

*AvalonBay*

# *& Beyond*

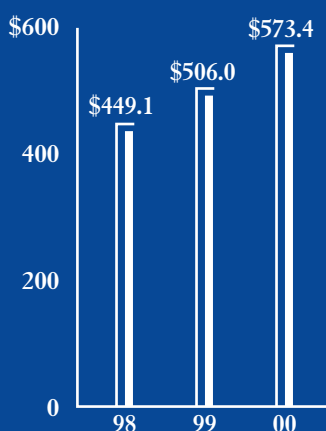
*Annual Report*



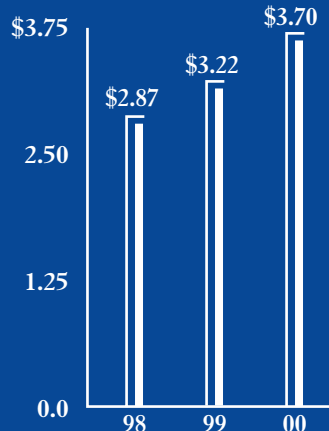
AvalonBay Communities, Inc., is in the business of developing, redeveloping, acquiring and managing luxury apartment communities in high barrier-to-entry markets of the United States. At March 1, 2001, the Company owned or held an ownership interest in 138 apartment communities containing 40,740 apartment homes in 12 states and the District of Columbia, of which 12 communities are under construction and four communities are under reconstruction. More information may be found on our Web site at [www.avalonbay.com](http://www.avalonbay.com).



Revenue<sup>(1)</sup>  
(in millions)



FFO/Share Growth  
3-year average  
FFO Growth per share is 14.7%



Dividend Growth



1. 1998 Revenues are on a pro forma basis as if the merger of the Company and Avalon Properties, Inc. occurred on 1/1/98.

“ If we were to invent from the ground up an apartment REIT that is most fitted for today’s environment, it would look *a lot like AvalonBay!* ”

—Lehman Brothers Report, September 18, 2000



*A letter*

To

**We had a great year!** During 2000, AvalonBay Communities expanded its industry leadership position by providing our residents a high-quality living experience, implementing a carefully considered strategic plan and accelerating earnings growth. We proudly look back on 2000 as a year in which we:

- Delivered the best total shareholder return of all our apartment REIT peers;
- Increased our presence in core, high barrier-to-entry growth markets;
- Improved our industry leading financial flexibility through successful self-funding initiatives;
- Continued to sharpen and evolve our strategy; and
- Implemented management succession to ensure our long-term competitiveness.

We now seek to build on these achievements as we pursue our goal of becoming an “evergreen” public company. As reflected by our enhanced market valuation, the Company’s performance was recognized and rewarded by the financial markets. While REITs in general found renewed favor with investors, AvalonBay’s total return for stockholders of 53 percent in 2000 placed us at the head of the pack among both multifamily REITs and REITs as a whole.

We believe the Company’s success this past year is a result of our allegiance to a proven, forward-looking strategy that has positioned the Company squarely in the path of opportunity. As a fully integrated real estate organization with local, knowledgeable teams in each of our targeted markets, we are able to find, secure and successfully execute development opportunities. Our professionals are deeply embedded in their communities, a factor which often gives us the first look at new development sites, facilitates development approvals, and helps ensure successful completion of development and redevelopment programs.

**Sector-Leading Financial Performance** The Company’s Funds From Operations (FFO) per share in 2000 was \$3.70, a 14.9 percent increase over 1999. We experienced strong growth in rental revenues, as same store rents increased by approximately eight percent. We operated our same store portfolio at 97.7 percent economic occupancy. Same store net operating income (NOI) increased by 10.7 percent. Over the past five years, the combined Company (Avalon Properties and Bay Apartments) has achieved average annual same store sales NOI growth of 7.8 percent. These results demonstrate our ability to provide a quality living experience that produces premium rents and consistently high occupancy levels.

We also benefited from the lease-up of new and redeveloped communities that came on line during the past two years. Earnings from these communities more than offset the earnings forgone on assets sold, while providing strong growth in our net asset value.

While we continued to increase our common stock dividend, the Company’s payout ratio continued to decline to 60.5 percent of FFO versus 64.0 percent a year ago. In doing so, we are able to protect the security of the dividend while retaining approximately \$90 million in cash. Our Board of Directors recently approved a 14.3 percent increase in our first quarter 2001 common stock dividend. This increase reflects our strong earnings growth over the past several years, and we expect double digit dividend growth to continue for the next several years.



Avalon at Cameron Court, Alexandria, VA

# Our Stockholders

**Increased Presence in Core Markets** In 2000, we delivered industry-leading value creation with development programs that achieved initial year yields averaging approximately 11 percent. We completed six development communities, containing more than 1,200 apartment homes, at a total capital cost of \$175 million. Examples of new communities that portray our suburban and urban infill strategies include Avalon Essex, a suburban apartment home community located near employment and retail centers on Boston's North Shore, and Avalon on the Alameda, an apartment home community with on-site retailers located in downtown San Jose.



Villa Serena, Rancho Santa Margarita, CA

During the year, we started construction on six communities with 1,520 apartment homes, representing a projected total capital investment of \$322 million. We also began four community redevelopment programs with an incremental investment of \$73.5 million. These investments will restore tired or neglected apartment communities that we acquired in excellent locations and create value in markets where development opportunities are difficult to find and underwrite.

We will continue to capitalize on AvalonBay's development expertise with a very active pipeline for 2001. We expect to complete construction of six new communities containing more than 1,800 apartment homes with a total investment of \$286 million. Our promising new communities include urban high-rises in New York City, San

Francisco, Seattle and Washington, D.C. Additionally, we ended 2000 with land under contract and entitlements underway to develop 33 communities containing more than 9,000 apartment homes.

During 2000, we sold eight communities, exiting four non-core markets and selling older, under-performing assets in several core markets. The \$124 million in net proceeds from these transactions have been reinvested in new or redeveloped communities that create industry leading net asset value growth, as the yields on new investment exceeds the cap rates of communities sold by 250-300 basis points.

**Solid Capital Structure** Critical to the Company's success over the past several years has been a conservative, yet flexible, capital structure. We have learned to "live within our means" by relying primarily on a self-funding strategy to create shareholder value without accessing outside equity capital. Our asset sales, carefully executed unsecured debt offerings, and internally generated cash of approximately \$90 million in 2000, combined with a measured development pipeline, provide us significant control over our capital requirements.

To complement the cash generated by our asset sales, as well as the availability of the Company's \$600 million unsecured credit line, we raised \$350 million through the sale of unsecured medium term debt during the year. We maintained a favorable average interest rate of 7.0 percent, and at year-end the average years-to-maturity on our debt was 8.8 years. The range of our debt maturity over the next five years is between \$100 million in 2002 and \$150 million in 2006. The Company's fixed charge coverage ratio—which reflects our ability to

## *At AvalonBay, our purpose is to*

fund interest expense and preferred dividends through cash flow—was 3.2x, one of the highest in the sector. Our financing strategies have served both our debt and equity investors well, as we have maintained high investment grade ratings during the capital constrained environment of the past three years.

**Sharpening Our Strategy** During 2000, we further refined the focus on targeted high barrier-to-entry markets, which has been an enduring tenet of the Company's strategy for more than two decades. As a result of this more precise focus on those markets that exhibit the best long-term demand and supply fundamentals, we chose to exit the markets of Philadelphia, Richmond, Norfolk and Sacramento.

We are now operating in 19 key markets throughout the country. We believe their strong economic outlook and consistency of growth provide us reasonable protection during market cycles. In addition, these markets are typically characterized by entitlement and development approval hurdles that discourage competition and mitigate the likelihood of an oversupply of apartments.

While we are delighted with our success in 2000, our focus now is on meeting the challenges of the coming years and on analyzing new opportunities. As a result, we have been working on an updated strategic plan that addresses what we believe are important emerging market trends.

Perhaps the most important of these are the changing demographics and increasing segmentation of our customer. In addition to our core segment of professional singles and couples, we are addressing the growing sector of empty-nesters who, for lifestyle reasons, are selling their homes and choosing apartment living. While we believe the high quality living experience found in our communities is suited to address this increasingly diverse marketplace, we recognize the need to be responsive to emerging segmentation and are studying a broader range of offerings, including a wider array of floor plans and niche-targeted communities, amenities and services.

Deploying new technology will also play an integral role in the Company's evolution by helping us further improve returns on our real estate investments and raise our customer service to a higher level. While we do not view technology as a panacea, we do see it as a complementary tool we can use to help us work faster, smarter and more efficiently.

A key initiative in this area is Realeum, Inc. ("Realeum"), a venture we created with other leading REITs to develop web-based operating solutions. Because of the opportunity for and viability of the offering, this industry-backed initiative received outside venture funding, in essence creating a separate commercial company in which AvalonBay maintains a minority interest. Realeum's core offering is Realeum Foundation, formally known as Project Javalon. Key elements will include onsite management tools, apartment revenue optimization capabilities and web-based marketing and leasing features that are designed to manage our resident relationships from prospecting through move-out.

**Strengthening Our Management Team** To ensure the effective implementation of our new strategy and as part of our ongoing succession planning, in February 2001 AvalonBay promoted Bryce Blair, a 16-year veteran of the Company and our President and Chief Operating Officer, to the positions of President and Chief Executive Officer, while Dick Michaux will serve as Executive Chairman of the Board. Bryce has played an integral role in our growth and is leading the development and implementation of our evolving strategic

# *“Enhance the Lives of Our Residents.”*

initiatives. As part of this transition, Tim Naughton was promoted from Chief Investment Officer to Chief Operating Officer, while Sam Fuller was promoted to Executive Vice President of Development and Construction and Leo Horey was promoted to Senior Vice President of Property Operations. All three of these executives have ten or more years of experience with the Company. The fact that we have been able to promote four AvalonBay veterans to such important positions is a testament to the strength and depth of our organization.

With regret, we announced that Bob Slater, Executive Vice President of Property Operations, will be leaving the Company. Through his vision, Bob built one of the finest property management operations in the country at AvalonBay, garnering many awards and accolades. He will be missed for this leadership and the camaraderie he fostered among all of us.

The Company also strengthened its management team through continued efforts to build and enhance key functional areas. By adding talented executives in areas such as marketing, legal, human resources, market research and technology, we maximize the benefits of a centralized support structure that services our “local sharpshooters,” who implement property management, development and construction efforts in our regional office.

**A Promising Future** The strategic undertakings we have outlined are designed to enhance AvalonBay’s resident-focused industry leadership position. Our core market strategy, locally based development, construction and property management expertise, and investment in our support infrastructure, together further our goal of providing a high quality living environment for residents and maximizing return for stockholders. As we indicated in the guidance we issued at the end of 2000, we are anticipating 2001 will be another year of solid performance driven by favorable demand/supply characteristics in our markets and the efforts of our resident-focused associates.

We want to recognize the more than 1,600 members of Avalon Bay’s team who produced such excellent results in 2000. We believe they provide the foundation and commitment necessary to achieve even greater accomplishments in the coming years and to realize the Company’s promising future.



In closing, we also want to acknowledge the contributions of Gilbert “Mike” Meyer, who retired as Executive Chairman of the Company during 2000. Mike, the founder of Bay Apartment Communities, is a visionary in our industry and played a critical role in the successful merger that created AvalonBay three years ago. Stockholders and management will benefit from his continuing involvement as a consultant and member of the Company’s Board of Directors.

We greatly appreciate the support of our stockholders and will work to continue earning it.

**Richard L. Michaux**  
Executive Chairman of the Board

**Bryce Blair**  
President and Chief Executive Officer

*The Right Market:*

*Our market strategy targets growth areas both*

# Urban



Our communities are located in the country's most vibrant urban and suburban infill markets where our local "on the ground" teams add value to our strategy.



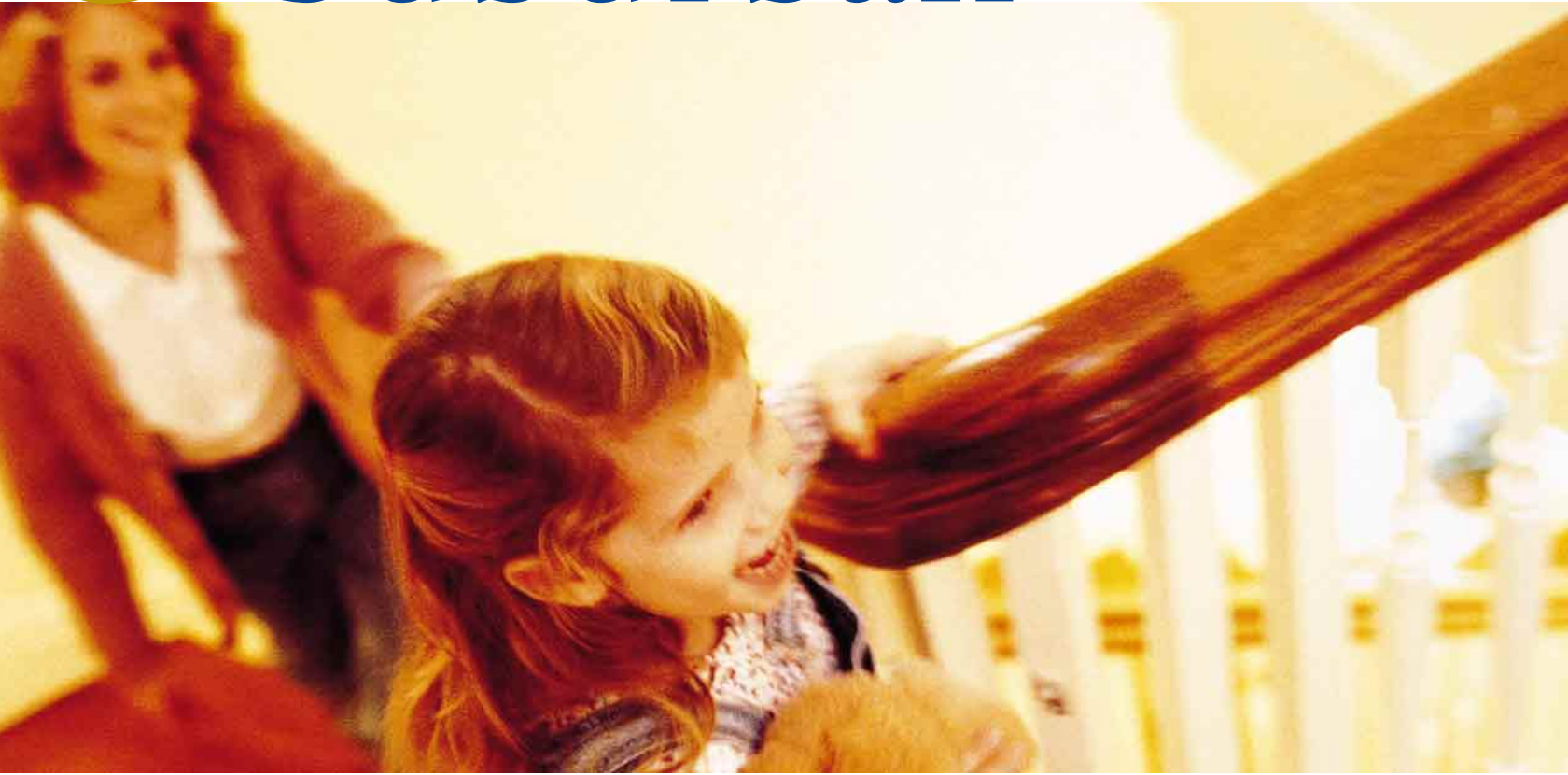
Avalon at Prudential Center, Boston, MA



Avalon on the Alameda, San Jose, CA



# & Suburban



Proving the wisdom of “right place, right time,” AvalonBay’s success demonstrates the value of a strategy that is steadfastly focused on high barrier-to-entry suburban and urban infill markets with solid and growing economies.

This approach maximizes the benefits of our local expertise and enables us to establish the strong brand identity and market presence that create market leadership. This strategy also serves our financial goals by making it possible to realize significant operating efficiencies.

While these markets are geographically diverse, they share the attributes of long-term business and employment expansion and of serving the global economy through export of technology and financial services. They have also been among the country’s most supply constrained markets, with housing starts not keeping pace with their growth. This creates an imbalance in housing demand and supply, leading to higher market rental rates.

The high cost of home ownership in our markets also enhances our business opportunity by making apartment living a more economically viable alternative. For example, industry analysts estimate that on average only 50 percent of the households in our markets can afford home ownership versus 63 percent nationwide. In some of our markets it is actually less than 20 percent. In addition, young professionals and empty-nesters—the growth drivers of the upscale market segments we seek to dominate—are the fastest growing population sectors in these markets.

Our prospects for continued success are further enhanced because many of these markets present significant challenges to the development of multifamily housing. Land zoned for apartments is often limited and the approval process is formidable. Where some companies see obstacles, however, our knowledgeable, on the ground development teams see opportunities to create long-term value.



Avalon at Florham Park, Florham Park, NJ

## *The Right Product:*

*Our communities provide a quality living experience on the*

# Inside



We bring substance to our purpose by building superior, well-located communities that stand the test of time and provide our residents the gift of time.

Our communities are fresh and contemporary—at an average of six years, our portfolio is one of the “youngest” in the industry. We were ahead of the curve in anticipating increased consumer demand for a more convenient living experience and, as a result, our communities are located near centers of employment, shopping, transportation, arts and entertainment. In addition, our communities offer a range of on-site amenities, which frequently include business centers, workout facilities and retail services—such as dry cleaning and restaurants—that provide additional convenience for our residents.

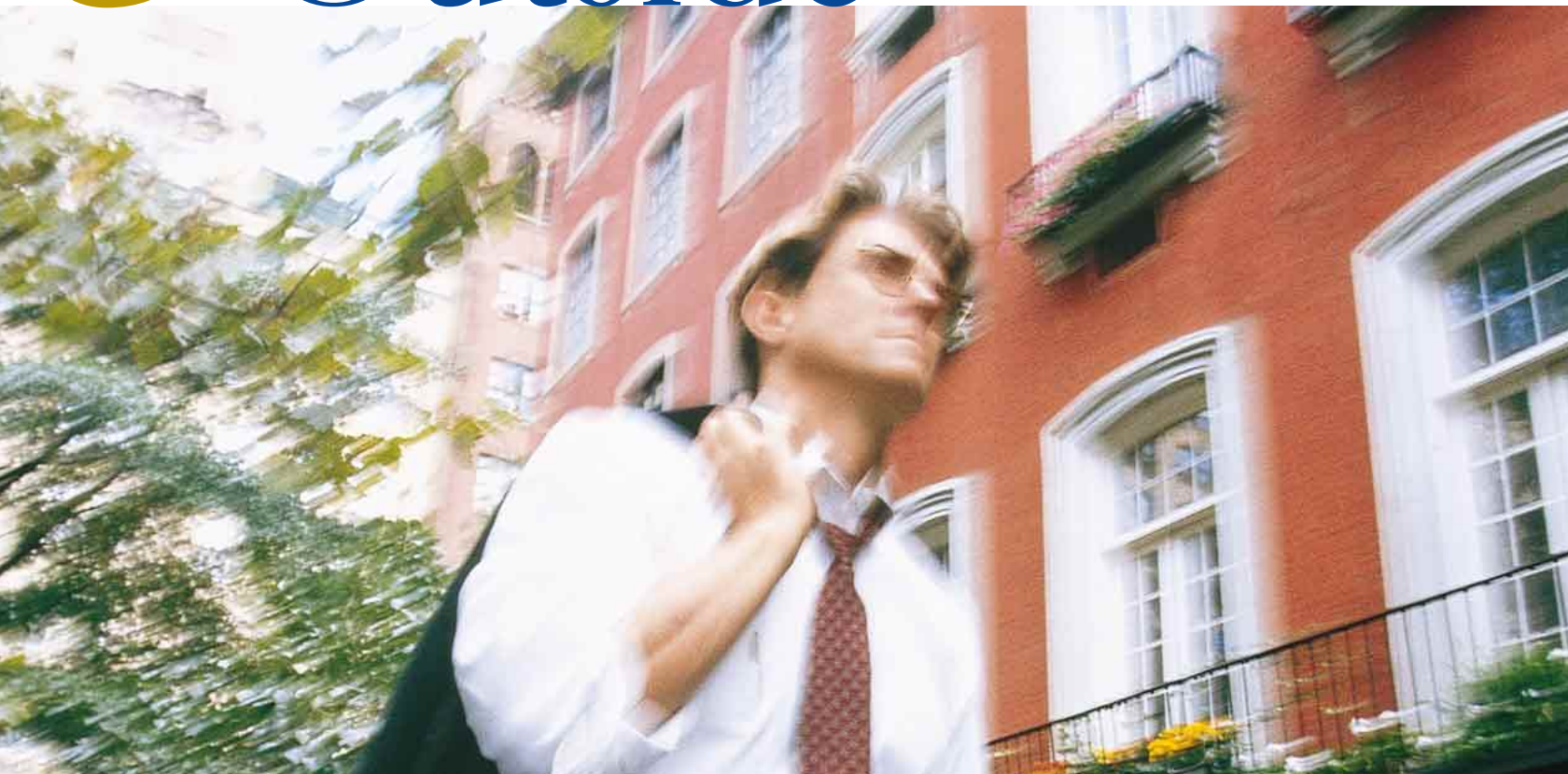
As our markets continue to grow and experience more segmentation, we are exploring opportunities to provide new and more targeted product offerings, such as communities developed specifically for empty-nesters returning to the carefree apartment lifestyle.

Having the right product, however, goes beyond desirable locations and convenient amenities. It means continually improving services that meet the evolving needs of our residents. Future offerings may include concierge services, on-line acceptance of maintenance requests and high-speed broadband Internet access. By anticipating changes in resident expectations and desires, we ensure that our communities remain vibrant, desirable residences of choice for our target customers.



**Avalon at Essex, Peabody, MA**

# & Outside



By building superior communities and offering desirable amenities, our communities enhance the lives of our residents.



Avalon at Parkside, Sunnyvale, CA



Avalon Cove, Jersey City, NJ

*The Right Customer:*

*Our residents want a place where they can both*

# Stop

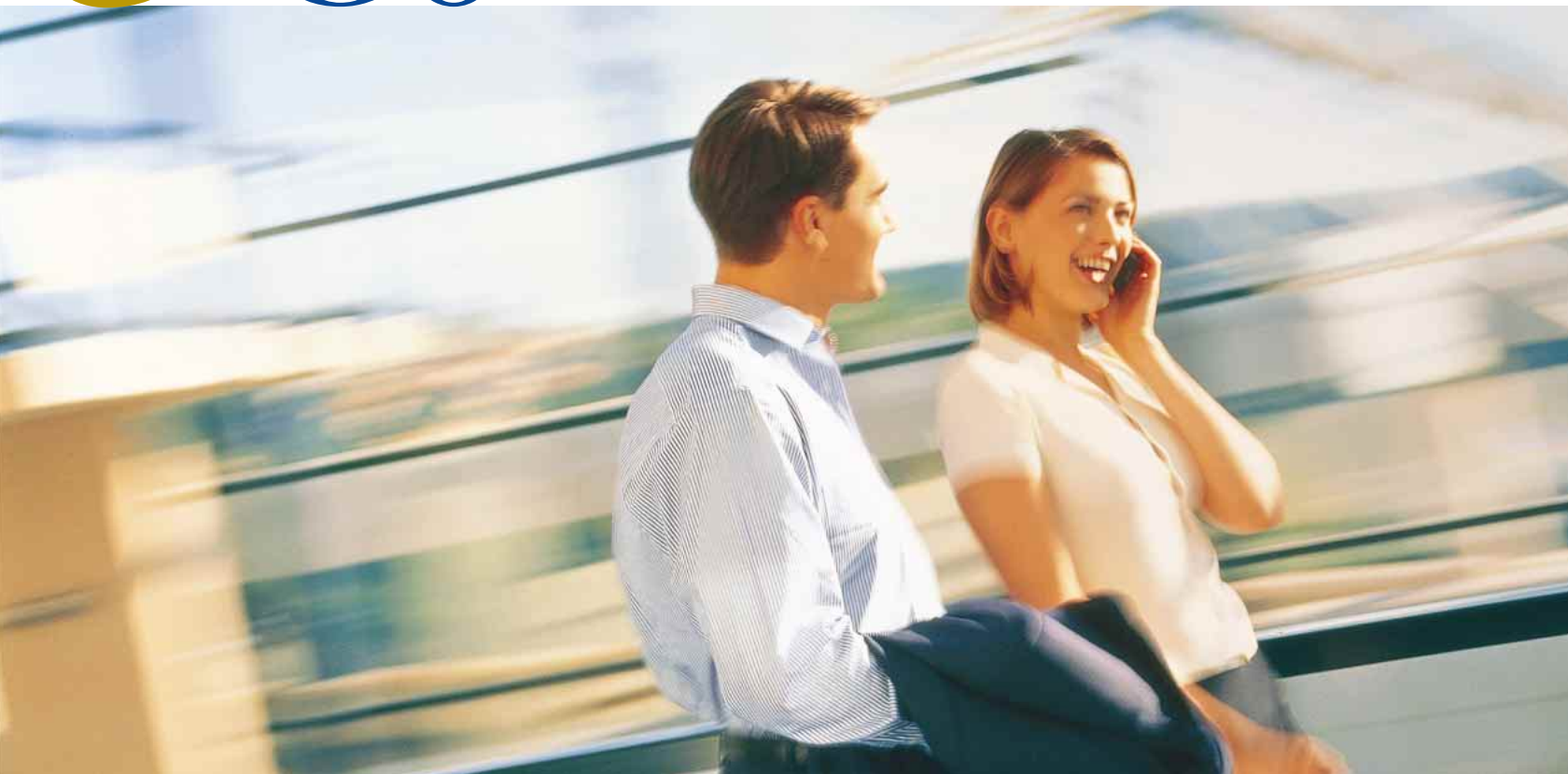


Through convenient locations and our ability to offer a high quality living experience, our communities address the professional and personal lifestyle needs of our residents—ensuring that their time with us is *Time Well Spent™*.



Avalon View, Wappinger Falls, NY

# & Go



Our core customers continue to be young professional singles and couples, many of whom can afford to own their home, but who chose to rent for lifestyle reasons. In addition, we are addressing a growing customer segment comprised of empty-nesters who are selling their homes and seeking apartment living as a lifestyle choice. In fact, these “discretionary renters” represent the fastest growing segment of the rental housing market. They are attracted to AvalonBay’s communities because we provide more than just shelter. Through thoughtful service, high quality amenities and convenient locations near centers of arts, entertainment and shopping, we strive to give our residents the gift of time—time to play, time to work, time to indulge.

By targeting this discretionary sector of the rental market and meeting their needs through a superior offering of both product and services, we command premium rents, achieve more consistent occupancy levels and generate greater returns for our stockholders.

We recognize, however, that the apartment market continues to evolve and that consumer dynamics change. To ensure that we are staying ahead of emerging trends and continually increasing our understanding of consumers, we are making greater use of resident satisfaction surveys and focus groups. Information gathered in these efforts is being used to more closely hone our service offerings, resident amenities and other features of our communities. The end result: We want our residents to look back at the time spent with AvalonBay as *Time Well Spent™*.

*The Right Team:*

*Our associates keep giving their all both*

# Here

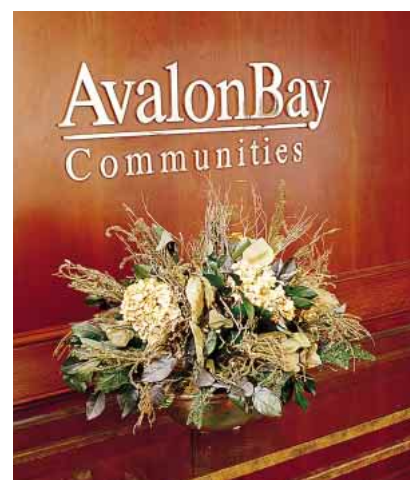


Engendering a commitment to our purpose throughout the organization has been fundamental to the Company's growth and ability to generate a sector leading performance.

We have continued to enhance our corporate management team by bringing in executives who can provide strategic input along with expertise in areas such as marketing, human resources, legal, market research and technology. These steps have created bench strength and a centralized support infrastructure to serve our local market organizations so they can concentrate on developing excellent communities and delivering a high level of resident satisfaction.

The success of our "local sharpshooter" strategy is predicated on using "asset teams" comprised of highly trained and experienced professionals native to the regions in which they work and who possess strong local market knowledge. Additionally, effective training and personal development efforts, combined with performance-based compensation programs, create resident-focused associates who are motivated by professional growth and a desire to provide maximum value to the Company. The execution that occurs at each of our communities is the greatest validation of management's attention to the development of AvalonBay's human resources.

We outpace the competition by combining centralized support in areas such as strategic guidance, capital allocation, technology, training, legal, marketing and public relations, with decentralized delivery through local management teams. This not only results in service that exceeds residents' expectations and ensures our success today, but also creates an organization that can capitalize on the opportunities of tomorrow.



# & There



AvalonBay's highly professional and dedicated associates fulfill our promise to residents and drive our industry leading performance.



*The Right Philosophy:*

*AvalonBay, a great and lasting company for*

# Now

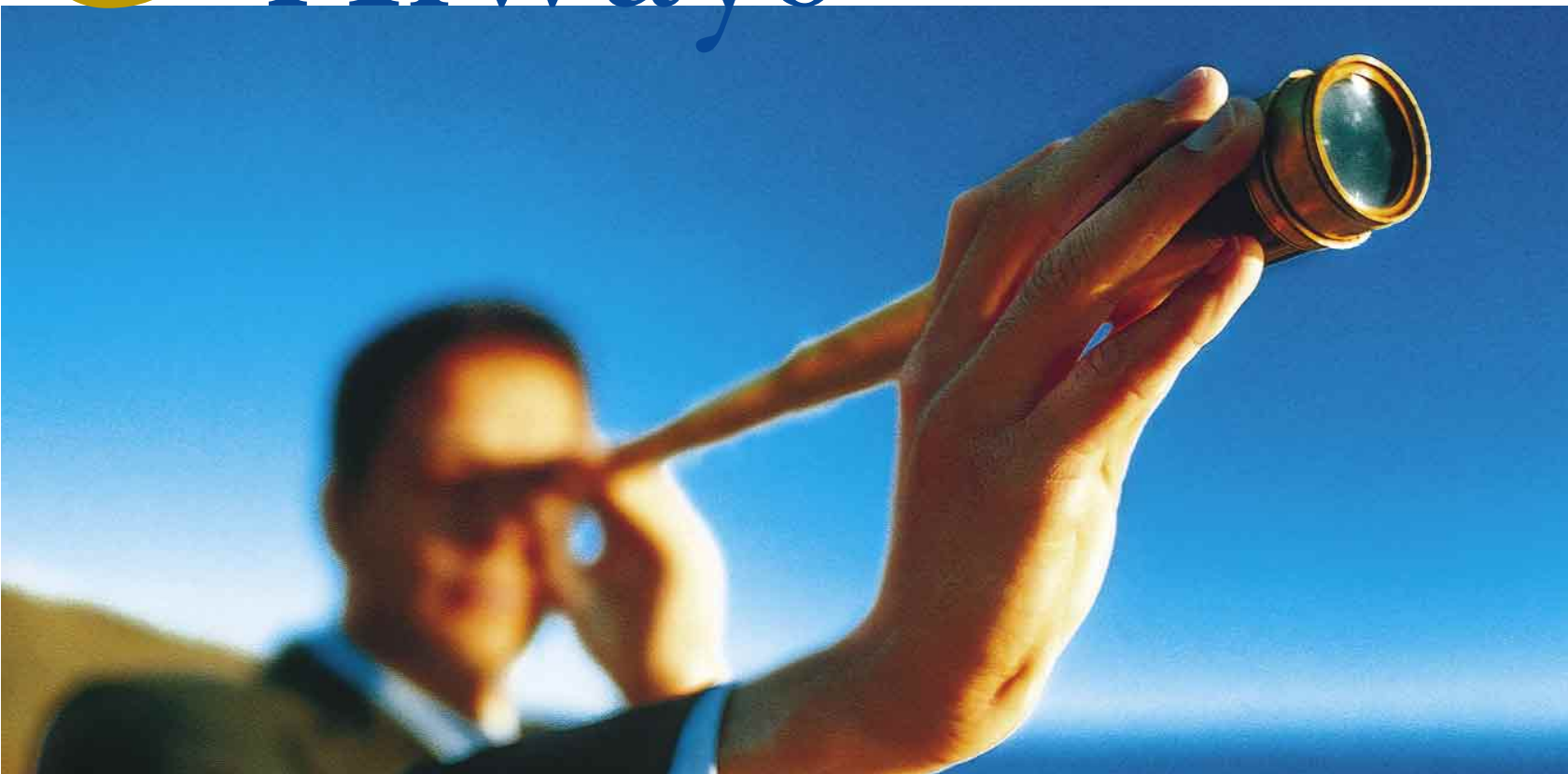


With a foundation comprised of strong and enduring principles and a team of dedicated associates, we enhance our opportunities for success both today and in the future.





# & Always



The success of the past year and optimism about the future as outlined in this report are grounded in a management philosophy that balances opportunity and risk. We do not pursue short-term gains that put our stockholders' investments or associates' futures in jeopardy. Our goal is to be an "evergreen" company with a strong corporate culture predicated on enduring core values that guide our Company and foster associates who embody these values.



Avalon Riverview, Queens, NY

We further recognize that building a company for the long term occurs when there are disciplines in place that maximize the value of high-growth markets, yet minimize the exposure to the cyclical nature of those regions and of the overall economy. As a result, an integral element of management's planning process is a proactively managed series of safeguards intended to reduce the impact of economic, real estate or financial market cycles on the Company. This system of proprietary metrics not only helps us anticipate a downturn and make necessary operating adjustments, but also puts us in a more advantageous position when a recovery occurs.

The management philosophy that guides AvalonBay is designed to build long-term value for residents, stockholders and associates. This philosophy will enhance our opportunity to achieve managed growth through all phases of economic cycles and changes in management, and is designed to provide for success in perpetuity.

## Corporate Information

### *Board of Directors*

**Bruce A. Choate**  
Chief Financial Officer  
Watson Land Corporation

**Michael A. Futterman**  
Chairman  
American Realty Capital, Inc.

**John J. Healy, Jr.**  
Founder and President  
Hyde Street Holdings, Inc.

**Gilbert M. Meyer**  
Founder and President  
Greenbriar Homes Communities, Inc.

**Richard L. Michaux**  
Executive Chairman of the  
Board of Directors  
AvalonBay Communities, Inc.

**Brenda J. Mixson**  
Former Executive Vice President  
Capital Thinking, Inc.

**Lance R. Primis**  
Managing Partner  
Lance R. Primis & Partners, LLC

**Allan D. Schuster**  
Private Investor

### *Officers*

**Richard L. Michaux**  
Executive Chairman of the  
Board of Directors

**Bryce Blair**  
Chief Executive Officer and President

**Timothy J. Naughton**  
Chief Operating Officer

**Samuel B. Fuller**  
Executive Vice President  
Development / Construction

**Thomas J. Sargeant**  
Executive Vice President  
Chief Financial Officer and Treasurer

**Leo S. Horey**  
Senior Vice President  
Property Operations

**James R. Liberty**  
Senior Vice President  
Construction

**Charlene Rothkopf**  
Senior Vice President  
Human Resources

**Matthew H. Birenbaum**  
Regional Vice President  
Development

**Gwyneth Jones Coté**  
Regional Vice President  
Property Operations

**Lili F. Dunn**  
Regional Vice President – Investments

**Daniel E. Murphy**  
Regional Vice President  
Development / Acquisitions

**Tracey B. Appelbaum**  
Vice President  
Development

**Miguel A. Azua**  
Vice President  
Controller

**David W. Bellman**  
Vice President  
Construction

**Walter W. Braun**  
Vice President  
Construction

**Shannon E. Ford**  
Vice President  
Property Operations

**Mark J. Forlenza**  
Vice President  
Development

**Frederick S. Harris**  
Vice President  
Development

**Dirk V. Herrman**  
Vice President  
Chief Marketing Officer

**Andrew C. Kilbourne**  
Vice President  
Special Technology Initiatives

**David L. Kirzinger**  
Vice President  
Property Operations

**Lyn C. Lansdale**  
Vice President  
Ancillary Services

**Joanne M. Lockridge**  
Vice President  
Finance

**William M. McLaughlin**  
Vice President  
Development

**J. Richard Morris**  
Vice President  
Construction

**Edward M. Schulman**  
Vice President  
General Counsel and Secretary

**Timothy J. Stanley**  
Vice President  
Development / Acquisitions

**Gary S. Steinfield**  
Vice President  
Development

**Bernard J. Ward**  
Vice President  
Property Operations

**James R. Willden**  
Vice President  
Engineering

**Stephen W. Wilson**  
Vice President  
Development

### *AvalonBay Offices*

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##### **Woodbridge, NJ**

Woodbridge Place  
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Fax: (732) 283-9105

### *Transfer Agent*

First Union National Bank  
Charlotte, North Carolina

### *Form 10K*

A copy of the Company's annual report on Form 10-K as filed with the Securities and Exchange Commission is being mailed to stockholders with this Annual Report. Additional copies may be obtained without charge by writing to:

Investor Relations  
AvalonBay Communities, Inc.  
2900 Eisenhower Avenue  
Suite #300  
Alexandria, Virginia 22314

### *Stock Listings*

NYSE – AVB  
PCX – AVB

*This Annual Report, including the Letter to Stockholders, contains "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. Please see our Report on Form 10-K, including the section titled "Forward-Looking Statements," for a discussion regarding risks associated with these statements. The Report on Form 10-K also contains explanations regarding the meaning of various industry terms used in this Annual Report, including "funds from operations," and we recommend that readers review the Report on Form 10-K.*



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