopted by the Company on January 1, 2001. SFAS No. 133, as amended, establishes accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 also requires that a change in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. For fair value hedge transactions, changes in the fair value of the derivative instrument and changes in the fair value of the hedged item due to the risk being hedged are recorded through the income statement. For cash flow hedge transactions, changes in the fair value of the derivative instrument are reported in other comprehensive income. The ineffective portion of all hedges is recognized in current period earnings. Derivatives which are not part of a hedge relationship are recorded at fair value through earnings.

The Company has historically used interest rate swap agreements (the "Swap Agreements") to reduce the impact of interest rate fluctuations on its variable rate tax-exempt bonds. The Company has not entered into any interest rate hedge agreements or treasury locks for its conventional unsecured debt. The Swap Agreements are not held for trading or other speculative purposes. As of September 30, 2001, the effect of these Swap Agreements is to fix $167,587 of the Company's tax-exempt debt at a weighted average interest rate of 6.0% with an average maturity of 5 years. By using derivative financial instruments to hedge exposures to changes in interest rates, the Company exposes itself to credit risk and market risk.

The credit risk is the risk of a counterparty not performing under the terms of the Swap Agreement. The counterparties to these Swap Agreements are major financial institutions with AAA credit ratings by the Standard & Poor's Ratings Group. The Company monitors the credit ratings of counterparties and the amount of the Company's debt subject to Swap Agreements with any one party. Therefore, the Company believes the likelihood of realizing material losses from counterparty nonperformance is remote.

Market risk is the adverse effect of the value of financial instruments that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by the establishment and monitoring of parameters that limit the types and degree of market risk that may be undertaken. These risks are managed by the Company's Chief Financial Officer and Vice President of Finance.

The Company has determined that its Swap Agreements qualify as effective cash-flow hedges under SFAS No. 133. When entering into hedging transactions, the Company documents the relationships between hedging instruments and hedged items, as well as the risk management objective and strategy. The Company assesses, both at inception and on an on-going basis, the effectiveness of all hedges in offsetting cash flows of hedged items. In accordance with SFAS No. 133, the Company records all changes in the fair value of the Swap Agreements in other comprehensive income. Amounts recorded in other comprehensive income will be reclassified into earnings in the period in which earnings are affected by the hedged cash flows. In all situations where hedge accounting is discontinued, the derivative will be carried at fair value with changes in its fair value recognized in income. Upon the termination of a hedging relationship, the amount in other comprehensive income will be amortized over the remaining life of the hedged cash flows.

At January 1, 2001, in accordance with the transition provisions of SFAS No. 133, the Company recorded a cumulative effect adjustment of $6,412 to other comprehensive loss to recognize at fair value all of the derivatives that are designated as cash flow hedging instruments. Through September 30, 2001, the Company recorded additional unrealized losses to other comprehensive loss of $6,079 to adjust the Swap Agreements to their fair value. In connection with the sale of a community during the first quarter of 2001, a Swap Agreement with a fair value of $528 was transferred to the new owner. Hedge ineffectiveness for the three and nine months ended September 30, 2001 did not have a material impact on earnings and the Company does not anticipate that the losses being reclassified to earnings during the next twelve months will be material. The Swap Agreements are included in accrued expenses and other liabilities on the accompanying Condensed Consolidated Balance Sheets.

6. Investments in Unconsolidated Real Estate Joint Ventures

The Company accounts for investments in unconsolidated real estate entities in accordance with Statement of Position ("SOP") 78-9, "Accounting for Investments in Real Estate Ventures" and APB Opinion No. 18. The Company applies the equity method of accounting to an investment in an entity if it has the ability to significantly influence that entity. All other unconsolidated real estate investments are recorded under the cost method of accounting.

At September 30, 2001, the Company's investments in unconsolidated real estate joint ventures consisted of:

- a 50% limited liability company membership interest in a limited liability company that owns the Falkland Chase community;
- a 49% general partnership interest in a partnership that owns the Avalon Run community;
- a 50% limited liability company membership interest in a limited liability company that owns the Avalon Grove community; and
- a 50% limited liability company membership interest in a limited liability company that owns the Avalon Terrace community.

The following is a combined summary of the financial position of these joint ventures as of the dates presented:

	(Unaudited) 9-30-01	12-31-00
Assets:		
Real estate, net	$ 146,190	$ 132,832
Other assets	10,810	10,400
Total assets	$ 157,000	$ 143,232
Liabilities and partners' equity:		
Mortgage notes payable	$ 47,195	$ 48,400
Other liabilities	9,487	8,656
Partners' equity	100,318	86,176
Total liabilities and partners' equity	$ 157,000	$ 143,232

The following is a combined summary of the operating results of these joint ventures for the periods presented:

	Three months ended (unaudited)		Nine months ended (unaudited)	
	9-30-01	9-30-00	9-30-01	9-30-00
Rental income	$ 7,384	$ 5,645	$ 21,621	$ 16,434
Other income	31	20	142	27
Operating and other expenses	(2,375)	(1,597)	(6,865)	(4,363)
Mortgage interest expense	(621)	(274)	(1,965)	(816)
Depreciation expense	(1,103)	(808)	(3,145)	(2,390)
Net income	$ 3,316	$ 2,986	$ 9,788	$ 8,892

The Company also holds a 25% limited liability company membership interest in Avalon on the Sound, which is presented on a consolidated basis in the financial statements in accordance with GAAP due to the Company's significant influence over that entity. Operating results for the nine months ended September 30, 2001 reflect reclassifications made to amounts in prior periods' financial statements to conform with current period presentations.

7. Communities Held for Sale

The Company has a policy of disposing of assets that are not consistent with its long-term investment criteria when market conditions are favorable. In connection with this strategy, the Company solicits competing bids from unrelated parties for individual assets, and considers the sales price and tax ramifications of each proposal. In connection with this policy, the Company sold four communities during the nine months ended September 30, 2001 and six communities during the nine months ended September 30, 2000.

Management intends to market additional communities for sale in 2001. However, there can be no assurance that such assets will be sold, or that we will sell the assets on financially advantageous terms. The assets targeted for sale include land, buildings and improvements and furniture, fixtures and equipment, and are recorded at the lower of cost or fair value less estimated selling costs. The Company has not determined a need to recognize a write-down in this real estate to arrive at net realizable value, although there can be no assurance that the Company can sell these assets for amounts that equal or exceed its estimates of net realizable value. At September 30, 2001, total real estate held for sale, net of accumulated depreciation, totaled $73,851. Certain individual assets are secured by mortgage indebtedness which may be assumed by the purchaser or repaid by the Company from the net sales proceeds.

The Company's Condensed Consolidated Statements of Operations and Other Comprehensive Income include net income of the communities held for sale at September 30, 2001 of $1,599 and $697 for the three months ended September 30, 2001 and 2000, respectively, and $3,937 and $2,208 for the nine months ended September 30, 2001 and 2000, respectively.

8. Segment Reporting

The Company's reportable operating segments include Established Communities, Other Stabilized Communities, and Development/Redevelopment Communities:

- *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 costs as of the beginning of the prior year. These communities are divided into geographic regions. We determine which of our communities fall into the Established Communities category annually on January 1st of each year and maintain that classification throughout the year. For the year 2001, the Established Communities were communities that had stabilized occupancy and costs as of January 1, 2000. We consider a community to have stabilized occupancy at the earlier of (i) attainment of 95% occupancy or (ii) the one-year anniversary of completion of development or redevelopment.

- *Other Stabilized* includes all other completed communities that have stabilized occupancy and communities held for sale.

- *Development/Redevelopment* consists of communities that are under construction and have not received a final certificate of occupancy and communities where substantial redevelopment is in progress or is planned to take place during the current year.

The primary financial measure for Established and Other Stabilized Communities is Net Operating Income ("NOI"), which represents total revenue less operating expenses and property taxes. 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 economic occupancy. While under lease-up, the primary performance measures for these assets are lease-up pace compared to budget and rent levels compared to budget.

Net Operating Income for each community is generally equal to that community's contribution to Funds from Operations ("FFO"), except that interest expense related to indebtedness secured by an individual community and depreciation and amortization on non-real estate assets are not included in the community's NOI although such expenses decrease the Company's consolidated net income and FFO.

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 the summary of significant accounting policies.

(Dollars in thousands)

	Three months ended				Nine months ended			
	Total revenue	Net operating income	% NOI change from prior year period	Gross real estate	Total revenue	Net operating income	% NOI change from prior year period	Gross real estate
For the three and nine months ended 9-30-01								
Segment Results								
Established								
Northeast	$ 28,913	$ 20,316	8.2%	$ 570,374	$ 85,079	$ 60,683	8.4%	$ 570,374
Mid-Atlantic	20,801	15,206	8.9%	437,453	61,292	44,552	8.5%	437,453
Midwest	5,260	3,241	0.5%	144,607	15,831	9,758	2.1%	144,607
Pacific Northwest	1,724	1,227	0.5%	60,408	5,167	3,803	4.4%	60,408
Northern California	39,420	29,814	1.8%	1,215,580	120,684	93,415	12.8%	1,215,580
Southern California	10,757	7,559	6.8%	294,618	31,634	22,308	9.9%	294,618
Total Established	106,875	77,363	5.2%	2,723,040	319,687	234,519	9.9%	2,723,040
Other Stabilized	40,368	27,647	10.8%	1,072,491	122,500	85,999	22.1%	1,072,491
Development / Redevelopment	16,026	9,740	50.2%	854,992	39,198	23,951	30.6%	854,992
Land Held for Future Development	n/a	n/a	n/a	55,664	n/a	n/a	n/a	55,664
Non-Allocated	n/a	n/a	n/a	27,919	n/a	n/a	n/a	27,919
Total AvalonBay	$ 163,269	$ 114,750	9.3%	$ 4,734,106	$ 481,385	$ 344,469	14.0%	$ 4,734,106
For the three and nine months ended 9-30-00								
Segment Results								
Established								
Northeast	$ 23,362	$ 16,109	7.8%	$ 485,316	$ 68,449	$ 48,241	7.3%	$ 485,316
Mid-Atlantic	17,493	12,532	10.9%	391,956	50,868	36,664	8.9%	391,956
Midwest	5,176	3,225	0.3%	144,338	15,245	9,554	5.2%	144,338
Pacific Northwest	946	696	1.5%	34,417	2,826	2,095	24.2%	34,417
Northern California	27,457	20,940	17.9%	936,683	78,315	59,729	12.9%	936,683
Southern California	5,943	4,230	12.3%	158,024	17,324	12,212	12.2%	158,024
Total Established	80,377	57,732	11.7%	2,150,734	233,027	168,495	10.0%	2,150,734
Other Stabilized	49,905	35,849	9.8%	1,382,426	145,965	103,919	17.6%	1,382,426
Development / Redevelopment	16,069	11,466	97.6%	860,658	42,405	29,828	99.5%	860,658
Land Held for Future Development	n/a	n/a	n/a	57,332	n/a	n/a	n/a	57,332
Non-Allocated	n/a	n/a	n/a	24,852	n/a	n/a	n/a	24,852
Total AvalonBay	$ 146,351	$ 105,047	16.6%	$ 4,476,002	$ 421,397	$ 302,242	17.8%	$ 4,476,002

Operating expenses as reflected on the Condensed Consolidated Statements of Operations and Comprehensive Income include $7,057 and $7,244 for the three months ended September 30, 2001 and 2000, respectively, and $25,002 and $20,422 for the nine months ended September 30, 2001 and 2000, respectively, of property management overhead costs that are not allocated to individual communities. These costs are not reflected in NOI as shown in the above tables. The amount reflected for "Communities held for sale" on the Condensed Consolidated Balance Sheets is net of $6,482 of accumulated depreciation as of September 30, 2001.

9. Subsequent Events

The Company announced during the third quarter that it had begun construction on Avalon Madison in downtown Seattle, Washington. Given the uncertain national economy and deteriorating market conditions in Seattle, the Company has elected to defer construction of Avalon Madison until economic conditions improve.

In October 2001, the Company redeemed all 4,300,000 outstanding shares of its 8.96% Series G Cumulative Redeemable Preferred Stock at a price of $25.00 per share, plus $0.4418 in accrued and unpaid dividends, for an aggregate redemption price of $25.4418 per share.

In October 2001, the Company announced the suspension of its Dividend Reinvestment and Stock Purchase Plan (the "Plan") until further notice. Accordingly, stockholders can not purchase shares of AvalonBay common stock under the Plan, whether with an optional cash payment or a reinvestment of dividends, until the Company announces that it has resumed the Plan.

ITEM 2. MANAGMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

This Form 10-Q, including the footnotes to our Condensed Consolidated Financial Statements, 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," and other similar expressions in this Form 10-Q, that predict or indicate future events and trends or that do not report historical matters. In addition, information concerning the following are forward-looking statements:

- the timing and cost of completion of apartment communities under construction, reconstruction, development or redevelopment;
- the timing of lease-up and occupancy of apartment communities;
- the pursuit of land on which we are considering future development;
- cost, yield and earnings estimates; and
- the development of management information systems by companies in which we have an investment and our implementation and use of those systems.

We cannot assure the future results or outcome of the matters described in these statements; rather, these statements merely reflect our current expectations of the approximate outcomes of the matters discussed. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to differ materially from the anticipated future results, performance or achievements expressed or implied by these forward-looking statements. Some of the factors that could cause our actual results, performance or achievements to differ materially from those expressed or implied by these forward-looking statements include, but are not limited to, the following:

- we may fail to secure development opportunities due to an inability to reach agreements with third parties or to obtain desired zoning and other local approvals;
- we may abandon or defer development opportunities for a number of reasons, including changes in local market conditions which make development less desirable, increases in costs of development and increases in the cost of capital;
- construction costs of a community may exceed our original estimates;
- we may not complete construction and lease-up of communities under development or redevelopment on schedule, resulting in increased interest expense, construction costs and reduced rental revenues;
- occupancy rates and market rents may be adversely affected by local economic and market conditions which are beyond our control;
- financing may not be available on favorable terms or at all, and our cash flow from operations and access to cost effective capital may be insufficient for the development of our pipeline and could limit our pursuit of opportunities;
- our previous or possible future expansion into new geographic market areas may not produce financial results that are consistent with our historical performance;
- our cash flow may be insufficient to meet required payments of principal and interest, and we may be unable to refinance existing indebtedness or the terms of such refinancing may not be as favorable as the terms of existing indebtedness;
- we may be unsuccessful in managing our current growth in the number of apartment communities; and
- software applications and ancillary services being developed by companies in which we have invested may be unsuccessful in achieving their business plans or unsuccessful in obtaining additional funding, which could lead to a partial or complete loss of the investment in these companies.

You should read our unaudited Condensed Consolidated Financial Statements and notes included in this report and the audited financial statements for the year ended December 31, 2000 and the notes included in our annual report on Form 10-K in conjunction with the following discussion. These forward-looking statements represent our estimates and assumptions only as of the date of this report. We do not undertake to update these forward-looking statements, and you should not rely upon them after the date of this report.

Business Description and Community Information

AvalonBay is a Maryland corporation that has elected to be treated as a real estate investment trust, or REIT, for federal income tax purposes. We focus on the ownership and operation of upscale apartment communities (which generally command among the highest rents in their submarkets) in high barrier-to-entry markets of the United States. This is because we believe that the limited new supply of upscale apartment homes in these markets helps achieve more predictable growth in cash flows. These barriers-to-entry generally include a difficult and lengthy entitlement process with local jurisdictions and dense in-fill locations where zoned and entitled land is in limited supply. These markets are located in the Northeast, Mid-Atlantic, Midwest, Pacific Northwest, and Northern and Southern California regions of the United States.

We are a fully-integrated real estate organization with in-house expertise in the following areas:

- development and redevelopment;
- construction and reconstruction;
- leasing and management;
- acquisition and disposition;
- financing;
- marketing; and
- information technologies.

We believe apartment communities present an attractive investment opportunity compared to other real estate investments because a broad potential resident base results in relatively stable demand during all phases of a real estate cycle. With our expertise and in-house capabilities, we believe we are well-positioned to continue to pursue opportunities to develop and acquire upscale apartment homes in our target markets. Our ability to pursue attractive opportunities, however, may be constrained by capital market conditions that limit the availability of cost effective capital to finance these activities. Given current capital market and transactional related conditions, we are carefully considering the appropriate allocation of capital investment among development and redevelopment communities as well as the acquisition of established communities. We intend to pursue these investments in markets where constraints to new supply exist and where new household formations have out-paced multifamily permit activity in recent years. See "Liquidity and Capital Resources" and "Future Financing and Capital Needs."

Our real estate investments consist primarily of current operating apartment communities, communities in various stages of development, and land or land options held for development. The following is a description of each category:

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

- *Established Communities* (also known as Same Store Communities) are communities where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had stabilized occupancy and costs as of the beginning of the prior year. We determine which of our communities fall into the Established Communities category annually on January 1st of each year and maintain that classification throughout the year. For the year 2001, the Established Communities were communities that had stabilized occupancy and costs as of January 1, 2000. We consider a community to have stabilized occupancy at the earlier of (i) attainment of 95% occupancy or (ii) the one year anniversary of completion of development or redevelopment.

- *Other Stabilized Communities* are all other completed communities that have stabilized occupancy and are not conducting or planning redevelopment activities. Other Stabilized Communities therefore include communities that were either acquired or achieved stabilization after January 1, 2000 and that were not conducting or planning to start redevelopment activities within the current year.

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

- *Redevelopment Communities* are communities where substantial redevelopment is in progress or is planned to take place during the current year. Redevelopment is considered substantial when capital invested during the reconstruction effort exceeds the lesser of $5 million or 10% of the community's acquisition cost.

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

Development Rights are development opportunities in the early phase of the development process, which are usually represented by one of the following: we have an option to acquire land, we are the buyer under a long-term conditional contract to purchase land, or we own land for possible future development of a new community. With few exceptions, we capitalize pre-development costs incurred in pursuit of these new developments.

As of September 30, 2001, our communities were classified as follows:

	Number of communities	**Number of apartment homes**
Current Communities		
Established Communities:		
Northeast	20	5,416
Mid-Atlantic	18	5,297
Midwest	6	1,591
Pacific Northwest	2	486
Northern California	27	7,851
Southern California	11	3,112
Total Established	84	23,753
Other Stabilized Communities:		
Northeast	15	3,958
Mid-Atlantic	2	615
Midwest	3	1,033
Pacific Northwest	9	2,573
Northern California	3	1,038
Southern California	6	1,957
Total Other Stabilized	38	11,174
Lease-Up Communities	1	510
Redevelopment Communities	3	1,917
Total Current Communities	126	37,354
Development Communities	15	3,886
Development Rights	31	9,196

In October, we sold a community containing 57 apartment homes which was combined with an existing current community for reporting purposes. As of November 1, 2001, our 126 apartment home communities consisted of 37,297 apartment homes. Of those communities, we owned:

- a fee simple, or absolute, ownership interest in 103 operating communities, one of which is on land subject to a 149 year land lease;
- a general partnership interest in four partnerships that each own a fee simple interest in an operating community;
- a general partnership interest in four partnerships structured as "DownREITs," as described more fully below, that own an aggregate of 17 communities;
- a 100% interest in a senior participating mortgage note secured by one community, which allows us to share in part of the rental income or resale proceeds of the community; and
- a membership interest in a limited liability company that holds a fee simple interest in one Redevelopment Community.

We also hold a fee simple ownership interest in thirteen of the Development Communities, and membership interests in two separate partnerships that each hold a fee simple interest in a Development Community.

In each of the four 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 distributions 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 approximate the current AvalonBay common stock dividend amount. Each DownREIT partnership has been structured so that it is unlikely the limited partners will be entitled to a distribution greater than the initial distribution provided for in the partnership agreement. The holders of units of limited partnership interest have the right to present each unit of limited partnership interest for redemption for cash equal to the fair market value of a share of AvalonBay common stock on the date of redemption. In lieu of cash, we may elect to acquire any unit presented for redemption for one share of our common stock. As of September 30, 2001, there were 671,083 units outstanding. The DownREIT partnerships are consolidated for financial reporting purposes.

At September 30, 2001, we had positioned our portfolio of Stabilized Communities, excluding communities owned by unconsolidated joint ventures, to an average physical occupancy level of 95.7%. Our strategy is to maximize total rental revenue through management of rental rates and occupancy levels. This strategy of maximizing total rental revenue could lead to lower occupancy levels. We expect that any rental revenue and net income gains that are achieved will be realized through higher rental rates and lower average operating costs as well as from growth in our portfolio from development and acquisition activities. Occupancy in many of our markets has declined from historically high levels in 2000. We expect further declines in occupancy levels as certain markets continue to respond to supply-demand fundamentals.

We elected to be taxed as a REIT for federal income tax purposes for the year ended December 31, 1994 and we have not revoked that election. We were incorporated under the laws of the State of California in 1978, and we were reincorporated in the State of Maryland in July 1995. Our principal executive offices are located at 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia, 22314, and our telephone number at that location is (703) 329-6300. We also maintain regional offices and administrative or specialty offices in or near the following cities:

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

Recent Developments

The terrorist attacks on the World Trade Center and the Pentagon have had an immediate impact on global economic and social conditions. While the future impact of these and related events are unknown, we do not believe that our financial condition or operations will be directly and adversely impacted in a material way other than as relates to any acceleration in the decline in the economy caused by these events. We own interests in a total of 39 apartment communities located in or near, or in submarkets proximate to, New York City and Washington, D.C. that contain approximately 12,277 apartment homes, representing approximately 30% of AvalonBay's total portfolio (including 2,653 homes at 7 communities that are in development or lease-up).

Considering the communities' proximity to these two cities, there is some short-term uncertainty as to the rents that can be achieved at communities that are either in lease-up currently or expected to begin lease-up in the near term. The attacks also could decrease consumer confidence, and the resulting decline in the U.S. and local economies could impact future rent growth. At present, it is not possible to predict either the severity or duration of such declines. Adverse economic conditions could also result in decreased or delayed development of new communities, which could result in decreased earnings growth.

Notwithstanding the above, in the long-term we believe that the real estate fundamentals for the metropolitan New York and Washington, D.C. apartment markets will not be materially impacted by the events of September 11. We expect that assets in these markets will contribute long-term growth and stability to our portfolio, and we remain committed to maintaining a significant investment in these markets.

Sales of Existing Communities. We seek to allocate capital in order to optimize the level of our geographical concentration in selected high barrier-to-entry markets where we believe we can:

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

To effect this optimal concentration, we are selling assets in certain submarkets and intend to redeploy the proceeds from those sales to develop and redevelop communities currently under construction or reconstruction. 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 like-kind exchange transaction. Accordingly, we sold three communities during the three months ended September 30, 2001 containing 1,708 apartment homes for net proceeds of approximately $152,600,000. We intend to dispose of additional assets as described more fully under "Future Financing and Capital Needs."

Development and Redevelopment Activities. During the three months ended September 30, 2001, we completed the development of one community, Avalon at Arlington Square I, located in Arlington, Virginia. This community, containing 510 apartment homes, was completed for a total investment of $69,900,000.

We also commenced the development of three communities during the third quarter of 2001, Avalon at Flanders Hill (located in Westborough, Massachusetts), Avalon New Canaan (located in New Canaan, Connecticut) and Avalon at Arlington Square II (located in Arlington, Virginia). When completed, these communities are expected to contain a total of 716 apartment homes with a projected total investment of $109,500,000.

The development and redevelopment of communities involves risks that the investment will fail to perform in accordance with our expectations. See "Risks of Development and Redevelopment" for our discussion of these and other risks inherent in developing or redeveloping communities.

Results of Operations and Funds From Operations

A comparison of our operating results for the three and nine months ended September 30, 2001 and September 30, 2000 follows (dollars in thousands):

	For the three months ended				For the nine months ended			
	9-30-01	9-30-00	$ Change	% Change	9-30-01	9-30-00	$ Change	% Change
Revenue:								

Rental income	$ 162,822	$ 145,954	$ 16,868	11.6%	$ 480,083	$ 420,371	$ 59,712	14.2%
Management fees	336	261	75	28.7%	985	761	224	29.4%
Other income	111	136	(25)	(18.4)%	317	265	52	19.6%
Total revenue	163,269	146,351	16,918	11.6%	481,385	421,397	59,988	14.2%
Expenses:								
Operating expenses, excluding property taxes	42,205	36,390	5,815	16.0%	122,837	104,860	17,977	17.1%
Property taxes	13,371	12,158	1,213	10.0%	39,081	34,717	4,364	12.6%
Total operating expenses	55,576	48,548	7,028	14.5%	161,918	139,577	22,341	16.0%
Net Operating Income	107,693	97,803	9,890	10.1%	319,467	281,820	37,647	13.4%
Interest expense	26,701	21,385	5,316	24.9%	75,138	61,815	13,323	21.6%
Depreciation expense	32,165	30,599	1,566	5.1%	95,455	91,227	4,228	4.6%
General and administrative	3,421	3,359	62	1.8%	10,969	9,591	1,378	14.4%
Total other expenses	62,287	55,343	6,944	12.5%	181,562	162,633	18,929	11.6%
Equity in income of unconsolidated joint ventures	599	721	(122)	(16.9)%	527	2,117	(1,590)	(75.1)%
Interest income	1,599	1,277	322	25.2%	4,876	3,245	1,631	50.3%
Minority interest of unitholders in consolidated partnerships	(34)	(485)	451	(93.0)%	(522)	(1,499)	977	(65.2)%
Income before gain on sale of communities	47,570	43,973	3,597	8.2%	142,786	123,050	19,736	16.0%
Gain on sale of communities	39,098	14,521	24,577	169.3%	43,999	33,273	10,726	32.2%
Net income	86,668	58,494	28,174	48.2%	186,785	156,323	30,462	19.5%
Preferred dividends	(7,439)	(9,944)	2,505	(25.2)%	(26,771)	(29,834)	3,063	(10.3)%
Net income available to common stockholders	$ 79,229	$ 48,550	$ 30,679	63.2%	$ 160,014	$ 126,489	$ 33,525	26.5%

Net income available to common stockholders increased $30,679,000 (63.2%) to $79,229,000 for the three months ended September 30, 2001 and increased by $33,525,000 (26.5%) to $160,014,000 for the nine months ended September 30, 2001 compared to the same periods of 2000. Excluding separation costs related to the departure of a senior executive and gain on sale of communities, net income available to common stockholders increased by $6,102,000 for the three months ended September 30, 2001 and $25,292,000 for the nine months ended September 30, 2001 compared to the same periods of 2000. These increases in net income, as adjusted, for the three and nine months ended September 30, 2001 are primarily attributable to additional operating income from newly developed and redeveloped communities as well as growth in operating income from Established Communities.

As discussed in “Recent Developments – Sales of Existing Communities” and “Future Financing and Capital Needs,” we funded a portion of our development and redevelopment activities through the sale of assets which do not meet our long-term investment criteria. The short-term effect of a sale of a community is that net operating income will be negatively impacted because that community’s contribution to net operating income has been eliminated and the development or redevelopment community in which the proceeds from the sale are being invested is not yet complete. Interest expense will also decrease as the proceeds from the sale of communities are initially used to repay amounts outstanding on our unsecured credit facility. We believe this strategy will contribute, over time, to increased net operating income because our historical experience has been that net operating income attributable to newly developed and redeveloped communities is higher than net operating income of assets sold or identified for sale.

The increase in net operating income of $37,647,000 for the nine months ended September 30, 2001 as compared to the same period of 2000 is attributable to:

- an increase of $9,462,000 related to communities where development activities, redevelopment activities or acquisitions were completed subsequent to January 1, 2000;
- an increase of $21,119,000 related to Established Communities;
- a decrease of $10,697,000 related to communities sold subsequent to January 1, 2000;
- an increase of $22,343,000 related to all other communities; and
- less $4,580,000 related to an increase in unallocated overhead expense including $2,493,000 of executive separation costs.

Depreciation expense is impacted by the timing of asset sales, acquisitions and completion of development or redevelopment activities. Gain on sale of communities is impacted by the number of assets sold in a given period, the carrying value of those assets, and the local market conditions in which the individual assets are located.

Rental income increased 11.6% for the three months ended and 14.2% for the nine months ended September 30, 2001 primarily due to an increase in the weighted average monthly rental income per occupied apartment home and an increase in the weighted average number of occupied apartment homes.

Overall Portfolio - Rental revenue increased $16,868,000 (11.6%) for the three months ended September 30, 2001 compared to the same period of 2000. Rental revenue increased $59,712,000 (14.2%) for the nine months ended September 30, 2001 compared to the same period of 2000. The weighted average number of occupied apartment homes increased to 34,995 apartment homes for the nine months ended September 30, 2001 from 33,941 apartment homes for the nine months ended September 30, 2000 primarily as a result of development, redevelopment and acquisition of new communities offset by the sale of communities and occupancy declines for our portfolio of Established Communities related to softening conditions in certain of our markets. For the nine months ended September 30, 2001, the weighted average monthly revenue per occupied apartment home increased $148 (10.8%) to $1,523 compared to $1,375 for the same period of 2000, which is primarily attributable to increased rental rates. In addition, the development of new apartment communities with higher average rents and the sale of communities with lower average rents favorably impacted average revenue per home. These newly developed apartment communities were funded in part from the proceeds of communities sold in markets where rental rates are lower.

Established Communities – Rental revenue increased $5,637,000 (5.6%) for the three months ended September 30, 2001 compared to the same period of 2000. Rental revenue increased $26,775,000 (9.1%) for the nine months ended September 30, 2001 compared to the same period of 2000. The increase for the nine months is due to market conditions during the past year that allowed for higher average rents partially offset by lower economic occupancy levels. For the nine months ended September 30, 2001, weighted average monthly revenue per occupied apartment home increased $149 (10.6%) to $1,556 compared to $1,407 for the same period of the preceding year. The average economic occupancy decreased from 97.6% for the nine months ended September 30, 2000 to 96.1% for the nine months ended September 30, 2001.

We have observed increased volatility in certain Northern California sub-markets over the past two years, which accounts for approximately 36.9% of current Established Community rental revenue. While market rental rates increased substantially in 2000, we have experienced reductions in market rental rates in 2001 (18.1% from January to September) as market conditions reset to more sustainable levels. Economic occupancy decreased in the Northern California region from 97.8% for the nine months ended September 30, 2000 to 94.8% for the same period of 2001.

Management fees increased 28.7% for the three months ended and 29.4% for the nine months ended September 30, 2001 primarily due to the formation of the Avalon Terrace joint venture and the management of a new third-party community in connection with the development of a new community.

Operating expenses, excluding property taxes increased 16.0% for the three months ended and 17.1% for the nine months ended September 30, 2001 primarily due to the addition of newly developed, redeveloped and acquired apartment homes, and separation costs of $2,493,000 due to the departure of a senior executive during the first quarter of 2001. Maintenance, insurance and other costs associated with Development and Redevelopment Communities are expensed as communities move from the initial construction and lease-up phase to the stabilized operating phase.

Established Communities - Operating expenses, excluding property taxes increased $1,668,000 (8.7%) to $20,775,000 for the three months ended September 30, 2001 compared to $19,107,000 for the same period of 2000. These expenses increased $5,009,000 (9.2%) to $59,514,000 for the nine months ended September 30, 2001 compared to $54,505,000 for the same period of 2000. These increases are primarily the result of higher insurance, marketing and redecorating costs.

Property taxes increased 10.0% for the three months ended and 12.6% for the nine months ended September 30, 2001 primarily due to the addition of newly developed, redeveloped or acquired apartment homes, partially offset by the sale of communities. Property taxes on Development and Redevelopment Communities are expensed as communities move from the initial construction and lease-up phase to the stabilized operating phase.

Established Communities - Property taxes increased $172,000 (2.0%) to $8,737,000 for the three months ended September 30, 2001 compared to $8,565,000 for the same period of 2000. Property taxes increased $674,000 (2.7%) to $25,654,000 for the nine months ended September 30, 2001 compared to $24,980,000 for the same period of 2000. These increases are primarily due to higher assessments throughout all regions.

Interest expense increased 24.9% for the three months ended and 21.6% for the nine months ended September 30, 2001 primarily due to the issuance of $350,000,000 of unsecured notes during the second half of 2000 and the issuance of $300,000,000 of unsecured notes in September 2001.

Depreciation expense increased 5.1% for the three months ended and 4.6% for the nine months ended September 30, 2001 due to the addition of newly developed, redeveloped and acquired apartment homes, partially offset by the sale of communities.

General and administrative increased 1.8% for the three months ended and 14.4% for the nine months ended September 30, 2001 primarily due to an increase in office personnel and related payroll costs. In addition, there was an increase in compensation expense as costs for certain officers and associates were expensed in the current period but were capitalized a year ago as those officers and associates served the Company in a different capacity.

Equity in income of unconsolidated joint ventures decreased 16.9% for the three months ended and 75.1% for the nine months ended September 30, 2001 primarily due to our pro rata share of net losses from a technology investment accounted for under the equity method as well as a valuation allowance of $934,000 for the nine months ended September 30, 2001 recorded for an investment in a technology company accounted for under the cost method.

Interest income increased 25.2% for the three months ended and 50.3% for the nine months ended September 30, 2001 due to an increase in average cash balances invested.

Gain on sale of communities increased $24,577,000 (169.3%) to $39,098,000 from $14,521,000 for the three months ended September 30, 2001 compared to the same period of the previous year. Gain on sale of communities increased by $10,726,000 (32.2%) to $43,999,000 from $33,273,000 for the nine months ended September 30, 2001 compared to the same periods of 2000. These gains represent the sale of three communities containing an aggregate of 1,708 apartment homes in the third quarter of 2001 and three communities consisting of an aggregate of 708 apartment homes in the same period of 2000. The gains for the nine months ended September 30 represent the sale of four communities containing 1,934 apartment homes in the year 2001 and six communities containing 1,554 apartment homes in the year 2000.

Funds from Operations

We consider Funds from Operations ("FFO") to be an appropriate measure of our operating performance because it helps investors understand our ability to incur and service debt and to make capital expenditures. We believe that to understand our operating results, FFO should be examined with net income as presented in the Condensed Consolidated Statements of Operations and Other Comprehensive Income included elsewhere in this report. FFO is determined based on a definition adopted by the Board of Governors of the National Association of Real Estate Investment Trustsâ, and is defined as:

- net income or loss computed in accordance with generally accepted accounting principles ("GAAP"), except that excluded from net income or loss are gains or losses on sales of property and extraordinary (as defined by GAAP) gains or losses on debt restructuring;
- plus depreciation of real estate assets; and
- after adjustments for unconsolidated partnerships and joint ventures.

FFO does not represent cash generated from operating activities in accordance with GAAP. Therefore it should not be considered an alternative to net income as an indication of our performance. FFO should also 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. Further, FFO as calculated by other REITs may not be comparable to our calculation of FFO.

For the three months ended September 30, 2001, FFO increased to $72,319,000 from $64,498,000 for the same period of 2000. For the nine months ended September 30, 2001, FFO increased to $211,187,000 from $184,082,000 for the same period of 2000. These increases are primarily due to the completion of new Development and Redevelopment Communities as well as growth in earnings from Established Communities.

	For the three months ended (dollars in thousands)		For the nine months ended (dollars in thousands)	
	9-30-01	9-30-00	9-30-01	9-30-00
Net income	$ 86,668	$ 58,494	$ 186,785	$ 156,323
Preferred dividends	(7,439)	(9,944)	(26,771)	(29,834)
Depreciation - real estate assets	31,512	29,830	93,183	88,877
Joint venture adjustments	283	200	813	590
Minority interest expense	393	439	1,176	1,399
Gain on sale of communities	(39,098)	(14,521)	(43,999)	(33,273)
Funds from Operations	$ 72,319	$ 64,498	$ 211,187	$ 184,082
Net cash provided by operating activities	$ 63,694	$ 80,826	$ 235,354	$ 204,267
Net cash used in investing activities	$ (35,748)	$ (60,583)	$ (212,969)	$ (207,643)
Net cash provided by (used in) financing activities	$ 159,278	$ (11,553)	$ 121,774	$ 6,117

Capitalization of Fixed Assets and Community Improvements

Our policy with respect to capital expenditures is generally to capitalize only non-recurring expenditures. We capitalize improvements and upgrades only if the item:

- exceeds $15,000;
- extends the useful life of the asset; and
- is not related to making an apartment home ready for the next resident.

Under this policy, virtually all capitalized costs are non-recurring, as recurring make-ready costs are expensed as incurred. Recurring make-ready costs include the following:

- carpet and appliance replacements;
- floor coverings;
- interior painting; and
- other redecorating costs.

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 purchases of personal property made for replacement purposes. The application of these policies for the nine months ended September 30, 2001 resulted in non-revenue generating capitalized expenditures for Stabilized Communities of approximately $191 per apartment home. For Stabilized Communities, we charged an average of $941 per apartment home to maintenance expense for the nine months ended September 30, 2001, including carpet and appliance replacements. This compares to $114 and $866 per apartment home for capital expenditures and maintenance, respectively, expensed for the comparable period of 2000. We anticipate that capitalized costs per apartment home will gradually increase as the average age of our communities increases.

Liquidity and Capital Resources

Liquidity. The primary source of liquidity is our cash flows from operations. Operating cash flows have historically been determined by:

- the number of apartment homes;
- rental rates;
- occupancy levels; and
- our expenses with respect to these 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 that are charged to us as changes in interest rates affect our decision as to whether to issue debt securities, borrow money and invest in real estate. Thus, changes in the capital markets environment affect our plans for the undertaking of construction and development as well as acquisition activity.

Cash and cash equivalents increased $144,159,000 to $201,393,000 for the nine months ended September 30, 2001 compared to an increase in cash and cash equivalents of $2,741,000 to $10,362,000 for the nine months ended September 30, 2000.

Net cash provided by operating activities totaled $235,354,000 for the nine months ended September 30, 2001, an increase of $31,087,000 provided over the same period of 2000. The increase was primarily attributable to additional operating income from newly developed and redeveloped communities as well as growth in operating income from Established Communities partially offset by the sale of communities.

Net cash used in investing activities totaled $212,969,000 for the nine months ended September 30, 2001, an increase of $5,326,000 used over the same period of 2000. This increase is primarily due to an increase in expenditures in development and redevelopment activity partially offset by an increase in proceeds from the sale of communities.

Net cash provided by financing activities totaled $121,774,000 for the nine months ended September 30, 2001, an increase of $115,657,000 over the same period of 2000. Net cash provided for the nine months ended September 30, 2001 is primarily due to proceeds from the issuance of $300,000,000 of senior notes in September 2001 partially offset by the redemption of our Series F Preferred Stock.

We regularly review our short and long-term liquidity needs and the adequacy of Funds from Operations, as defined above, 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 payments;
- the distributions required with respect to preferred stock;
- the minimum dividend payments required to maintain our REIT qualification under the Internal Revenue Code of 1986;
- opportunities for the acquisition of improved property; and
- development and redevelopment activity in which we are currently engaged.

We anticipate that we can fully satisfy these needs from a combination of cash flows provided by operating activities and capacity under the unsecured credit facility.

One of our principal long-term liquidity needs is the repayment of medium and long-term debt at the time at which such debt matures. We anticipate that no significant portion of the principal of any indebtedness will be repaid prior to maturity. If we do not have funds on hand sufficient to repay our indebtedness, it will be necessary for us to refinance this debt. This refinancing may be accomplished through additional debt financing, which may be collateralized by mortgages on individual communities or groups of communities, by uncollateralized private or public debt offerings or by additional equity offerings. We also anticipate having significant retained cash flow in each year so that when a debt obligation matures, some or all of each maturity can be satisfied from this retained cash. Although we believe we will have the capacity to meet our long-term liquidity needs, we cannot assure you that additional debt financing or debt or equity offerings will be available or, if available, that they will be on terms we consider satisfactory.

Capital Resources. We intend to match the long-term nature of our real estate assets with long-term cost effective capital to the extent permitted by prevailing market conditions. We follow a focused strategy to help facilitate uninterrupted access to capital. This strategy includes:

- hiring, training and retaining associates with a strong resident service focus, which should lead to higher rents, lower turnover and reduced operating costs;
- managing, acquiring and developing upscale communities in dense locations where the availability of zoned and entitled land is limited to provide consistent, sustained earnings growth;

- operating in markets with growing demand, as measured by household formation and job growth, and high barriers-to-entry. We believe these characteristics generally combine to provide a favorable demand-supply balance, which we believe will create a favorable environment for future rental rate growth while protecting existing and new communities from new supply. We expect this strategy to result in a high level of quality to the revenue stream;
- maintaining a conservative capital structure, largely comprised of equity, and with modest, cost-effective leverage. We generally avoid secured debt except in order to obtain low cost, tax-exempt debt. We believe that such a structure should promote an environment whereby current credit ratings levels can be maintained;
- following accounting practices that provide a high level of quality to reported earnings; and
- providing timely, accurate and detailed disclosures to the investment community.

We believe these strategies provide a disciplined approach to capital access to help position AvalonBay to fund portfolio growth.

See "Future Financing and Capital Needs" for a discussion of our view of the current capital markets environment.

Variable Rate Unsecured Credit Facility

Our unsecured revolving credit facility is furnished by a consortium of banks and provides $500,000,000 in short-term credit. Under the terms of the credit facility, the Company has the option of increasing the facility up to $650,000,000. We pay participating banks an annual facility fee of $750,000 in equal quarterly installments. The unsecured credit facility bears interest at varying levels tied to the London Interbank Offered Rate (LIBOR) based on ratings levels achieved on our unsecured notes and on a maturity schedule selected by us. The current stated pricing is LIBOR plus 0.60% per annum (2.9% on November 1, 2001). A competitive bid option is available for borrowings of up to $400,000,000. This option allows banks that are part of the lender consortium to bid to provide us loans at a rate that is lower than the stated pricing provided by the unsecured credit facility. The competitive bid option may result in lower pricing if market conditions allow. Pricing under the competitive bid option resulted in average pricing of LIBOR plus 0.43% for amounts most recently borrowed under the competitive bid option. At November 1, 2001, zero was outstanding, $86,691,000 was used to provide letters of credit and $413,309,000 was available for borrowing under the unsecured credit facility. We intend to use borrowings under the unsecured credit facility for:

- capital expenditures;
- construction, development, reconstruction and redevelopment costs;
- acquisitions;
- credit enhancement for tax-exempt bonds
- short-term financing of maturing long-term debt; and
- working capital purposes.

Interest Rate Protection Agreements

We are not a party to any long-term interest rate agreements, other than interest rate protection and swap agreements on approximately $168,000,000 of our variable rate tax-exempt indebtedness. We intend, however, to evaluate the need for long–term interest rate protection agreements as interest rate market conditions dictate, and we have engaged a consultant to assist in managing our interest rate risks and exposure.

Future Financing and Capital Needs

As of September 30, 2001, we had 15 new communities under construction. Also, one additional community is being built by an unaffiliated third party with whom we have entered into a forward purchase commitment. As of September 30, 2001, a total estimated cost of $459,645,000 remained to be invested in these communities. In addition, we had three other communities under reconstruction, for which an estimated $20,961,000 remained to be invested as of September 30, 2001.

Substantially all of the capital expenditures necessary to complete the communities currently under construction and reconstruction will be funded from:

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

We expect to continue to fund deferred development costs related to future developments from retained operating cash and borrowings under the unsecured credit facility. We believe these sources of capital will be adequate to take the proposed communities to the point in the development cycle where construction can begin. Before planned reconstruction activity or the construction of a Development Right begins, we intend to arrange adequate financing to complete these undertakings, although we cannot assure you that we will be able to obtain such financing. In the event that financing cannot be obtained, we may have to abandon Development Rights, write off associated pursuit costs and/or forego reconstruction activity. In such instances, we will not realize the increased revenues and earnings that we expected from such pursuits, and the related write-off of costs will increase current period expenses.

Our liquidity could be adversely impacted by expanding development activities and/or reduced capital (as compared to prior years) available from asset sales. To meet the balance of our liquidity needs under such conditions, we would need to arrange additional capacity under our existing unsecured credit facility, sell additional existing communities and/or issue additional debt or equity securities. While we believe we have the financial position to expand our short-term credit capacity and support our capital markets activity, we cannot assure you that we will be successful in completing these arrangements, sales or offerings. The failure to complete these transactions on a cost-effective basis could have a material adverse impact on our operating results and financial condition, including the abandonment of deferred development costs and a resulting charge to earnings.

It is our policy to sell assets that do not meet our long-term investment criteria when market conditions are favorable, and redeploy the proceeds. Under our disposition program, we solicit competing bids from unrelated parties for these individual assets and consider the sales price and tax ramifications of each proposal. We intend to actively seek buyers for communities held for sale. However, we cannot assure you that these assets can be sold on terms that we consider satisfactory.

The assets that we have identified for disposition include land, buildings and improvements, and furniture, fixtures and equipment. Total real estate, net of accumulated depreciation, of all communities identified for sale at September 30, 2001 totaled $73,851,000. Certain individual assets are secured by mortgage indebtedness which may be assumed by the purchaser or repaid from our net sales proceeds. Our Condensed Consolidated Statements of Operations and Other Comprehensive Income include net income from these communities of $1,599,000 for the three months ended September 30, 2001 and $3,937,000 for the nine months ended September 30, 2001. Our Condensed Consolidated Statements of Operations and Other Comprehensive Income include net income from these communities of $698,000 for the three months ended September 30, 2000 and $2,208,000 for the nine months ended September 30, 2000.

Because the proceeds from the sale of communities are used initially to reduce borrowings under our unsecured credit facility, the immediate effect of a sale of a community is to have a negative effect on earnings. This is because the yield on a community that is sold exceeds the interest rate on the borrowings that are repaid from the net sale proceeds.

Therefore, changes in the number and timing of dispositions, and the redeployment of the resulting net proceeds, may have a material and adverse effect on our earnings.

We are a member of Constellation Real Technologies LLC, an entity formed by a number of real estate investment trusts and real estate operating companies for the purpose of investing in multi-sector real estate technology opportunities. Our capital commitment to Constellation Real Technologies is $4.0 million. As of September 30, 2001, we have contributed approximately $959,000.

Debt Maturities

The following table details debt maturities for the next five years, excluding the unsecured credit facility:

						(Dollars in thousands)					
	All-In interest rate (1)	Principal maturity date	Balance Outstanding			Scheduled Maturities					
Community			**12-31-00**	**9-30-01**		**2001**	**2002**	**2003**	**2004**	**2005**	**Thereafter**
Tax-Exempt Bonds											
Fixed Rate											
Avalon at Foxchase I	5.88%	Nov-2007	$ 16,800	$ 16,800	(3)	$ --	$ --	$ --	$ --	$ --	$ 16,800
Avalon at Foxchase II	5.88%	Nov-2007	9,600	9,600	(3)	--	--	--	--	--	9,600
Fairway Glen	5.88%	Nov-2007	9,580	9,580	(3)	--	--	--	--	--	9,580
CountryBrook	7.87%	Mar-2012	18,934	18,668		91	386	417	451	488	16,835
Waterford	5.88%	Aug-2014	33,100	33,100	(3)	--	--	--	--	--	33,100
Avalon at Mountain View	5.88%	Mar-2017	18,300	18,300	(3)	--	--	--	--	--	18,300
Avalon at Dulles	7.04%	Jul-2024	12,360	12,360		--	--	--	--	--	12,360
Avalon at Symphony Glen	7.00%	Jul-2024	9,780	9,780		--	--	--	--	--	9,780
Avalon View	7.55%	Aug-2024	18,465	18,205		90	373	397	425	455	16,465
Avalon at Lexington	6.56%	Feb-2025	14,347	14,143		67	288	307	326	347	12,808
Avalon Oaks	6.95%	Feb-2041	--	17,740		71	90	97	104	111	17,267
Avalon at Nob Hill	5.80%	Jun-2025	20,013	19,814	(3)	69	288	308	331	355	18,463
Avalon at Mission Viejo	5.50%	Jun-2025	7,354	7,281	(3)	25	105	112	121	129	6,789
Avalon Campbell	6.48%	Jun-2025	36,981	36,538	(3)	151	637	684	733	786	33,547
Avalon Pacifica	6.48%	Jun-2025	16,775	16,574	(3)	69	289	310	332	356	15,218
Crossbrook	6.48%	Jun-2025	8,156	--	(2)	--	--	--	--	--	--
Avalon Knoll	6.95%	Jun-2026	13,393	13,244		51	214	230	246	263	12,240
Avalon Landing	6.85%	Jun-2026	6,626	6,551		26	108	116	124	132	6,045
Avalon Fields	7.05%	May-2027	11,609	11,494		42	169	180	193	207	10,703
Avalon West	7.73%	Dec-2036	8,579	8,537		15	61	65	70	75	8,251
			290,752	298,309		767	3,008	3,223	3,456	3,704	284,151
Variable Rate											
Avalon Devonshire		Dec-2025	27,305	27,305		--	--	--	--	27,305	
Avalon at Fairway Hills I		Jun-2026	11,500	11,500		--	--	--	--	11,500	
Avalon at Laguna Niguel		Mar-2009	10,400	10,400		--	--	--	--	10,400	
Avalon Greenbriar		May-2026	18,755	18,755		--	--	--	--	18,755	
			67,960	67,960		--	--	--	--		67,960
Conventional Loans											
Fixed Rate											
$100 Million unsecured notes	7.375%	Sep-2002	100,000	100,000		--	100,000	--	--	--	--
$50 Million unsecured notes	6.25%	Jan-2003	50,000	50,000		--	--	50,000	--	--	--
$100 Million unsecured notes	6.50%	Jul-2003	100,000	100,000		--	--	100,000	--	--	--
$125 Million medium-term notes	6.58%	Feb-2004	125,000	125,000		--	--	--	125,000	--	--
$100 Million unsecured notes	6.625%	Jan-2005	100,000	100,000		--	--	--	--	100,000	--
$50 Million unsecured notes	6.50%	Jan-2005	50,000	50,000		--	--	--	--	50,000	--
$150 Million unsecured notes	6.80%	Jul-2006	150,000	150,000		--	--	--	--	--	150,000
$110 Million unsecured notes	6.875%	Dec-2007	110,000	110,000		--	--	--	--	--	110,000
$50 Million unsecured notes	6.625%	Jan-2008	50,000	50,000		--	--	--	--	--	50,000
$150 Million medium-term notes	8.25%	Jul-2008	150,000	150,000		--	--	--	--	--	150,000
$150 Million medium-term notes	7.50%	Aug-2009	150,000	150,000		--	--	--	--	--	150,000
$200 Million medium-term notes	7.50%	Dec-2010	200,000	200,000		--	--	--	--	--	200,000
$300 Million medium-term notes	6.625%	Sep-2011	--	300,000		--	--	--	--	--	300,000
Avalon Redmond Place	7.31%	May-2001	11,042	--		--	--	--	--	--	--
Avalon at Pruneyard	7.25%	May-2004	12,870	12,870		--	--	--	12,870	--	--
Avalon Walk II	8.93%	Aug-2004	12,300	12,106		70	288	315	11,433	--	--
			1,371,212	1,659,976		70	100,288	150,315	149,303	150,000	1,110,000
Variable Rate											
Avalon on the Sound		2002	--	53,218		--	53,218	--	--	--	--
Total indebtedness - excluding unsecured credit facility			$ 1,729,924	$ 2,079,463		$ 837	$ 156,514	$ 153,538	$ 152,759	$ 153,704	$ 1,462,111

(1) Includes credit enhancement fees, facility fees, trustees, etc.
(2) The remaining loan balance was repaid in connection with the disposition of the community during 2001.
(3) Interest rate is effectively fixed through a swap agreement.

Redemption of Preferred Stock

In June 2001, we redeemed all 4,455,000 outstanding shares of our 9.00% Series F Cumulative Redeemable Preferred Stock at a price of $25.00 per share, plus $0.1625 in accrued and unpaid dividends, for an aggregate redemption price of $25.1625 per share. In October 2001, we redeemed all 4,300,000 outstanding shares of our 8.96% Series G Cumulative Redeemable Preferred Stock at a price of $25.00 per share, plus $0.4418 in accrued and unpaid dividends, for an aggregate redemption price of $25.4418 per share. We currently have other series of redeemable preferred stock outstanding sharing an aggregate stated value of $239,192,500. These series become redeemable at our option at various times over the next

seven years. As such series become redeemable, we will evaluate the requirements necessary for such redemptions as well as the cost-effectiveness based on the existing market conditions.

Series	Shares outstanding November 1, 2001	Payable quarterly	Annual rate	Liquidation preference	Non-redeemable prior to
C	2,300,000	March, June, September, December	8.50%	$25	June 20, 2002
D	3,267,700	March, June, September, December	8.00%	$25	December 15, 2002
H	4,000,000	March, June, September, December	8.70%	$25	October 15, 2008

Inflation

Substantially all of our leases are for a term of one year or less. This may enable us to realize increased rents upon renewal of existing leases or the beginning of new leases. Short–term leases generally minimize our risk from the adverse effects of inflation, although these leases generally permit residents to leave at the end of the lease term without penalty. We believe that short-term leases, combined with relatively consistent demand, results in rents and cash flow which provide an attractive inflation hedge.

Natural Disasters

Many of our West Coast communities are located in the general vicinity of active earthquake faults. In July 1998, we obtained a seismic risk analysis from an engineering firm which estimated the probable maximum loss ("PML") for each of the 60 West Coast communities that we owned at that time and for each of the five West Coast communities under development at that time. To establish a PML, the engineers define a severe earthquake event for the applicable geographic area. The PML is the building damage and business interruption loss that is estimated to have only a 10% probability of being exceeded in a fifty-year period in the event of such an earthquake. Because a significant number of our communities are located in the San Francisco Bay Area, the engineers' analysis assumed an earthquake on the Hayward Fault with a Richter Scale magnitude of 7.1. Based on this earthquake scenario, the engineers determined the PML at that time to be $113,000,000 for the 60 West Coast communities that we owned at that time and the five West Coast communities then under development. The actual aggregate PML could be higher or lower as a result of variations in soil classifications and structural vulnerabilities. For each community, the engineers' analysis calculated an individual PML as a percentage of the community's replacement cost and projected revenues. We cannot assure you that:

- an earthquake would not cause damage or losses greater than the PML assessments indicate;
- future PML levels will not be higher than the current PML levels described above for our communities located on the West Coast; or
- acquisitions or developments after July 1998 will not have PML assessments indicating the possibility of greater damage or losses than currently indicated.

We are currently completing a new PML analysis which we expect to be complete before the end of the year.

In November 2001, we renewed our earthquake insurance. For any single occurrence, and in the aggregate, we have in place with respect to communities located in California, $67,000,000 of coverage with a five percent deductible. The five percent deductible is subject to a minimum of $100,000 per occurrence. Earthquake coverage outside of California, with the exception of Washington State, is subject to a $100,000,000 limit and a $100,000 deductible per occurrence. In addition, up to an aggregate of $2,000,000, the next $400,000 of loss per occurrence will be treated as an additional deductible. Coverage in Washington State is subject to a $65,000,000 limit, with the same deductible. Our general liability and property insurance program provides coverage for public liability and fire damage. In the event an uninsured disaster or a loss in excess of insured limits were to occur, 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

We have noted that the insurance and reinsurance markets have worsened as compared to the prior year, which we believe will result in higher insurance costs for the entire real estate sector. The impact of the terrorist attacks on the World Trade Center and the Pentagon on September 11, 2001 have further deteriorated these markets.

Our annual general liability policy was renewed on August 1, 2001, and our property coverage was renewed on November 1, 2001. While the insurance coverage provided for in the renewal policies has not materially changed from the preceding year, the level of our deductible and premiums costs have increased significantly. We expect that our insurance costs will increase by approximately $9.2 million (of which $4 million is for the primary layer of property coverage) including the cost of deductible allocations, which represents uninsured losses that previously would have been covered by insurance. The remaining $5.2 million increase is for the upper layers of property coverage and casualty coverage.

Development Communities

As of September 30, 2001, we had 15 Development Communities under construction. We expect these Development Communities, when completed, to add a total of 3,886 apartment homes to our portfolio for a total capitalized cost, including land acquisition costs, of approximately $765,700,000. Statements regarding the future development or performance of the Development Communities are forward-looking statements. We cannot assure you that:

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

You should carefully review the discussion under "Risks of Development and Redevelopment" on the following page.

We hold a fee simple ownership interest in thirteen of the Development Communities, and membership interests in two separate partnerships that each hold a fee simple interest in a Development Community.

The following table presents a summary of the Development Communities:

	Number of apartment homes	Budgeted cost (1) ($ millions)	Construction start	Initial occupancy (2)	Estimated completion date	Estimated stabilization date (3)
1. Avalon at Edgewater *Edgewater, NJ*	408	$75.6	Q3 1999	Q2 2001	Q2 2002	Q4 2002
2. Avalon on the Sound (4) *New Rochelle, NY*	412	$92.1	Q4 1999	Q2 2001	Q4 2001	Q3 2002

	Number of apartment homes	Total budgeted cost (1)	Construction start	Initial occupancy (2)	Estimated completion	Estimated stabilization (3)
3. Avalon at Freehold *Freehold, NJ*	296	$33.1	Q2 2000	Q3 2001	Q1 2002	Q3 2002
4. Avalon Harbor *Stamford, CT*	323	$60.7	Q3 2000	Q1 2002	Q4 2002	Q2 2003
5. Avalon Belltown *Seattle, WA*	100	$19.2	Q3 2000	Q3 2001	Q4 2001	Q3 2002
6. Avalon Towers on the Peninsula *Mountain View, CA*	211	$65.9	Q3 2000	Q1 2002	Q2 2002	Q4 2002
7. Avalon at Cahill Park *San Jose, CA*	218	$50.5	Q4 2000	Q1 2002	Q3 2002	Q1 2003
8. Avalon Riverview I *Long Island City, NY*	372	$102.5	Q4 2000	Q2 2002	Q4 2002	Q2 2003
9. Avalon at Mission Bay North *San Francisco, CA*	250	$79.5	Q1 2001	Q4 2002	Q1 2003	Q3 2003
10. Avalon Oaks West *Wilmington, MA*	120	$17.7	Q1 2001	Q4 2001	Q2 2002	Q4 2002
11. Avalon Ledges *Weymouth, MA*	304	$37.7	Q2 2001	Q2 2002	Q1 2003	Q3 2003
12. Avalon Orchards *Marlborough, MA*	156	$21.7	Q2 2001	Q1 2002	Q4 2002	Q2 2003
13. Avalon at Arlington Square II *Arlington, VA*	332	$43.9	Q3 2001	Q3 2002	Q1 2003	Q3 2003
14. Avalon at Flanders Hill *Westborough, MA*	280	$38.4	Q3 2001	Q3 2002	Q2 2003	Q4 2003
15. Avalon New Canaan (5) *New Canaan, CT*	104	$27.2	Q3 2001	Q3 2002	Q4 2002	Q2 2003
Subtotal	3,886	$765.7				

(1) Total budgeted cost includes all capitalized costs projected to be incurred to develop the respective Development Community, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees determined in accordance with GAAP.
(2) Future initial occupancy dates are estimates.
(3) Stabilized operations is defined as the first full quarter of 95% or greater occupancy after completion of construction.
(4) This community is being developed under a joint venture structure and the joint venture entity (a limited liability company) has obtained third-party debt financing. Our equity funding of the total budgeted costs is expected to be $13.3 million.
(5) The land for this community is currently owned by Town Close Associates Limited Partnership in which the Company is a majority partner. It is currently anticipated that the land seller will retain a minority limited partner interest. The costs reflected above are net of construction and management fees due to AvalonBay.

Redevelopment Communities

As of September 30, 2001 we had three communities under redevelopment. We expect the total budgeted cost to complete these Redevelopment Communities, including the cost of acquisition and redevelopment, to be approximately $290,800,000, of which approximately $64,100,000 is the additional capital invested or expected to be invested above the original purchase cost. Statements regarding the future redevelopment or performance of the Redevelopment Communities are forward-looking statements. We have found that the cost to redevelop an existing apartment community is more difficult to budget than the cost to develop a new community. Accordingly, we expect that actual costs may vary from budget by a wider range than for a new development community. We cannot assure you that we will meet our schedules for redevelopment completion, or that we will meet our budgeted costs, either individually or in the aggregate. See the discussion under "Risks of Development and Redevelopment" below.

The following presents a summary of Redevelopment Communities:

	Number of apartment homes	**Acquisition cost**	**Budgeted Cost ($ millions)** **Total cost (1)**	**Reconstruction**	**Reconstruction**	**Estimated restabilized operations**
1. Avalon at Media Center *Burbank, CA*	748	$55.3	$75.3	Q1 2000	Q1 2002	Q2 2002
2. Avalon at Prudential Center *Boston, MA*	781	$133.9	$154.5	Q4 2000	Q4 2002	Q2 2003
3. Avalon Terrace (4) *Stamford, CT*	388	$37.5	$61.0	Q4 2000	Q2 2002	Q4 2002
Total	1,917	$226.7	$290.8			

(1) Total budgeted cost includes all capitalized costs projected to be incurred to redevelop the respective Redevelopment Community, including costs to acquire the community, reconstruction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated redevelopment overhead and other regulatory fees determined in accordance with GAAP.
(2) Reconstruction completion dates are estimates.
(3) Restabilized operations is defined as the first full quarter of 95% or greater occupancy after completion of reconstruction.
(4) This community is being redeveloped in a joint venture structure with third party financing. Our portion of the total cost for this unconsolidated joint venture is projected to be $9.6 million after project based debt.

Development Rights

As of September 30, 2001, we are considering the development of 31 new apartment communities. These Development Rights range from land owned or under contract for which design and architectural planning has just begun to land under contract or owned by us with completed site plans and drawings where construction can begin almost immediately. We estimate that the successful completion of all of these communities would ultimately add 9,196 upscale apartment homes to our portfolio. At September 30, 2001, the cumulative capitalized cost incurred in pursuit of the 31 Development Rights, including the cost of land acquired in connection with seven of the Development Rights,

was approximately $79,400,000, of which $55,700,000 was the cost of land. Substantially all of these apartment homes will offer features like those offered by the communities we currently own.

We generally hold Development Rights through options to acquire land. The properties comprising the Development Rights are in different stages of the due diligence and regulatory approval process. The decisions as to which of the Development Rights to pursue, if any, or to continue to pursue once an investment in a Development Right is made are business judgments that we make after we perform financial, demographic and/or other analyses. We will consider the use of debt as well as other financing structures to finance the development of these Development Rights scheduled to start construction after October 1, 2001. Although the development of any particular Development Right cannot be assured, we believe that the Development Rights, in the aggregate, present attractive potential opportunities for future development and growth of our FFO.

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

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

The following presents a summary of the 31 Development Rights we are currently pursuing:

	Location		Estimated number of homes	Total budgeted costs ($ millions)
1.	North Bethesda, MD		386	$ 46
2.	Washington, D.C.	(1)	203	50
3.	North Bethesda, MD		499	85
4.	Darien, CT	(1)	189	39
5.	Wilton, CT		113	24
6.	Glendale, CA		223	49
7.	Newton, MA		294	58
8.	Lawrence, NJ		312	43
9.	Danbury, CT		253	36
10.	Seattle, WA	(1)	154	50
11.	Coram, NY		450	65
12.	Los Angeles, CA	(1)	309	59
13.	Kirkland, WA		215	50
14.	Oakland, CA	(1)	180	40
15.	Orange, CT	(1)	168	21
16.	Bellevue, WA		349	63
17.	Glen Cove, NY		256	71
18.	Hingham, MA		270	44
19.	Bedford, MA		139	21
20.	North Potomac, MD		520	61
21.	New Rochelle, NY Phase II and III		588	144
22.	Washington, D.C.	(1)	144	30
23.	Cohasset, MA		240	38
24.	Stratford, CT		146	18
25.	Milford, CT		284	35
26.	Long Island City, NY Phase II and III		539	162
27.	Greenburgh, NY Phase II and III		766	139
28.	Andover, MA		136	21
29.	San Francisco, CA		303	106
30.	Hopewell, NJ Phase I		280	40
31.	Hopewell, NJ Phase II		288	43
	Totals		9,196	$ 1,751

(1) Company owns land, but construction has not yet begun.

Risks of Development and Redevelopment

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

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

The occurrence of any of the events described above could adversely affect our ability to achieve our projected yields on communities under development or redevelopment and could affect our payment of distributions to our stockholders.

Construction costs are projected by us based on market conditions prevailing in the community's market at the time our budgets are prepared and reflect changes to those market conditions that we anticipated at that time. Although we attempt to anticipate changes in market conditions, we cannot predict with certainty what those changes will be. Total

budgeted cost includes all capitalized costs projected to be incurred to develop the respective Development or Redevelopment Community, including:

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

We believe that we could experience increases in construction costs with respect to development communities resulting in total construction costs that exceed original budgets. Likewise, 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 that market rents in effect at the time new development communities or redeveloped communities complete lease-up will be sufficient to either fully offset the effects of any increased construction or reconstruction costs or to achieve the original projected yields for these communities (i.e., return on invested capital).

Capitalized Interest

In accordance with GAAP, we capitalize interest expense during construction or reconstruction until a building obtains a certificate of occupancy. Interest that is incurred thereafter and allocated to a completed apartment home within the community is expensed. Capitalized interest totaled $7,221,000 for the three months ended September 30, 2001 and $19,340,000 for the nine months ended September 30, 2001. Capitalized interest totaled $5,255,000 for the three months ended September 30, 2000 and $12,912,000 for the nine months ended September 30, 2000.

Part I. FINANCIAL INFORMATION (continued)

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes to our exposures to market risk since December 31, 2000.

Part II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in certain ordinary routine litigation incidental to the conduct of our business. In addition, as reported in the Company's Form 10-K for the year ended December 31, 1999, we are currently involved in litigation with York Hunter Construction, Inc., and National Union Fire Insurance Company. While the outcome of such litigation cannot be predicted with certainty, we do not expect any current litigation, including the litigation with York Hunter and National Union, to have a material effect on our business or financial condition.

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.		Description
1.1	--	Distribution Agreement, dated December 21, 1998, among the Company and the Agents, including Administrative Procedures, relating to the Company's medium-term notes. (Incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed on December 21, 1998.)
1.2	--	First Amendment, dated as of June 27, 2000, to Distribution Agreement, dated December 21, 1998, among the Company and the Agents. (Incorporated by reference to Exhibit 1.2 to the Company's Current Report on Form 8-K filed on July 11, 2000.)
1.3	--	Second Amendment, dated as of August 31, 2001, to the Distribution Agreement, dated December 21, 1998, by and among the Company and the Agents named therein. (Incorporated by reference to Exhibit 1.3 to the Company's Current Report on Form 8-K filed on September 5, 2001.)
3(i).1	--	Articles of Amendment and Restatement of Articles of Incorporation of AvalonBay Communities (the "Company"), dated as of June 4, 1998. (Incorporated by reference to Exhibit 3(i).1 to Form 10-Q of the Company filed August 14, 1998.)

3(i).2	--	Articles of Amendment, dated as of October 2, 1998. (Incorporated by reference to Exhibit 3.1(ii) to Form 8-K of the Company filed on October 6, 1998.)
3(i).3	--	Articles Supplementary, dated as of October 13, 1998, relating to the 8.70% Series H Cumulative Redeemable Preferred Stock. (Incorporated by reference to Exhibit 1 to Form 8-A of the Company filed October 14, 1998.)
3(ii).1	--	Bylaws of the Company, as amended and restated, dated as of July 24, 1998. (Incorporated by reference to Exhibit 3(ii).1 to Form 10-Q of the Company filed August 14, 1998.)
3(ii).2	--	Amendment to Bylaws of the Company, dated February 10, 1999. (Incorporated by reference to Exhibit 3(ii).2 to Form 10-K of the Company filed March 31, 1999.)
3(ii).3	--	Amendment to Bylaws of the Company, dated May 5, 1999. (Incorporated by reference to Exhibit 3(ii).3 to Form 10-Q of the Company filed on August 16, 1999.)
4.1	--	Indenture of Avalon Properties, Inc. (hereinafter referred to as "Avalon Properties") dated as of September 18, 1995. (Incorporated by reference to Form 8-K of Avalon Properties dated September 18, 1995.)
4.2	--	First Supplemental Indenture of Avalon Properties dated as of September 18, 1995. (Incorporated by reference to Avalon Properties' Current Report on Form 8-K dated September 18, 1995.)
4.3	--	Second Supplemental Indenture of Avalon Properties dated as of December 16, 1997. (Incorporated by reference to Avalon Properties' Current Report on Form 8-K filed January 26, 1998.)
4.4	--	Third Supplemental Indenture of Avalon Properties dated as of January 22, 1998. (Incorporated by reference to Avalon Properties' Current Report on Form 8-K filed on January 26, 1998.)
4.5	--	Indenture, dated as of January 16, 1998, between the Company and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to Exhibit 4.1 to Form 8-K of the Company filed on January 21, 1998.)
4.6	--	First Supplemental Indenture, dated as of January 20, 1998, between the Company and the Trustee. (Incorporated by reference to Exhibit 4.2 to Form 8-K of the Company filed on January 21, 1998.)
4.7	--	Second Supplemental Indenture, dated as of July 7, 1998, between the Company and the Trustee. (Incorporated by reference to Exhibit 4.2 to Form 8-K of the Company filed on July 9, 1998.)
4.8	--	Third Supplemental Indenture, dated as of December 21, 1998 between the Company and the Trustee, including forms of Floating Rate Note and Fixed Rate Note (Incorporated by reference to Exhibit 4.4 to Form 8-K filed on December 21, 1998.)
4.9	--	Amended and Restated Third Supplemental Indenture, dated as of July 10, 2000 between the Company and the Trustee, including forms of Floating Rate Note and Fixed Rate Note. (Incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed on July 11, 2000.)

4.10	--	Dividend Reinvestment and Stock Purchase Plan of the Company filed on September 14, 1999. (Incorporated by reference to Form 3-S of the Company, File No. 333-87063.)
4.11	--	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.)
4.12	--	Shareholder Rights Agreement, dated as of March 9, 1998 (the "Rights Agreement"), between the Company and First Union National Bank (as successor to American Stock Transfer and Trust Company) as Rights Agent (including the form of Rights Certificate as Exhibit B). (Incorporated by reference to Exhibit 4.1 to Form 8-A of the Company filed March 11, 1998.)
4.13	--	Amendment No. 1 to the Rights Agreement, dated as of February 28, 2000, between the Company and the Rights Agent. (Incorporated by reference to Exhibit 4.2 of Form 8-A/A of the Company filed February 28, 2000.)
†10.1	--	Employment Agreement, dated as of September 10, 2001, between the Company and Leo S. Horey. (Filed herewith.)
†12.1	--	Statements re: Computation of Ratios.

(b) Reports on Form 8-K

On September 5, 2001, the Company filed a Report on Form 8-K to disclose that the Company filed a prospectus supplement to the prospectus contained in its Registration Statement on Form S-3 (File No. 333-57888), which was declared effective by the Securities and Exchange Commission on April 11, 2001, relating to the offering from time to time of medium-term notes in an aggregate principal amount of up to $750,000,000. In connection with the filing of the prospectus supplement, the Company amended the Distribution Agreement, dated December 21, 1998, by and among the Company and the Agents identified therein, as previously amended on June 27, 2000, to effect a change in the Agents involved in the distribution of the medium-term notes.

On September 28, 2001, the Company filed a Report on Form 8-K to disclose that it published and mailed notice of its intention to redeem all outstanding shares of its 8.96% Series G Cumulative Redeemable Preferred Stock (the "Series G Preferred Stock") on October 26, 2001 at a price of $25.00 per share, plus $0.4418 in accrued and unpaid dividends to the redemption date, for an aggregate redemption price of $25.4418 per share of Series G Preferred Stock

† filed herewith

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: November 14, 2001

/S/ Thomas J. Sargeant

Thomas J. Sargeant
Executive Vice President,
Chief Financial Officer and Treasurer
(Duly Authorized Officer and Principal
Financial and Accounting Officer)

Exhibit 10.1

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 12.1

AVALONBAY COMMUNITIES, INC.
RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

	Nine Months Ended September 30, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997	Year Ended December 31, 1996
Net Operating Income	$ 186,785	$ 210,604	$ 172,276	$ 123,535	$ 64,916	$ 51,651
(Less) Nonrecurring item:						
Gain on sale	$ (43,999)	$ (40,779)	$ (47,093)	$ (25,270)	$ (677)	$ (7,850)
Non-recurring charges	-	-	16,782	-	-	-
(Plus) Extraordinary item:						
Unamortized loan fee write-off	$ -	$ -	$ -	$ 245	$ 1,183	$ 2,356
(Plus) Fixed charges:						
Portion of rents representative of the interest factor	$ 109	$ 461	$ 526	$ 293	$ 172	$ 150
Interest expense	75,138	83,609	74,699	54,650	16,977	9,545
Interest capitalized	19,340	18,328	21,888	14,724	9,024	12,883
Debt cost amortization	2,729	2,924	2,624	2,068	700	1,842
Preferred dividend	26,771	39,779	39,779	28,132	19,656	10,422
Total fixed charges (1)	$ 124,087	$ 145,101	$ 139,516	$ 99,867	$ 46,529	$ 34,842
(Less):						
Interest capitalized	$ 19,340	$ 18,328	$ 21,888	$ 14,724	$ 9,024	$ 12,883
Preferred dividend	26,771	39,779	39,779	28,132	19,656	10,422
Adjusted earnings (2)	$ 220,762	$ 256,819	$ 219,814	$ 155,521	$ 83,271	$ 57,694
Ratio (2 divided by 1)	1.78	1.77	1.58	1.56	1.79	1.66

AVALONBAY COMMUNITIES, INC.
RATIOS OF EARNINGS TO FIXED CHARGES

	Six Months Ended June 30, 2001	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997	Year Ended December 31, 1996
Net Operating Income	$ 186,785	$ 210,604	$ 172,276	$ 123,535	$ 64,916	$ 51,651
(Less) Nonrecurring item:						
Gain on sale	$ (43,999)	$ (40,779)	$ (47,093)	$ (25,270)	$ (677)	$ (7,850)
Non-recurring charges	-	-	16,782	-	-	-
(Plus) Extraordinary item:						
Unamortized loan fee write-off	$ -	$ -	$ -	$ 245	$ 1,183	$ 2,356
(Plus) Fixed charges:						
Portion of rents representative of the interest factor	$ 109	$ 461	$ 526	$ 293	$ 172	$ 150
Interest expense	75,138	83,609	74,699	54,650	16,977	9,545
Interest capitalized	19,340	18,328	21,888	14,724	9,024	12,883
Debt cost amortization	2,729	2,924	2,624	2,068	700	1,842
Total fixed charges (1)	$ 97,316	$ 105,322	$ 99,737	$ 71,735	$ 26,873	$ 24,420
(Less):						
Interest capitalized	$ 19,340	$ 18,328	$ 21,888	$ 14,724	$ 9,024	$ 12,883
Adjusted earnings (2)	$ 220,762	$ 256,819	$ 219,814	$ 155,521	$ 83,271	$ 57,694
Ratio (2 divided by 1)	2.27	2.44	2.20	2.17	3.10	2.36