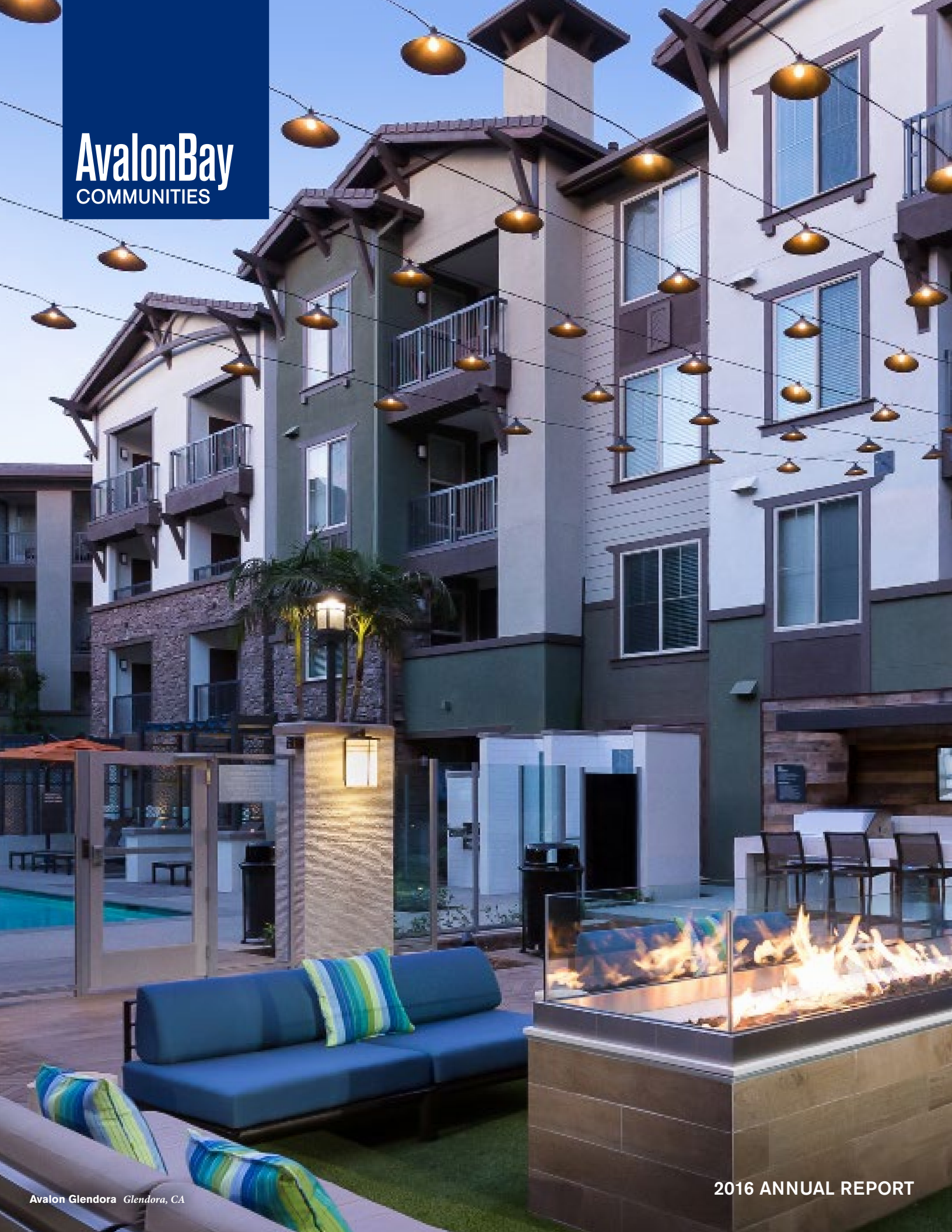




**AvalonBay**  
COMMUNITIES





# 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 that do not have these characteristics.

## AVALONBAY HAS A 23 YEAR HISTORY OF OUTPERFORMANCE AND STRONG DIVIDEND GROWTH

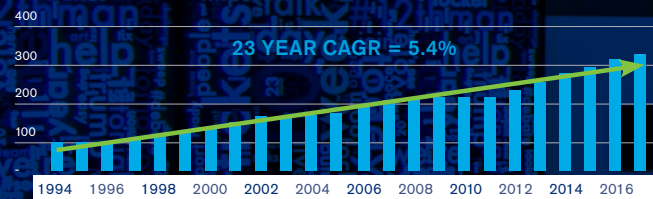
### TOTAL SHAREHOLDER RETURN SINCE IPO

REPRESENTS \$100 INVESTED & THE REINVESTMENT OF DIVIDENDS  
Source: S&P Global



### ANNUAL COMMON DIVIDENDS PAID

INDEXED TO 100 IN 1994  
Source: S&P Global



## FINANCIAL HIGHLIGHTS

### ANNUALIZED TOTAL SHAREHOLDER RETURN<sup>(1)</sup>

Source: S&P Global



### ANNUALIZED CORE FFO PER SHARE GROWTH<sup>(2)</sup>

Source: S&P Global



AVA Capitol Hill Seattle, WA

## 2016 HIGHLIGHTS

**8.5%**  
CORE FFO PER SHARE GROWTH

**\$2 BILLION** *A Company Record*  
TOTAL REVENUE

**\$510 MILLION**  
DEVELOPMENT COMPLETIONS

**\$530 MILLION**  
STABILIZED COMMUNITY ACQUISITIONS

**9 COMMUNITIES**  
LEED ENVIRONMENTAL CERTIFICATION

**TOP 10%**  
ASSOCIATE ENGAGEMENT *(IBM Kenexa Survey)*



# DEAR SHAREHOLDERS

## 2016 HIGHLIGHTS

### Operating & Financial Results

2016 was another strong year for AvalonBay. Our same-store portfolio delivered a sixth consecutive year of healthy Net Operating Income growth. We completed the development of eight new communities containing over 1,700 apartment homes, representing \$510 million in total capital investment. These new communities are projected to generate a weighted average initial stabilized yield of 6.7%, 50 basis-points above our initial expectations. We improved the quality of our portfolio by purchasing five stabilized communities located in attractive, infill submarkets for \$530 million. In addition, we raised \$1.35 billion of attractively priced capital to fund ongoing investment and refinancing activity.

Together, these accomplishments led to an 8.5% increase in Core FFO per share in 2016.

### Sustainability

We also made important strides in other areas of our business in 2016. We continued to scale our sustainability efforts by completing 44 light emitting diode (LED) retrofits at existing communities, and by achieving Leadership in Energy and Environmental Design (LEED) certifications at nine recently completed communities. Furthermore, for the first time we had our energy, water, waste and greenhouse gas (GHG) emission data independently verified by Lloyd's Register Quality Assurance (LRQA) so that we can more accurately report on the performance of our sustainability enhancements in the future.

Our heightened focus on providing sustainable communities and living experiences for our residents was recognized in 2016. For the second consecutive year, AvalonBay was awarded a "Green Star" and identified as an industry leader by the Global Real Estate Sustainability Benchmark (GRESB).

### Associate Engagement

In 2016, we continued to nurture a culture that encourages associates to perform at their best. Based on the results from our 2016 Associate Perspective Survey, our associates remain engaged and feel supported by their managers. We made improvements in each of these areas from our 2015 survey results and rank among the top 10% of all companies surveyed by IBM-Kenexa. We believe this high-level of associate engagement and strong alignment to our purpose of *creating a better way to live* translates into higher customer satisfaction and a strong online reputation.

Our Net Promoter Score (NPS), a key customer satisfaction and loyalty metric, increased 400 basis-points from 2015. We generated over 7,500 new online reviews on sites like Yelp and Google at an average star rating of 4.2 out of 5, ranking us #1 among the top ten multifamily REITs<sup>(3)</sup> for online reputation.

### Long-Term Performance

Our 2016 results continue a track record of delivering high-quality results. Since the beginning of the current economic cycle in 2010, the Company has increased its Core FFO and dividend per share<sup>(4)</sup> by 12.8% and 8.0%, respectively, on a compounded annual basis. We believe this performance not only reflects the strength of the current economic expansion and apartment cycle, but also our adherence to a disciplined, time-tested strategy that has delivered annualized total shareholder return of 11.2% and 12.9% over the last six and 20 years, respectively.

## LOOKING FORWARD

### 2017 Outlook

We expect that moderate economic and job growth, improving income growth, favorable demographics and delays in family formation (e.g. marriage, children) will continue to support healthy apartment demand. However, we believe an increase in new apartment deliveries will temper rental revenue growth across some of our markets.

In 2017, we anticipate breaking ground on ten new development communities, representing approximately \$900 million in projected total capital cost. All ten of these projected development starts are located in supply-constrained, infill suburban submarkets, where development economics are currently most attractive. In addition, we expect to complete the construction of a Company-record \$1.7 billion of new communities in 2017. Based on our projected development starts and completions, we expect to end 2017 with \$3.2 billion of development under construction, representing approximately 10% of our Total Enterprise Value at year-end 2016.

### Risk Management

We believe the Company is well positioned to execute on, and pursue, attractive growth opportunities. At year-end 2016, our development rights pipeline consisted of 25 growth opportunities, representing \$3 billion in projected total capital cost. Importantly, we controlled all but four of these 25 opportunities through purchase option contracts with modest at-risk deposits. We plan to continue to structure new development opportunities primarily as purchase option contracts with modest at-risk deposits to preserve flexibility.

In addition, our balance sheet remains strong. At year-end 2016, Net debt-to-Core EBITDA was 5.0x, Interest Coverage was 6.8x, 80% of NOI was unencumbered and our current development activity was 80% match-funded with long-term capital.

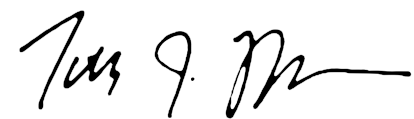
We expect to continue our practice of substantially match-funding new investment commitments with long-term capital in order to maintain financial flexibility, strong credit metrics and attractive investment margins.

## CONCLUSION

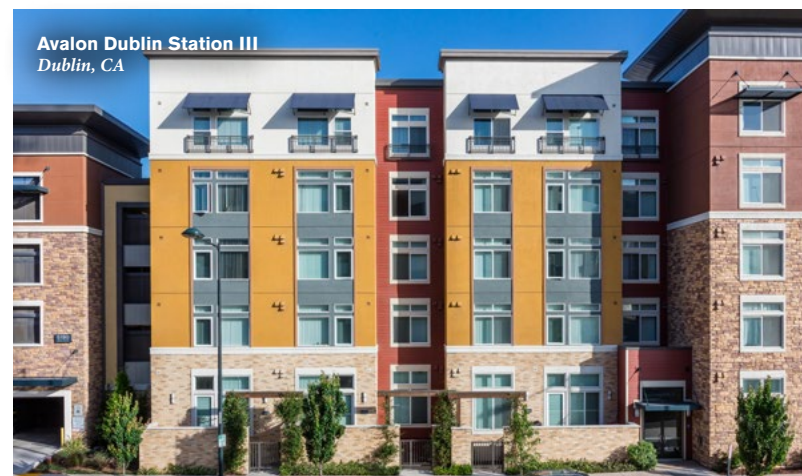
Favorable apartment fundamentals helped us deliver a sixth consecutive year of healthy operating results in 2016. We continued to invest in profitable development, improve the quality of our portfolio through the transaction market and scale our sustainability efforts. The returns on these investments were further enhanced by our associates, who delivered another year of exceptional customer service.

In 2017, we expect apartment demand to remain healthy but anticipate that elevated apartment deliveries will temper growth in some of our markets. We believe our accretive investment platform will continue to contribute to Core FFO and NAV per share growth, and we plan to remain well positioned to pursue attractive investment opportunities.

Thank you for your continued support and confidence in our future.



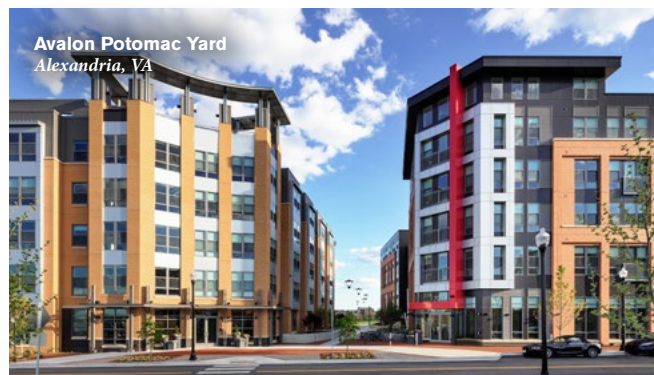
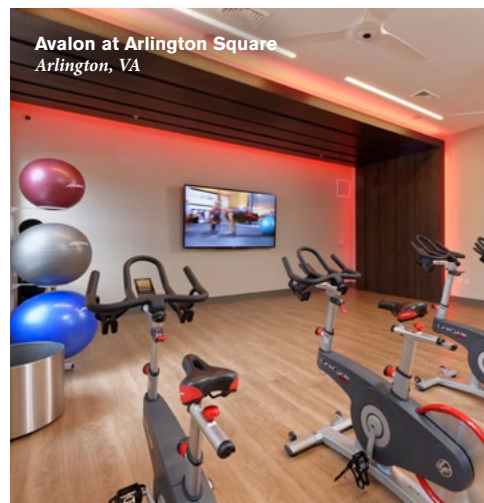
**TIMOTHY J. NAUGHTON**  
Chairman and CEO







# 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, Core Funds from Operations, Net Operating Income or NOI, Established/Same-Store Communities) are contained in our annual report on Form 10-K, which is distributed with and a part of this Annual Report.

## CORE FFO RECONCILIATION TO NET INCOME

(Dollars in thousands)

	Full Year 2016	Full Year 2015	Full Year 2010
Net income attributable to common stockholders	\$1,034,002	\$742,038	\$175,331
Depreciation - real estate assets, including discontinued operations & joint venture adjustments	538,606	486,019	237,041
Distributions to noncontrolling interests, including discontinued operations	41	38	55
Gain on sale of unconsolidated entities holding previously depreciated real estate	(58,069)	(33,580)	-
Gain on sale of previously depreciated real estate	(374,623)	(115,625)	(74,074)
Casualty and impairment (recovery) loss, net on real estate	(4,195)	4,195	-
<b>FFO attributable to common stockholders</b>	<b>\$1,135,762</b>	<b>\$1,083,085</b>	<b>\$338,353</b>
Adjusting Items			
Joint venture losses (gains)	\$6,031	\$(9,059)	\$-
Impairment loss on real estate	10,500	800	-
Casualty loss (gain), net on real estate	(10,239)	(15,538)	-
Business interruption insurance proceeds	(20,565)	(1,509)	-
Lost NOI from casualty losses covered by business interruption insurance	7,366	7,862	-
Loss (gain) on extinguishment of consolidated debt	7,075	(26,736)	-
Acquisition costs	3,523	3,806	-
Severance related costs	852	1,999	(1,550)
Development pursuit and other write-offs	3,662	1,838	-
Joint venture promote	(7,985)	(21,969)	-
Loss (gain) on sale of other real estate	(10,224)	(9,647)	-
Legal settlements	(417)	-	(927)
Income taxes	-	1,103	-
Federal excise tax	-	-	(235)
Severe weather costs	-	-	672
Investment management fund transaction costs, net	-	-	811
<b>Core FFO attributable to common stockholders</b>	<b>\$1,125,341</b>	<b>\$1,016,035</b>	<b>\$337,124</b>
Average shares outstanding - diluted	137,461,637	134,593,177	84,632,869
Earnings per share- diluted	\$7.52	\$5.51	\$2.07
FFO per common share- diluted	\$8.26	\$8.05	\$4.00
Core FFO per common share- diluted	\$8.19	\$7.55	\$3.98



**Total Enterprise Value** represents the aggregate of the market value of the Company's common stock, the market value of the Company's operating partnership units outstanding (based on the market value of the Company's common stock) and the outstanding principal balance of the Company's debt. A calculation of Total Enterprise Value is as follows:

### CALCULATION OF TOTAL ENTERPRISE VALUE

(Dollars in millions)

Quarter Ending 12/31/2016

Common stock	\$24,328
Operating partnership units	1
Total debt	7,077
<b>Total Enterprise Value</b>	<b>\$31,406</b>

**Net Debt-to-Core 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 2016 Core EBITDA, as adjusted. For a calculation of Core EBITDA, see "Interest Coverage". A calculation of Net Debt-to-Core EBITDA is as follows:

### CALCULATION OF NET DEBT-TO-CORE EBITDA

(Dollars in thousands)

Quarter Ending 12/31/2016

Total debt principal <sup>(1)</sup>	\$7,076,758
Cash and cash in escrow	(329,977)
<b>Net debt</b>	<b>\$6,746,781</b>
Core EBITDA	\$339,055
Core EBITDA, annualized	\$1,356,220
<b>Net Debt-to-Core EBITDA</b>	<b>5.0x</b>

<sup>(1)</sup> Balance at December 31, 2016 excludes \$8,930 of debt discount and \$27,768 of deferred financing costs as reflected in unsecured notes, net, and \$1,866 of debt premium and \$11,046 of deferred financing costs as reflected in notes payable, on the Condensed Consolidated Balance Sheets. The debt premium is primarily related to above market interest rates on debt assumed in connection with the Archstone acquisition.

**Interest Coverage** is calculated by the Company as Core EBITDA divided by the sum of interest expense, net, and preferred dividends, if applicable. The Company presents Interest Coverage because it provides rating agencies and investors an additional means of comparing our ability to service debt obligations to that of other companies. EBITDA is defined by the Company as net income or loss attributable to the Company before interest income and expense, income taxes, depreciation and amortization. A reconciliation of Core EBITDA and a calculation of Interest Coverage for the three months ended December 31, 2016 are as follows:

### INTEREST COVERAGE RECONCILIATION TO NET

INCOME (Dollars in thousands)

Quarter Ending  
12/31/2016

Net income attributable to common stockholders	\$242,235
Interest expense, net inclusive of loss on extinguishment of debt, net	54,262
Income tax expense	210
Depreciation expense	140,020
<b>EBITDA</b>	<b>\$436,727</b>

NOI from real estate assets sold or held for sale	\$(167)
Gain on sale of communities	(90,041)
Loss on sale of other real estate	697
Joint venture income	(10,184)

**Consolidated EBITDA after disposition activity** **\$337,032**

Lost NOI from casualty losses covered by business interruption insurance	\$1,786
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Business interruption insurance proceeds	(143)
Acquisition costs	959
Severance related costs	(55)
Development pursuit and other write-offs	(107)
Legal settlements	(417)

**Core EBITDA** **\$339,055**

Interest expense, net	\$49,648
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<b>Interest Coverage</b>	<b>6.8x</b>
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**Unencumbered NOI** as calculated by the Company represents NOI generated by real estate assets unencumbered by outstanding secured debt as a percentage of total NOI generated by real estate assets. The Company believes that current and prospective unsecured creditors of the Company view Unencumbered NOI as one indication of the borrowing capacity of the Company. Therefore, when reviewed together with the Company's Interest Coverage, EBITDA and cash flow from operations, the Company believes that investors and creditors view Unencumbered NOI as a useful supplemental measure for determining the financial flexibility of an entity. A calculation of Unencumbered NOI for the year ended December 31, 2016 is as follows:

### CALCULATIONS OF UNENCUMBERED NOI

(Dollars in thousands)

Full Year 2016

NOI for Established Communities	\$1,084,351
NOI for Other Stabilized Communities	165,530
NOI for Development/Redevelopment Communities	160,816
NOI from real estate assets sold or held for sale	17,509
<b>Total NOI generated by real estate assets</b>	<b>\$1,428,206</b>

NOI on encumbered assets	281,142
NOI on unencumbered assets	1,147,064

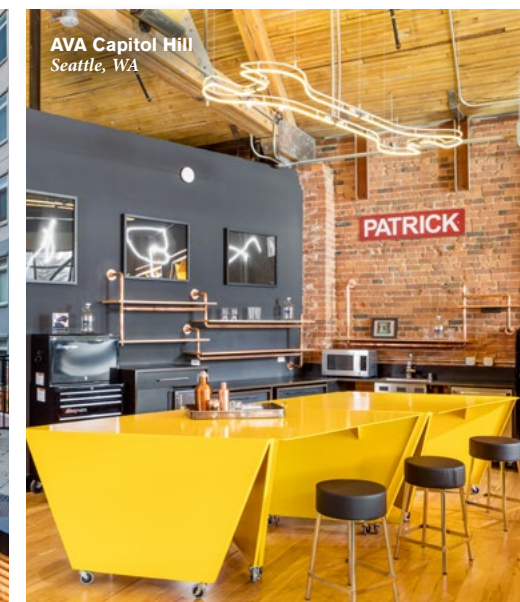
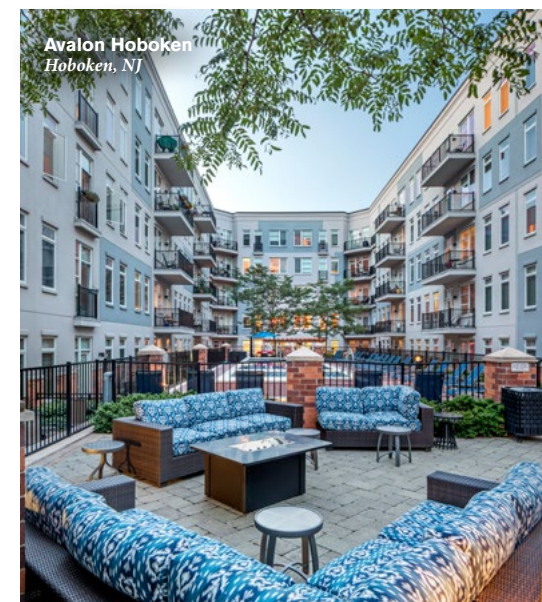
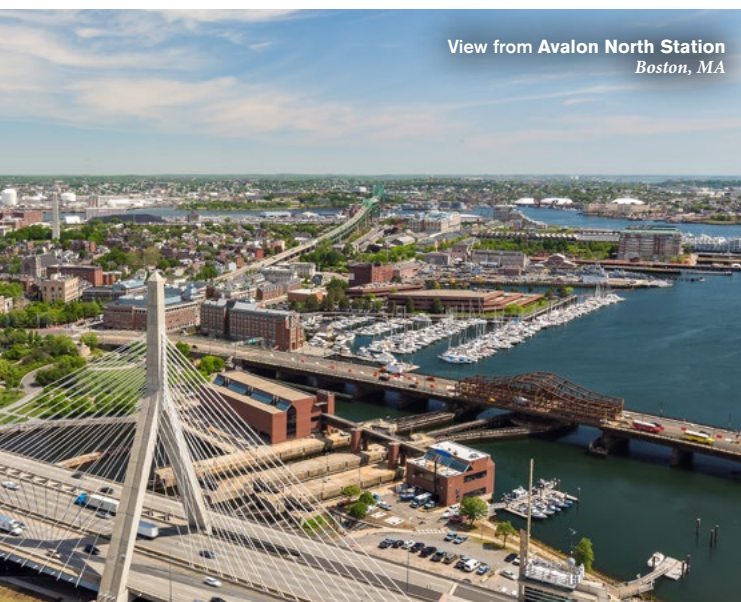
<b>Unencumbered NOI</b>	<b>80%</b>
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**NOTES** **1. TOTAL SHAREHOLDER RETURN:** The change in the value over the period stated with all dividends reinvested. Total Shareholder Return is presented as the compound annual growth rate. Total Shareholder Return for each year within the timeframe presented may vary.

**2. CORE FFO PER SHARE GROWTH:** The compound annual growth rate of Operating FFO per Share, as Reported (which represents Core FFO or the equivalent measure per S&P Global) during the periods indicated. Core FFO per Share Growth for each year within the timeframe presented may vary. The multifamily sector weighted average includes AIV, CPT, EQR, ESS, MAA and UDR and is weighted based on total market capitalization per S&P Global as of December 31, 2016. 2016 Core FFO per share, or the equivalent measure, for CPT and EQR is adjusted to account for large portfolio dispositions that resulted in the payment of special dividends. For the purpose of this calculation, the weighted average share count used to calculate the Core FFO per share amounts for CPT and EQR was reduced by the estimated total amount of special dividends paid (per share special dividend multiplied by the quarterly weighted average share count in which the special dividend was paid) divided by the 20-day trailing average stock price prior to the ex-dividend date.

**3.** As reported by Multifamily Executive.

**4.** Includes dividend increase announced by the Company on February 1, 2017.



## BOARD OF DIRECTORS

**Timothy J. Naughton**<sup>(4)</sup>  
Chairman of the Board,  
Chief Executive Officer & President,  
AvalonBay Communities, Inc.

**Glyn F. Aepfel**<sup>(2,4)</sup>  
Chief Executive Officer & President,  
Glencove Capital  
*A hotel investment and advisory company*

**Terry S. Brown**<sup>(2,4)</sup>  
Chairman of the Board &  
Chief Executive Officer,  
Asana Partners  
*A real estate investment company*

**Alan B. Buckelew**<sup>(2,4)</sup>  
Chief Information Officer,  
Carnival Corporation & plc  
*A global cruise line*

**Ronald L. Havner, Jr.**<sup>(2,4)</sup>  
Chairman of the Board &  
Chief Executive Officer,  
Public Storage, Inc.  
*A real estate investment trust*

**Richard J. Lieb**  
Managing Director,  
Chairman of Real Estate  
Greenhill & Co., LLC  
*An investment bank*

**Lance R. Primis**<sup>(3,5)</sup>  
Managing Partner,  
Lance R. Primis and Partners, LLC  
*A management consulting firm*

**Peter S. Rummell**<sup>(4,5)</sup>  
Private Investor

**H. Jay Sarles**<sup>(1,3,5)</sup>  
Private Investor

**Susan Swanezy**  
Partner  
Hodes Weill & Associates, LP  
*A global advisory firm*

**W. Edward Walter**<sup>(3,5)</sup>  
Professor, McDonough School of Business,  
Georgetown University

- (1) *Lead Independent Director*  
(2) *Audit Committee*  
(3) *Compensation Committee*  
(4) *Investment and Finance Committee*  
(5) *Nominating and Corporate Governance Committee*

## 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

**Keri A. Shea**  
Senior Vice President - Finance & Treasurer  
(Principal Accounting Officer)

## 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**  
Jason Reilley  
AvalonBay Communities, Inc.  
671 North Glebe Road, Suite 800  
Arlington, VA 22203  
Phone: 703.329.6300  
Email: ir@avalonbay.com

**Transfer Agent**  
Computershare Shareowner Services  
*Regular Mail*  
P.O. Box 30170  
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.

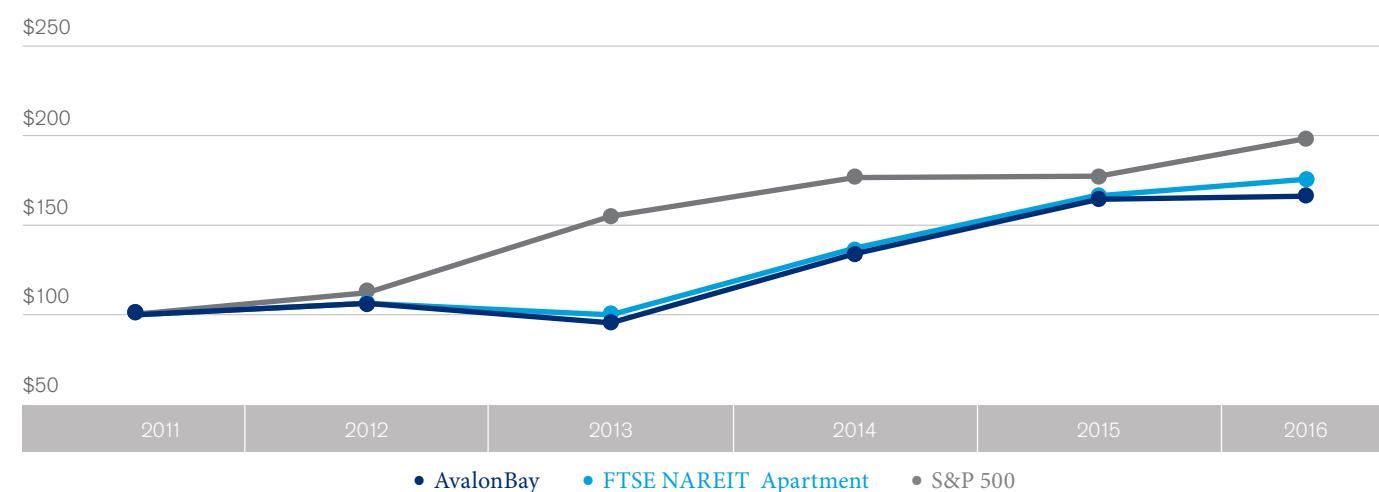
**Forward-Looking Statements**  
This Annual Report contains "forward-looking statements" within the meaning of the Securities Act of 1933 and the Securities Exchange Act of 1934. Please see our discussion titled "Forward-Looking Statements" on page 53 of our accompanying Annual Report on Form 10-K for a discussion regarding risks associated with these statements.

The **Stock Performance Graph** provides a comparison, from December 2011 through December 2016, of the cumulative total shareholder return (assuming reinvestment of dividends) among the Company, a peer group index (the FTSE NAREIT Apartment REIT Index) that includes 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 S&P Global Market Intelligence.

## STOCK PERFORMANCE



Period Ending	2011	2012	2013	2014	2015	2016
AvalonBay Communities, Inc.	\$100	107	96	137	159	158
FTSE NAREIT Apartment REIT Index	100	107	100	140	163	168
S&P 500	100	116	154	175	177	198

our purpose:  
**CREATING A BETTER WAY TO LIVE**

our core values:  
**Commitment to Integrity | Focus on Continuous Improvement | Spirit of Caring**

