

AvalonBay COMMUNITIES



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Brand New Apts - Stu

The moments we
live are the moments
that make us.

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LEASING

Brand New
Apts - Studio,
1- & 2-BRs



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AVALONBAY COMMUNITIES, INC.

is an equity REIT in the business of developing, redeveloping, acquiring and managing multifamily communities primarily in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Pacific Northwest, and Northern and Southern California. We focus on leading metropolitan areas in these regions that we believe are characterized by growing employment in high wage sectors of the economy, lower housing affordability and a diverse and vibrant quality of life. We believe these market characteristics offer the opportunity for superior risk-adjusted returns on apartment community investment relative to other markets.

FINANCIAL HIGHLIGHTS

TOTAL SHAREHOLDER RETURN ⁽¹⁾

Source: SNL Financial



• AvalonBay • Multifamily Sector Weighted Average

CORE FFO PER SHARE GROWTH ⁽²⁾

Source: SNL Financial



• AvalonBay • Multifamily Sector Weighted Average

DIVIDEND GROWTH

Indexed to 100 in 1994

Source: SNL Financial



• AvalonBay • Multifamily Sector Weighted Average

2014 AT A GLANCE:

8.8%

CORE FFO PER SHARE GROWTH

\$1.1 Billion

DEVELOPMENT COMPLETIONS

42.7%

TOTAL SHAREHOLDER RETURN

A LOOK BACK

AvalonBay achieved another year of strong performance in 2014. In our stabilized portfolio, we generated healthy rental revenue growth for a fourth consecutive year, while at the same time we continued to provide outstanding customer service, as evidenced by a resident satisfaction rating that is 700 basis-points above the Kingsley Multifamily Customer Satisfaction Index. We completed the development of 17 new communities containing over 4,100 apartment homes, representing \$1.1 billion in total investment. We completed these communities at an attractive cost basis of approximately \$275,000 per apartment home, or roughly 20% below the market value of our existing 19-year-old stabilized portfolio⁽³⁾. We also commenced construction on 14 new projects that, if developed as expected, will contain nearly 4,000 new apartment homes and represent \$1.3 billion in Total Capital Costs. To fund this investment activity, we raised \$1.4 billion of attractively-priced capital which enabled us to lock-in attractive investment spreads on our new investment activity. And importantly, we were able to grow our business while enhancing our commitment to environmental sustainability and strategic community investment, as demonstrated by the attainment of two new community LEED certifications and five new community EnergyStar certifications.

In 2014, as a result of our strong operational and investment performance, we achieved an 8.8%

increase in Core FFO per Share from 2013 and generated a Total Shareholder Return of 42.7%. In January 2015, reflecting both past performance and our expectation for future growth, we announced a 7.8% increase in our quarterly dividend to \$1.25 per Share.

Our performance in 2014 reflects not only the strength of the current apartment cycle, which began in 2010, but also the benefits of our disciplined adherence to a strategy focused on more deeply penetrating our target markets with a brand portfolio, delivered primarily through new development. We believe our strategy has enabled us to deliver attractive financial returns over the long-term. Since the Company's Initial Public Offering in 1994, we've grown Core FFO 6.7% and the dividend 5.3%, both on a compound annualized basis, and we've delivered annualized Total Shareholder Return of 16.2%. Our Total Shareholder Return over the 20-year period ending in 2014 ranks 6th among the 65 exchange-listed REITs that have been in existence since 1994.

Disciplined execution of our strategy has also produced attractive financial performance in the current apartment cycle, which is proving to be one of the healthiest and most durable cycles in our Company's history. Since 2010, our same-store revenues have grown by over 20%. We've completed \$2.5 billion of new development at a weighted average initial stabilized yield of approximately 7%, which is well above prevailing market capitalization rates in our markets. This operational and investment performance has, in turn, driven exceptional cash flow growth,

with Core FFO per Share increasing over 70% and the dividend increasing 40%.

2015 AND BEYOND

Looking ahead we expect healthy U.S. economic growth to continue. The National Association of Business Economics forecast calls for stronger job and income growth in 2015 relative to 2014, and Moody's Analytics projects an increase in household formation. Collectively, we expect these economic drivers will continue to support healthy apartment demand in our markets.

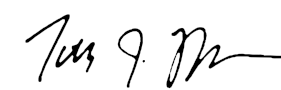
We also expect favorable demographics to continue supporting apartment demand. The prime renter cohort, those ages 25 – 34, will increase by more than 1.1 million over the next three years. Furthermore, lifestyle changes among young adults have resulted in extended rental tenure. Specifically, the average age of first marriage has increased nearly two years in the last decade, and the average age of a mother at first birth has increased by one year in the last decade. Taken together, these demographic and lifestyle changes have increased the propensity of young adults to rent instead of own their homes, as evidenced by the 830 basis-point decline in the homeownership rate of young adults since mid-2004, from 43.6% to 35.3%. We believe these demographic trends and lifestyle shifts will continue to benefit apartment demand for the next several years.

We expect our stabilized portfolio to produce another year of strong revenue and net operating income growth in 2015. We anticipate completing construction of another 11 communities, containing over 3,500 apartment homes, representing \$1.2 billion in projected Total Capital Costs. We also expect to start approximately \$1.5 billion in new development in 2015. This investment activity is consistent with our "mid-cycle" outlook for our markets and should help support our effort to deliver outsized value creation during the balance of the cycle. Nonetheless, as we move ahead, we will remain disciplined in pursuing and allocating capital to new opportunities.

We intend to remain focused on match-funding investment activity with long-term capital, so as to maintain our strong balance sheet position and preserve our capacity to pursue investment opportunities from a position of financial strength. As we enter 2015, we are 100% match-funded against outstanding investment commitments, allowing us to lock-in healthy investment spreads between the projected investment return on development projects currently under construction and our long-term cost of capital. In addition, our balance sheet remains strong, with net Debt-to-Adjusted EBITDA declining to 5.2x from 6.8x thus far in this apartment cycle. Lastly, we continue to source attractively priced capital. Since 2010, we have reduced the weighted average interest rate on total debt outstanding by 130 basis-points to 3.9%.

In summary, we are encouraged by the strong momentum in the U.S. economy and improving apartment demand in our markets. We believe these drivers will continue to support strong growth in our existing portfolio and provide ample demand to absorb the delivery of our new communities. And, we believe AvalonBay is well-positioned to extend our track record of delivering outsized earnings and NAV growth and shareholder returns in the years ahead.

On behalf of the entire AvalonBay team, I'd like to thank our existing shareholders, business partners and residents for your contributions to our ongoing success.



TIMOTHY J. NAUGHTON

Chairman and CEO





FINANCIALS

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DEFINITIONS AND RECONCILIATIONS

Of Non-GAAP Financial Measures and Other Terms

This Annual Report contains certain non-GAAP financial measures and other terms. The definitions and calculations of these non-GAAP financial measures and other terms may differ from the definitions and methodologies used by other REITs and, accordingly, may not be comparable. The non-GAAP financial measures referred to below should not be considered an alternative to net income as an indication of our performance. In addition, these non-GAAP financial measures do not represent cash generated from operating activities in accordance with GAAP and therefore should not be considered as an alternative measure of liquidity or as indicative of cash available to fund cash needs. The definitions of non-GAAP financial measures and other terms not included below (Funds from Operations or FFO, Net Operating Income or NOI, Established/Same-Store Communities) are contained in our annual report on Form 10-K, which is distributed with and is a part of this Annual Report.

The **Multifamily Sector Weighted Average** is a weighted average based on Total Market Capitalization per SNL Financial as of December 31, 2014. The weighted average for Total Shareholder Return and Core FFO per Share Growth includes AEC, AIV, CPT, EQR, ESS, HME, MAA, PPS and UDR. Dividend Growth includes AEC, AIV, CPT, EQR, ESS, HME, MAA, PPS and UDR but excludes AIV and HME in 1995.

Net Debt-to-Adjusted EBITDA is calculated by the Company as total debt that is consolidated for financial reporting purposes, less consolidated cash and cash in escrow, divided by annualized fourth quarter EBITDA, as adjusted. A calculation of net Debt-to-Adjusted EBITDA as of December 31, 2014 and December 31, 2010 is as follows:

NET DEBT-TO-ADJUSTED EBITDA (Dollars in thousands)

For the quarter ending:	12/31/2014	12/31/2010
Total debt	\$6,448,138	\$4,068,417
Cash and cash in escrow	(605,085)	(479,769)
Net Debt	\$5,843,053	\$3,588,648
Net income attributable to common stockholders	\$142,642	\$27,030
Interest expense, net	47,987	46,948
Income tax expense	9,332	-
Depreciation expense	114,084	60,614
EBITDA	\$314,045	\$134,592
NOI from discontinued operations and real estate assets sold or held for sale, not classified as discontinued operations	\$2,257	\$23
Gain on sale of communities	23,980	1,854
EBITDA after disposition activity	\$287,808	\$132,715
Joint venture income	\$(5,241)	\$(397)
EBITDA as adjusted	\$282,567	\$132,318
EBITDA as adjusted, annualized	\$1,130,268	\$529,272
Net Debt-to-Adjusted EBITDA	5.2x	6.8x

NOTES

- TOTAL SHAREHOLDER RETURN:** The change in the value over the period stated with all dividends reinvested. Total Shareholder Return is sometimes presented as the compound annual growth rate. Total Shareholder Return for each year within the timeframe presented may vary.
- CORE FFO PER SHARE GROWTH:** The compound annual growth rate of Operating FFO per Share, as Reported per SNL Financial during the periods indicated. Core FFO per Share Growth for each year within the timeframe presented may vary.
- MARKET VALUE PER HOME OF EXISTING COMMUNITIES:** Derived from Company Net Asset Value from Green Street Advisors, Inc. as of December 31, 2014.

FFO RECONCILIATION TO NET INCOME (Dollars in thousands, except per Share data)

For the year ending:	2014	2013	2010 ⁽¹⁾
Net income attributable to common stockholders	\$683,567	\$353,141	\$175,331
Depreciation - real estate assets, including discontinued operations and joint venture adjustments	449,769	582,325	237,041
Distributions to noncontrolling interest, including discontinued operations	35	32	55
Gain on sale of unconsolidated entities holding previously depreciated real estate assets	(73,674)	(14,453)	-
Gain on sale of previously depreciated real estate assets ⁽²⁾	(108,662)	(278,231)	(74,074)
FFO attributable to common stockholders	\$951,035	\$642,814	\$338,353
Average shares outstanding - diluted	131,237,502	127,265,903	84,632,869
Earnings per Share - diluted	\$5.21	\$2.77	\$2.07
FFO per Common Share - diluted	\$7.25	\$5.05	\$4.00

⁽¹⁾ 2010 data included as additional background for the Company's statements made in this report regarding performance since 2010.

⁽²⁾ Full Year 2014 includes the impact of the non-controlling interest portion of the gain on sale of a community owned by Fund 1 that was consolidated for financial reporting purposes.

CORE FFO RECONCILIATION TO FFO (Dollars in thousands, except per Share data)

For the year ending:	2014	2013 ⁽¹⁾	2010 ⁽²⁾
FFO attributable to common stockholders	\$951,035	\$642,814	\$338,353
Non-Routine Items			
Archstone and other acquisition costs	(7,682)	44,052	-
Joint venture (gains) losses and costs ⁽³⁾	(63,322)	35,554	811
Loss on interest rate protection agreement	-	51,000	-
Write-off of Development Rights and retail assets ⁽⁴⁾	2,564	1,506	-
Compensation plan redesign & severance related costs	815	3,580	-
Business interruption insurance proceeds	(2,494)	(299)	-
Early extinguishment of consolidated debt	412	14,921	-
Gain on sale of land	(490)	(240)	-
Income taxes	9,243	-	-
Extreme weather costs incurred	-	-	672
Legal Settlements	-	-	(927)
Severance reversals	-	-	(1,550)
Excise Taxes	-	-	(205)
Core FFO	\$890,081	\$792,888	\$337,154
Core FFO per Share	\$6.78	\$6.23	\$3.98

⁽¹⁾ The Company issued unsecured notes and common stock for purposes of funding the Archstone acquisition in advance of closing the purchase. This capital markets activity resulted in interest expense of \$834 associated with the unsecured notes, and incremental weighted average shares of the Company's common stock outstanding of 2,741,096 during the year ended December 31, 2013. The Company has not included the impact of this capital markets activity as a non-routine adjustment for Core FFO.

⁽²⁾ 2010 data included as additional background for the Company's statements made in this report regarding performance since 2010.

⁽³⁾ Amounts include the Company's proportionate share of gains and losses from joint ventures formed with Equity Residential as part of the Archstone acquisition, joint venture dispositions including the Company's promoted interests, costs associated with the extinguishment of debt, and acquisition costs including certain costs incurred related to the Archstone acquisition.

⁽⁴⁾ Represents write-offs expensed by the Company during the year-to-date period for Development Rights and retail tenants individually in excess of \$1,000.

BOARD OF DIRECTORS

Timothy J. Naughton

Chairman of the Board,
Chief Executive Officer & President,
AvalonBay Communities, Inc.
Investment and Finance Committee

Glyn F. Aeppel

Chief Executive Officer & President,
Glencove Capital
Audit; Investment and Finance Committees

Terry S. Brown

Chief Executive Officer, EDENS
Audit; Investment and Finance Committees

Alan B. Buckelew

Chief Operating Officer,
Carnival Corporation & plc
Audit; Investment and Finance Committees

Bruce A. Choate

Chief Executive Officer & President,
Watson Land Company
*Investment and Finance;
Nominating and Corporate
Governance Committees*

Ronald L. Havner, Jr.

Chairman of the Board,
Chief Executive Officer & President,
Public Storage, Inc.
Audit; Investment and Finance Committees

John J. Healy, Jr.

Private Investor
*Audit; Nominating and Corporate
Governance Committees*

Lance R. Primis

Managing Partner,
Lance R. Primis and Partners, LLC
*Lead Independent Director
Compensation; Nominating and
Corporate Governance Committees*

Peter S. Rummell

Private Investor
*Compensation; Investment and
Finance Committees*

H. Jay Sarles

Private Investor
*Audit; Compensation
Committees*

W. Edward Walter

Chief Executive Officer & President,
Host Hotels & Resorts, Inc.
*Compensation; Investment and
Finance Committees*

EXECUTIVE OFFICERS

Timothy J. Naughton

Chairman, Chief Executive Officer
& President

Kevin P. O'Shea

Chief Financial Officer

Matthew H. Birenbaum

Chief Investment Officer

Sean J. Breslin

Chief Operating Officer

Michael M. Feigin

Chief Construction Officer

Leo. S. Horey III

Chief Administrative Officer

William M. McLaughlin

Executive Vice President Development –
Northeast

Edward M. Schulman

Executive Vice President
General Counsel & Secretary

Stephen W. Wilson

Executive Vice President Development –
West Coast & Mid-Atlantic

INVESTOR INFORMATION

Corporate Office

AvalonBay Communities, Inc.
671 North Glebe Road, Suite 800
Arlington, VA 22203
Phone: 703.329.6300

Website

www.avalonbay.com

Common Stock Listing

(Symbol: AVB)
New York Stock Exchange

Investor Relations Contact

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Email: ir@avalonbay.com

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College Station, TX 77842
Overnight Delivery
211 Quality Circle, Suite 210
College Station, TX 77842
Phone: 866.230.0668
www.computershare.com

Form 10-K

A copy of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission is being distributed with this Annual Report and also may be obtained without charge by contacting Investor Relations.

Forward-Looking Statements

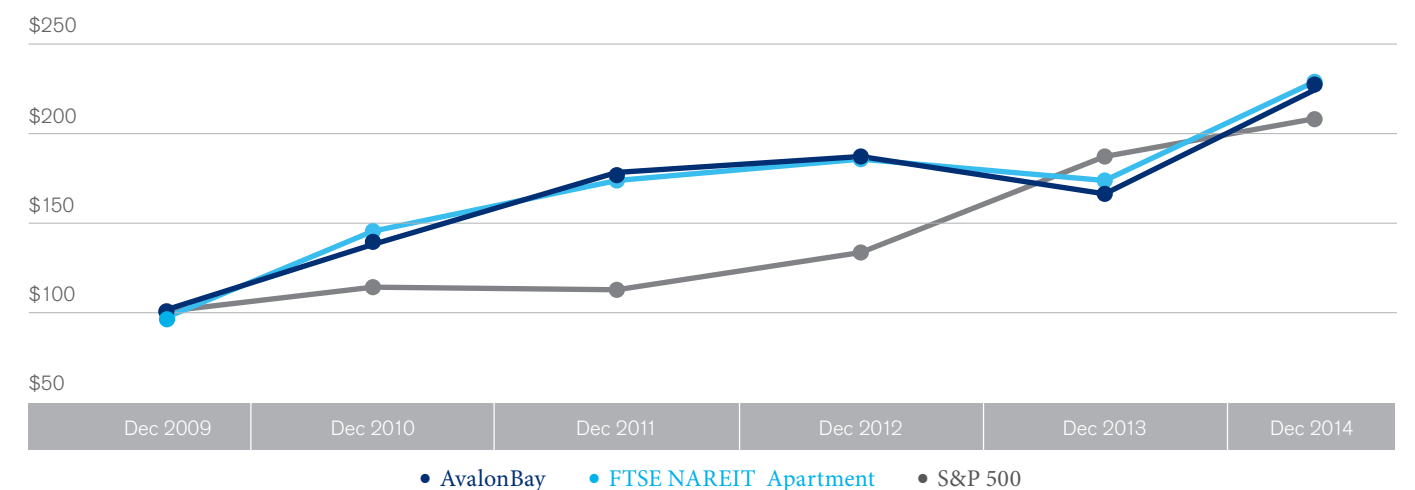
This Annual Report contains "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. Please see our discussion titled "Forward-Looking Statements" on page 61 of our accompanying Annual Report on Form 10-K for a discussion regarding risks associated with these statements.

The **Stock Performance Graph** provides a comparison, from December 2009 through December 2014, of the cumulative total shareholder return (assuming reinvestment of dividends) among the Company, a peer group index (the FTSE NAREIT Apartment REIT Index) composed of 14 publically traded apartment REITs, including the

Company, and the S&P 500 based on an initial purchase price of \$100. The FTSE NAREIT Apartment REIT Index includes only REITs that invest directly or indirectly primarily in the equity ownership of multifamily residential apartment communities. Upon written request to the Company's secretary, the Company will provide any stockholder

with a list of REITs included in the FTSE NAREIT Apartment REIT Index. The historical information set forth below is not necessarily indicative of future performance. Data for the FTSE NAREIT Apartment REIT Index and the S&P 500 Index were provided to the Company by SNL Financial.

STOCK PERFORMANCE



Period Ending	12-31-09	12-31-10	12-31-11	12-31-12	12-31-13	12-31-14
AvalonBay Communities, Inc.	\$100	142	170	181	163	233
FTSE NAREIT Apartment REIT Index	100	147	169	181	170	237
S&P 500	100	115	117	136	180	205

our purpose:

CREATING A BETTER WAY TO LIVE

our core values:

Commitment to Integrity | Focus on Continuous Improvement | Spirit of Caring

