



2019

ANNUAL REPORT

Dear Fellow Shareholders,

We had a productive year at AvalonBay as our 2019 financial performance modestly exceeded the expectation we provided early in the year. Core FFO of \$9.34 per share surpassed our initial outlook⁽¹⁾ by \$0.04 per share, and this outperformance was primarily driven by accretive acquisition activity and favorable capital market conditions.

OPERATIONS

Apartment market fundamentals improved moderately in 2019. Same-store revenue growth of 2.9% was 40 basis points above the levels achieved in the preceding two years, and same-store economic occupancy remained healthy at 96.0%.

Other key operating metrics also performed favorably. Same-store turnover⁽²⁾ fell to 51% in 2019, a ten-year low; same-store operating expenses increased 2.8%, 20 basis points below the expectation included in our initial outlook⁽¹⁾; and, our same-store Net Operating Income (“NOI”) Margin reached 72%, a ten-year high. We were also excited to incorporate several new technologies and processes into our operating platform that we believe will enable us to better serve our customers’ needs, contain operating expense growth, and improve NOI Margins in the future.

INVESTMENT ACTIVITY

We completed the development of seven new communities containing over 2,000 apartment homes for approximately \$665 million in total capitalized cost in 2019. We also commenced construction on eight new development communities that, if developed as expected, will contain nearly 2,400 apartment homes and represent approximately \$850 million in total capitalized cost.

Over the course of the year, we continued to grow our presence in our expansion markets. We (i) acquired two operating communities and secured a development right in Southeast Florida and, (ii) acquired one operating community, commenced

construction on one development community, and secured a development right in Denver. At year-end 2019, we had committed over \$600 million to each expansion market.

CAPITAL & BALANCE SHEET MANAGEMENT

Throughout 2019, we raised approximately \$1.3 billion of new capital from a mix of (i) asset sales, (ii) new debt, net of debt redemptions, and (iii) common equity issuances. Importantly, our leverage, as measured by Net Debt-to-Total Market Capitalization and Net Debt-to-Core EBITDA, remained low at 20% and 4.6x, respectively. In addition, our Unencumbered NOI increased 200 basis points over the course of the year, to 93%, and our weighted average years to maturity on total debt outstanding stood at 8.9 years at the end of 2019.

CORPORATE RESPONSIBILITY

We believe that to be a great company we must apply a multi-stakeholder approach to our business. Delivering strong financial results over a sustained period requires engaged associates, satisfied customers, and the support of our local communities, which we earn by taking an active leadership role in addressing important environmental and social challenges.

In 2019, we:

- Remained in the top decile for associate engagement among companies surveyed by Perceptyx⁽³⁾.
- Were recognized by Glassdoor’s Employees’ Choice Awards as one of the top 100 companies to work for in the U.S. for a second consecutive year.
- Were ranked #1 for online reputation among public multifamily REITs by J. Turner Research for a fourth consecutive year.
- Were named the Global and U.S. Leader in the Residential Sector by the Global Real Estate Sustainability Benchmark (GRESB).

→ Received an A- grade from the Carbon Disclosure Project (CDP) for our carbon emission disclosure practices. We were one of four REITs, and the only apartment company, to receive a grade of A- or better.

We are proud of these accomplishments, but also recognize that we must continually strive to improve how we support the key constituencies that drive our business forward.

CONCLUSION

2019 was another productive year for AvalonBay. A modest improvement in apartment market fundamentals, accretive development and investment activity, and favorable capital market conditions helped deliver a 24.1% total return⁽⁴⁾ to our shareholders during the year.

As we close out the decade, we feel it is important to recognize the growth that has occurred at AvalonBay over the last 10 years. Since the beginning of 2010, (i) Core FFO per share increased by 135%, (ii) we completed the development of 96 new apartment communities containing nearly 27,000 apartment homes for approximately \$8.3 billion in total capitalized cost, and (iii) we increased our annual common dividend per share by 70%.

Lastly, as of this writing, the spread of the COVID-19 coronavirus has impacted much of the country, including in our markets, with each day bringing new news. With institutions, retail outlets, restaurants, entertainment venues, conferences and gatherings closing or limiting their operations to increase social distancing and slow the spread of the virus, 2020 presents new and unique challenges for us and the rest of the nation. We are taking recommended actions to increase the social distancing among our associates and residents, and we are monitoring and implementing protocols to help protect our communities and residents.

A consensus has not yet emerged as to how long COVID-19 will impact daily living in the United States and what the size and duration of the impact will be on the economy. As a developer and provider of residential housing, we are in a unique position

during this public healthcare crisis. Far from retreating from our product, our residents will be increasing their usage of their apartment homes. At the same time, constraints on business activity will impact our development activity in ways that are not yet known. In all events, we are prepared to navigate this public healthcare crisis with a view to serving all our stakeholders.

Thank you for your continued support.

Sincerely,



Timothy J. Naughton
Chairman and CEO

March 20, 2020

NOTES

1. Initial (2019) outlook was provided by the Company on February 4, 2019.
2. Turnover represents the number of apartment homes turned over during the period, divided by the total number of apartment homes in the respective reporting period.
3. Perceptyx is a third-party service provider that surveys associates of leading companies to measure workforce engagement.
4. Total return (“total shareholder return”) is calculated by S&P Global Market Intelligence and represents the change in value over the period stated with all dividends reinvested.

DEFINITIONS AND RECONCILIATIONS OF NON-GAAP FINANCIAL MEASURES AND OTHER TERMS USED IN THIS LETTER

Development rights are development opportunities in the early phase of the development process for which the Company either has an option to acquire land or enter into a leasehold interest, for which the Company is the buyer under a long-term conditional contract to purchase land, where the Company controls the land through a ground lease or owns land to develop a new community, or where the Company is the designated developer in a public-private partnership. The Company capitalizes related pre-development costs incurred in pursuit of new developments for which the Company currently believes future development is probable.

EBITDA, EBITDAre and Core EBITDAre are considered by management to be supplemental measures of our financial performance. 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. EBITDAre is calculated by the Company in accordance with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (“NAREIT”), as EBITDA plus or minus losses and gains on the disposition of depreciated property, plus impairment write-downs of depreciated property, with adjustments to reflect the Company's share of EBITDAre of unconsolidated entities. Core EBITDAre is the Company's EBITDAre as adjusted for noncore items outlined in the table below. By further adjusting for items that are not considered part of the Company's core business operations, Core EBITDAre can help one compare the core operating and financial performance of the Company between periods. A reconciliation of EBITDA, EBITDAre and Core EBITDAre to net income is as follows (dollars in thousands):

	Q4 2019
Net income	\$ 167,671
Interest expense, net, inclusive of loss on extinguishment of debt, net	54,190
Income tax expense	1,825
Depreciation expense	171,364
EBITDA	\$ 395,050
Gain on sale of communities	(256)
Joint venture EBITDAre adjustments	(2,079)
EBITDAre	\$ 392,715
Gain on other real estate transactions	(65)
Lost NOI from casualty losses covered by business interruption insurance	265
Business interruption insurance proceeds	(527)
Advocacy contributions	50
Severance related costs	60
Development pursuit write-offs and expensed transaction costs, net	2,093
For-sale condominium marketing and administrative costs	1,286
Asset management fee intangible write-off and other joint venture losses	52
Legal settlements	(2,221)
Casualty and impairment loss	-
Core EBITDAre	\$ 393,708

Economic occupancy is defined as total possible revenue less vacancy loss as a percentage of total possible revenue. Total possible revenue (also known as “gross potential”) is determined by valuing occupied units at contract rates and vacant units at Market Rents. Vacancy loss is determined by valuing vacant units at current Market Rents. By measuring vacant apartments at their Market Rents, Economic occupancy takes into account the fact that apartment homes of different sizes and locations within a community have different economic impacts on a community’s gross revenue.

FFO and Core FFO are considered by management to be supplemental measures of our operating and financial performance. FFO is calculated by the Company in accordance with the definition adopted by NAREIT. FFO is calculated by the Company as Net income or loss attributable to common stockholders computed in accordance with GAAP, adjusted for gains or losses on sales of previously depreciated operating communities, cumulative effect of a change in accounting principle, impairment write-downs of depreciable real estate assets, write-downs of investments in affiliates which are driven by a decrease in the value of depreciable real estate assets held by the affiliate and depreciation of real estate assets, including adjustments for unconsolidated partnerships and joint ventures. By excluding gains or losses related to dispositions of previously depreciated operating communities and excluding real estate depreciation (which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates), FFO can help one compare the operating and financial performance of a company's real estate between periods or as compared to different companies. Core FFO is the Company's FFO as adjusted for non-core items outlined in the table below. By further adjusting for items that are not considered part of our core business operations, Core FFO can help one compare the core operating and financial performance of the Company between periods. A reconciliation of Net income attributable to common stockholders to FFO and to Core FFO is as follows (dollars in thousands):

	<u>FULL YEAR 2019</u>	<u>FULL YEAR 2010</u>
Net income attributable to common stockholders	\$ 785,974	\$ 175,331
Depreciation - real estate assets, including joint venture adjustments	666,563	237,041
Distributions to noncontrolling interests	46	55
Gain on sale of unconsolidated entities holding previously depreciated real estate	(5,788)	-
Gain on sale of previously depreciated real estate	(166,105)	(74,074)
FFO attributable to common stockholders	\$ 1,280,690	\$ 338,353
Adjusting items:		
Joint venture losses	87	811
Business interruption insurance proceeds	(1,441)	-
Lost NOI from casualty losses covered by business interruption insurance	675	-
Loss on extinguishment of consolidated debt	602	-
Advocacy contributions	50	-
Severance related costs	2,327	(1,550)
Development pursuit write-offs and expensed transaction costs, net	3,782	-
For-sale condominium marketing and administrative costs	3,812	-
For-sale condominium imputed carry cost	6,351	-
Gain on other real estate transactions	(439)	-
Legal settlements	(6,292)	(927)
Income tax expense (benefit)	13,003	-
Federal excise tax	-	(265)
Severe weather costs	-	672
Core FFO attributable to common stockholders	\$ 1,303,207	\$ 337,094
Average shares outstanding - diluted	139,571,550	84,632,869
Earnings per share - diluted	\$ 5.63	\$ 2.07
FFO per common share - diluted	\$ 9.18	\$ 4.00
Core FFO per common share - diluted	\$ 9.34	\$ 3.98

Market rents as reported by the Company are based on the current market rates set by the Company based on its experience in renting apartments and publicly available market data. Trends in Market Rents for a region as reported by others could vary. Market Rents for a period are based on the average Market Rents during that period and do not reflect any impact for cash concessions.

Net Debt-to-Core EBITDAre is calculated by the Company as total debt (secured and unsecured notes and the Company's variable rate unsecured credit facility) that is consolidated for financial reporting purposes, less consolidated cash and cash in escrow, divided by annualized fourth quarter 2019 Core EBITDAre, as adjusted. A calculation of Net Debt-to-Core EBITDAre is as follows (dollars in thousands):

	<u>Q4 2019</u>
Total debt principal	\$ 7,355,371
Cash and cash in escrow	(127,614)
Net debt	<u>\$ 7,227,757</u>
Core EBITDAre	\$ 393,708
Core EBITDAre, annualized	\$ 1,574,832
Net Debt-to-Core EBITDAre	<u>4.6x</u>

Net Debt-to-Total Market Capitalization is calculated by the Company as total debt (secured and unsecured notes and the Company's variable rate unsecured credit facility) that is consolidated for financial reporting purposes, less consolidated cash and cash in escrow, divided by Total Market Capitalization as of December 31, 2019. A calculation of Net Debt-to-Total Market Capitalization is as follows (dollars in thousands):

	<u>AS OF 12/31/2019</u>
Total debt principal	\$ 7,355,371
Cash and cash in escrow	(127,614)
Net debt	<u>\$ 7,227,757</u>
Common stock	\$ 29,493,039
Operating partnership units	1,573
Total debt	7,355,371
Total Market Capitalization	<u>\$ 36,849,983</u>
Net Debt-to-Total Market Capitalization	<u>20%</u>

Net Operating Income Margin is calculated by the Company as **NOI** divided by rental revenue. The Company considers Net Operating Income Margin to be an important and appropriate supplemental performance measure because it helps both investors and management to understand the Company's ability to limit the growth of expenses. A reconciliation and calculation of Net Operating Income Margin is as follows (dollars in thousands):

	2019	2018	2017	2016	2015
Net income	\$ 786,103	\$ 974,175	\$ 876,660	\$ 1,033,708	\$ 741,733
Indirect operating expenses, net of corporate income	83,008	80,227	68,312	61,403	56,973
Investments and investment management expense	-	-	-	4,822	4,370
Expensed transaction, development and other pursuit costs, net of recoveries	4,991	3,265	2,736	9,922	6,822
Interest expense, net	203,585	220,974	199,661	187,510	175,615
Loss (gain) on extinguishment of debt, net	602	17,492	25,472	7,075	(26,736)
Loss on interest rate contract	-	-	-	-	-
General and administrative expense	58,042	60,369	53,695	45,771	42,774
Joint venture (income) loss	(8,652)	(15,270)	(70,744)	(64,962)	(70,018)
Depreciation expense	661,578	631,196	584,150	531,434	477,923
Income tax expense (benefit)	13,003	(160)	141	305	1,483
Casualty and impairment loss (gain), net	-	215	6,250	(3,935)	(10,542)
Gain on legal settlement	-	-	-	-	-
Gain on sale of communities	(166,105)	(374,976)	(252,599)	(374,623)	(115,625)
(Gain) loss on other real estate transactions	(439)	(345)	10,907	(10,224)	(9,647)
Gain on sale of discontinued operations	-	-	-	-	-
(Income) loss from discontinued operations	-	-	-	-	-
For-sale condominium marketing and administrative costs	3,812	1,044	-	-	-
Gain on acquisition of unconsolidated real estate entity	-	-	-	-	-
NOI from real estate assets sold or held for sale	(12,318)	(58,620)	(14,573)	(17,509)	(10,920)
NOI	\$ 1,627,210	\$ 1,539,586	\$ 1,490,068	\$ 1,410,697	\$ 1,264,205
Same-store	1,317,472	1,165,509	1,112,472	1,084,351	973,405
Other Stabilized	202,445	178,172	196,733	165,530	145,170
Other Stabilized - Archstone	-	-	-	-	-
Redevelopment	83,052	143,471	118,062	103,932	77,484
Development	24,241	52,434	62,801	56,884	68,146
NOI	\$ 1,627,210	\$ 1,539,586	\$ 1,490,068	\$ 1,410,697	\$ 1,264,205
Same-store rental revenue	\$ 1,834,372	\$ 1,631,633	\$ 1,574,395	\$ 1,541,034	\$ 1,382,895
Same-store Net Operating Income Margin	72%	71%	71%	70%	70%

	2014	2013	2012	2011	2010
Net income	\$ 697,327	\$ 352,771	\$ 423,562	\$ 441,370	\$ 174,079
Indirect operating expenses, net of corporate income	49,055	41,554	31,911	30,550	30,246
Investments and investment management expense	4,485	3,990	6,071	5,126	3,824
Expensed transaction, development and other pursuit costs, net of recoveries	(3,717)	45,050	11,350	2,967	2,741
Interest expense, net	180,618	172,402	136,920	168,179	175,209
Loss (gain) on extinguishment of debt, net	412	14,921	1,179	1,940	-
Loss on interest rate contract	-	51,000	-	-	-
General and administrative expense	41,425	39,573	34,101	29,371	26,846
Joint venture (income) loss	(148,766)	11,154	(20,914)	(5,120)	(762)
Depreciation expense	442,682	560,215	256,026	246,666	232,571
Income tax expense (benefit)	9,368	-	-	-	-
Casualty and impairment loss (gain), net	-	-	1,449	14,052	-
Gain on legal settlement	-	-	-	-	-
Gain on sale of communities	(84,925)	-	-	-	-
(Gain) loss on other real estate transactions	(490)	(240)	(280)	(13,716)	-
Gain on sale of discontinued operations	(37,869)	(278,231)	(146,311)	(281,090)	(74,074)
(Income) loss from discontinued operations	(310)	(16,713)	(12,495)	5,658	(1,937)
For-sale condominium marketing and administrative costs	-	-	-	-	-
Gain on acquisition of unconsolidated real estate entity	-	-	(14,194)	-	-
NOI from real estate assets sold or held for sale	(15,199)	-	-	-	-
NOI	\$ 1,134,096	\$ 997,446	\$ 708,375	\$ 645,953	\$ 568,743
Same-store	673,156	578,939	531,868	468,563	419,502
Other Stabilized	101,539	114,435	86,722	89,949	74,609
Other Stabilized - Archstone	241,522	224,724	-	-	-
Redevelopment	56,879	45,841	66,010	69,000	64,088
Development	61,000	33,507	23,775	18,441	10,544
NOI	\$ 1,134,096	\$ 997,446	\$ 708,375	\$ 645,953	\$ 568,743
Same-store rental revenue	\$ 963,917	\$ 834,014	\$ 763,125	\$ 691,170	\$ 648,783
Same-store Net Operating Income Margin	70%	69%	70%	68%	65%

NOI is defined by the Company as total property revenue less direct property operating expenses (including property taxes), and excluding corporate-level income (including management, development and other fees), corporate-level property management and other indirect operating expenses, expensed transaction, development and other pursuit costs, net of recoveries, interest expense, net, loss (gain) on extinguishment of debt, net, general and administrative expense, joint venture (income) loss, depreciation expense, corporate income tax expense (benefit), casualty and impairment loss (gain), net, gain on sale of communities, (gain) loss on other real estate transactions, for-sale condominium marketing and administrative costs and net operating income from real estate assets sold or held for sale. The Company considers NOI to be an important and appropriate supplemental performance measure to Net Income of operating performance of a community or communities because it helps both investors and management to understand the core operations of a community or communities prior to the allocation of any corporate-level property management overhead or financing-related costs. NOI reflects the operating performance of a community, and allows for an easier comparison of the operating performance of individual assets or groups of assets. In addition, because prospective buyers of real estate have different financing and overhead structures, with varying marginal impact to overhead as a result of acquiring real estate, NOI is considered by many in the real estate industry to be a useful measure for determining the value of a real estate asset or groups of assets.

Same-store communities (also known as “Established Communities”) are consolidated communities in the markets where the Company has a significant presence and where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had Stabilized Operations, as defined below, as of the beginning of the respective prior year period. Therefore, for 2019 operating results, same-store are consolidated communities that have Stabilized Operations as of January 1, 2018, are not conducting or are not probable to conduct substantial redevelopment activities and are not held for sale or probable for disposition within the current year.

Stabilized Operations is defined as the earlier of (i) attainment of 95% physical occupancy or (ii) the one year anniversary of completion of development or redevelopment. Beginning January 1, 2020, the Company has updated its definition of Stabilized Operations to be the earlier of (i) attainment of 90% physical occupancy or (ii) the one-year anniversary of completion of development or redevelopment. This threshold will be applied prospectively to all periods presented.

Total Market Capitalization is calculated by the Company as 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.

	<u>AS OF</u> <u>12/31/2019</u>
Common stock	\$ 29,493,039
Operating partnership units	1,573
Total debt	7,355,371
Total Market Capitalization	<u>\$ 36,849,983</u>

Unencumbered NOI as calculated by the Company represents **NOI** generated by real estate assets unencumbered by outstanding secured notes payable as of December 31, 2019 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 years ended December 31, 2019 and December 31, 2018 are as follows (dollars in thousands):

	2019	2018
Net income	\$ 786,103	\$ 974,175
Indirect operating expenses, net of corporate income	83,008	76,522
Expensed transaction, development and other pursuit costs, net of recoveries	4,991	4,309
Interest expense, net	203,585	220,974
Loss on extinguishment of debt, net	602	17,492
General and administrative expense	58,042	56,205
Joint venture (income) loss	(8,652)	(15,270)
Depreciation expense	661,578	631,196
Income tax expense (benefit)	13,003	-
Casualty and impairment loss, net	-	215
Gain on sale of communities	(166,105)	(374,976)
Gain on other real estate transactions	(439)	(345)
For-sale condominium marketing and administrative costs	3,812	-
NOI from real estate assets sold or held for sale	(12,318)	(58,620)
Investments and investment management expense	-	7,709
NOI	\$ 1,627,210	\$ 1,539,586
Established	\$ 1,317,472	\$ 1,165,509
Other Stabilized	202,445	178,172
Redevelopment	83,052	143,471
Development	24,241	52,434
NOI from real estate assets sold or held for sale	12,318	58,620
Total NOI generated by real estate assets	\$ 1,639,528	\$ 1,598,206
NOI on encumbered assets	109,454	142,271
NOI on unencumbered assets	1,530,074	1,455,935
Unencumbered NOI	93%	91%

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

FORM 10-K

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

For the fiscal year ended December 31, 2019

Commission file number 1-12672

AVALONBAY COMMUNITIES, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

77-0404318
(I.R.S. Employer
Identification No.)

Ballston Tower
671 N. Glebe Rd, Suite 800
Arlington, Virginia 22203
(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.01 per share	AVB	New York Stock Exchange

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

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

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

The aggregate market value of the registrant's Common Stock, par value \$.01 per share, held by nonaffiliates of the registrant, as of June 30, 2019 was \$28,279,444,401.

The number of shares of the registrant's Common Stock, par value \$.01 per share, outstanding as of January 31, 2020 was 140,642,065.

Documents Incorporated by Reference

Portions of AvalonBay Communities, Inc.'s Proxy Statement for the 2020 annual meeting of stockholders, a definitive copy of which will be filed with the SEC within 120 days after the year end of the year covered by this Form 10-K, are incorporated by reference herein as portions of Part III of this Form 10-K.

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PART I

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

ITEM 1. BUSINESS

General

AvalonBay Communities, Inc. (the "Company," which term, unless the context otherwise requires, refers to AvalonBay Communities, Inc. together with its subsidiaries), is a Maryland corporation that has elected to be treated as a real estate investment trust ("REIT") for federal income tax purposes. We develop, redevelop, acquire, own and operate multifamily communities in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Pacific Northwest, and Northern and Southern California, as well as our expansion markets consisting of Denver, Colorado, and Southeast Florida. We focus on leading metropolitan areas in these regions that we believe are characterized by growing employment in high wage sectors of the economy, higher cost of home ownership and a diverse and vibrant quality of life. We believe these market characteristics offer the opportunity for superior risk-adjusted returns over the long-term on apartment community investments relative to other markets that do not have these characteristics.

At January 31, 2020, we owned or held a direct or indirect ownership interest in:

- 274 operating apartment communities containing 79,636 apartment homes in 11 states and the District of Columbia, of which 261 communities containing 76,447 apartment homes were consolidated for financial reporting purposes and 13 communities containing 3,189 apartment homes were held by unconsolidated entities in which we hold an ownership interest. One of the consolidated communities containing 422 apartment homes was under redevelopment.
- A mixed-use project located in New York, NY that contains 172 for-sale residential condominiums and 67,000 square feet of retail space.
- 22 apartment communities under development that are expected to contain an aggregate of 6,960 apartment homes when completed. One of these communities, expected to contain 328 apartment homes, is being developed through a joint venture.
- Rights to develop an additional 27 communities that, if developed as expected, will contain 9,587 apartment homes.

We generally obtain ownership in an apartment community by developing a new community on either vacant land or land with improvements that we raze, or by acquiring an existing community. In selecting sites for development or acquisition, we favor locations that are near expanding employment centers and convenient to transportation, recreation areas, entertainment, shopping and dining.

Our principal financial goal is to increase long-term shareholder value through the development, redevelopment, acquisition, ownership and, when appropriate, disposition of apartment communities in our markets. To help meet this goal, we regularly (i) monitor our investment allocation by geographic market and product type, (ii) develop, redevelop and acquire interests in apartment communities in our selected markets, (iii) selectively sell apartment communities that no longer meet our long-term strategy or when opportunities are presented to realize a portion of the value created through our investment and redeploy the proceeds from those sales and (iv) endeavor to maintain a capital structure that is aligned with our business risks with a view to maintaining continuous access to cost-effective capital. We pursue our development, redevelopment, investment and operating activities with the purpose of *Creating a Better Way to Live*. Our strategic vision is to be the leading apartment company in select US markets, providing a range of distinctive living experiences that customers value. We pursue this vision by targeting what we believe are among the best markets and submarkets, leveraging our strategic capabilities in market research and consumer insight and being disciplined in our capital allocation and balance sheet management. We operate our apartment communities under three core brands *Avalon*, *AVA* and *Eaves by Avalon*, described in Item 2. "Communities." We pursue our development and redevelopment activities primarily through in-house development and in-house redevelopment teams, which are complemented by our in-house acquisition platform. We believe that our organizational structure, which includes dedicated development and operational teams in each of our regions, and strong culture are key differentiators, providing us with highly talented, dedicated and capable associates.

During the three years ended December 31, 2019, we:

- acquired 12 apartment communities, excluding unconsolidated investments, and in 2019 we purchased our joint venture partner's interest in one operating community, obtaining a 100% ownership in that apartment community;
- disposed of 20 apartment communities, excluding unconsolidated investments and the five wholly-owned communities we contributed to the NYC Joint Venture (as defined below) during 2018;
- realized our pro rata share of the gain from the sale of seven communities owned by unconsolidated real estate entities;
- contributed five wholly-owned operating communities located in New York, NY, to a newly formed joint venture (the "NYC Joint Venture") in 2018, retaining a 20.0% interest in the venture and acting as the managing member of the venture as well as the property manager for the communities; and
- completed the development of 28 apartment communities and the redevelopment of 24 apartment communities.

A more detailed description of our unconsolidated real estate entities and the related investment activity can be found in the discussion in Note 5, "Investments in Real Estate Entities," of the Consolidated Financial Statements in Item 8 of this report and in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

A further discussion of our development, redevelopment, disposition, acquisition, property management and related strategies follows.

Development Strategy. We select land for development and follow established procedures that we believe minimize both the cost and the risks of development. As one of the largest developers of multifamily rental apartment communities in our selected markets, we identify development opportunities through local market presence and access to local market information achieved through our regional offices. In addition to our principal executive office in Arlington, Virginia, we also maintain regional offices, administrative offices or specialty offices, including offices that are in or near the following cities:

- Bellevue, Washington;
- Boston, Massachusetts;
- Denver, Colorado;
- Fairfield, Connecticut;
- Irvine, California;
- Iselin, New Jersey;
- Los Angeles, California;
- Melville, New York;
- New York, New York;
- San Diego, California;
- San Francisco, California;
- San Jose, California; and
- Virginia Beach, Virginia.

After selecting a target site, we usually negotiate for the right to acquire the site either through an option or a long-term conditional contract. Options and long-term conditional contracts generally allow us to acquire the target site after the completion of entitlements and shortly before the start of construction, which reduces development-related risks and preserves capital. However, as a result of competitive market conditions for land suitable for development, we have sometimes acquired and held land prior to construction for extended periods while entitlements are obtained, or acquired land zoned for uses other than residential with the potential for rezoning. For further discussion of our Development Rights, refer to Item 2. "Communities" in this report.

We generally act as our own general contractor and construction manager, except for certain mid-rise and high-rise apartment communities, or in locations where we have limited historical experience, where we may elect to use third-party general contractors as construction managers. We generally perform these functions directly (although we may use a wholly-owned subsidiary) both for ourselves and for the joint ventures and partnerships of which we are a member or a partner. We believe direct involvement in construction enables us to achieve higher construction quality, greater control over construction schedules and cost savings. Our development, property management and construction teams monitor construction progress to ensure quality workmanship and a smooth and timely transition into the leasing and operating phase.

During periods where competition for development land is more intense, we may acquire improved land with existing commercial uses and rezone the site for multifamily residential use. During the period that we hold these buildings for future development, any rent received in excess of expenses from these operations, which we consider to be incidental, is accounted for as a reduction in our investment in the development pursuit and not as net income. Any expenses relating to these operations, in excess of any rents received, are accounted for as a reduction in net income. We have also participated, and may in the future participate, in master planned or other large multi-use developments where we commit to build infrastructure (such as roads) to be used by other participants or commit to act as construction manager or general contractor in building structures or spaces for third parties (such as unimproved ground floor retail space, municipal garages or parks). Costs we incur in connection with these activities may be accounted for as additional invested capital in the community or we may earn fee income for providing these services. Particularly with large scale, urban in-fill developments, we may engage in significant environmental remediation efforts to prepare a site for construction.

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

Redevelopment Strategy. When we undertake the redevelopment of a community, our goal is to renovate and/or rebuild an existing community so that our total investment is generally below replacement cost and the community is well positioned in the market to achieve attractive returns on our capital. We have dedicated redevelopment teams and procedures that are intended to control both the cost and risks of redevelopment. Our redevelopment teams, which include redevelopment, construction and property management personnel, monitor redevelopment progress.

Throughout this report, the term “redevelopment” is used to refer to the entire redevelopment cycle, including planning and procurement of architectural and engineering designs, budgeting and actual renovation work. The actual renovation work is referred to as “reconstruction,” which is only one element of the redevelopment cycle.

Disposition Strategy. We sell assets that no longer meet our long-term strategy or when real estate market conditions are favorable, and we redeploy the proceeds from those sales to develop, redevelop and acquire communities and to rebalance our portfolio across or within geographic regions. This also allows us to realize a portion of the value created through our investments and provides additional liquidity by redeploying the net proceeds from our dispositions in lieu of raising that amount of capital externally. When we decide to sell a community, we generally solicit competing bids from unrelated parties for these individual assets and consider the sales price and other terms of each proposal.

As part of the Archstone Acquisition in 2013 (as defined in Item 1. “Business” in the Company's Form 10-K filed February 22, 2019), we acquired, and still own, 14 assets that had previously been contributed by third parties on a tax-deferred basis to an Archstone partnership in which the third parties received ownership interests. To protect the tax-deferred nature of the contribution, the third parties are entitled to cash payments if we trigger tax obligations to the third parties by selling, or failing to maintain sufficient levels of secured financing on, the contributed assets. Our tax protection payment obligations with respect to these assets expire at different times and in some cases don't expire until the death of a third party who contributed ownership interests to the Archstone partnership. After review and investigation of Archstone's tax and accounting records, we estimate that, had we sold or taken other triggering actions in 2019 with respect to all 14 assets, the aggregate amount of the tax protection payments that would have been triggered would have been approximately \$47,800,000. At the present time, we do not intend to take actions that would cause us to be required to make tax protection payments with respect to any of these assets.

Acquisition Strategy. Our core competencies in development and redevelopment discussed above allow us to be selective in the acquisitions we target. Acquisitions allow us to achieve rapid penetration into markets in which we desire an increased presence. Acquisitions (and dispositions) also help us achieve our desired product mix or rebalance our portfolio. Portfolio growth also allows for fixed general and administrative costs to be a smaller percentage of overall community Net Operating Income (“NOI”). While we have achieved growth in the past through the establishment of discretionary real estate investments funds, which placed certain limitations on our ability to acquire new communities during their investments periods, we are not presently pursuing the formation of a new discretionary real estate investment fund, preferring at this time to maintain flexibility in shaping our portfolio of wholly-owned assets through acquisitions and dispositions.

Property Management Strategy. We seek to increase operating income through innovative, proactive property management that will result in higher revenue from communities while constraining operating expenses. Our principal strategies to maximize revenue include:

- focusing on resident satisfaction;
- staggering lease terms such that lease expirations are better matched to traffic patterns;

- balancing high occupancy with premium pricing and increasing rents as market conditions permit; and
- employing revenue management software to optimize the pricing and term of leases.

Constraining growth in operating expenses is another way in which we seek to increase earnings growth. Growth in our portfolio and the resulting increase in revenue allows for fixed operating costs to be spread over a larger volume of revenue, thereby increasing operating margins. We constrain growth in operating expenses in a variety of ways, which include, but are not limited to, the following:

- we use purchase order controls, acquiring goods and services from pre-approved vendors;
- we use national negotiated contracts and also purchase supplies in bulk where possible;
- we bid third-party contracts on a volume basis;
- we strive to retain residents through high levels of service in order to eliminate the cost of preparing an apartment home for a new resident and to reduce marketing and vacant apartment utility costs;
- we perform turnover work in-house or hire third parties, generally considering the most cost effective approach as well as expertise needed to perform the work;
- we undertake preventive maintenance regularly to maximize resident safety and satisfaction, as well as to maximize property and equipment life;
- we have a customer care center, centralizing and improving the efficiency and consistency in the application of our policies for many of the administrative tasks associated with owning and operating apartment communities;
- we aggressively pursue real estate tax appeals; and
- we install high efficiency lighting and water fixtures, cogeneration systems and implement sustainability initiatives in our operating platform.

On-site property management teams receive bonuses based largely upon the revenue, expense, NOI and customer service metrics produced at their respective communities. We use and continuously seek ways to improve technology applications to help manage our communities, believing that the accurate collection of financial and resident data will enable us to maximize revenue and control costs through careful leasing decisions, maintenance decisions and financial management.

We generally manage the operation and leasing activity of our communities directly (although we may use a wholly-owned subsidiary) both for ourselves and the joint ventures and partnerships of which we are a member or a partner. From time to time we may engage a third party to manage leasing and/or maintenance activity at one or more of our communities.

From time to time we also pursue or arrange ancillary services for our residents to provide additional revenue sources or increase resident satisfaction. We provide such non-customary services to residents or share in the revenue or income from such services if we do so through a “taxable REIT subsidiary,” which is a subsidiary that is treated as a “C corporation” subject to federal income taxes. See “Tax Matters” below.

Financing Strategy. Our financing strategy is to endeavor to maintain a capital structure that provides financial flexibility to help ensure we can select cost effective capital market options that are well matched to our business risks. We estimate that our short-term liquidity needs will be met from cash on hand, borrowings under our \$1,750,000,000 revolving variable rate unsecured credit facility (the “Credit Facility”), sales of current operating communities and/or issuance of additional debt or equity securities. A determination to engage in an equity or debt offering depends on a variety of factors such as general market and economic conditions, our short and long-term liquidity needs, the relative costs of debt and equity capital and growth opportunities. A summary of debt and equity activity for the last three years is reflected on our Consolidated Statement of Cash Flows of the Consolidated Financial Statements set forth in Item 8 of this report.

We have entered into, and may continue in the future to enter into, joint ventures (including limited liability companies or partnerships) through which we would develop and/or own an indirect economic interest of less than 100% of the community or communities owned directly by such joint ventures. Our decision to either hold an apartment community in fee simple or to have an indirect interest in the community through a joint venture is based on a variety of factors and considerations, including: (i) the economic and tax terms required by a seller of land or of a community; (ii) our desire to diversify our portfolio of communities by market, submarket and product type; (iii) our desire at times to preserve our capital resources to maintain liquidity or balance sheet strength; and (iv) our projection, in some circumstances, that we will achieve higher returns on our invested capital or reduce our risk if a joint venture vehicle is used. Investments in joint ventures are not limited to a specified percentage of our assets. Each joint venture agreement is individually negotiated, and our ability to operate and/or dispose of a community in our sole discretion may be limited to varying degrees depending on the terms of the joint venture agreement.

In addition, from time to time, we may offer shares of our equity securities, debt securities or options to purchase stock in exchange for property. We may also acquire properties in exchange for properties we currently own.

Other Strategies and Activities. While we emphasize equity real estate investments in rental apartment communities, we have the ability to invest in other types of real estate, mortgages (including participating or convertible mortgages), securities of other REITs or real estate operating companies, or securities of technology companies that relate to our real estate operations or of companies that provide services to us or our residents, in each case consistent with our qualification as a REIT. In addition, we own and lease retail space at our communities when either (i) the highest and best use of the space is for retail (e.g., street level in an urban area); (ii) we believe the retail space will enhance the attractiveness of the community to residents or; (iii) some component of retail space is required to obtain entitlements to build apartment homes. As of December 31, 2019, we had a total of approximately 787,000 square feet of rentable retail space, excluding retail space within communities currently under development. Gross rental revenue provided by leased retail space in 2019 was \$32,627,000 (1.4% of total revenue). We may also develop a property in conjunction with another real estate company that will own and operate the retail or for-sale residential components of a mixed-use building or project that we help develop. If we secure a development right and believe that its best use, in whole or in part, is to develop the real estate with the intent to sell rather than hold the asset, we may, through a taxable REIT subsidiary, develop real estate for sale. Any investment in securities of other entities, and any development of real estate for sale, is subject to the percentage of ownership limitations, gross income tests, and other limitations that must be observed for REIT qualification.

We conduct many of the administrative functions associated with our property operations (including billing, collections, and response to resident inquiries) through an internally operated shared services center, rather than having on-site associates conduct such activities. We believe that this centralized platform allows our on-site associates to focus more on current and prospective resident services, while at the same time enabling us to reduce costs, mitigate risk and increase our availability and responsiveness to our residents. We are exploring the possibility of performing these shared service center administrative functions for a third party as a means of creating an additional revenue stream and economies of scale at our center. We cannot assure that we will provide such services to a third party or that it will be successful if we do so.

We have not engaged in trading, underwriting or agency distribution or sale of securities of other issuers and do not intend to do so. At all times we intend to make investments in a manner so as to qualify as a REIT unless, because of circumstances or changes to the Internal Revenue Code of 1986, as amended (the “Code”) (or the Treasury Regulations thereunder), our Board of Directors determines that it is no longer in our best interest to qualify as a REIT.

Tax Matters

We filed an election with our 1994 federal income tax return to be taxed as a REIT under the Code and intend to maintain our qualification as a REIT in the future. As a REIT, with limited exceptions, such as those described under “Property Management Strategy” above, we will not be taxed under federal and certain state income tax laws at the corporate level on our taxable net income to the extent taxable net income is distributed to our stockholders. We expect to make sufficient distributions to avoid income tax at the corporate level. While we believe that we are organized and qualified as a REIT and we intend to operate in a manner that will allow us to continue to qualify as a REIT, there can be no assurance that we will be successful in this regard. Qualification as a REIT involves the application of highly technical and complex provisions of the Code for which there are limited judicial and administrative interpretations and involves the determination of a variety of factual matters and circumstances not entirely within our control.

Competition

We face competition from other real estate investors, including insurance companies, pension and investment funds, REITs both in the multifamily as well as other sectors, and other well capitalized investors, to acquire and develop apartment communities and acquire land for future development. As an owner and operator of apartment communities, we also face competition for prospective residents from other operators whose communities may be perceived to offer a better location or better amenities or whose pricing may be perceived as a better value given the quality, location, terms and amenities that the prospective resident seeks. We also compete against condominiums and single-family homes that are for sale or rent. Although we often compete against large, sophisticated developers and operators for development opportunities and for prospective residents, real estate developers and operators of any size can provide effective competition for both real estate assets and potential residents.

Environmental and Related Matters

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

We believe that more government regulation of energy use, along with a greater focus on environmental protection, may, over time, have a significant impact on urban growth patterns. If changes in zoning to encourage greater density and proximity to mass transit do occur, such changes could benefit multifamily housing and those companies with a competency in high-density development. However, there can be no assurance as to whether or when such changes in regulations or zoning will occur or, if they do occur, whether the multifamily industry or the Company will benefit from such changes.

Other Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may obtain copies of our SEC filings, free of charge, from the SEC's website at www.sec.gov.

We maintain a website at www.avalonbay.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to the Securities Exchange Act of 1934 are available free of charge in the “Investor Relations” section of our website as soon as reasonably practicable after the reports are filed with or furnished to the SEC. In addition, the charters of our Board's Nominating and Corporate Governance Committee, Audit Committee and Compensation Committee, as well as our Director Independence Standards, Corporate Governance Guidelines, Code of Business Conduct and Ethics, Policy Regarding Shareholder Rights Agreements, Policy Regarding Shareholder Approval of Future Severance Agreements, Executive Stock Ownership Guidelines, Policy on Political Contributions and Government Relations, Policy for Recoupment of Incentive Compensation, and Sustainability Reports, are available free of charge in that section of our website or by writing to AvalonBay Communities, Inc., Ballston Tower, Suite 800, 671 N. Glebe Rd., Arlington, Virginia 22203, Attention: Chief Financial Officer. To the extent required by the rules of the SEC and the NYSE, we will disclose amendments and waivers relating to these documents in the same place on our website. The information posted on our website is not incorporated into this Annual Report on Form 10-K.

We were incorporated under the laws of the State of California in 1978. In 1995, we reincorporated in the State of Maryland and have been focused on the ownership and operation of apartment communities since that time. As of January 31, 2020, we had 3,122 employees.

ITEM 1A. RISK FACTORS

Our operations involve various risks that could have adverse consequences, including those described below. This Item 1A. includes forward-looking statements. You should refer to our discussion of the qualifications and limitations on forward-looking statements in this Form 10-K.

Development, redevelopment, construction and operating risks could affect our profitability.

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

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

We estimate construction costs based on market conditions at the time we prepare our budgets, and our projections include changes that we anticipate but cannot predict with certainty. Construction costs may increase, particularly for labor and certain materials and, for some of our Development Communities and Development Rights (as defined below), the total construction costs may be higher than the original budget. Total capitalized cost includes all capitalized costs incurred and projected to be incurred to develop or redevelop a community, determined in accordance with GAAP, including:

- land and/or property acquisition costs;
- fees paid to secure air rights and/or tax abatements;
- construction or reconstruction costs;
- costs of environmental remediation;
- real estate taxes;
- capitalized interest and insurance;
- loan fees;
- permits;
- professional fees;
- allocated development or redevelopment overhead; and
- other regulatory fees.

Costs to redevelop communities that have been acquired have, in some cases, exceeded our original estimates and similar increases in costs may be experienced in the future. We cannot assure you that market rents in effect at the time new Development or Redevelopment Communities complete lease-up will be sufficient to fully offset the effects of any increased construction or reconstruction costs.

The construction and maintenance of our communities include a risk of major casualty events that could materially damage our property and the property of others and pose the risk of personal injury. While we carry insurance for such risks in amounts we deem reasonable, we cannot assure that such insurance will be adequate, and when we have incurred and in the future may incur such casualties, we are subject to losses on account of deductibles and self-insured amounts in any event. Such casualties may also expose us in the future to higher insurance premiums, greater construction or operating costs (either voluntarily assumed by us or as a result of new local regulations) and risks to our reputation among prospective residents or municipalities from which we may seek approvals in the future, all of which could have a material adverse effect on our business and our financial condition and results of operations.

Unfavorable changes in market and economic conditions could adversely affect occupancy, rental rates, operating expenses and the overall market value of our real estate assets.

Local conditions in our markets significantly affect occupancy, rental rates and the operating performance of our communities. The risks that may adversely affect conditions in those markets include the following:

- corporate restructurings and/or layoffs, industry slowdowns and other factors that adversely affect the local economy;
- an oversupply of, or a reduced demand for, apartment homes;
- a decline in household formation or employment or lack of employment growth;
- the inability or unwillingness of residents to pay rent increases;
- rent control or rent stabilization laws, or other laws regulating housing, that could prevent us from raising rents sufficiently to offset increases in operating costs; and
- economic conditions that could cause an increase in our operating expenses, such as increases in property taxes, utilities, compensation of on-site associates and routine maintenance.

Rent control and other changes in applicable laws, or noncompliance with applicable laws, could adversely affect our operations or expose us to liability.

We must develop, construct and operate our communities in compliance with numerous federal, state and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include zoning laws, building codes, landlord/tenant laws and other laws generally applicable to business operations. Noncompliance with laws could expose us to liability.

Lower revenue growth or significant unanticipated expenditures may result from our need to comply with changes in (i) laws imposing remediation requirements and the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions, (ii) rent control or rent stabilization laws or other residential landlord/tenant laws or (iii) other governmental rules and regulations or enforcement policies affecting the development, use and operation of our communities, including changes to building codes and fire and life-safety codes.

We have seen a recent increase in states and municipalities implementing, considering or being urged by advocacy groups to consider rent control or rent stabilization laws and regulations or take other actions that could limit the amount by which we can raise rents or charge non-rent fees. For example, in 2019 the State of California adopted statewide rent control for communities older than fifteen years, limiting rent increases to the lesser of 10% or 5% plus local CPI. Also in 2019 the State of New York adopted new rules for rent-controlled and rent-stabilized units that revised and limited the way rent increases are calculated for renewal leases, basing increases solely on rent actually paid and eliminating the ability to increase the renewal rent to a higher “registered rent.” Furthermore, in California the Governor has the ability to enact local or statewide states of emergency which limit our ability to increase new and renewal rents more than 10% over the rent in place on the date such state of emergency was declared, which has impacted some of our California communities. These initiatives and any other future enactments of rent control or rent stabilization laws or other laws regulating multi-family housing, as well as any lawsuits against the Company arising from such rent control or other laws, may reduce rental revenues or increase operating costs. Such laws and regulations may limit our ability to charge market rents, increase rents, evict tenants or recover increases in our operating expenses and could make it more difficult for us to dispose of properties in certain circumstances. Expenses associated with our investment in these communities, such as debt service, real estate taxes, insurance and maintenance costs, are generally not reduced when circumstances cause a reduction in rental income from the community.

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

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

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

Our apartment communities compete with other housing alternatives to attract residents, including other rental apartments, condominiums and single-family homes for rent, and short term furnished offerings such as those available from extended stay hotels and through on-line services such as Airbnb. In addition, our residents and prospective residents also consider as an alternative to renting the purchase of a new or existing condominium or single-family home for sale. Competitive residential housing in a particular area could adversely affect our ability to lease apartment homes and to increase or maintain rental rates.

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

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

Capital and credit market conditions may adversely affect our access to various sources of capital and/or the cost of capital, which could impact our business activities, dividends, earnings and common stock price, among other things.

In periods when the capital and credit markets experience significant volatility, the amounts, sources and cost of capital available to us may be adversely affected. We primarily use external financing to fund construction and to refinance indebtedness as it matures. If sufficient sources of external financing are not available to us on cost effective terms, we could be forced to limit our development and redevelopment activity and/or take other actions to fund our business activities and repayment of debt, such as selling assets or reducing our cash dividend. To the extent that we are able and/or choose to access capital at a higher cost than we have experienced in recent years (reflected in higher interest rates for debt financing or a lower stock price for equity financing), absent changes in other factors, our earnings per share and cash flows could be adversely affected. In addition, the price of our common stock may fluctuate significantly and/or decline in a high interest rate or volatile economic environment. We believe that the lenders under our Credit Facility will fulfill their lending obligations thereunder, but if economic conditions deteriorate, there can be no assurance that the ability of those lenders to fulfill their obligations would not be adversely impacted.

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

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

Rising interest rates could increase interest costs and could affect the market price of our common stock, and efforts to hedge such risk could be ineffective and cause us to incur costs.

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

From time to time we use interest rate derivatives to hedge and manage our exposure to certain interest rate risks. For example, from time to time, when we anticipate issuing debt securities, we may seek to limit our exposure to fluctuations in interest rates during the period prior to the expected issuance of the securities by entering into interest rate hedging contracts. Although these agreements may partially protect against rising interest rates, they also may reduce the benefits to the Company if interest rates decline. The settlement of interest rate hedging contracts has involved and may in the future involve material charges to our earnings. In addition, our use of interest rate hedging arrangements may expose us to additional risks, including a risk that a counterparty to a hedging arrangement may fail to honor its obligations. Developing and implementing an effective interest rate risk strategy is complex and no strategy can completely insulate us from risks associated with interest rate fluctuations. There can

be no assurance that our hedging activities will be effective. Termination of these hedging agreements may involve net costs, such as transaction fees, settlement costs and/or breakage costs.

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

We have financed some of our apartment communities with obligations issued by local government agencies because the interest paid to the holders of this debt is generally exempt from federal income taxes and, therefore, the interest rate is generally more favorable to us. These obligations are commonly referred to as “tax-exempt bonds” and generally must be secured by mortgages on our communities. As a condition to obtaining tax-exempt financing, or on occasion as a condition to obtaining favorable zoning or an agreement relating to property taxes in some jurisdictions, we will commit to make some of the apartments in a community available to households whose income does not exceed certain thresholds (e.g., 50% or 80% of area median income), or who meet other qualifying tests. As of December 31, 2019, 5.2% of our apartment homes at current operating communities were under income limitations such as these. These commitments, which may run without expiration or may expire after a period of time (such as 15 or 20 years), may limit our ability to raise rents and, as a consequence, may also adversely affect the value of the communities subject to these restrictions. In addition, if we fail to observe these commitments, we could lose benefits (such as reduced property taxes) or face liabilities including liability for the benefits we received under tax exempt bonds, tax credits or agreements related to property taxes.

In addition, some of our tax-exempt bond financing documents require us to obtain a guarantee from a financial institution of payment of the principal of, and interest on, the bonds. The guarantee may take the form of a letter of credit, surety bond, guarantee agreement or other additional collateral. If the financial institution defaults in its guarantee obligations, or if we are unable to renew the applicable guarantee or otherwise post satisfactory collateral, a default will occur under the applicable tax-exempt bonds and the community could be foreclosed upon if we do not redeem the bonds.

Risks related to indebtedness.

We have a Credit Facility with a syndicate of commercial banks. Our organizational documents do not limit the amount or percentage of indebtedness that may be incurred. Accordingly, subject to compliance with outstanding debt covenants, we could incur more debt, resulting in an increased risk of default on our obligations and an increase in debt service requirements that could adversely affect our financial condition and results of operations.

The mortgages on properties that are subject to secured debt, our Credit Facility and the indentures under which a substantial portion of our debt was issued contain customary restrictions, requirements and other limitations, as well as certain financial and operating covenants including maintenance of certain financial ratios. Maintaining compliance with these restrictions could limit our flexibility. A default in these requirements, if uncured, could result in a requirement that we repay indebtedness, which could materially adversely affect our liquidity and increase our financing costs. Refer to Item 7. “Management's Discussion and Analysis of Financial Condition and Results of Operations” for further discussion.

The mortgages on properties that are subject to secured debt generally include provisions which stipulate a prepayment penalty or payment that we will be obligated to pay in the event that we elect to repay the mortgage note prior to the earlier of (i) the stated maturity of the note or (ii) the date at which the mortgage note is prepayable without such penalty or payment. If we elect to repay some or all of the outstanding principal balance for our mortgage notes, we may incur prepayment penalties or payments under these provisions which could materially adversely affect our results of operations.

The phase-out of LIBOR and transition to SOFR as a benchmark interest rate will have uncertain and possibly adverse effects.

In 2018, the Alternative Reference Rate Committee identified the Secured Overnight Financing Rate (“SOFR”) as the alternative to LIBOR. SOFR is a broad measure of the cost of borrowing cash overnight collateralized by U.S. Treasury securities, published by the Federal Reserve Bank of New York. By the end of 2021, it is expected that no new contracts will reference LIBOR and will instead use SOFR. Due to the broad use of LIBOR as a reference rate, all financial market participants, including the Company, are impacted by the risks associated with this transition. The impact of this transition on the interest rates charged the Company and the terms of lending agreements are uncertain and could possibly adversely affect our financing costs, including spread pricing on our Credit Facility and variable rate unsecured term loans (the "Term Loans") and certain other floating rate debt obligations, as well as our operations and cash flows.

Failure to maintain our current credit ratings could adversely affect our cost of funds, related margins, liquidity and access to capital markets.

There are two major debt rating agencies that routinely evaluate and rate our debt. Their ratings are based on a number of factors, which include their assessment of our financial strength, liquidity, capital structure, asset quality, amount of real estate under development, and sustainability of cash flow and earnings, among other factors. If market conditions change, we may not be able to maintain our current credit ratings, which could adversely affect our cost of funds and related margins, liquidity and access to capital markets.

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

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

Failure to generate sufficient revenue or other liquidity needs could limit cash flow available for distributions to stockholders.

A decrease in rental revenue, or liquidity needs such as the repayment of indebtedness or funding of our development activities, could have an adverse effect on our ability to pay distributions to our stockholders. Significant expenditures associated with each community such as debt service payments, if any, real estate taxes, insurance and maintenance costs are generally not reduced when circumstances cause a reduction in income from a community.

The form, timing and/or amount of dividend distributions in future periods may vary and be impacted by economic and other considerations.

The form, timing and/or amount of dividend distributions will be declared at the discretion of the Board of Directors and will depend on actual cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and other factors as the Board of Directors may consider relevant. The Board of Directors may modify our dividend policy from time to time.

We may choose to pay dividends in our own stock, in which case stockholders may be required to pay tax in excess of the cash they receive.

We may distribute taxable dividends that are payable in part in our stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of the cash dividend received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, the trading price of our stock would experience downward pressure if a significant number of our stockholders sell shares of our stock in order to pay taxes owed on dividends.

We may experience regulatory or economic barriers to selling apartment communities that could limit liquidity and financial flexibility.

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

From time to time we dispose of properties in transactions intended to qualify as “like-kind exchanges” under Section 1031 of the Code. If a transaction intended to qualify as a Section 1031 exchange is later determined to be taxable, we may face adverse tax consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of properties on a tax deferred basis.

Acquisitions may not yield anticipated results.

Our business strategy includes acquiring as well as developing communities. Our acquisition activities may be exposed to the following risks:

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

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

We may from time to time commence development activity or make acquisitions outside of our existing market areas if appropriate opportunities arise. For example, in 2017 we entered the Denver, Colorado, and Southeast Florida markets, where we have now engaged, and continue to pursue, development and acquisition opportunities. Our historical experience in our existing markets in developing, owning and operating rental communities does not ensure that we will be able to operate successfully in new markets. We may be exposed to a variety of risks when we enter a new market, including an inability to accurately evaluate local apartment market conditions; an inability to obtain land for development or to identify appropriate acquisition opportunities; an inability to hire and retain key personnel; and a lack of familiarity with local governmental and permitting procedures.

Although we are primarily in the multifamily rental business, we also own and lease ancillary retail and commercial space, in particular when such tenants represent the best use of the space, as is often the case with large urban in-fill developments. Gross rental revenue provided by leased retail/commercial space in our portfolio represented 1.4% of our total revenue in 2019. The long term nature of our retail/commercial leases and characteristics of many of our tenants (small, local businesses) may subject us to certain risks. We may not be able to lease new space for rents that are consistent with our projections or at market rates. Also, when leases for our existing retail/commercial space expire, the space may not be relet or the terms of reletting, including the cost of allowances and concessions to tenants, may be less favorable than the current lease terms. Our properties compete with other properties with retail/commercial space. The presence of competitive alternatives may affect our ability to lease space and the level of rents we can obtain. If our retail/commercial tenants experience financial distress or bankruptcy, they may fail to comply with their contractual obligations, seek concessions in order to continue operations or cease their operations, which could adversely impact our results of operations and financial condition.

We also may engage or have an interest in for-sale activity. For example, we are proceeding with the sale of the residential condominiums at The Park Loggia, a mixed-use development located in New York, New York. We may be unsuccessful at developing real estate with the intent to sell or in selling condominiums as a disposition strategy for an asset, which could have an adverse effect on our results of operations.

Land we hold with no current intent to develop may be subject to future impairment charges.

We own parcels of land that we do not currently intend to develop. As discussed in Item 2. “Communities—Other Land and Real Estate Assets,” in the event that the fair market value of a parcel changes such that we determine that the carrying basis of the parcel reflected in our financial statements is greater than the parcel's then current fair value, less costs to dispose, we would be subject to an impairment charge, which would reduce our net income.

We are exposed to various risks from our real estate activity through joint ventures.

Instead of acquiring, developing or maintaining ownership of apartment communities as a wholly-owned investment, at times we invest in real estate as a partner or a co-venturer with other investors. Joint venture investments (including investments through partnerships or limited liability companies) involve risks, including the possibility that our partner might become insolvent or otherwise refuse to make capital contributions when due; that we may be responsible to our partner for indemnifiable losses; that our partner might at any time have business goals that are inconsistent with ours; and that our partner may be in a position to take action or withhold consent contrary to our instructions or requests. Frequently, we and our partner may each have the right to trigger a buy-sell or similar arrangement that could cause us to sell our interest, acquire our partner's interest or force a sale of the asset, at a time when we otherwise would not have initiated such a transaction.

We are exposed to risks associated with investment in and management of discretionary real estate investment funds and joint ventures.

We have investment interests in unconsolidated real estate entities (collectively, "ventures") ranging from 20.0% to 50.0%. The ventures present risks, including the following:

- our subsidiaries that are the general partner or managing member of the ventures are generally liable, under applicable law or the governing agreement of a venture, for the debts and obligations of the respective venture, subject to certain exculpation and indemnification rights pursuant to the terms of the governing agreement;
- investors in the ventures holding a majority of the equity interests may remove us as the general partner or managing member in certain cases involving cause;
- while we have broad discretion to manage the ventures, the investors or an advisory committee comprised of representatives of the investors must approve certain matters, and as a result we may be unable to cause the ventures to implement certain decisions that we consider beneficial; and
- we may be liable and/or our status as a REIT may be jeopardized if either the ventures, or the REIT entities associated with the ventures, fail to comply with various tax or other regulatory matters.

We are exposed to risks associated with real estate assets that are subject to ground leases that may restrict our ability to finance, sell or otherwise transfer our interests in those assets, limit our use and expose us to loss if such agreements are breached by us or terminated.

We own assets which are subject to the terms of long-term ground leases. These ground leases may impose limitations on our use of the properties, restrict our ability to finance, sell or otherwise transfer our interests in the properties or restrict the leasing of the properties. These restrictions may limit our ability to timely sell or exchange the properties, impair the properties' value or negatively impact our ability to operate the properties. In addition, we could lose our interests in the properties if the ground leases are breached by us, terminated or lapse. As we get closer to the lease termination dates, the values of the properties could decrease if we are unable to agree upon an extension of the lease with the lessor. Certain of these ground leases have payments subject to annual escalations and/or periodic fair market value adjustments which could adversely affect our financial condition or results of operations.

We rely on information technology in our operations, and any breach, interruption or security failure of that technology, or any non-compliance with applicable laws with respect to the use of that technology, could have a negative impact on our business, results of operations, financial condition and/or reputation.

Information security risks have generally increased in recent years due to the rise in new technologies and the increased sophistication and activities of perpetrators of cyber attacks.

We collect and hold personally identifiable information of our residents and prospective residents in connection with our leasing and property management activities, and we collect and hold personally identifiable information of our associates in connection with their employment. In addition, we engage third party service providers that may have access to such personally identifiable information in connection with providing necessary information technology and security and other business services to us.

We address potential breaches or disclosure of this confidential personally identifiable information by implementing a variety of security measures intended to protect the confidentiality and security of this information including (among others) engaging reputable, recognized firms to help us design and maintain our information technology and data security systems, including testing and verification of their proper and secure operations on a periodic basis. We also maintain cyber risk insurance to provide some coverage for certain risks arising out of data and network breaches.

However, there can be no assurance that we will be able to prevent unauthorized access to this information. Any failure in or breach of our operational or information security systems, or those of our third party service providers, as a result of cyber attacks or information security breaches, could result in a wide range of potentially serious harm to our business operations and financial prospects, including (among others) disruption of our business and operations, disclosure or misuse of confidential or proprietary information (including personal information of our residents and/or associates), damage to our reputation, and/or potentially significant legal and/or financial liabilities and penalties.

Various laws and regulations and interpretations thereof, as well as agreements with payment processors, require, or may require, us to comply with rules related to our websites for use by residents and prospective residents, including requirements related to accessibility of our websites to persons with disabilities and our handling and use of data we collect. We could face liabilities for failure to comply with these requirements. New statutes, such as the California Consumer Privacy Act (“CCPA”), and related regulations are evolving and may be subject to differing interpretations. We could incur costs to comply with stricter and more complex data privacy, data collection and information security laws and standards.

Expanding social media vehicles present new risks.

The use of social media could cause us to suffer brand damage or information leakage. Negative posts or comments about us on any social networking website could damage our reputation. In addition, employees or others might disclose non-public sensitive information relating to our business through external media channels. The continuing evolution of social media will present us with new challenges and risks.

We are exposed to risks that are either uninsurable, not economically insurable or in excess of our insurance coverage, including risks discussed below.

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

Insurance coverage for earthquakes can be costly and in limited supply. As a result, we may experience shortages in desired coverage levels if market conditions are such that insurance is not available or the cost of insurance makes it, in the Company's view, economically impractical.

Severe or inclement weather risk. We are exposed to risks associated with inclement or severe weather, including hurricanes, severe winter storms and coastal flooding. Severe or inclement weather may result in increased costs resulting from increased maintenance, repair of water and wind damage, removal of snow and ice, and, in the case of our Development Communities, delays in construction that result in increased construction costs and delays in realizing rental revenues from a community.

A single catastrophe that affects one of our regions, such as an earthquake that affects the West Coast or a hurricane or severe winter storm that affects the Mid-Atlantic, Metro New York/New Jersey or New England regions, may have a significant negative effect on our financial condition and results of operations.

Climate change risk. To the extent that significant changes in the climate occur in areas where our communities are located, we may experience extreme weather and changes in precipitation and temperature, all of which may result in physical damage to or a decrease in demand for properties located in these areas or affected by these conditions. Should the impact of climate change be material in nature, including significant property damage to or destruction of our communities, or occur for lengthy periods of time, our financial condition or results of operations may be adversely affected. In addition, changes in federal, state and local legislation and regulation based on concerns about climate change could result in increased capital expenditures on our existing properties and our new development properties (for example, to improve their energy efficiency and/or resistance to inclement weather) without a corresponding increase in revenue, resulting in adverse impacts to our net income.

Terrorism risk. We have significant investments in large metropolitan markets, such as Metro New York/New Jersey and Washington, D.C., which have in the past been or may in the future be the target of actual or threatened terrorist attacks. Future terrorist attacks in these markets could directly or indirectly damage our communities, both physically and financially, or cause losses that exceed our insurance coverage and that could have a material adverse effect on our business, financial condition and results of operations.

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

In addition to the earthquake insurance discussed above, we carry commercial general liability insurance, property insurance and terrorism insurance with respect to our communities on terms and in amounts we consider commercially reasonable. There are, however, certain types of losses (such as losses arising from acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in the Company's view, economically impractical. If an uninsured property

loss or a property loss in excess of insured limits were to occur, we could lose our capital invested in a community, as well as the anticipated future revenues from such community. We would also continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. If an uninsured liability to a third party were to occur, we would incur the cost of defense and settlement with, or court ordered damages to, that third party. A significant uninsured property or liability loss could have a material adverse effect on our business and our financial condition and results of operations.

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

Under various federal, state and local environmental and public health laws, regulations and ordinances, we may be required, regardless of knowledge or responsibility, to investigate and remediate the effects of hazardous or toxic substances or petroleum product releases at our properties (including in some cases natural substances such as methane and radon gas) and may be held liable under these laws or common law to a governmental entity or to third parties for property, personal injury or natural resources damages and for investigation and remediation costs incurred as a result of the contamination. These damages and costs may be substantial and may exceed any insurance coverage we have for such events. The presence of these substances, or the failure to properly remediate the contamination, may adversely affect our ability to borrow against, develop, sell or rent the affected property. In addition, some environmental laws create or allow a government agency to impose a lien on the contaminated site in favor of the government for damages and costs it incurs as a result of the contamination.

The development, construction and operation of our communities are subject to regulations and permitting under various federal, state and local laws, regulations and ordinances, which regulate matters including wetlands protection, storm water runoff and wastewater discharge. These laws and regulations may impose restrictions on the manner in which our communities may be developed, and noncompliance with these laws and regulations may subject us to fines and penalties.

Certain federal, state and local laws, regulations and ordinances govern the removal, encapsulation or disturbance of asbestos containing materials (“ACMs”) when such materials are in poor condition or in the event of renovation or demolition of a building. These laws and the common law may impose liability for release of ACMs and may allow third parties to seek recovery from owners or operators of real properties for personal injury associated with exposure to ACMs. We are not aware that any ACMs were used in the construction of the communities we developed. ACMs were, however, used in the construction of a number of the communities that we have acquired. Although we implement an operations and maintenance program at each of the communities at which ACMs are detected, we may fail to adequately observe such program or a disturbance of ACMs may occur nevertheless, exposing us to liability.

We are aware that some of our communities have lead paint and have implemented an operations and maintenance program at each of those communities.

Environmental agencies and third parties may assert claims for remediation or personal injury based on the alleged actual or potential intrusion into buildings of chemical vapors from soils or groundwater underlying or in the vicinity of those buildings or on nearby properties.

All of our stabilized operating communities, and all of the communities that we are currently developing, have been subjected to at least a Phase I or similar environmental assessment, which generally does not involve invasive techniques such as soil or groundwater sampling. These assessments, together with subsurface assessments conducted on some properties, have not revealed, and we are not otherwise aware of, any environmental conditions that we believe would have a material adverse effect on our business, assets, financial condition or results of operations. In connection with our ownership, operation and development of communities, from time to time we undertake substantial remedial action in response to the presence of subsurface or other contaminants, including contaminants in soil, groundwater and soil vapor beneath or affecting our buildings. In some cases, an indemnity exists upon which we may be able to rely if environmental liability arises from the contamination or remediation costs exceed estimates. There can be no assurance, however, that all necessary remediation actions have been or will be undertaken at our properties or that we will be indemnified, in full or at all, in the event that environmental liability arises.

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

Additionally, we have occasionally been involved in developing, managing, leasing and operating various properties for third parties. Consequently, we may be considered to have been an operator of such properties and, therefore, potentially liable for removal or remediation costs or other potential costs which relate to the release or presence of hazardous or toxic substances or petroleum products at such properties.

We cannot assure you that:

- the environmental assessments described above have identified all potential environmental liabilities;
- no prior owner created any material environmental condition not known to us or the consultants who prepared the assessments;
- no environmental liabilities have developed since the environmental assessments were prepared;
- the condition of land or operations in the vicinity of our communities, such as the presence of underground storage tanks, will not affect the environmental condition of our communities;
- future uses or conditions, including, without limitation, changes in applicable environmental laws and regulations, will not result in the imposition of environmental liability; and
- no environmental liabilities will arise at communities that we have sold for which we may have liability.

Our success depends on key personnel whose continued service is not guaranteed.

Our success depends in part on our ability to attract and retain the services of executive officers and other personnel. Our executive officers make important capital allocation decisions or recommendations to our Board of Directors from among the opportunities identified by our regional offices. There is substantial competition for qualified personnel in the real estate industry, and the loss of our key personnel could adversely affect the Company.

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

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

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

Even if we qualify as a REIT, we will be subject to certain federal, state and local taxes on our income and property and on taxable income that we do not distribute to our stockholders. In addition, we hold through our taxable REIT subsidiaries certain assets and engage in certain activities that a REIT could not engage in directly. We also use taxable REIT subsidiaries to hold certain assets that we believe would be subject to the 100% prohibited transaction tax if sold at a gain outside of a taxable REIT subsidiary or to engage in activities that generate non-qualifying REIT income. Our taxable REIT subsidiaries are subject to U.S. tax as regular corporations. The Archstone Acquisition increased the amount of assets held through our taxable REIT subsidiaries.

Changes in U.S. accounting standards may materially and adversely affect the reporting of our operations.

The Company follows accounting principles generally accepted in the United States (“GAAP”). GAAP is established by the Financial Accounting Standards Board (“FASB”), an independent body whose standards are recognized by the SEC as authoritative for publicly held companies. The FASB and the SEC create and interpret accounting standards and may issue new accounting pronouncements or change the interpretation and application of these standards that govern the preparation of our financial statements. These changes could have a material impact on our reported consolidated results of operations and financial position.

Prospective investors are urged to consult with their tax advisors regarding the effects of recently enacted tax legislation and other legislative, regulatory and administrative developments.

On December 22, 2017, H.R. 1, informally titled the Tax Cuts and Jobs Act (the “TCJA”), was enacted. The TCJA made major changes to the Code, including a number of provisions of the Code that affect the taxation of REITs and their stockholders. The long-term effect of the significant changes made by the TCJA remains uncertain. The effect of any technical corrections with respect to the TCJA could have an adverse effect on us or our stockholders or holders of our debt securities.

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. COMMUNITIES

Our real estate investments consist primarily of current operating apartment communities, communities in various stages of development (“Development Communities”) and Development Rights (as defined below). Our current operating communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities, Redevelopment Communities and Unconsolidated Communities. While we generally establish the classification of communities on an annual basis, we intend to update the classification of communities during the calendar year to the extent that our plans with regard to the disposition or redevelopment of a community change during the year. The following is a description of each category:

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

- *Established Communities (also known as Same Store Communities)* for the year ended December 31, 2019 are consolidated communities in the markets where we have a significant presence (New England, New York/New Jersey, Mid-Atlantic, Pacific Northwest, and Northern and Southern California) and 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, as defined below, as of the beginning of the respective prior year. The Established Communities for the year ended December 31, 2019 are communities that are consolidated for financial reporting purposes, had Stabilized Occupancy as of January 1, 2018, are not conducting or planning to conduct substantial redevelopment activities, and are not held for sale or planned for disposition within the fiscal year. A community is considered to have Stabilized Occupancy at the earlier of (i) attainment of 95% physical occupancy or (ii) the one-year anniversary of completion of development or redevelopment.

Beginning January 1, 2020, we have updated our definition of Stabilized Occupancy as the earlier of (i) attainment of 90% physical occupancy or (ii) the one-year anniversary of completion of development or redevelopment. In addition, beginning January 1, 2020, Established Communities will also include consolidated communities in our expansion markets of Denver, Colorado, and Southeast Florida. These changes will be applied prospectively to all periods presented.

- *Other Stabilized Communities* are all other completed consolidated communities that have Stabilized Occupancy, as of January 1, 2019, or which were acquired during the years ended December 31, 2019 or 2018. Other Stabilized Communities for the year ended December 31, 2019 includes stabilized operating communities in our expansion markets of Denver, Colorado, and Southeast Florida, but excludes communities that are conducting or planning to conduct substantial redevelopment activities within the fiscal year.
- *Lease-Up Communities* are consolidated communities where construction has been complete for less than one year and that do not have Stabilized Occupancy.
- *Redevelopment Communities* are consolidated communities where substantial redevelopment is in progress or is planned to begin during the fiscal year. Redevelopment is considered substantial when capital invested during the reconstruction effort is expected to exceed the lesser of \$5,000,000 or 10% of the community's pre-redevelopment cost basis and is expected to have a material impact on the operations of the community, including occupancy levels and future rental rates.

Beginning January 1, 2020, we have updated our definition of Redevelopment Communities, to consist of consolidated communities that have (i) substantial redevelopment in progress or that is planned to begin during the fiscal year, through a capital investment during the reconstruction effort that is expected to exceed the lesser of \$5,000,000 or 10% of the community's pre-redevelopment cost basis and (ii) physical occupancy that is below or is expected to be below 90% during or as a result of the redevelopment activity. These changes will be applied prospectively to all periods presented.

- *Unconsolidated Communities* are communities that we have an indirect ownership interest in through our investment interest in an unconsolidated entity. Unconsolidated Communities that are under development are presented as Development Communities.

Development Communities are communities that are either currently under construction, or were under construction and completed during the fiscal year. These communities may be partially complete and operating.

Development Rights are development opportunities in the early phase of the development process where we either have an option to acquire land or enter into a leasehold interest, where we are the buyer under a long-term conditional contract to purchase land, where we control the land through a ground lease or own land to develop a new community, or where we are the designated developer in a public-private partnership. We capitalize related pre-development costs incurred in pursuit of new developments for which we currently believe future development is probable.

We currently lease our corporate headquarters located in Arlington, Virginia, as well as our other regional and administrative offices under operating leases.

As of December 31, 2019, communities that we owned or held a direct or indirect interest in were classified as follows:

	Number of communities	Number of apartment homes
Current Communities		
Established Communities:		
New England	33	8,166
Metro NY/NJ	40	11,463
Mid-Atlantic	32	11,232
Pacific Northwest	16	4,116
Northern California	36	10,136
Southern California	53	14,689
Total Established	210	59,802
Other Stabilized Communities:		
New England	8	2,161
Metro NY/NJ	9	2,515
Mid-Atlantic	8	2,757
Pacific Northwest	—	—
Northern California	5	2,099
Southern California	5	2,371
Expansion Markets	8	2,300
Non-Core	—	—
Total Other Stabilized	43	14,203
Lease-Up Communities	7	2,027
Redevelopment Communities	2	665
Unconsolidated Communities	13	3,189
Total Current Communities	275	79,886
Development Communities (1)	22	6,960
Total Communities	297	86,846
Development Rights	27	9,587

(1) Development Communities includes Avalon Alderwood Mall, expected to contain 328 apartment homes, which is being developed within an unconsolidated joint venture, and excludes The Park Loggia, which contains 172 for-sale residential condominiums and 67,000 square feet of retail space, which was completed in the fourth quarter of 2019.

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

We generally establish the composition of our Established Communities portfolio annually. Changes in the Established Communities portfolios for the years ended December 31, 2019, 2018 and 2017 were as follows:

	Number of communities
Established Communities as of December 31, 2016	191
Communities added	17
Communities removed (1):	
Redevelopment Communities	(10)
Disposed Communities	(6)
Other Stabilized (2)	(1)
Communities with multiple phases combined	(1)
Established Communities as of December 31, 2017	190
Communities added	25
Communities removed (1):	
Redevelopment Communities	(9)
Disposed Communities (3)	(13)
Other Stabilized (2)	(1)
Communities with multiple phases separated	2
Established Communities as of December 31, 2018	194
Communities added	22
Communities removed (1):	
Redevelopment Communities	(2)
Disposed Communities	(3)
Other Stabilized (2)	(1)
Established Communities as of December 31, 2019	210

- (1) We remove a community from our Established Communities portfolio if we believe that planned activity for a community for the upcoming year will result in that community's expected operations not being comparable to the prior year period. We believe that a community's expected operations will not be comparable to the prior year period when we intend either (i) to undertake a significant capital renovation of the community, such that we would consider the community to be classified as a Redevelopment Community; (ii) to dispose of a community through a sale or other disposition transaction; or (iii) when a significant casualty loss occurs.
- (2) Community was moved from the Established Communities portfolio to the Other Stabilized portfolio as a result of a casualty loss that occurred during the year and impacted operations.
- (3) Includes the five wholly-owned communities contributed to the NYC Joint Venture.

Current Communities

Our Current Communities include garden-style apartment communities consisting of multi-story buildings of stacked flats and/or townhome apartments in landscaped settings, as well as mid and high rise apartment communities consisting of larger elevator-served buildings of four or more stories, frequently with structured parking. As of January 31, 2020, our Current Communities consisted of the following:

	Number of communities	Number of apartment homes
Garden-style	135	40,979
Mid-rise	110	30,168
High-rise	29	8,489
Total Current Communities	274	79,636

As discussed in Item 1. “Business,” we operate under three core brands *Avalon*, *AVA* and *Eaves by Avalon*. We believe that this branding differentiation allows us to target our product offerings to multiple customer groups and submarkets within our existing geographic footprint. Our core “*Avalon*” brand focuses on upscale apartment living and high end amenities and services. “*AVA*” targets customers in high energy, transit-served urban neighborhoods and generally feature smaller apartments, many of which are designed for roommate living with an emphasis on modern design and a technology focus. “*Eaves by Avalon*” is targeted to the cost conscious, “value” segment in suburban areas. We believe that these brands allow us to further penetrate our existing markets by targeting our market by consumer preference and attitude as well as by location and price.

We also have an extensive and ongoing maintenance program to continually maintain and enhance our communities and apartment homes. The aesthetic appeal of our communities and a service-oriented property management team, focused on the specific needs of residents, enhances market appeal to discriminating residents. We believe our mission of *Creating a Better Way To Live* helps us achieve higher rental rates and occupancy levels while minimizing resident turnover and operating expenses.

Our Current Communities are located in the following geographic markets:

	Number of communities at		Number of apartment homes at		Percentage of total apartment homes at	
	1/31/2019	1/31/2020	1/31/2019	1/31/2020	1/31/2019	1/31/2020
New England	47	47	11,846	11,854	15.1%	14.9%
Boston, MA	37	39	9,876	10,440	12.6%	13.1%
Fairfield, CT	10	8	1,970	1,414	2.5%	1.8%
Metro NY/NJ	54	56	15,279	15,989	19.5%	20.1%
New York City, NY	14	14	5,089	5,089	6.5%	6.5%
New York Suburban	19	19	4,573	4,573	5.8%	5.7%
New Jersey	21	23	5,617	6,327	7.2%	7.9%
Mid-Atlantic	41	42	14,380	14,531	18.4%	18.2%
Washington Metro/Baltimore, MD	41	42	14,380	14,531	18.4%	18.2%
Pacific Northwest	17	19	4,538	5,135	5.8%	6.5%
Seattle, WA	17	19	4,538	5,135	5.8%	6.5%
Northern California	42	42	12,548	12,548	16.0%	15.7%
San Jose, CA	12	12	4,713	4,713	6.0%	5.9%
Oakland-East Bay, CA	13	13	3,847	3,847	4.9%	4.8%
San Francisco, CA	17	17	3,988	3,988	5.1%	5.0%
Southern California	60	60	17,352	17,279	22.1%	21.7%
Los Angeles, CA	40	40	11,916	11,843	15.2%	14.9%
Orange County, CA	12	12	3,370	3,370	4.3%	4.2%
San Diego, CA	8	8	2,066	2,066	2.6%	2.6%
Expansion markets	5	8	1,408	2,300	1.8%	2.9%
Denver, CO	3	4	748	1,086	1.0%	1.4%
Southeast Florida	2	4	660	1,214	0.8%	1.5%
Non-Core	3	—	1,014	—	1.3%	—%
	<u>269</u>	<u>274</u>	<u>78,365</u>	<u>79,636</u>	<u>100.0%</u>	<u>100.0%</u>

We manage and operate substantially all of our Current Communities. During the year ended December 31, 2019, we completed construction of seven communities containing 2,027 apartment homes, acquired five wholly-owned operating communities containing 1,175 apartment homes and sold six wholly-owned operating communities containing 1,660 apartment homes. The average age of our Current Communities, on a weighted average basis according to number of apartment homes, is 19.5 years. When adjusted to reflect redevelopment activity, as if redevelopment were a new construction completion date, the weighted average age of our Current Communities is 10.3 years.

Of the Current Communities, as of January 31, 2020, we owned (directly or through wholly-owned subsidiaries):

- 259 operating communities, including 248 with a full fee simple, or absolute, ownership interest and 11 that are on land subject to a land lease. The land leases have various expiration dates from October 2026 to March 2142, and six of the land leases are used to support tax advantaged structures that ultimately allow us to purchase the land upon lease expiration.
- A general partnership interest and an indirect limited partnership interest in Archstone Multifamily Partners AC LP (the “U.S. Fund”) and Multifamily Partners AC JV LP (the “AC JV”), subsidiaries of which own four and two operating communities, respectively.
- A membership interest in four limited liability companies, one of which, the NYC Joint Venture, through subsidiaries owns a fee simple interest in three operating communities and a leasehold interest in two additional operating communities, as well as three ventures that each hold a fee simple interest in an operating community, one of which is consolidated for financial reporting purposes.
- A general partnership interest in one partnership structured as a “DownREIT,” as described more fully below, that owns one community.

We also hold, directly or through wholly-owned subsidiaries, the full fee simple or leasehold ownership interest in our Development Communities, except for one which is being developed within an unconsolidated joint venture. In addition, we own a mixed-use project for which we are pursuing a for-sale strategy of individual condominium units.

In our partnership structured as a DownREIT, one of our wholly-owned subsidiaries is the general partner, and there are limited partners whose interest in the partnership is represented by units of limited partnership interest. Limited partners are entitled to receive an initial distribution before any distribution is made to the general partner. Under the partnership agreement for the DownREIT, the distributions per unit paid to the holders of units of limited partnership interests are equal to our current common stock dividend amount. The holders of units of limited partnership interest have the right to present all or some of their units for redemption for a cash amount as determined by the partnership agreement and based on the fair value of our common stock. In lieu of a cash redemption by the partnership, we may elect to acquire any unit presented for redemption for one share of our common stock or for such cash amount. As of January 31, 2020, there were 7,500 DownREIT partnership units outstanding. The DownREIT partnership is consolidated for financial reporting purposes.

Development Communities

As of December 31, 2019, we owned or held a direct or indirect interest in 22 Development Communities under construction. We expect these Development Communities, when completed, to add a total of 6,960 apartment homes and 64,000 square feet of retail space to our portfolio for a total capitalized cost, including land acquisition costs, of approximately \$2,596,000,000. We cannot assure you that we will meet our schedule for construction completion or that we will meet our budgeted costs, either individually, or in the aggregate. You should carefully review Item 1A. “Risk Factors” for a discussion of the risks associated with development activity and our discussion under Item 7. “Management's Discussion and Analysis of Financial Condition and Results of Operations” (including the factors identified under “Forward-Looking Statements”) for further discussion of development activity.

During 2019 we completed the construction of The Park Loggia, located in New York, NY, which contains 172 for-sale residential condominium units and 67,000 square feet of retail space for an estimated total capitalized cost of \$626,000,000. We currently intend to own and operate the retail portion of the development. In 2020, through the date on which this report was filed with the SEC, we sold 14 residential condominiums at The Park Loggia, for gross proceeds of approximately \$47,000,000. In addition, we have contracts outstanding on 41 of the remaining residential condominiums.

The following table presents a summary of the Development Communities. We hold a fee simple ownership interest in these communities (directly or through a wholly-owned subsidiary) unless otherwise noted in the table.

		Number of apartment homes	Projected total capitalized cost (1) (\$ millions)	Construction start	Initial actual/ projected occupancy (2)	Estimated completion	Estimated stabilization (3)
1.	Avalon Teaneck <i>Teaneck, NJ</i>	248	\$ 73	Q4 2016	Q2 2019	Q1 2020	Q2 2020
2.	Avalon North Creek <i>Bothell, WA</i>	316	84	Q4 2017	Q2 2019	Q1 2020	Q2 2020
3.	Avalon Norwood <i>Norwood, MA</i>	198	61	Q2 2018	Q3 2019	Q1 2020	Q3 2020
4.	Avalon Public Market <i>Emeryville, CA</i>	289	175	Q4 2016	Q3 2019	Q3 2020	Q4 2020
5.	Avalon Yonkers <i>Yonkers, NY</i>	590	189	Q4 2017	Q3 2019	Q4 2020	Q2 2021
6.	AVA Hollywood (4) <i>Hollywood, CA</i>	695	373	Q4 2016	Q4 2019	Q4 2020	Q1 2021
7.	Avalon Towson <i>Towson, MD</i>	371	114	Q4 2017	Q1 2020	Q4 2020	Q2 2021
8.	Avalon Walnut Creek II <i>Walnut Creek, CA</i>	200	111	Q4 2017	Q1 2020	Q3 2020	Q1 2021
9.	Avalon Doral <i>Doral, FL</i>	350	114	Q2 2018	Q2 2020	Q3 2020	Q3 2021
10.	Avalon East Harbor <i>Baltimore, MD</i>	400	139	Q3 2018	Q3 2020	Q3 2021	Q4 2021
11.	Avalon Old Bridge <i>Old Bridge, NJ</i>	252	66	Q3 2018	Q2 2020	Q1 2021	Q3 2021
12.	Avalon Newcastle Commons II <i>Newcastle, WA</i>	293	106	Q4 2018	Q3 2020	Q2 2021	Q4 2021
13.	Twinbrook Station <i>Rockville, MD</i>	238	66	Q4 2018	Q3 2020	Q1 2021	Q3 2021
14.	Avalon Harrison (4) <i>Harrison, NY</i>	143	76	Q4 2018	Q1 2021	Q1 2022	Q2 2022
15.	Avalon Brea Place <i>Brea, CA</i>	653	290	Q2 2019	Q1 2021	Q2 2022	Q3 2022
16.	Avalon Foundry Row <i>Owings Mill, MD</i>	437	100	Q2 2019	Q1 2021	Q1 2022	Q3 2022
17.	Avalon Marlborough II <i>Marlborough, MA</i>	123	42	Q2 2019	Q2 2020	Q4 2020	Q1 2021
18.	Avalon Acton II <i>Acton, MA</i>	86	31	Q4 2019	Q3 2020	Q4 2020	Q1 2021
19.	Avalon Woburn <i>Woburn, MA</i>	350	121	Q4 2019	Q3 2021	Q2 2022	Q3 2022
20.	AVA RiNo <i>Denver, CO</i>	246	87	Q4 2019	Q1 2022	Q2 2022	Q4 2022
21.	Avalon Monrovia <i>Monrovia, CA</i>	154	68	Q4 2019	Q1 2021	Q3 2021	Q4 2021
22.	Avalon Alderwood Mall (5) <i>Lynnwood, WA</i>	328	110	Q4 2019	Q3 2021	Q2 2022	Q3 2022
	Total	6,960	\$ 2,596				

- (1) Projected total capitalized cost includes all capitalized costs projected to be or actually incurred to develop the respective Development Community, determined in accordance with GAAP, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees, as well as costs incurred for first generation retail tenants such as tenant improvements and leasing commissions. Projected total capitalized cost for communities identified as having joint venture ownership, either during construction or upon construction completion, represents the total projected joint venture contribution amount unless otherwise noted.
- (2) Initial projected occupancy dates are estimates. There can be no assurance that we will complete any or all of these proposed developments.
- (3) Estimated stabilization will occur subsequent to January 1, 2020, when Stabilized Operations is defined as the earlier of (i) attainment of 90% or greater physical occupancy or (ii) the one-year anniversary of completion of development.
- (4) Developments containing at least 10,000 square feet of retail space include AVA Hollywood (19,000 square feet) and Avalon Harrison (27,000 square feet).
- (5) We are developing this project within an unconsolidated joint venture that was formed in December 2019, in which we own a 50.0% interest. The information above represents the total cost for the venture.

During the year ended December 31, 2019, the Company completed the development of the following communities:

	Number of apartment homes	Total capitalized cost (1) (\$ millions)	Approximate rentable area (sq. ft.)	Total capitalized cost per sq. ft.	Quarter of completion
1. Avalon at the Hingham Shipyard II <i>Hingham, MA</i>	190	\$ 65	202,820	\$ 320	Q1 2019
2. Avalon Sudbury <i>Sudbury, MA</i>	250	87	336,684	258	Q1 2019
3. Avalon Piscataway <i>Piscataway, NJ</i>	360	91	399,492	228	Q2 2019
4. AVA Esterra Park <i>Redmond, WA</i>	323	91	229,514	396	Q3 2019
5. Avalon Boonton <i>Boonton, NJ</i>	350	93	376,006	247	Q4 2019
6. Avalon Belltown Towers (2) <i>Seattle, WA</i>	274	147	243,321	604	Q4 2019
7. Avalon Saugus (2) <i>Saugus, MA</i>	280	93	315,039	295	Q4 2019
Total (3)	2,027	\$ 667			

- (1) Total capitalized cost is as of December 31, 2019. We generally anticipate incurring additional costs associated with these communities that are customary for new developments.
- (2) Approximate rentable area includes retail space. Developments containing at least 10,000 square feet of retail space include Avalon Belltown Towers (11,000 square feet) and Avalon Saugus (23,000 square feet).
- (3) Excludes the development of The Park Loggia, which contains 172 for-sale residential condominiums and 67,000 square feet of retail space. Development was complete in the fourth quarter of 2019.

Redevelopment Communities

As of December 31, 2019, we had two communities containing 665 apartment homes under redevelopment. We expect the total capitalized cost to redevelop these communities to be \$45,000,000, excluding costs incurred prior to redevelopment. We have found that the cost to redevelop an existing apartment community is more difficult to budget and estimate than the cost to develop a new community. Accordingly, we expect that actual costs may vary from our budget by a wider range than for a new Development Community. We cannot assure you that we will meet our schedule for reconstruction completion or for attaining restabilized operations, or that we will meet our budgeted costs, either individually or in the aggregate. We anticipate maintaining or increasing our current level of redevelopment activity related to communities in our current operating portfolio. You should carefully review Item 1A. "Risk Factors" for a discussion of the risks associated with redevelopment activity.

Development Rights

At December 31, 2019, we had \$70,486,000 in capitalized costs (including legal fees, design fees and related overhead costs) related to Development Rights for which we control the land parcel, typically through a conditional agreement or option to purchase or lease the land. Collectively, the land held for development and associated costs for deferred development rights relate to 27 Development Rights for which we expect to develop new apartment communities in the future. The Development Rights range from those beginning design and architectural planning to those that have completed site plans and drawings and can begin construction almost immediately. We estimate that the successful completion of all of these communities would ultimately add approximately 9,587 apartment homes to our portfolio. Substantially all of these apartment homes will offer features like those offered by the communities we currently own.

For 22 Development Rights, we control the land through a conditional agreement or option to purchase or lease the parcel. In addition, five Development Rights are additional development phases of existing stabilized operating communities we own and will be constructed on land currently associated with, or adjacent to, those operating communities.

The properties comprising the Development Rights are in different stages of the due diligence and regulatory approval process. The decisions as to which of the Development Rights to invest in, if any, or to continue to pursue once an investment in a Development Right is made, are business judgments that we make after we perform financial, demographic and other analyses. In the event that we do not proceed with a Development Right, we generally would not recover any of the capitalized costs incurred in the pursuit of those communities, unless we were to recover amounts in connection with the sale of land; however, we cannot guarantee a recovery. Pre-development costs incurred in the pursuit of Development Rights, for which future development is not yet considered probable, are expensed as incurred. In addition, if the status of a Development Right changes, making future development no longer probable, any unrecoverable capitalized pre-development costs are charged to expense. During 2019, we incurred a charge of \$4,991,000 for development pursuits that were not yet probable of future development at the time incurred, or for pursuits that we determined were no longer probable of being developed.

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

The following presents a summary of the Development Rights:

Market	Number of rights	Estimated number of homes	Projected total capitalized cost (\$ millions) (1)
New England	3	424	\$ 164
Metro NY/NJ	12	5,171	2,260
Mid-Atlantic	—	—	—
Pacific Northwest	3	1,223	446
Northern California	4	1,198	714
Southern California	2	637	326
Southeast Florida	1	254	99
Denver, CO	2	680	208
Total	27	9,587	\$ 4,217

- (1) Projected total capitalized cost includes all capitalized costs incurred to date (if any) and projected to be incurred to develop the respective community, determined in accordance with GAAP, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees, as well as costs incurred for first generation retail tenants such as tenant improvements and leasing commissions.

Land Acquisitions

We select land for development and follow established procedures that we believe minimize both the cost and the risks of development. During 2019, we acquired land parcels for five Development Rights, as shown in the table below, for an aggregate investment of \$63,864,000. For all of the parcels, construction has either started or is expected to start within the next six months.

	Estimated number of apartment homes	Projected total capitalized cost (1) (\$ millions)	Date acquired
1. AVA RiNo <i>Denver, CO</i>	246	\$ 87	January 2019
2. Avalon Foundry Row <i>Owings Mill, MD</i>	437	100	April 2019
3. Avalon Marlborough II <i>Marlborough, MA</i>	123	42	April 2019
4. Avalon Woburn <i>Woburn, MA</i>	350	121	October 2019
5. Avalon Monrovia <i>Monrovia, CA</i>	154	68	November 2019
Total	1,310	\$ 418	

- (1) Projected total capitalized cost includes all capitalized costs incurred to date (if any) and projected to be incurred to develop the respective community, determined in accordance with GAAP, including land and related acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees, as well as costs incurred for first generation retail tenants such as tenant improvements and leasing commissions, net of projected proceeds for any planned sales of associated outparcels and other real estate.

Disposition Activity

We sell assets when they do not meet our long-term investment strategy or when real estate markets allow us to realize a portion of the value created over our periods of ownership, and we generally redeploy the proceeds from those sales to develop, redevelop and acquire communities. Pending such redeployment, we will generally use the proceeds from the sale of these communities to reduce amounts outstanding under our Credit Facility or retain the cash proceeds on our balance sheet until it is redeployed into acquisition, development or redevelopment activity. On occasion, we will set aside the proceeds from the sale of communities into a cash escrow account to facilitate a tax deferred, like-kind exchange transaction. From January 1, 2019 to January 31, 2020, we sold our interest in seven wholly-owned operating communities, containing 1,910 apartment homes, with an aggregate gross sales price of \$492,350,000.

Insurance and Risk of Uninsured Losses

We maintain commercial general liability insurance and property insurance with respect to all of our communities. These policies, along with other insurance policies we maintain, have policy specifications, insured and self-insured limits, exclusions and deductibles that we consider commercially reasonable. There are, however, certain types of losses (including, but not limited to, losses arising from nuclear liability or acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in management's view, economically impractical. You should carefully review the discussion under Item 1A. "Risk Factors" of this Form 10-K for a discussion of risks associated with an uninsured property or casualty loss.

Many of our West Coast communities are located in the general vicinity of active earthquake faults. Many of our communities are near, and thus susceptible to, the major fault lines in California, including the San Andreas Fault, the Hayward Fault or other geological faults that are known or unknown. We cannot assure you that an earthquake would not cause damage or losses greater than our current insured levels. We procure property damage and resulting business interruption insurance coverage with a loss limit of \$175,000,000 for any single occurrence and in the annual aggregate for losses resulting from earthquakes. However, for any losses resulting from earthquakes at communities located in California or Washington, the loss limit is \$200,000,000 for any single occurrence and in the annual aggregate. The deductible applicable to losses resulting from earthquakes occurring in California is five percent of the insured value of each damaged building subject to a minimum of \$100,000 and a maximum of \$25,000,000 per loss. Limits, deductibles, self-insured retentions and coverages may increase or decrease annually during the insurance renewal process which occurs on different dates throughout the calendar year.

Our communities are insured for certain property damage and business interruption losses through a combination of community specific insurance policies and/or a master property insurance program which covers the majority of our communities. This master property program provides a \$400,000,000 limit for any single occurrence, subject to certain sublimits and exclusions. Under the master property program, we are subject to a \$100,000 deductible per occurrence, as well as additional self-insured retention for the next \$350,000 of loss, per occurrence, until the aggregate incurred self-insured retention exceeds \$1,500,000 for the policy year.

Our communities are insured for third-party liability losses through a combination of community specific insurance policies and/or coverage provided under a master commercial general liability and umbrella/excess insurance program. The master commercial general liability and umbrella/excess insurance policies cover the majority of our communities and are subject to certain coverage limitations and exclusions, and they require a self-insured retention of \$500,000 per occurrence.

We also maintain certain casualty policies (general liability, umbrella/excess and workers compensation) for construction related risks which have various exclusions and deductibles that, in management's view, are commercially reasonable. Certain projects are insured through our master insurance policies while others are insured through project-specific insurance policies. The limits vary by project and may be subject to deductibles up to \$1,500,000 per occurrence.

We utilize a wholly-owned captive insurance company to insure certain types and amounts of risks, which includes property damage and resulting business interruption losses, general liability insurance and other construction related liability risks. In addition to our potential liability for the various policy self-insured retentions and deductibles, our captive insurance company is directly responsible for (i) 50% of the first \$25,000,000 of losses (per occurrence) and 10% of the first \$50,000,000 of losses (per occurrence) incurred by the master property insurance policy and (ii) covered liability claims arising out of our primary commercial

general liability policy, subject to a \$2,000,000 per occurrence loss limit. The captive is utilized to insure other limited levels of risk, which may be in part reinsured by third party insurance.

Just as with office buildings, transportation systems and government buildings, there have been reports that apartment communities could become targets of terrorism. Our communities are insured for terrorism related losses through the Terrorism Risk Insurance Program Reauthorization Act (“TRIPRA”) program. This coverage extends to most of our casualty exposures (subject to deductibles and insured limits) and certain property insurance policies. We have also purchased private-market insurance for property damage due to terrorism with limits of \$600,000,000 per occurrence and in the annual aggregate that includes certain coverages (not covered under TRIPRA) such as domestic-based terrorism. This insurance, often referred to as “non-certified” terrorism insurance, is subject to deductibles, limits and exclusions.

An additional consideration for insurance coverage and potential uninsured losses is mold growth or other environmental contamination. Mold growth may occur when excessive moisture accumulates in buildings or on building materials, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. If a significant mold problem arises at one of our communities, we could be required to undertake a costly remediation program to contain or remove the mold from the affected community and could be exposed to other liabilities. For further discussion of the risks and our related prevention and remediation activities, please refer to the discussion under Item 1A. “Risk Factors - We may incur costs due to environmental contamination or non-compliance” elsewhere in this report. We cannot provide assurance that we will have coverage under our existing policies for property damage or liability to third parties arising as a result of exposure to mold or a claim of exposure to mold at one of our communities.

We also carry crime policies (also commonly referred to as a fidelity policy or employee dishonesty policy) and limited cyber liability insurance. The crime policies protect us, up to \$30,000,000 per occurrence (subject to sublimits and exclusions), from employee theft of money, securities or property. The limited cyber liability insurance is part of our professional liability coverage and has limits of \$15,000,000 per occurrence and in the annual aggregate. The cyber liability coverage protects us from certain claims arising out of data breach, wrongful acts, data privacy issues and media liability.

The amount or types of insurance we maintain may not be sufficient to cover all losses.

ITEM 3. LEGAL PROCEEDINGS

Following the filing of a petition by Local 30 of the International Union of Operating Engineers ("Local 30"), on April 23, 2019 an election was held among our non-management, onsite maintenance associates at our Westchester County, New York operating communities, and the associates elected to be represented by Local 30 in collective bargaining. The Company has filed an objection contesting the election on various grounds. On December 20, 2019, the local hearing officer issued his report overruling the Company's objections. The Company has filed exceptions to (i.e., appealed) the ruling. The Company does not believe that this matter and the possible representation by Local 30 of our maintenance associates in Westchester County will have a material adverse effect on the Company's financial condition or its results of operations.

The Company is involved in various other claims and/or administrative proceedings that arise in the ordinary course of its business. While no assurances can be given, the Company does not currently believe that any of these outstanding litigation matters, individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

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

Our common stock is traded on the NYSE under the ticker symbol AVB. On January 31, 2020 there were 456 holders of record of an aggregate of 140,642,065 shares of our outstanding common stock. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one record holder.

At present, we expect to continue our policy of paying regular quarterly cash dividends. However, the form, timing and/or amount of dividend distributions will be declared at the discretion of the Board of Directors and will depend on actual cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and other factors as the Board of Directors may consider relevant. The Board of Directors may modify our dividend policy from time to time.

In February 2020, we announced that our Board of Directors declared a dividend on our common stock for the first quarter of 2020 of \$1.59 per share, a 4.6% increase over the previous quarterly dividend per share of \$1.52. The dividend will be payable on April 15, 2020 to all common stockholders of record as of March 31, 2020.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Dollar Amount that May Yet be Purchased Under the Plans or Programs (in thousands) (2)
October 1- October 31, 2019	615	\$ 217.97	—	\$ 200,000
November 1- November 30, 2019	493	\$ 213.25	—	\$ 200,000
December 1- December 31, 2019	—	\$ —	—	\$ 200,000

(1) Reflects shares surrendered to the Company in connection with exercise of stock options as payment of exercise price.

(2) As disclosed in our Form 10-Q for the quarter ended March 31, 2008, represents amounts outstanding under the Company's \$500,000,000 Stock Repurchase Program. There is no scheduled expiration date to this program.

Information regarding securities authorized for issuance under equity compensation plans is included in the section entitled Item 12. "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" in this Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

The following table provides historical consolidated financial, operating and other data for the Company. You should read the table with our Consolidated Financial Statements and the Notes included in this report (in thousands, except share and per share data).

	For the year ended				
	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15
Operating data:					
Total revenue	\$ 2,324,626	\$ 2,284,535	\$ 2,158,628	\$ 2,045,255	\$ 1,856,028
Gain on sale of communities	\$ 166,105	\$ 374,976	\$ 252,599	\$ 374,623	\$ 115,625
Gain (loss) on other real estate transactions	\$ 439	\$ 345	\$ (10,907)	\$ 10,224	\$ 9,647
Net income	\$ 786,103	\$ 974,175	\$ 876,660	\$ 1,033,708	\$ 741,733
Net income attributable to common stockholders	\$ 785,974	\$ 974,525	\$ 876,921	\$ 1,034,002	\$ 742,038
Per Common Share and Share Information:					
Earnings per common share—basic:					
Net income attributable to common stockholders	\$ 5.64	\$ 7.05	\$ 6.36	\$ 7.53	\$ 5.54
Weighted average shares outstanding—basic (1)	139,054,191	137,844,755	137,523,771	136,928,251	133,565,711
Earnings per common share—diluted:					
Net income attributable to common stockholders	\$ 5.63	\$ 7.05	\$ 6.35	\$ 7.52	\$ 5.51
Weighted average shares outstanding—diluted	139,571,550	138,289,241	138,066,686	137,461,637	134,593,177
Cash dividends declared	\$ 6.08	\$ 5.88	\$ 5.68	\$ 5.40	\$ 5.00
Other Information:					
Net income attributable to common stockholders	\$ 785,974	\$ 974,525	\$ 876,921	\$ 1,034,002	\$ 742,038
Depreciation	661,578	631,196	584,150	531,434	477,923
Interest expense, net (2)	204,187	238,466	225,133	194,585	148,879
Income tax expense (benefit)	13,003	(160)	141	305	1,483
EBITDA (3)	\$ 1,664,742	\$ 1,844,027	\$ 1,686,345	\$ 1,760,326	\$ 1,370,323
Funds from Operations attributable to common stockholders (4)	\$ 1,280,690	\$ 1,218,752	\$ 1,167,218	\$ 1,135,762	\$ 1,083,085
Core Funds from Operations (4)	\$ 1,303,207	\$ 1,244,286	\$ 1,189,976	\$ 1,125,341	\$ 1,016,035
Number of Current Communities (5)	275	270	267	258	259
Number of apartment homes	79,886	78,549	77,614	74,538	75,584
Balance Sheet Information:					
Real estate, before accumulated depreciation	\$ 23,606,872	\$ 22,342,577	\$ 21,935,936	\$ 20,776,626	\$ 19,268,099
Total assets	\$ 19,121,051	\$ 18,380,200	\$ 18,414,821	\$ 17,867,271	\$ 16,931,305
Notes payable and unsecured credit facilities, net	\$ 7,296,290	\$ 7,040,263	\$ 7,329,470	\$ 7,030,880	\$ 6,456,948
Cash Flow Information:					
Net cash flows provided by operating activities	\$ 1,321,804	\$ 1,301,111	\$ 1,256,257	\$ 1,160,272	\$ 1,074,667
Net cash flows used in investing activities	\$ (1,193,869)	\$ (596,651)	\$ (965,381)	\$ (1,032,352)	\$ (1,199,517)
Net cash flows (used in) provided by financing activities	\$ (218,185)	\$ (688,502)	\$ (418,947)	\$ (303,271)	\$ 25,093

- (1) Amounts do not include unvested restricted shares included in the calculation of Earnings per Share. Please refer to Note 1, “Organization, Basis of Presentation and Significant Accounting Policies—Earnings per Common Share,” of the Consolidated Financial Statements set forth in Item 8 of this report for a discussion of the calculation of Earnings per Share.
- (2) Interest expense, net includes any gain or loss incurred from the extinguishment of debt.
- (3) EBITDA is defined as net income before interest income and expense, income taxes and depreciation and amortization. Under this definition, EBITDA includes gains on sale of assets and gain on sale of partnership interests. Management generally considers EBITDA to be an appropriate supplemental measure to net income of our operating performance because it helps investors to understand our ability to incur and service debt and to make capital expenditures. EBITDA should not be considered as an alternative to net income (as determined in accordance with GAAP), as an indicator of our operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Our calculation of EBITDA may not be comparable to EBITDA as calculated by other companies.
- (4) Refer to “Reconciliation of Non-GAAP Financial Measures” below.

- (5) Current Communities consist of all communities other than those which are still under construction and for which a certificate or certificates of occupancy for the entire community have not been received.

Reconciliation of Non-GAAP Financial Measures

Funds from Operations attributable to common stockholders, or “FFO,” and FFO adjusted for non-core items, or “Core FFO,” as defined below, are generally considered by management to be appropriate supplemental measures of our operating and financial performance. In calculating FFO, we exclude gains or losses related to dispositions of previously depreciated property and exclude real estate depreciation, which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates. FFO can help one compare the operating performance of a real estate company between periods or as compared to different companies. By further adjusting for items that are not considered part of our core business operations, Core FFO allows one to compare the core operating performance of the Company year over year. We believe that in order to understand our operating results, FFO and Core FFO should be examined with net income as presented in the Consolidated Statements of Comprehensive Income included elsewhere in this report.

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

- gains or losses on sales of previously depreciated operating communities;
- cumulative effect of change in accounting principle;
- impairment write-downs of depreciable real estate assets;
- write-downs of investments in affiliates due to a decrease in the value of depreciable real estate assets held by those affiliates;
- depreciation of real estate assets; and
- adjustments for unconsolidated partnerships and joint ventures, including those from a change in control.

We calculate Core FFO as FFO, adjusted for:

- joint venture gains (if not adjusted through FFO), non-core costs, and promoted interests;
- casualty and impairment losses or gains, net on non-depreciable real estate;
- business interruption insurance proceeds and the related lost NOI that is covered by the business interruption insurance proceeds;
- gains or losses from early extinguishment of consolidated borrowings;
- advocacy contributions;
- hedge ineffectiveness;
- severance related costs;
- abandoned pursuits;
- for-sale condominium activity, including gains, marketing and administrative costs and imputed carry cost;
- gains or losses on sales of assets not subject to depreciation;
- expensed acquisition costs related to business acquisitions that occurred prior to the adoption of ASU 2017-0 as of October 1, 2016;
- property and casualty insurance proceeds and legal settlements;
- income taxes; and
- other non-core items.

FFO and Core FFO do not represent net income in accordance with GAAP, and therefore should not be considered an alternative to net income, which remains the primary measure, as an indication of our performance. In addition, FFO and Core FFO as calculated by other REITs may not be comparable to our calculations of FFO and Core FFO.

FFO and Core FFO also do not represent cash generated from operating activities in accordance with GAAP, and therefore should not be considered an alternative to net cash flows from operating activities, as determined by GAAP, as a measure of liquidity. Additionally, it is not necessarily indicative of cash available to fund cash needs. A presentation of GAAP based cash flow metrics is provided in “Cash Flow Information” in the table above.

The following is a reconciliation of net income attributable to common stockholders to FFO attributable to common stockholders and to Core FFO attributable to common stockholders (dollars in thousands, except per share data).

	For the year ended				
	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15
Net income attributable to common stockholders	\$ 785,974	\$ 974,525	\$ 876,921	\$ 1,034,002	\$ 742,038
Depreciation—real estate assets, including discontinued operations and joint venture adjustments	666,563	629,814	582,907	538,606	486,019
Distributions to noncontrolling interests, including discontinued operations	46	44	42	41	38
Gain on sale of unconsolidated entities holding previously depreciated real estate assets	(5,788)	(10,655)	(40,053)	(58,069)	(33,580)
Gain on sale of previously depreciated real estate assets	(166,105)	(374,976)	(252,599)	(374,623)	(115,625)
Casualty and impairment (recovery) loss, net on real estate (1) (6)	—	—	—	(4,195)	4,195
FFO attributable to common stockholders	<u>\$ 1,280,690</u>	<u>\$ 1,218,752</u>	<u>\$ 1,167,218</u>	<u>\$ 1,135,762</u>	<u>\$ 1,083,085</u>
Adjusting items:					
Joint venture losses (gains) (2)	87	852	950	6,031	(9,059)
Joint venture promote (3)	—	(925)	(26,742)	(7,985)	(21,969)
Impairment loss on real estate (4) (6)	—	826	9,350	10,500	800
Casualty gain, net on real estate (5) (6)	—	(612)	(3,100)	(10,239)	(15,538)
Business interruption insurance proceeds (7)	(1,441)	(26)	(3,495)	(20,565)	(1,509)
Lost NOI from casualty losses covered by business interruption insurance (8)	675	1,730	7,904	7,366	7,862
Loss (gain) on extinguishment of consolidated debt	602	17,492	25,472	7,075	(26,736)
Advocacy contributions	50	3,489	—	—	—
Hedge ineffectiveness	—	—	(753)	—	—
Severance related costs	2,327	1,466	87	852	1,999
Development pursuit and other write-offs	3,782	280	1,406	3,662	1,838
For-sale condominium marketing and administrative costs	3,812	1,044	—	—	—
For-sale condominium imputed carry cost (9)	6,351	—	—	—	—
(Gain) loss on sale of other real estate transactions	(439)	(344)	10,907	(10,224)	(9,647)
Acquisition costs	—	—	92	3,523	3,806
Legal settlements (10)	(6,292)	513	680	(417)	—
Income tax expense (benefit) (11)	13,003	(251)	—	—	1,103
Core FFO attributable to common stockholders	<u>\$ 1,303,207</u>	<u>\$ 1,244,286</u>	<u>\$ 1,189,976</u>	<u>\$ 1,125,341</u>	<u>\$ 1,016,035</u>
Weighted average common shares outstanding - diluted	139,571,550	138,289,241	138,066,686	137,461,637	134,593,177
EPS per common share - diluted	<u>\$ 5.63</u>	<u>\$ 7.05</u>	<u>\$ 6.35</u>	<u>\$ 7.52</u>	<u>\$ 5.51</u>
FFO per common share - diluted	<u>\$ 9.18</u>	<u>\$ 8.81</u>	<u>\$ 8.45</u>	<u>\$ 8.26</u>	<u>\$ 8.05</u>
Core FFO per common share - diluted	<u>\$ 9.34</u>	<u>\$ 9.00</u>	<u>\$ 8.62</u>	<u>\$ 8.19</u>	<u>\$ 7.55</u>

- (1) During 2015, we recognized an impairment on depreciable real estate of \$4,195 from the severe winter storms that occurred in our Northeast markets. During 2016, we received insurance proceeds, net of additional costs incurred, of \$5,732 related to the winter storms, and recognized \$4,195 of this recovery as an offset to the loss recognized in the prior year period. The balance of the net insurance proceeds received in 2016 of \$1,537 is recognized as a casualty gain and is included in the reconciliation of FFO to Core FFO.
- (2) Amounts for 2019, 2018, 2017 and 2016 are primarily composed of (i) the write-off of asset management fee intangibles primarily associated with the disposition of communities in the U.S. Fund in 2019, 2018, 2017 and 2016 and the AC JV in 2018 and (ii) our proportionate share of operating results for joint ventures formed with Equity Residential as part of the Archstone Acquisition. Amounts for 2015 are primarily composed of our proportionate share of gains and operating results for joint ventures formed with Equity Residential as part of the Archstone Acquisition.
- (3) Amounts for 2018, 2017 and 2016 are composed of the recognition of our promoted interest in AvalonBay Value Added Fund II, L.P. ("Fund II"). Amount for 2015 is primarily composed of amounts received related to the modification of the joint venture agreement for the entity that owns Avalon at Mission Bay II to eliminate our promoted interest in future distributions.
- (4) Amounts include impairment charges relating to ancillary land parcels.

- (5) Amount for 2018 includes \$554 in legal settlement proceeds relating to construction defects at a community acquired as part of the Archstone Acquisition. Amount for 2017 includes \$19,481 for the Maplewood casualty loss, partially offset by \$17,143 of property damage insurance proceeds, and \$5,438 in legal settlement proceeds relating to construction defects at a community acquired as part of the Archstone Acquisition. Amount for 2016 includes \$8,702 in property damage insurance proceeds for the Edgewater casualty loss, and \$1,537 in insurance proceeds in excess of the total recognized loss related to severe winter storms in our Northeast markets that occurred in 2015. Amount for 2015 includes \$44,142 of Edgewater insurance proceeds received partially offset by \$28,604 for the write-off of real estate and related costs.
- (6) The aggregate impact of (i) casualty and impairment (recovery) loss, net on real estate, (ii) impairment loss on real estate and (iii) casualty (gain) loss, net on real estate for 2018 and 2017 are losses of \$215 and \$6,250, respectively, and for 2016 and 2015 are gains of \$3,935 and \$10,542, respectively.
- (7) Amount for 2017 is composed of business interruption insurance proceeds resulting from the final insurance settlement of the Maplewood casualty loss. Amount for 2016 is primarily composed of business interruption insurance proceeds resulting from the final insurance settlement of the Edgewater casualty loss.
- (8) Amounts for 2017, 2016 and 2015 primarily relate to lost NOI resulting from the Edgewater casualty loss, for which we received \$20,306 in business interruption insurance proceeds in the first quarter of 2016. Amount for 2018, as well as a portion of the amount for 2017, relates to the Maplewood casualty loss, for which we received \$3,495 in business interruption insurance proceeds in the third quarter of 2017.
- (9) Represents the imputed carry cost of the for-sale residential condominiums at The Park Loggia. The Company computes this adjustment by multiplying the total capitalized cost of completed and unsold for-sale residential condominiums by the Company's weighted average unsecured debt rate.
- (10) Amounts for 2019 include \$2,237 in legal settlement proceeds related to a construction defect at a community and \$3,126 in legal settlement proceeds related to a former Development Right.
- (11) Amount for 2015 is composed of income taxes on income that was earned in taxable REIT subsidiaries and that is not considered to be a component of primary operations. Amount for 2018 represents a partial refund for payments in prior years. Amount for 2019 consists of \$5,782 primarily related to a net deferred tax liability for the GAAP to tax basis differences at The Park Loggia and \$7,221 related to the other activity the Company undertook through taxable REIT subsidiaries ("TRS"), including the disposition of two wholly-owned operating communities and deferred tax obligations related to the Company's sustainability initiatives.

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

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

Capitalized terms used without definition have the meanings provided elsewhere in this Form 10-K.

Executive Overview

Business Description

Our strategic vision is to be the leading apartment company in select U.S. markets, providing a range of distinctive living experiences that customers value. We pursue this vision by targeting what we believe are among the best markets and submarkets, leveraging our strategic capabilities in market research and consumer insight and being disciplined in our capital allocation and balance sheet management. Our communities are predominately upscale and generally command among the highest rents in their markets. However, we also pursue the ownership and operation of apartment communities that target a variety of customer segments and price points, consistent with our goal of offering a broad range of products and services. We regularly evaluate the allocation of our investments by the amount of invested capital and by product type within our individual markets.

We develop, redevelop, acquire, own and operate multifamily apartment 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 that we believe are characterized by growing employment in high wage sectors of the economy, higher cost of home ownership and a diverse and vibrant quality of life. We believe these market characteristics offer the opportunity for superior risk-adjusted returns over the long-term on apartment community investments relative to other markets that do not have these characteristics. We believe that the Denver, Colorado, and Southeast Florida markets share these characteristics, and in 2017 we began to invest in these markets through acquisitions and developments. We seek to create long-term shareholder value by accessing capital on cost effective terms; deploying that capital to develop, redevelop and acquire apartment communities in our selected markets; operating apartment communities; and selling communities when they no longer meet our long-term investment strategy or when pricing is attractive.

2019 Financial Highlights

Net income attributable to common stockholders for the year ended December 31, 2019 was \$785,974,000, a decrease of \$188,551,000, or 19.3%, from the prior year. The decrease is primarily attributable to decreases in real estate sales and related gains, increases in depreciation expense and income tax expense and decreases in joint venture real estate gains from the prior year. These amounts were partially offset by increases in NOI from newly developed, acquired and existing operating communities, as well as decreases in interest expense and loss on extinguishment of debt, net from the prior year.

Established Communities NOI for the year ended December 31, 2019 increased by \$39,149,000, or 3.1%, over the prior year. The increase was driven by an increase in rental revenue of 2.9%, partially offset by an increase in operating expenses of 2.8% over 2018.

During 2019, we raised approximately \$1,278,098,000 of gross capital through the issuance of unsecured notes, sale of common shares under CEP IV and V, including settlement of the Forward, and the sale of consolidated operating communities and other real estate. This amount does not include proceeds from joint venture dispositions. The funds raised from the sale of real estate consist of the proceeds from the sale of six operating communities and two ancillary land parcels. We believe that our current capital structure will continue to provide financial flexibility to access capital on attractive terms.

We believe our development activity will continue to create long-term value. During 2019, we:

- Completed the construction of seven apartment communities containing an aggregate of 2,027 apartment homes and 34,000 square feet of retail space, for an aggregate total capitalized cost of \$667,000,000.
- Started the construction of eight apartment communities containing an aggregate of 2,377 apartment homes, which are expected to be completed for an estimated total capitalized cost of \$849,000,000, or \$794,000,000 when including only our 50.0% interest in one community developed through an unconsolidated joint venture.
- Completed the redevelopment of nine apartment communities containing an aggregate of 3,276 apartment homes for a total investment of \$136,000,000, excluding costs incurred prior to the redevelopment.

We also achieved portfolio growth through acquisitions, acquiring five consolidated apartment communities containing an aggregate of 1,175 apartment homes for an aggregate purchase price of \$345,450,000. In addition, we purchased our joint venture partner's 45.0% interest in one operating community for \$71,280,000, obtaining a 100% ownership interest in that community.

We believe that our balance sheet strength, as measured by our current level of indebtedness, our current ability to service interest and other fixed charges, and our current moderate use of financial encumbrances (such as secured financing) provide us with adequate access to liquidity from the capital markets. We expect to be able to meet our reasonably foreseeable liquidity needs, as they arise, through a combination of one or more of the following sources: existing cash on hand; operating cash flows; borrowings under our Credit Facility; secured debt; the issuance of corporate securities (which could include unsecured debt, preferred equity and/or common equity); the sale of apartment communities; or through the formation of joint ventures. See the discussion under "Liquidity and Capital Resources."

Communities Overview

As of December 31, 2019 we owned or held a direct or indirect ownership interest in 297 apartment communities containing 86,846 apartment homes in 11 states and the District of Columbia, of which 22 communities were under development and two communities were under redevelopment. Of these communities, 14 were owned by entities that were not consolidated for financial reporting purposes, including five owned by the NYC Joint Venture, four owned by the U.S. Fund, two owned by the AC JV and one that is being developed within a joint venture. In addition, we held a direct or indirect ownership interest in Development Rights to develop an additional 27 wholly-owned communities that, if developed as expected, will contain an estimated 9,587 apartment homes.

Our real estate investments consist primarily of Current Communities, Development Communities and Development Rights. Our Current Communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities, Redevelopment Communities and Unconsolidated Communities.

Established Communities are generally consolidated communities in markets where we have a significant presence that were owned and had stabilized occupancy as of the beginning of the prior year, allowing for a meaningful comparison of operating results between years. Other Stabilized Communities are generally all other completed consolidated communities that have stabilized occupancy during the fiscal year. Lease-Up Communities are consolidated communities where construction has been complete for less than one year and stabilized occupancy has not been achieved. Redevelopment Communities are consolidated communities where substantial redevelopment is in progress or is planned to begin during the fiscal year. Unconsolidated Communities are communities that we have an indirect ownership interest in through our investment interest in an unconsolidated joint venture. A more detailed description of our reportable segments and other related operating information can be found in Note 8, "Segment Reporting," of our Consolidated Financial Statements.

Although each of these categories is important to our business, we generally evaluate overall operating, industry and market trends based on the operating results of Established Communities, for which a detailed discussion can be found in "Results of Operations" as part of our discussion of overall operating results. We evaluate our current and future cash needs and future operating potential based on acquisition, disposition, development, redevelopment and financing activities within Other Stabilized, Redevelopment and Development Communities. Discussions related to current and future cash needs and financing activities can be found under "Liquidity and Capital Resources."

NOI of our current operating communities is one of the financial measures that we use to evaluate the performance of our communities. NOI is affected by the demand and supply dynamics within our markets, our rental rates and occupancy levels and our ability to control operating costs. Our overall financial performance is also impacted by the general availability and cost of capital and the performance of newly developed, redeveloped and acquired apartment communities.

Results of Operations

Our year-over-year operating performance is primarily affected by both overall and individual geographic market conditions and apartment fundamentals and is reflected in changes in NOI of our Established Communities; NOI derived from acquisitions and development completions; the loss of NOI related to disposed communities; and capital market and financing activity. A comparison of our operating results for 2019 and 2018 follows (dollars in thousands). Discussion of our operating results for 2017 and comparison to 2018 can be found in Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Form 10-K filed with the SEC on February 22, 2019.

	For the year ended		2019 vs. 2018	
	2019	2018	\$ Change	% Change
Revenue:				
Rental and other income (1)	\$ 2,319,666	\$ 2,280,963	\$ 38,703	1.7 %
Management, development and other fees	4,960	3,572	1,388	38.9 %
Total revenue	2,324,626	2,284,535	40,091	1.8 %
Expenses:				
Direct property operating expenses, excluding property taxes (1)	427,114	441,155	(14,041)	(3.2)%
Property taxes	252,961	241,563	11,398	4.7 %
Total community operating expenses	680,075	682,718	(2,643)	(0.4)%
Corporate-level property management and other indirect operating expenses	88,031	83,838	4,193	5.0 %
Expensed acquisition, development and other pursuit costs, net of recoveries	4,991	3,265	1,726	52.9 %
Interest expense, net	203,585	220,974	(17,389)	(7.9)%
Loss on extinguishment of debt, net	602	17,492	(16,890)	(96.6)%
Depreciation expense	661,578	631,196	30,382	4.8 %
General and administrative expense	58,042	60,369	(2,327)	(3.9)%
Casualty and impairment loss, net	—	215	(215)	(100.0)%
Total other expenses	1,016,829	1,017,349	(520)	(0.1)%
Equity in income of unconsolidated real estate entities	8,652	15,270	(6,618)	(43.3)%
Gain on sale of communities	166,105	374,976	(208,871)	(55.7)%
Gain on other real estate transactions	439	345	94	27.2 %
For-sale condominium marketing and administrative costs	(3,812)	(1,044)	(2,768)	265.1 %
Income before income taxes	799,106	974,015	(174,909)	(18.0)%
Income tax expense (benefit)	13,003	(160)	13,163	N/A (2)
Net income	786,103	974,175	(188,072)	(19.3)%
Net loss attributable to noncontrolling interests	(129)	350	(479)	(136.9)%
Net income attributable to common stockholders	\$ 785,974	\$ 974,525	\$ (188,551)	(19.3)%

(1) Historically for years prior to January 1, 2019, we presented charges for uncollectible lease revenue in direct property operating expenses, excluding property taxes. With the adoption of ASU 2016-02, Leases, we are presenting such charges as an adjustment to rental and other income in our consolidated financial statements on a prospective basis as of January 1, 2019.

(2) Percent change is not meaningful.

Net income attributable to common stockholders decreased \$188,551,000, or 19.3%, to \$785,974,000 in 2019 from 2018, primarily attributable to decreases in real estate sales and related gains, increases in depreciation expense and income tax expense and decreases in joint venture real estate gains from the prior year. These amounts were partially offset by increases in NOI from newly developed, acquired and existing operating communities, as well as decreases in interest expense and loss on extinguishment of debt, net from the prior year.

NOI is considered by management to be an important and appropriate supplemental performance measure to net income because it helps both investors and management to understand the core operations of a community or communities prior to the allocation of any corporate-level or financing-related costs. *NOI* reflects the operating performance of a community and allows for an easier comparison of the operating performance of individual assets or groups of assets. In addition, because prospective buyers of real estate have different financing and overhead structures, with varying marginal impact to overhead as a result of acquiring real estate, *NOI* is considered by many in the real estate industry to be a useful measure for determining the value of a real estate asset or group of assets. We define *NOI* as total property revenue less direct property operating expenses (including property taxes), and excluding corporate-level income (including management, development and other fees), corporate-level property management and other indirect operating expenses, expensed transaction, development and other pursuit costs, net of recoveries, interest expense, net, loss (gain) on extinguishment of debt, net, general and administrative expense, equity in income of unconsolidated real estate entities, depreciation expense, corporate income tax (benefit) expense, casualty and impairment loss (gain), net, gain on sale of communities, loss (gain) on other real estate transactions, net, for-sale condominiums marketing and administrative costs and net operating income from real estate assets sold or held for sale.

NOI does not represent cash generated from operating activities in accordance with GAAP, and *NOI* should not be considered an alternative to net income as an indication of our performance. *NOI* should also not be considered an alternative to net cash flow from operating activities, as determined by GAAP, as a measure of liquidity, nor is *NOI* indicative of cash available to fund cash needs. Reconciliations of *NOI* for the years ended December 31, 2019 and 2018 to net income for each year are as follows (dollars in thousands):

	For the year ended	
	12/31/19	12/31/18
Net income	\$ 786,103	\$ 974,175
Indirect operating expenses, net of corporate income	83,008	80,227
Expensed transaction, development and other pursuit costs, net of recoveries	4,991	3,265
Interest expense, net	203,585	220,974
Loss on extinguishment of debt, net	602	17,492
General and administrative expense	58,042	60,369
Equity in income of unconsolidated real estate entities	(8,652)	(15,270)
Depreciation expense	661,578	631,196
Income tax expense (benefit)	13,003	(160)
Casualty and impairment loss, net	—	215
Gain on sale of real estate assets	(166,105)	(374,976)
Gain on other real estate transactions, net	(439)	(345)
For-sale condominium marketing and administrative costs	3,812	1,044
Net operating income from real estate assets sold or held for sale	(12,318)	(79,372)
Net operating income	<u>\$ 1,627,210</u>	<u>\$ 1,518,834</u>

The *NOI* increase for 2019 as compared to 2018 consists of changes in the following categories (dollars in thousands):

	Full Year
	2019
Established Communities	\$ 39,149
Other Stabilized Communities	42,700
Development and Redevelopment Communities	26,527
Total	<u>\$ 108,376</u>

The increase in our Established Communities' NOI in 2019 is due to increased rental rates, partially offset by increased operating expenses.

Historically for years prior to January 1, 2019, we presented charges related to uncollectible lease revenue in operating expenses. With the adoption of ASU 2016-02, Leases, we are presenting such charges as an adjustment to revenue in our consolidated financial statements on a prospective basis as of January 1, 2019. For reported segment financial information for the year ended December 31, 2018, including for Established Communities as discussed below, we have also included such charges as an adjustment to revenue for all prior years presented in order to provide comparability.

Rental and other income increased in 2019 compared to the prior year due to additional rental income generated from newly developed, acquired and existing operating communities and an increase in rental rates at our Established Communities, partially offset by a decrease in rental income from communities sold. The change in classification of charges for uncollectible lease revenue, as described above, partially offsets the increase in rental and other income for the year ended December 31, 2019 over the prior year.

Consolidated Communities—The weighted average number of occupied apartment homes for consolidated communities decreased to 72,901 apartment homes for 2019, as compared to 73,385 homes for 2018. The weighted average monthly rental revenue per occupied apartment home increased to \$2,647 for 2019 as compared to \$2,588 in 2018.

The following table presents the year to date change in rental revenue, including the attribution of the change between rental rates and Economic Occupancy, for Established Communities.

	For the year ended									
	Rental revenue (000s)				Average rental rates			Economic Occupancy (1)		
			\$ Change	% Change			% Change			% Change
	2019	2018	2019 to 2018	2019 to 2018	2019	2018	2019 to 2018	2019	2018	2019 to 2018
New England	\$ 249,515	\$ 242,127	\$ 7,388	3.1%	\$ 2,662	\$ 2,575	3.4%	95.7%	96.0%	(0.3)%
Metro NY/NJ (2)	410,503	400,205	10,298	2.6%	3,104	3,024	2.6%	96.2%	96.2%	— %
Mid-Atlantic	292,691	284,131	8,560	3.0%	2,256	2,195	2.8%	96.2%	96.0%	0.2 %
Pacific Northwest	112,553	108,549	4,004	3.7%	2,368	2,284	3.7%	96.2%	96.2%	— %
Northern California	363,554	352,879	10,675	3.0%	3,107	3,011	3.2%	96.2%	96.4%	(0.2)%
Southern California	405,556	394,237	11,319	2.9%	2,400	2,330	3.0%	95.9%	96.0%	(0.1)%
Total Established	\$ 1,834,372	\$ 1,782,128	\$ 52,244	2.9%	\$ 2,661	\$ 2,584	3.0%	96.0%	96.1%	(0.1)%

- (1) Economic occupancy takes into account the fact that apartment homes of different sizes and locations within a community have different economic impacts on a community's gross revenue. Economic occupancy is defined as gross potential revenue less vacancy loss, as a percentage of gross potential revenue. Gross potential revenue is determined by valuing occupied homes at leased rates and vacant homes at market rents.
- (2) The New York State Housing Stability and Tenant Protection Act of 2019, which was signed into law on June 14, 2019, now limits some of the fees we previously charged in New York State (including late fees and new lease application fees), eliminates our ability to raise rents on rent stabilized apartments up to the full legal rent when residents with a preferential rent renew their lease, and implements other changes that are expected to limit our rent increases on rent stabilized apartments and generally increases tenant rights. We expect the impact of the New York State Housing Stability and Tenant Protection Act of 2019 to be immaterial to our Metro New York/New Jersey results of operations.

Management, development and other fees increased \$1,388,000, or 38.9%, in 2019 as compared to the prior year, primarily due to increased property management fees earned from the NYC Joint Venture that was formed in December 2018, partially offset by lower property and asset management fees earned as a result of dispositions from the U.S. Fund and the AC JV.

Direct property operating expenses, excluding property taxes decreased \$14,041,000, or 3.2%, in 2019 as compared to the prior year, primarily due to the change in classification of charges for uncollectible lease revenue, as described above, as well as a decrease from dispositions in the prior and current years, partially offset by an increase due to the addition of newly developed and acquired apartment communities.

For Established Communities, direct property operating expenses, excluding property taxes, increased \$7,974,000, or 2.5%, in 2019 as compared to the prior year, primarily due to increased property insurance costs, compensation and maintenance expense.

Property taxes increased \$11,398,000, or 4.7%, in 2019 as compared to the prior year, primarily due to the addition of newly developed and acquired apartment communities and increased assessments for the Company's stabilized portfolio, partially offset by decreased property taxes from dispositions.

For Established Communities, property taxes increased \$6,103,000, or 3.3%, in 2019 as compared to the prior year, primarily due to increased assessments and rates in the current year in the Company's East Coast and Northern and Southern California markets, as well as successful appeals in the Company's Pacific Northwest market in the prior year. These increases are partially offset by decreased tax rates in the Pacific Northwest and a successful appeal in Northern California in the current year. For communities in California, property tax changes are determined by the change in the California Consumer Price Index, with increases limited by law (Proposition 13). We evaluate property tax increases internally and also engage third-party consultants to assist in our evaluations. We appeal property tax increases when appropriate.

Corporate-level property management and other indirect operating expenses increased \$4,193,000, or 5.0%, in 2019 as compared to the prior year, primarily due to increased compensation related costs and spending on corporate initiatives in the current year, partially offset by decreased advocacy contributions in the current year compared to the prior year.

Expensed acquisition, development and other pursuit costs, net of recoveries primarily reflect costs incurred for development pursuits not yet considered probable for development, as well as the abandonment of Development Rights and costs related to abandoned acquisition and disposition pursuits. These costs can be volatile, particularly in periods of increased acquisition pursuit activity, periods of economic downturn or when there is limited access to capital, and therefore may vary significantly from year to year. Expensed acquisition, development and other pursuit costs, net of recoveries, increased \$1,726,000, or 52.9%, in 2019 as compared to the prior year.

Interest expense, net decreased \$17,389,000, or 7.9%, in 2019 as compared to the prior year. This category includes interest costs offset by capitalized interest pertaining to development and redevelopment activity, amortization of premium/discount on debt, and interest income. The decrease in 2019 was primarily due to a decrease in outstanding consolidated secured indebtedness and an increase in capitalized interest, partially offset by an increase in outstanding unsecured indebtedness.

Loss on the extinguishment of debt, net reflects prepayment penalties, the write-off of unamortized deferred financing costs and premiums from our debt repurchase and retirement activity, or payments to acquire our outstanding debt at amounts above or below the carrying basis of the debt acquired. Loss on the extinguishment of debt, net decreased \$16,890,000, or 96.6%, in 2019 as compared to the prior year. The loss of \$17,492,000 in 2018 was due to:

- a prepayment penalty of \$8,579,000 and the non-cash write-off of deferred financing costs of \$347,000 associated with the early repayment of \$250,000,000 principal amount of 6.10% unsecured notes; and
- the aggregate prepayment penalty of \$3,308,000 and the non-cash write-off of deferred financing costs of \$5,258,000 on the repayment or refinancing of \$244,546,000 principal amount of mortgage notes secured by six wholly-owned operating communities.

Depreciation expense increased \$30,382,000, or 4.8%, in 2019 as compared to the prior year, primarily due to the addition of newly developed and acquired apartment communities, partially offset by dispositions.

General and administrative expense ("G&A") decreased \$2,327,000, or 3.9%, in 2019 as compared to the prior year, primarily due to legal settlement proceeds related to a former Development Right and a construction defect at a community, partially offset by an increase in compensation related expenses in the current year.

Equity in income of unconsolidated real estate entities decreased \$6,618,000, or 43.3%, in 2019 as compared to the prior year, primarily due to gains on the sale of communities in various ventures in the prior year, coupled with non-cash charges for the depreciation of in-place leases associated with purchase accounting within the NYC Joint Venture, which were not present in the prior year.

Gain on sale of communities decreased in 2019 as compared to the prior year. The amount of gain realized in a given period depends on many factors, including the number of communities sold, the size and carrying value of the communities sold and the market conditions in the local area. The gain of \$166,105,000 in 2019 was primarily due to the sale of six wholly-owned operating communities. The gain of \$374,976,000 in 2018 was primarily due to the sale of eight wholly-owned operating communities and the recognition of the gain associated with the contribution of five wholly-owned operating communities to the NYC Joint Venture, a venture in which we retained a 20.0% interest.

For-sale condominium marketing and administrative costs consist of costs associated with the for-sale condominiums of The Park Loggia.

Income tax expense of \$13,003,000 for the year ended December 31, 2019 consists of \$5,782,000 of income tax expense, primarily related to a net deferred tax liability for the GAAP to tax basis differences at The Park Loggia and \$7,221,000 of current and deferred tax expense related to other activity we undertook through taxable REIT subsidiaries ("TRS") including the disposition of two wholly-owned operating communities and our sustainability initiatives.

Liquidity and Capital Resources

We employ a disciplined approach to our liquidity and capital management. When we source capital, we take into account both our view of the most cost effective alternative available and our desire to maintain a balance sheet that provides us with flexibility. Our principal short-term liquidity needs are to fund:

- development and redevelopment activity in which we are currently engaged;
- the minimum dividend payments on our common stock required to maintain our REIT qualification under the Code;
- debt service and principal payments either at maturity or opportunistically before maturity; and
- normal recurring operating expenses and corporate overhead expenses.

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

We had cash and cash equivalents and restricted cash of \$127,614,000 at December 31, 2019, a decrease of \$90,250,000 from \$217,864,000 at December 31, 2018. The following discussion relates to changes in cash and cash equivalents and restricted cash due to operating, investing and financing activities, which are presented in our Consolidated Statements of Cash Flows included elsewhere in this report.

Operating Activities—Net cash provided by operating activities increased to \$1,321,804,000 in 2019 from \$1,301,111,000 in 2018. The change was driven primarily by increased NOI from existing, acquired and newly developed communities.

Investing Activities—Net cash used in investing activities totaled \$1,193,869,000 in 2019. The net cash used was primarily due to:

- investment of \$1,052,011,000 in the development and redevelopment of communities;
- acquisition of five wholly-owned operating communities and our joint venture partner's 45.0% interest in one operating community for \$420,517,000; and
- capital expenditures of \$140,892,000 for our operating communities and non-real estate assets.

These amounts are partially offset by proceeds from the sale of real estate of \$422,041,000.

Financing Activities—Net cash used in financing activities totaled \$218,185,000 in 2019. The net cash used was primarily due to:

- payment of cash dividends in the amount of \$839,646,000; and
- the repayment of mortgage notes payable in the amount of \$227,570,000.

These amounts are partially offset by:

- proceeds from the issuance of unsecured notes in the amount of \$449,804,000;
- the issuance of common stock in the amount of \$409,725,000, including \$197,122,000 in settlement of the Forward under CEP V and \$196,700,000 through CEP IV and CEP V; and
- the issuance of a mortgage note payable in the amount of \$30,250,000.

Variable Rate Unsecured Credit Facility

On February 28, 2019, we entered into a \$1,750,000,000 Fifth Amended and Restated Revolving Loan Agreement (the “Credit Facility”) with a syndicate of banks, which replaces our prior \$1,500,000,000 credit facility dated as of January 14, 2016. The term of the Credit Facility ends on February 28, 2024.

The Credit Facility bears interest at varying levels based on (i) the London Interbank Offered Rate (“LIBOR”) applicable to the period of borrowing for a particular draw of funds from the facility (e.g., one month to maturity, three months to maturity, etc.) and (ii) the rating levels issued for our unsecured notes. The current stated pricing for drawn borrowings is LIBOR plus 0.775% per annum (2.44% at January 31, 2020), assuming a one month borrowing rate. The stated spread over LIBOR can vary from LIBOR plus 0.70% to LIBOR plus 1.45% based upon the rating of our unsecured notes. The Credit Facility also provides a competitive bid option that is available for borrowings of up to 65% of the Credit Facility amount. 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 than the stated rate if market conditions allow. The annual facility fee for the Credit Facility remained at 0.125%, resulting in a fee of \$2,188,000 annually based on the \$1,750,000,000 facility size and based on our current credit rating.

We had \$110,000,000 outstanding under the Credit Facility and had \$6,632,000 outstanding in letters of credit that reduced our borrowing capacity as of January 31, 2020. In addition, we had \$28,767,000 outstanding in additional letters of credit as of January 31, 2020.

The phase-out of LIBOR and expected transition to SOFR as a benchmark interest rate will have uncertain and possibly adverse effects on our LIBOR borrowings. See Item 1A. “Risk Factors” for further discussion.

Financial Covenants

We are subject to financial covenants contained in the Credit Facility, Term Loans and the indentures under which our unsecured notes were issued. The principal financial covenants include the following:

- limitations on the amount of total and secured debt in relation to our overall capital structure;
- limitations on the amount of our unsecured debt relative to the undepreciated basis of real estate assets that are not encumbered by property-specific financing; and
- minimum levels of debt service coverage.

We were in compliance with these covenants at December 31, 2019.

In addition, our secured borrowings may include yield maintenance, defeasance, or prepayment penalty provisions, which would result in us incurring an additional charge in the event of a full or partial prepayment of outstanding principal before the scheduled maturity. These provisions in our secured borrowings are generally consistent with other similar types of debt instruments issued during the same time period in which our borrowings were secured.

Continuous Equity Offering Program

In December 2015, we commenced a fourth continuous equity program (“CEP IV”) under which we were able to sell (and/or enter into forward sale agreements for the sale of) up to \$1,000,000,000 of its common stock from time to time. In conjunction with CEP IV, we engaged sales agents who received compensation of up to 2.0% of the gross sales price for shares sold.

In May 2019, we replaced CEP IV with a new continuous equity program ("CEP V") under which we may sell (and/or enter into forward sale agreements for the sale of) up to \$1,000,000,000 of our common stock from time to time. Actual sales will depend on a variety of factors to be determined, including market conditions, the trading price of our common stock and determinations of the appropriate sources of funding. In conjunction with CEP V, we engaged sales agents who will receive compensation of up to 1.5% of the gross sales price for shares sold. We expect that, if entered into, we will physically settle each forward sale agreement on one or more dates prior to the maturity date of that particular forward sale agreement, in which case we will expect to receive aggregate net cash proceeds at settlement equal to the number of shares underlying the particular forward agreement multiplied by the relevant forward sale price. However, we may also elect to cash settle or net share settle a forward sale agreement. In connection with each forward sale agreement, we will pay the relevant forward seller, in the form of a reduced initial forward sale price, a commission of up to 1.5% of the sales prices of all borrowed shares of common stock sold. During 2019, we entered into and settled a forward sales agreement, as discussed below.

On September 25, 2019, we entered into a forward contract under CEP V to sell 947,868 shares of common stock (the "Forward"). The sales price was established based on the stock price during intraday trading on September 25, 2019. In December 2019, we issued 947,868 shares of common stock at a weighted average sales price of \$207.96 per share, for net proceeds of \$197,122,000, in settlement of the Forward. The proceeds received were determined on the date of settlement, with adjustments during the term of the contract for our dividends as well as for a daily interest factor that varied with changes in the Overnight Bank Funding rate.

In addition to the shares issued in settlement of the Forward, in 2019, we sold 755,054 shares at an average sales price of \$198.26 per share, for net proceeds of \$147,450,000 under CEP IV, and 239,580 shares at an average sales price of \$208.70 per share, for net proceeds of \$49,250,000 under CEP V. We have not engaged in sales activity subsequent to December 31, 2019. As of January 31, 2020, we had \$752,878,000 remaining authorized for issuance under CEP V.

Forward Interest Rate Swap Agreements

In 2019, in conjunction with the issuance of our 3.30% notes due 2029, we settled \$250,000,000 of forward interest rate swap agreements designated as cash flow hedges of the interest rate variability of the unsecured notes, making a payment of \$12,309,000.

In addition, in 2019 we entered into \$350,000,000 of forward interest rate swap agreements executed to reduce the impact of variability in interest rates on a portion of our expected debt issuance activity in 2020, which are outstanding as of December 31, 2019. In February 2020, in conjunction with the pricing of the \$700,000,000 principal amount of 2.30% unsecured notes due in 2030, discussed below, we settled \$350,000,000 of forward interest rate swap agreements, making a payment of \$20,314,000.

Future Financing and Capital Needs—Debt Maturities

One of our principal long-term liquidity needs is the repayment of long-term debt at maturity. For both our unsecured and secured notes, a portion of the principal of these notes may be repaid prior to maturity. Early retirement of our unsecured or secured notes could result in gains or losses on extinguishment. If we do not have funds on hand sufficient to repay our indebtedness as it becomes due, it will be necessary for us to refinance or otherwise provide liquidity to satisfy the debt at maturity. This refinancing may be accomplished by uncollateralized private or public debt offerings, equity issuances, additional debt financing that is secured by mortgages on individual communities or groups of communities or borrowings under our Credit Facility. Although we believe we will have the capacity to meet our currently anticipated 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.

In addition to the Credit Facility, the following debt activity occurred during 2019:

- In February 2019, we amended and restated the \$250,000,000 variable rate unsecured term loan that we originally entered into in February 2017, of which \$100,000,000 matures in February 2022 with stated pricing of LIBOR plus 0.90%, which remained the same, and \$150,000,000 matures in February 2024 with stated pricing of LIBOR plus 0.85% that decreased from LIBOR plus 1.50%.
- In April 2019, we repaid \$13,363,000 of 2.99% fixed rate debt and \$33,854,000 of variable rate debt secured by Avalon Natick at par on its maturity date.
- In May 2019, we repaid \$7,635,000 principal amount of variable rate debt secured by Eaves Mission Viejo at par in advance of its scheduled maturity date. We utilized \$3,706,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.

- In May 2019, we repaid \$20,800,000 principal amount of variable rate debt secured by AVA Nob Hill at par in advance of its scheduled maturity date. We utilized \$10,584,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, we repaid \$38,800,000 principal amount of variable rate debt secured by Avalon Campbell at par in advance of its scheduled maturity date. We utilized \$22,622,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, we repaid \$17,600,000 principal amount of variable rate debt secured by Eaves Pacifica at par in advance of its scheduled maturity date. We utilized \$10,263,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, we issued \$450,000,000 principal amount of unsecured notes in a public offering under our existing shelf registration statement for net proceeds of approximately \$446,877,000. The notes mature in June 2029 and were issued at a 3.30% interest rate. The effective interest rate of the notes is 3.66%, including the impact of an interest rate hedge and offering costs.
- In August 2019, as part of the tax-deferred exchange associated with the disposition of Archstone Lexington and acquisition of Avalon Cerritos, we (i) repaid \$21,700,000 principal amount of variable rate debt secured by Archstone Lexington at par in advance of its scheduled maturity date and (ii) entered into a \$30,250,000 fixed rate note secured by Avalon Cerritos, with a contractual interest rate of 3.26%, maturing in August 2029. Further discussion of the disposition and acquisition activity can be found in Note 6, "Real Estate Disposition Activities," and Note 5, "Investments in Real Estate Entities," of our Consolidated Financial Statements.
- In November 2019, we repaid \$65,749,000 of 3.38% fixed rate debt secured by Avalon Columbia Pike at par on its maturity date.

In February 2020, we priced an underwritten public offering under our existing shelf registration statement for \$700,000,000 principal amount of 2.30% unsecured notes due in 2030. We anticipate receiving the net proceeds from this borrowing on February 25, 2020. In addition, we called for redemption of (i) \$400,000,000 principal amount of our 3.625% unsecured notes in advance of the October 2020 scheduled maturity and (ii) \$250,000,000 principal amount of our 3.95% unsecured notes in advance of the January 2021 scheduled maturity. In conjunction with the redemption of the outstanding unsecured notes due in October 2020 and January 2021, we anticipate recognizing a loss on debt extinguishment comprised of approximately \$9,300,000 in prepayment penalties and the non-cash write-off of unamortized deferred financing costs.

The following table details our consolidated debt maturities for the next five years, excluding our Credit Facility and amounts outstanding related to communities classified as held for sale, for debt outstanding at December 31, 2019 and 2018 (dollars in thousands). We are not directly or indirectly (as borrower or guarantor) obligated in any material respect to pay principal or interest on the indebtedness of any unconsolidated entities in which we have an equity or other interest.

Community	All-In interest rate (1)	Principal maturity date	Balance Outstanding (2)		Scheduled Maturities					
			12/31/2018	12/31/2019	2020	2021	2022	2023	2024	Thereafter
Tax-exempt bonds										
<i>Fixed rate</i>										
Avalon at Chestnut Hill	6.16%	Oct-2047	\$ 37,561	\$ 36,995	\$ 596	\$ 629	\$ 663	\$ 699	\$ 737	\$ 33,671
Avalon Westbury	3.86%	Nov-2036 (3)	62,200	62,200	—	—	—	—	—	62,200
			<u>99,761</u>	<u>99,195</u>	<u>596</u>	<u>629</u>	<u>663</u>	<u>699</u>	<u>737</u>	<u>95,871</u>
<i>Variable rate</i>										
Eaves Mission Viejo	2.67%	Jun-2025 (4)	7,635	—	—	—	—	—	—	—
AVA Nob Hill	2.65%	Jun-2025 (4)	20,800	—	—	—	—	—	—	—
Avalon Campbell	2.98%	Jun-2025 (4)	38,800	—	—	—	—	—	—	—
Eaves Pacifica	3.00%	Jun-2025 (4)	17,600	—	—	—	—	—	—	—
Avalon Acton	2.39%	Jul-2040 (5)	45,000	45,000	—	—	—	—	—	45,000
Avalon Clinton North	3.30%	Nov-2038 (5)	147,000	147,000	—	—	—	—	—	147,000
Avalon Clinton South	3.30%	Nov-2038 (5)	121,500	121,500	—	—	—	—	—	121,500
Avalon Midtown West	3.21%	May-2029 (5)	100,500	98,200	4,700	5,200	5,600	6,100	6,800	69,800
Avalon San Bruno I	3.19%	Dec-2037 (5)	64,450	64,450	1,400	1,900	2,000	2,200	2,200	54,750
			<u>563,285</u>	<u>476,150</u>	<u>6,100</u>	<u>7,100</u>	<u>7,600</u>	<u>8,300</u>	<u>9,000</u>	<u>438,050</u>
Conventional loans										
<i>Fixed rate</i>										
\$250 million unsecured notes	4.04%	Jan-2021 (6)	250,000	250,000	—	250,000	—	—	—	—
\$450 million unsecured notes	4.30%	Sep-2022	450,000	450,000	—	—	450,000	—	—	—
\$250 million unsecured notes	3.00%	Mar-2023	250,000	250,000	—	—	—	250,000	—	—
\$400 million unsecured notes	3.78%	Oct-2020 (6)	400,000	400,000	400,000	—	—	—	—	—
\$350 million unsecured notes	4.30%	Dec-2023	350,000	350,000	—	—	—	350,000	—	—
\$300 million unsecured notes	3.66%	Nov-2024	300,000	300,000	—	—	—	—	300,000	—
\$525 million unsecured notes	3.55%	Jun-2025	525,000	525,000	—	—	—	—	—	525,000
\$300 million unsecured notes	3.62%	Nov-2025	300,000	300,000	—	—	—	—	—	300,000
\$475 million unsecured notes	3.35%	May-2026	475,000	475,000	—	—	—	—	—	475,000
\$300 million unsecured notes	3.01%	Oct-2026	300,000	300,000	—	—	—	—	—	300,000
\$350 million unsecured notes	3.95%	Oct-2046	350,000	350,000	—	—	—	—	—	350,000
\$400 million unsecured notes	3.50%	May-2027	400,000	400,000	—	—	—	—	—	400,000
\$300 million unsecured notes	4.09%	Jul-2047	300,000	300,000	—	—	—	—	—	300,000
\$450 million unsecured notes	3.32%	Jan-2028	450,000	450,000	—	—	—	—	—	450,000
\$300 million unsecured notes	3.97%	Apr-2048	300,000	300,000	—	—	—	—	—	300,000
\$450 million unsecured notes	3.66%	Jun-2029	—	450,000	—	—	—	—	—	450,000
Avalon Walnut Creek	4.00%	Jul-2066	3,699	3,847	—	—	—	—	—	3,847
Eaves Los Feliz	3.68%	Jun-2027	41,400	41,400	—	—	—	—	—	41,400
Eaves Woodland Hills	3.67%	Jun-2027	111,500	111,500	—	—	—	—	—	111,500
Avalon Russett	3.77%	Jun-2027	32,200	32,200	—	—	—	—	—	32,200
Avalon San Bruno II	3.85%	Apr-2021	28,999	28,435	591	27,844	—	—	—	—
Avalon Westbury	4.88%	Nov-2036 (3)	15,095	13,665	1,495	1,575	1,655	1,740	1,840	5,360
Avalon San Bruno III	3.18%	Jun-2020	52,090	50,825	50,825	—	—	—	—	—
Avalon Natick	3.15%	Apr-2019 (7)	13,482	—	—	—	—	—	—	—
Avalon Hoboken	3.55%	Dec-2020	67,904	67,904	67,904	—	—	—	—	—
Avalon Columbia Pike	3.24%	Nov-2019 (7)	67,085	—	—	—	—	—	—	—
Avalon Cerritos	3.35%	Aug-2029 (8)	—	30,250	—	—	—	—	—	30,250
			<u>5,833,454</u>	<u>6,230,026</u>	<u>520,815</u>	<u>279,419</u>	<u>451,655</u>	<u>601,740</u>	<u>301,840</u>	<u>4,074,557</u>
<i>Variable rate</i>										
Avalon Natick	4.80%	Apr-2019 (7)	34,155	—	—	—	—	—	—	—
Archstone Lexington	4.13%	Oct-2020 (8)	21,700	—	—	—	—	—	—	—
Term Loan - \$100 million	2.79%	Feb-2022	100,000	100,000	—	—	100,000	—	—	—
Term Loan - \$150 million	2.72%	Feb-2024	150,000	150,000	—	—	—	—	150,000	—
\$300 million unsecured notes	2.62%	Jan-2021	300,000	300,000	—	300,000	—	—	—	—
			<u>605,855</u>	<u>550,000</u>	<u>—</u>	<u>300,000</u>	<u>100,000</u>	<u>—</u>	<u>150,000</u>	<u>—</u>
Total indebtedness - excluding Credit Facility			<u>\$ 7,102,355</u>	<u>\$ 7,355,371</u>	<u>\$527,511</u>	<u>\$587,148</u>	<u>\$559,918</u>	<u>\$610,739</u>	<u>\$461,577</u>	<u>\$ 4,608,478</u>

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- (1) Rates are given as of December 31, 2019 and include credit enhancement fees, facility fees, trustees' fees, the impact of interest rate hedges, offering costs, mark to market amortization and other fees.
 - (2) Balances outstanding represent total amounts due at maturity, and exclude deferred financing costs and debt discount for the unsecured notes of \$41,352 and \$44,007 as of December 31, 2019 and 2018, respectively, deferred financing costs and debt discount associated with secured notes of \$17,729 and \$18,085 as of December 31, 2019 and 2018, respectively, as reflected on our Consolidated Balance Sheets included elsewhere in this report.
 - (3) Maturity date reflects the contractual maturity of the underlying bond. There is also an associated earlier credit enhancement maturity date.
 - (4) During 2019, we repaid this borrowing at par in advance of its scheduled maturity date.
 - (5) Financed by variable rate debt, but interest rate is capped through an interest rate protection agreement.
 - (6) In February 2020, we called these borrowings for redemption in advance of their scheduled maturity dates.
 - (7) During 2019, we repaid this borrowing at par on its scheduled maturity date.
 - (8) In August 2019, as part of the tax-deferred exchange associated with the disposition of Archstone Lexington and acquisition of Avalon Cerritos, we (i) repaid the borrowing secured by Archstone Lexington at par in advance of its scheduled maturity date and (ii) entered into a new borrowing secured by Avalon Cerritos.

Future Financing and Capital Needs—Portfolio and Capital Markets Activity

In 2020, we expect to meet our liquidity needs from a variety of internal and external sources, which may include (i) real estate dispositions, (ii) cash balances on hand as well as cash generated from our operating activities, (iii) borrowing capacity under our Credit Facility and (iv) secured and unsecured debt financings. Additional sources of liquidity in 2020 may include the issuance of common and preferred equity. Our ability to obtain additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the real estate industry, our credit ratings and credit capacity, as well as the perception of lenders regarding our long or short-term financial prospects.

Before beginning new construction or reconstruction activity, including activity related to communities owned by unconsolidated joint ventures, we intend to plan adequate financing to complete these undertakings, although we cannot assure you that we will be able to obtain such financing. In the event that financing cannot be obtained, we may have to abandon Development Rights, write off associated pre-development costs that were capitalized and/or forego reconstruction activity. In such instances, we will not realize the increased revenues and earnings that we expected from such Development Rights or reconstruction activity and significant losses could be incurred.

From time to time we use joint ventures to hold or develop individual real estate assets. We generally employ joint ventures primarily to mitigate asset concentration or market risk and secondarily as a source of liquidity. We may also use joint ventures related to mixed-use land development opportunities and new markets where our partners bring development and operational expertise and/or experience to the venture. Each joint venture or partnership agreement has been individually negotiated, and our ability to operate and/or dispose of a community in our sole discretion may be limited to varying degrees depending on the terms of the joint venture or partnership agreement. We cannot assure you that we will achieve our objectives through joint ventures.

In evaluating our allocation of capital within our markets, we sell assets that do not meet our long-term investment criteria or when capital and real estate markets allow us to realize a portion of the value created over our ownership periods and redeploy the proceeds from those sales to develop and redevelop communities. Because the proceeds from the sale of communities may not be immediately redeployed into revenue generating assets that we develop, redevelop or acquire, the immediate effect of a sale of a community for a gain is to increase net income, but reduce future total revenues, total expenses and NOI until such time as the proceeds have been redeployed into revenue generating assets. We believe that the temporary absence of future cash flows from communities sold will not have a material impact on our ability to fund future liquidity and capital resource needs.

Unconsolidated Real Estate Investments and Off-Balance Sheet Arrangements

Unconsolidated Investments

As of December 31, 2019, we had investments in the following unconsolidated real estate entities accounted for under the equity method of accounting, excluding development joint ventures and limited liability company agreements we entered into, through subsidiaries, with Equity Residential in conjunction with the Archstone Acquisition (collectively, the “Residual JV”). Refer to Note 5, “Investments in Real Estate Entities,” of the Consolidated Financial Statements included elsewhere in this report, which includes information on the aggregate assets, liabilities and equity, as well as operating results, and our proportionate share of their operating results. For ventures holding operating apartment communities as of December 31, 2019, detail of the real estate and associated indebtedness underlying our unconsolidated investments is presented in the following table (dollars in thousands).

Unconsolidated Real Estate Investments	Company Ownership Percentage	# of Apartment Homes	Total Capitalized Cost (1)	Debt (2)			
				Principal Amount	Type	Interest Rate (3)	Maturity Date
NYC Joint Venture							
1. Avalon Bowery Place I—New York, NY		206	\$ 208,531	\$ 93,800	Fixed	4.01%	Jan 2029
2. Avalon Bowery Place II—New York, NY		90	90,745	39,639	Fixed	4.01%	Jan 2029
3. Avalon Morningside—New York, NY (4)		295	210,788	112,500	Fixed	3.55%	Jan 2029/ May 2046
4. Avalon West Chelsea—New York, NY (5)		305	127,573	66,000	Fixed	4.01%	Jan 2029
5. AVA High Line—New York, NY (5)		405	121,206	84,000	Fixed	4.01%	Jan 2029
Total NYTA MF Investors LLC	20.0%	1,301	758,843	395,939		3.88%	
U.S. Fund							
1. Avalon Studio 4121—Studio City, CA		149	57,171	27,653	Fixed	3.34%	Nov 2022
2. Avalon Venice on Rose—Venice, CA		70	57,447	27,626	Fixed	3.28%	Jun 2020
3. Avalon Station 250—Dedham, MA		285	98,009	53,876	Fixed	3.73%	Sep 2022
4. Avalon Grosvenor Tower—Bethesda, MD		237	80,416	41,761	Fixed	3.74%	Sep 2022
Total U.S. Fund	28.6%	741	293,043	150,916		3.58%	
AC JV							
1. Avalon North Point—Cambridge, MA (6)		426	190,089	111,653	Fixed	6.00%	Aug 2021
2. Avalon North Point Lofts — Cambridge, MA		103	26,865	—	N/A	N/A	N/A
Total AC JV	20.0%	529	216,954	111,653		6.00%	
Other Operating Joint Ventures							
1. MVP I, LLC	25.0%	313	125,539	103,000	Fixed	3.24%	Jul 2025
2. Brandywine Apartments of Maryland, LLC	28.7%	305	19,383	21,610	Fixed	3.40%	Jun 2028
Total Other Joint Ventures		618	144,922	124,610		3.27%	
Total Unconsolidated Investments		3,189	\$ 1,413,762	\$ 783,118		4.03%	

(1) Represents total capitalized cost as of December 31, 2019.

(2) We have not guaranteed the debt of unconsolidated investees and bear no responsibility for the repayment.

(3) Represents weighted average rate on outstanding debt as of December 31, 2019.

(4) Borrowing on this community is comprised of two mortgage loans.

(5) Borrowing on this dual-branded community is comprised of a single mortgage loan.

(6) Borrowing is comprised of a loan made by the equity investors in the venture in proportion to their equity interests.

U.S. Fund—During 2019, the U.S. Fund sold one community and the adjacent marina, containing 205 apartment homes and 229 boat slips, for an aggregate sales price of \$86,000,000. Our share of the gain in accordance with GAAP was \$5,788,000. In conjunction with the disposition of the community, the U.S. Fund repaid \$49,800,000 of related secured indebtedness in advance of its scheduled maturity date.

North Point II JV, LP—During 2016, we entered into a joint venture with an institutional investor to develop, own, and operate AVA North Point, an apartment community located in Cambridge, MA, which completed construction during 2018 and contains 265 apartment homes. We owned a 55.0% interest in the venture, and the venture partner owned the remaining 45.0% interest. During 2019, we acquired the 45.0% equity interest of AVA North Point that was owned by our venture partner, for a purchase price of \$71,280,000. Upon acquisition, we consolidated AVA North Point as a wholly-owned operating community.

Off-Balance Sheet Arrangements

In addition to our investment interests in consolidated and unconsolidated real estate entities, we have certain off-balance sheet arrangements with the entities in which we invest. Additional discussion of these entities can be found in Note 5, “Investments in Real Estate Entities,” of our Consolidated Financial Statements included elsewhere in this report.

We have not guaranteed the debt of our unconsolidated real estate entities, as referenced in the table above, nor do we have any obligation to fund this debt should the unconsolidated real estate entities be unable to do so. In the future, in the event the unconsolidated real estate entities were unable to meet their obligations under a loan, we cannot predict at this time whether we would provide any voluntary support, or take any other action, as any such action would depend on a variety of factors, including the amount of support required and the possibility that such support could enhance the return of the unconsolidated real estate entities and/or our returns by providing time for performance to improve.

There are no other material lines of credit, side agreements, financial guarantees or any other derivative financial instruments related to or between our unconsolidated real estate entities and us. In evaluating our capital structure and overall leverage, management takes into consideration our proportionate share of the indebtedness of unconsolidated entities in which we have an interest.

Contractual Obligations

Scheduled contractual obligations required for the next five years and thereafter are as follows as of December 31, 2019 (dollars in thousands):

	Payments due by period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Debt Obligations	\$ 7,355,371	\$ 527,511	\$ 1,147,066	\$ 1,072,316	\$ 4,608,478
Interest on Debt Obligations (1)	2,450,337	259,353	445,202	373,327	1,372,455
Operating Lease Obligations (2)	431,185	12,050	28,058	26,793	364,284
Finance Lease Obligations (2)(3)	45,543	1,077	2,162	2,171	40,133
	<u>\$ 10,282,436</u>	<u>\$ 799,991</u>	<u>\$ 1,622,488</u>	<u>\$ 1,474,607</u>	<u>\$ 6,385,350</u>

(1) Interest payments on variable rate debt obligations are calculated based on the rate as of December 31, 2019.

(2) Includes ground leases expiring between October 2026 and March 2142. Amounts do not include any adjustment for purchase options available under the ground leases.

(3) Aggregate finance lease payments include \$25,336 in interest costs.

Inflation and Deflation

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

Recent U.S. Federal Income Tax Updates

This summary is for general information purposes only and is not tax advice. This discussion does not address all aspects of taxation that may be relevant to particular holders of our securities in light of their personal investment or tax circumstances.

The following discussion supplements and updates the disclosures under “Federal Income Tax Considerations and Consequences of Your Investment” in the prospectus dated February 23, 2018 contained in our Registration Statement on Form S-3 filed with the SEC on February 23, 2018.

Consolidated Appropriations Act and Proposed Regulations Updates

On March 23, 2018, the Consolidated Appropriations Act, 2018 (the “CAA”) was enacted. The CAA amended various provisions of the Code and implicate certain tax-related disclosures contained in the prospectus. Also on June 7, 2019, the Internal Revenue Service promulgated proposed Treasury Regulations under Section 897 of the Code regarding qualified foreign pension funds. While these proposed Treasury Regulations have not yet been finalized, taxpayers generally may rely on the proposed Treasury Regulations. As a result, the discussion under “Federal Income Tax Considerations and Consequences of Your Investment-U.S. Taxation of Non-U.S. Stockholders-Special FIRPTA Rules” of the prospectus is replaced with the following paragraphs:

Special FIRPTA Rules. To the extent our stock is held directly (or indirectly through one or more partnerships) by a “qualified shareholder,” it will not be treated as a U.S. real property interest for such qualified shareholder. Further, to the extent such treatment applies, any distribution to such shareholder will not be treated as gain recognized from the sale or exchange of a U.S. real property interest. For these purposes, a qualified shareholder is generally a non-U.S. stockholder that (i)(A) is eligible for treaty benefits under an income tax treaty with the United States that includes an exchange of information program, and the principal class of interests of which is listed and regularly traded on one or more stock exchanges as defined by the treaty, or (B) is a foreign limited partnership organized in a jurisdiction with an exchange of information agreement with the United States and that has a class of regularly traded limited partnership units (having a value greater than 50% of the value of all partnership units) on the New York Stock Exchange or Nasdaq, (ii) is a “qualified collective investment vehicle” (within the meaning of Section 897(k)(3)(B) of the Code) and (iii) maintains records of persons holding 5% or more of the class of interests described in clauses (i)(A) or (i)(B) above. However, in the case of a qualified shareholder having one or more “applicable investors,” the exception described in the first sentence of this paragraph will not apply to the applicable percentage of the qualified shareholder’s stock (with “applicable percentage” generally meaning the percentage of the value of the interests in the qualified shareholder held by applicable investors after applying certain constructive ownership rules). The applicable percentage of the amount realized by a qualified shareholder on the disposition of our stock or with respect to a distribution from us attributable to gain from the sale or exchange of a U.S. real property interest will be treated as amounts realized from the disposition of U.S. real property interest. Such treatment shall also apply to applicable investors in respect of distributions treated as a sale or exchange of stock with respect to a qualified shareholder. For these purposes, an “applicable investor” is a person (other than a qualified shareholder) who generally holds an interest in the qualified shareholder and holds more than 10% of our stock applying certain constructive ownership rules.

For FIRPTA purposes, neither a “qualified foreign pension fund” (as defined below) nor a “qualified controlled entity” (as defined below) is treated as a non-U.S. shareholder. Accordingly, the U.S. federal income tax treatment of ordinary dividends received by qualified foreign pension funds and qualified controlled entities will be determined without regard to the FIRPTA rules discussed above, and their gain from the sale or exchange of our stock, as well as our capital gain dividends and distributions treated as gain from the sale or exchange of our stock, will not be subject to U.S. federal income tax unless such gain is treated as effectively connected with the qualified foreign pension fund’s (or the qualified controlled entity’s) conduct of a U.S. trade or business. A “qualified foreign pension fund” is an organization or arrangement (i) created or organized in a foreign country, (ii) established to provide retirement or pension benefits to current or former employees (including self-employed individuals) or their designees by either (A) such foreign country as a result of services rendered by such employees to their employers, or (B) one or more employers in consideration for services rendered by such employees to such employers, (iii) which does not have a single participant or beneficiary that has a right to more than 5% of its assets or income, (iv) which is subject to government regulation and with respect to which annual information about its beneficiaries is provided, or is otherwise available, to relevant local tax authorities, and (v) with respect to which, under its local laws, (A) contributions that would otherwise be subject to tax are deductible or excluded from its gross income or taxed at a reduced rate, or (B) taxation of its investment income is deferred, or such income is excluded from its gross income or taxed at a reduced rate. A “qualified controlled entity” for purposes of the above summary means an entity all the interests of which are held by a qualified foreign pension fund. Alternatively, under proposed Treasury Regulations that taxpayers generally may rely on, but which are subject to change, a “qualified controlled entity” is a trust or corporation organized under the laws of a foreign country all of the interests of which are

held by one or more qualified foreign pension funds either directly or indirectly through one or more qualified controlled entities or partnerships.

In addition, the CAA clarified that for purposes of determining if a REIT is a “domestically controlled qualified investment entity” under FIRPTA, the presumption that generally a person holding less than 5% of a REIT’s class of stock that is regularly traded on an established securities market in the United States for five years has been, and will be, treated as a U.S. person applies for testing periods ending on or after December 18, 2015 (e.g., if a testing period ends on June 1, 2018, then the presumption applies for the entire five-year period starting on June 1, 2013).

The CAA also amended numerous Code provisions relating to the new rules applicable to federal income tax audits of partnerships effective for taxable years beginning after December 31, 2017 to provide that a broader range of partnership-related items may be adjusted on audit or in other tax proceedings.

Recent FATCA Regulations

On December 18, 2018, the Internal Revenue Service promulgated proposed Treasury Regulations under Sections 1471-1474 of the Code (commonly referred to as FATCA), which proposed regulations eliminate FATCA withholding on gross proceeds of a disposition of property that can produce U.S. source interest or dividends and thus implicate certain tax-related disclosures contained in the prospectus. While these proposed Treasury Regulations have not yet been finalized, taxpayers are generally entitled to rely on the proposed Treasury Regulations (subject to certain limited exceptions). As a result, the following revisions are made to the prospectus:

- In the first sentence of the fourth paragraph under “Federal Income Tax Considerations and Consequences of Your Investment - Taxation of Non-U.S. Holders of Debt Securities - Disposition of the Debt Securities,” of the prospectus, the phrase “subject to the discussion below regarding FATCA withholding” is deleted; and
- The paragraph under “Federal Income Tax Considerations and Consequences of Your Investment - Other Tax Consequences for Avalon Bay, its Stockholders, and Holders of its Debt Securities - Other U.S. Federal Income Tax Withholding and Reporting Requirements; FATCA” of the prospectus is replaced with the following:

Other U.S. Federal Income Tax Withholding and Reporting Requirements; FATCA. The FATCA provisions of the Code, subject to administrative guidance and certain intergovernmental agreements entered into thereunder, impose a 30% withholding tax on certain types of payments made to “foreign financial institutions” and certain other non-U.S. entities unless (i) the foreign financial institution undertakes certain diligence and reporting obligations or (ii) the foreign non-financial entity either certifies it does not have any substantial United States owners or furnishes identifying information regarding each substantial United States owner. If the payee is a foreign financial institution that is not subject to special treatment under certain intergovernmental agreements, it must enter into an agreement with the United States Treasury Department requiring, among other things, that it undertakes to identify accounts held by certain United States persons or United States-owned foreign entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent them from complying with these reporting and other requirements. Investors in jurisdictions that have entered into “intergovernmental agreements” may, in lieu of the foregoing requirements, be required to report such information to their home jurisdictions. The compliance requirements under FATCA are complex and special requirements may apply to certain categories of payees.

Clarification

Finally, the discussion under “Federal Income Tax Considerations and Consequences of Your Investment-U.S. Taxation of Non-U.S. Stockholders-Distributions by AvalonBay” of the prospectus is clarified to explain that the exception to FIRPTA for 10% or smaller holders may apply only if our common stock is regularly traded an established securities market located in the United States.

Forward-Looking Statements

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

- our potential development, redevelopment, acquisition or disposition of communities;
- the timing and cost of completion of apartment communities under construction, reconstruction, development or redevelopment;
- the timing of lease-up, occupancy and stabilization of apartment communities;
- the timing and net sales proceeds of condominium sales;
- the pursuit of land on which we are considering future development;
- the anticipated operating performance of our communities;
- cost, yield, revenue, NOI and earnings estimates;
- the impact of landlord-tenant laws and rent regulations;
- our declaration or payment of dividends;
- our joint venture and discretionary fund activities;
- our policies regarding investments, indebtedness, acquisitions, dispositions, financings and other matters;
- our qualification as a REIT under the Internal Revenue Code;
- the real estate markets in Northern and Southern California, Denver, Colorado, and Southeast Florida, and markets in selected states in the Mid-Atlantic, New England, Metro New York/New Jersey and Pacific Northwest regions of the United States and in general;
- the availability of debt and equity financing;
- interest rates;
- general economic conditions including the potential impacts from current economic conditions;
- trends affecting our financial condition or results of operations; and
- the impact of outstanding legal proceedings.

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. We do not undertake a duty to update these forward-looking statements, and therefore they may not represent our estimates and assumptions after the date of this report. 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. You should carefully review the discussion under Item 1A. “Risk Factors” in this report for further discussion of risks associated with 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 to obtain land at attractive prices or to obtain desired zoning and other local approvals;
- we may abandon or defer development opportunities for a number of reasons, including changes in local market conditions which make development less desirable, increases in costs of development, increases in the cost of capital or lack of capital availability, resulting in losses;
- construction costs of a community may exceed our original estimates;
- we may not complete construction and lease-up of communities under development or redevelopment on schedule, resulting in increased interest costs and construction costs and a decrease in our expected rental revenues;
- the timing and net proceeds of condominium sales may not equal our current expectations;
- occupancy rates and market rents may be adversely affected by competition and local economic and market conditions which are beyond our control;
- financing may not be available on favorable terms or at all, and our cash flows from operations and access to cost effective capital may be insufficient for the development of our pipeline which could limit our pursuit of opportunities;
- the impact of new landlord-tenant laws and rent regulations may be greater than we expected;
- our cash flows may be insufficient to meet required payments of principal and interest, and we may be unable to refinance existing indebtedness or the terms of such refinancing may not be as favorable as the terms of existing indebtedness;

- we may be unsuccessful in our management of the U.S. Fund, the AC JV or the REIT vehicles that are used with each respective joint venture;
- we may be unsuccessful in managing changes in our portfolio composition;
- laws and regulations implementing rent control or rent stabilization, or otherwise limiting our ability to increase rents, charge fees or evict tenants, may impact our revenue or increase our costs; and
- our expectations, estimates and assumptions regarding outstanding legal proceedings are subject to change.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, or different assumptions were made, it is possible that different accounting policies would have been applied, resulting in different financial results or a different presentation of our financial statements. Below is a discussion of the accounting policies that we consider critical to an understanding of our financial condition and operating results that may require complex or significant judgment in their application or require estimates about matters which are inherently uncertain. A discussion of our significant accounting policies, including further discussion of the accounting policies described below, can be found in Note 1, “Organization, Basis of Presentation and Significant Accounting Policies,” of our Consolidated Financial Statements.

Cost Capitalization

We capitalize costs during the development of assets. Capitalization begins when we determine that development of a future asset is probable and continues until the asset, or a portion of the asset, is delivered and is ready for its intended use. For redevelopment efforts, we capitalize costs either (i) in advance of taking apartment homes out of service when significant renovation of the common area has begun and continue until the redevelopment is completed, or (ii) when an apartment home is taken out of service for redevelopment and continue until the redevelopment is completed and the apartment home is available for a new resident. Rental income and operating expenses incurred during the initial lease-up or post-redevelopment lease-up period are fully recognized in earnings as they accrue.

During the development and redevelopment efforts we capitalize all direct costs and indirect costs which have been incurred as a result of the development and redevelopment activities. These costs include interest and related loan fees, property taxes as well as other direct and indirect costs. Interest is capitalized for any project-specific financing, as well as for general corporate financing to the extent of our aggregate investment in the projects. Indirect project costs, which include personnel and office and administrative costs that are clearly associated with our development and redevelopment efforts, are also capitalized. Capitalized indirect costs associated with our development and redevelopment activities are comprised primarily of compensation related costs for associates dedicated to our development and redevelopment efforts and total \$48,168,000, \$46,857,000 and \$47,063,000 for 2019, 2018 and 2017, respectively. The estimation of the direct and indirect costs to capitalize as part of our development and redevelopment activities requires judgment and, as such, we believe cost capitalization to be a critical accounting estimate.

There may be a change in our operating expenses in the event that there are changes in accounting guidance governing capitalization or changes to our levels of development or redevelopment activity. If changes in the accounting guidance limit our ability to capitalize costs or if we reduce our development and redevelopment activities without a corresponding decrease in indirect project costs, there may be an increase in our operating expenses.

We capitalize pre-development costs incurred in pursuit of Development Rights. These costs include legal fees, design fees and related overhead costs. Future development of these pursuits is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and availability of capital. Pre-development costs incurred for pursuits for which future development is not yet considered probable are expensed as incurred. In addition, if the status of a Development Right changes, making future development no longer probable, any capitalized pre-development costs are written off with a charge to expense.

Due to the subjectivity in determining whether a pursuit will result in the development of an apartment community, and therefore should be capitalized, the accounting for pursuit costs is a critical accounting estimate. As of December 31, 2019, capitalized pursuit costs associated with Development Rights totaled \$70,486,000.

Abandoned Pursuit Costs & Asset Impairment

We evaluate our direct and indirect investments in real estate and other long-lived assets for impairment when potential indicators of impairment exist. If events or circumstances indicate that the carrying amount of a property may not be recoverable, we assess its recoverability by comparing the carrying amount of the property to its estimated undiscounted future cash flows. If the carrying amount exceeds the aggregate undiscounted future cash flows, we recognize an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property. We assess land held for development for impairment if our intent changes with respect to the development of the land. We evaluate our unconsolidated investments for impairment, considering both the carrying value of the investment, estimated to be the expected proceeds that it would receive if the entity were dissolved and the net assets were liquidated, as well as our proportionate share of any impairment of assets held by unconsolidated investments.

We expense costs related to abandoned pursuits, which include the abandonment of Development Rights and disposition pursuits. These costs can vary greatly, and the costs incurred in any given period may be significantly different in future years.

Our focus on value creation through real estate development presents an impairment risk in the event of a future deterioration of the real estate and/or capital markets or a decision by us to reduce or cease development. We cannot predict the occurrence of future events that may cause an impairment assessment to be performed, or the likelihood of any future impairment charges, if any. You should also review Item 1A. "Risk Factors" in this Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks from our financial instruments primarily from changes in market interest rates. We do not have exposure to any other significant market risk. We monitor interest rate risk as an integral part of our overall risk management, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on our results of operations. Our operating results are affected by changes in interest rates, primarily in short-term LIBOR and the SIFMA index as a result of borrowings under our Credit Facility and outstanding bonds and unsecured notes with variable interest rates. In addition, the fair value of our fixed rate unsecured and secured notes are impacted by changes in market interest rates. The effect of interest rate fluctuations on our results of operations historically has been small relative to other factors affecting operating results, such as rental rates and occupancy.

We currently use interest rate protection agreements (consisting of interest rate swap and interest rate cap agreements) for our risk management objectives, as well as for compliance with the requirements of certain lenders, and not for trading or speculative purposes. During 2019, we settled an aggregate of \$250,000,000 of forward interest rate swap agreements entered into in 2018 in conjunction with the May 2019 unsecured note issuance. During 2019, we entered into \$350,000,000 of forward interest rate swap agreements to reduce the impact of variability in interest rates on a portion of our expected debt issuance activity in 2020, which are outstanding as of December 31, 2019. In February 2020, in conjunction with the pricing of the \$700,000,000 principal amount of 2.30% unsecured notes due in 2030, we settled \$350,000,000 of forward interest rate swap agreements.

In addition, we have interest rate caps that serve to effectively limit the amount of interest rate expense we would incur on a floating rate borrowing. Further discussion of the financial instruments impacted and our exposure is presented below.

As of December 31, 2019 and 2018, we had \$1,026,150,000 and \$1,169,140,000, respectively, in variable rate debt outstanding, with no amounts outstanding under our Credit Facility. If interest rates on the variable rate debt had been 100 basis points higher throughout 2019 and 2018, our annual interest incurred would have increased by approximately \$11,221,000 and \$14,963,000, respectively, based on balances outstanding during the applicable years.

Because the counterparties providing the interest rate cap and swap agreements are major financial institutions which have an A or better credit rating by the Standard & Poor's Ratings Group, we do not believe there is exposure at this time to a default by a counterparty provider.

In addition, changes in interest rates affect the fair value of our fixed rate debt, computed using quoted market prices for our unsecured notes or a discounted cash flow model for our secured notes, considering our current market yields, which impacts the fair value of our aggregate indebtedness. Debt securities and notes payable (including amounts outstanding under our Credit Facility) with an aggregate principal amount outstanding of \$7,355,371,000 at December 31, 2019 had an estimated aggregate fair value of \$7,595,918,000 at December 31, 2019. Contractual fixed rate debt represented \$6,675,131,000 of the fair value at December 31, 2019. If interest rates had been 100 basis points higher as of December 31, 2019, the fair value of this fixed rate debt would have decreased by approximately \$720,500,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

- (a) Evaluation of Disclosure Controls and Procedures. As required by Rule 13a-15 under the Securities Exchange Act of 1934, as of the end of the period covered by this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. We continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.
- (b) Management's Report on Internal Control Over Financial Reporting. Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2019 based on the framework in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on that evaluation, our management concluded that our internal control over financial reporting was effective as of December 31, 2019.

Our internal control over financial reporting as of December 31, 2019 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report which is included elsewhere herein.

- (c) Changes in Internal Control Over Financial Reporting. As of January 1, 2019, the Company adopted ASU 2016-02, Leases. The Company implemented internal controls related to the lease accounting process, but there were no significant changes to the internal control over financial reporting due to the adoption of this new standard.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 pertaining to directors and executive officers of the Company and the Company's Code of Conduct is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders scheduled to be held on May 12, 2020.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 pertaining to executive compensation is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders scheduled to be held on May 12, 2020.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 pertaining to security ownership of management and certain beneficial owners of the Company's common stock is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders scheduled to be held on May 12, 2020, to the extent not set forth below.

The Company maintains the Second Amended and Restated 2009 Equity Incentive Plan (the "2009 Plan") and the 1996 Non-Qualified Employee Stock Purchase Plan (the "ESPP"), pursuant to which common stock or other equity awards may be issued or granted to eligible persons.

The following table gives information about equity awards under the 2009 Plan, under which awards were previously made, and the ESPP as of December 31, 2019:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1)	554,664 (2)	\$ 124.05 (3)	7,227,600
Equity compensation plans not approved by security holders (4)	—	N/A	654,435
Total	554,664	\$ 124.05 (3)	7,882,035

(1) Consists of the 2009 Plan.

(2) Includes 33,392 deferred restricted stock units granted under the 2009 Plan, which, subject to vesting requirements, will convert in the future to common stock on a one-for-one basis. Also includes the maximum number of shares that may be issued upon settlement of outstanding Performance Awards awarded to officers and maturing on December 31, 2019, 2020 and 2021. Does not include 311,437 shares of restricted stock that are outstanding and that are already reflected in the Company's outstanding shares.

(3) Excludes performance awards and deferred units granted under the 2009 Plan, which, subject to vesting requirements, will convert in the future to common stock on a one-for-one basis.

(4) Consists of the ESPP.

The ESPP, which was adopted by the Board of Directors on October 29, 1996, has not been approved by our shareholders. A further description of the ESPP appears in Note 9, "Stock-Based Compensation Plans," of the Consolidated Financial Statements set forth in Item 8 of this report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 pertaining to certain relationships and related transactions is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders to be held on May 12, 2020.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 pertaining to the fees paid to and services provided by the Company's principal accountant is incorporated herein by reference to the Company's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K with respect to the Annual Meeting of Stockholders to be held on May 12, 2020.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

15(a)(1) *Financial Statements*

Index to Financial Statements

Consolidated Financial Statements and Financial Statement Schedule:

Reports of Independent Registered Public Accounting Firm	F-1
Consolidated Balance Sheets as of December 31, 2019 and 2018	F-4
Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018 and 2017	F-5
Consolidated Statements of Equity for the years ended December 31, 2019, 2018 and 2017	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018 and 2017	F-7
Notes to Consolidated Financial Statements	F-10

15(a)(2) *Financial Statement Schedule*

Schedule III—Real Estate and Accumulated Depreciation	F-41
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All other schedules for which provision is made in the applicable accounting regulation of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and therefore have been omitted.

15(a)(3) *Exhibits*

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

ITEM 16. FORM 10-K SUMMARY

Not Applicable.

INDEX TO EXHIBITS

Exhibit No.	Description
3(i).1	— Articles of Amendment and Restatement of Articles of Incorporation of the Company, dated as of June 4, 1998. (Incorporated by reference to Exhibit 3(i).1 to Form 10-K of the Company filed March 1, 2007.)
3(i).2	— Articles of Amendment, dated as of October 2, 1998. (Incorporated by reference to Exhibit 3(i).2 to Form 10-K of the Company filed March 1, 2007.)
3(i).3	— Articles of Amendment, dated as of May 22, 2013. (Incorporated by reference to Exhibit 3(i).3 to Form 8-K of the Company filed May 22, 2013.)
3(ii).1	— Amended and Restated Bylaws of the Company, as adopted by the Board of Directors on November 12, 2015, and as further amended on February 16, 2017, November 13, 2017, and May 6, 2019. (Incorporated by reference to Exhibit 3(ii).1 to Form 10-Q of the Company filed August 6, 2019.)
4.1	— Indenture for Senior Debt Securities, dated as of January 16, 1998, between the Company and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
4.2	— Amended and Restated Third Supplemental Indenture, dated as of July 10, 2000 between the Company and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to Exhibit 4.4 to Registration Statement on Form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
4.3	— Fourth Supplemental Indenture, dated as of September 18, 2006, between the Company and U.S. Bank National Association as Trustee. (Incorporated by reference to Exhibit 4.5 to Registration Statement on Form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
4.4	— Fifth Supplemental Indenture, dated as of November 21, 2014, between the Company and the Bank of New York Mellon, as Trustee. (Incorporated by reference to Exhibit 4.1 to Form 8-K of the Company filed November 21, 2014.)
4.5	— Indenture for Debt Securities, dated as of February 23, 2018, between the Company and the Bank of New York, as Trustee (Incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-3 of the Company (File No. 333-223183), filed February 23, 2018.)
4.6	— First Supplemental Indenture, dated as March 26, 2018, between the Company and the Bank of New York Mellon, as Trustee, (Incorporated by reference to Exhibit 4.8 to Form 10-Q of the Company filed May 4, 2018.)
4.7	— Second Supplemental Indenture, dated as of May 29, 2018, between the Company and the Bank of New York Mellon, as Trustee, (Incorporated by reference to Exhibit 4.3 to Form 8-K of the Company, filed May 29, 2018.)
4.8	— Dividend Reinvestment and Stock Purchase Plan of the Company. (Incorporated by reference to the prospectus contained in the Registration Statement on Form S-3DPOS of the Company (File No. 333-87063), filed February 23, 2018.)
4.9	— Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934. (Filed herewith.)
10.1+	— AvalonBay Communities, Inc. Second Amended and Restated 2009 Equity Incentive Plan. (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed August 4, 2017.)
10.2+	— First Amendment to AvalonBay Communities, Inc. Second Amended and Restated 2009 Equity Incentive Plan, dated February 14, 2019. (Incorporated by reference to Exhibit 10.4 to Form 10-K of the Company filed February 22, 2019.)
10.3+	— Form of Stock Grant and Restricted Stock Agreement for use with officers and associates. (Incorporated by reference to Exhibit 10.1 to Form 8-K of the Company filed February 22, 2018.)

- 10.4+ — Form of Incentive Stock Option/Non-Qualified Stock Option Agreement for use with officers and associates. (Incorporated by reference to Exhibit 10.2 to Form 8-K of the Company filed February 22, 2018.)
- 10.5+ — 2018 Amended and Restated Directors Deferred Compensation Program. (Incorporated by reference to Exhibit 10.4 to Form 8-K of the Company filed February 22, 2018.)
- 10.6+ — Form of Director Restricted Stock Agreement. (Incorporated by reference to Exhibit 10.5 to Form 8-K of the Company filed February 22, 2018.)
- 10.7+ — Form of Director Restricted Unit Agreement (deferred stock award). (Incorporated by reference to Exhibit 10.6 of Form 8-K of the Company filed February 22, 2018.)
- 10.8+ — Form of Agreement for Grant of Performance-Based Restricted Stock Units with attached Award Terms (subject to changes in the following: weightings; target, threshold and maximum levels of achievement; and metrics used.) (Incorporated by reference to Exhibit 10.10 to Form 10-K of the Company filed February 22, 2019.)
- 10.9+ — Form of Indemnity Agreement between the Company and its Directors. (Incorporated by reference to Exhibit 10.19 to Form 10-K of the Company filed February 19, 2015.)
- 10.10+ — The Company's Officer Severance Plan, as amended and restated on February 11, 2016. (Incorporated by reference to Exhibit 99.2 to Form 8-K of the Company filed February 16, 2016.)
- 10.11 — Fifth Amended and Restated Revolving Loan Agreement, dated as of February 28, 2019, among the Company, as Borrower, Bank of America, N.A., as administrative agent, an issuing bank and a bank, JPMorgan Chase Bank, N.A., as an issuing bank, a bank and as a syndication agent, Wells Fargo Bank, N.A., as an issuing bank, a bank and a syndication agent, Barclays Bank PLC, Deutsche Bank Securities, Inc., Goldman Sachs Bank USA, Morgan Stanley Senior Funding, Inc. and Citibank, N.A. as documentation agents, PNC Bank, National Association and SunTrust Bank as senior managing agents, TD Bank, N.A., Royal Bank of Canada and U.S. Bank National Association as managing agents, Branch Banking and Trust Company and The Bank of Nova Scotia as co-agents, each (or its affiliate) as a bank, and the other bank parties signatory thereto. (Incorporated by reference to Exhibit 1.2 to Form 8-K of the Company filed February 28, 2019.)
- 10.12+ — Amended and Restated AvalonBay Communities, Inc. Deferred Compensation Plan, effective as of January 1, 2011. (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed August 6, 2010.)
- 10.13+ — First Amendment to Amended and Restated AvalonBay Communities, Inc. Deferred Compensation Plan, effective as of November 7, 2011. (Incorporated by reference to Exhibit 10.28 to Form 10-K of the Company filed February 24, 2017.)
- 10.14+ — Second Amendment to Amended and Restated AvalonBay Communities, Inc. Deferred Compensation Plan, effective as of November 15, 2012. (Incorporated by reference to Exhibit 10.29 to Form 10-K of the Company filed February 24, 2017.)
- 10.15 — Archstone Residual JV, LLC Limited Liability Company Agreement. (Incorporated by reference to Exhibit 10.3 to Form 8-K of the Company filed March 5, 2013.)
- 10.16 — Archstone Parallel Residual JV, LLC Limited Liability Company Agreement. (Incorporated by reference to Exhibit 10.4 to Form 8-K of the Company filed March 5, 2013.)
- 10.17 — Archstone Parallel Residual JV 2, LLC Limited Liability Company Agreement. (Incorporated by reference to Exhibit 10.5 to Form 8-K of the Company filed March 5, 2013.)
- 10.18 — Legacy Holdings JV, LLC Limited Liability Company Agreement. (Incorporated by reference to Exhibit 10.6 to Form 8-K of the Company filed March 5, 2013.)
- 10.19 — Amended and Restated Term Loan Agreement, dated as of February 28, 2019, among the Company, as Borrower, PNC Bank, National Association, as Administrative Agent and a bank, The Bank of New York Mellon, as a Syndication Agent and a bank, SunTrust Bank, as a Syndication agent and a bank, and a syndicate of other financial institutions, serving as banks. (Incorporated by reference to Exhibit 1.1 to Form 8-K of the Company filed February 28, 2019.)

10.20+	—	Retirement Agreement by and between AvalonBay Communities, Inc. and Stephen W. Wilson, dated June 27, 2019. (Incorporated by reference to Exhibit 1.1 to Form 8-K of the Company filed July 1, 2019.)
10.21+	—	Retirement Agreement by and between AvalonBay Communities, Inc. and Leo S. Horey, dated December 16, 2019. (Incorporated by reference to Exhibit 1.1 to Form 8-K of the Company filed December 16, 2019.)
21.1	—	Schedule of Subsidiaries of the Company. (Filed herewith.)
23.1	—	Consent of Ernst & Young LLP. (Filed herewith.)
31.1	—	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer). (Filed herewith.)
31.2	—	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer). (Filed herewith.)
32	—	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer and Chief Financial Officer). (Furnished herewith.)
101	—	The following financial materials from AvalonBay Communities, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2019 formatted in Inline XBRL (Extensible Business Reporting Language) includes: (i) the Consolidated Balance Sheets, (ii) the Consolidated Statements of Comprehensive Income, (iii) the Consolidated Statements of Equity, (iv) the Consolidated Statements of Cash Flows and (v) Notes to the Consolidated Financial Statements. (Filed herewith.)
104	—	Cover Page Interactive Data File (embedded within the Inline XBRL document). (Filed herewith.)

+ Management contract or compensatory plan or arrangement required to be filed or incorporated by reference as an exhibit to this Form 10-K pursuant to Item 15(a)(3) of Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AvalonBay Communities, Inc.

Date: February 21, 2020

By: /s/ TIMOTHY J. NAUGHTON

*Timothy J. Naughton, Director, Chairman, Chief Executive Officer and
President (Principal Executive Officer)*

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

Date: February 21, 2020

By: /s/ TIMOTHY J. NAUGHTON

Timothy J. Naughton, Director, Chairman, Chief Executive Officer and
President (Principal Executive Officer)

Date: February 21, 2020

By: /s/ KEVIN P. O'SHEA

Kevin P. O'Shea, Chief Financial Officer
(Principal Financial Officer)

Date: February 21, 2020

By: /s/ KERI A. SHEA

Keri A. Shea, Senior Vice President—Finance & Treasurer
(Principal Accounting Officer)

Date: February 21, 2020

By: /s/ GLYN F. AEPPEL

Glyn F. Aepfel, Director

Date: February 21, 2020

By: /s/ TERRY S. BROWN

Terry S. Brown, Director

Date: February 21, 2020

By: /s/ ALAN B. BUCKELEW

Alan B. Buckelew, Director

Date: February 21, 2020

By: /s/ RONALD L. HAVNER, JR.

Ronald L. Havner, Jr., Director

Date: February 21, 2020

By: /s/ STEPHEN P. HILLS

Stephen P. Hills, Director

Date: February 21, 2020

By: /s/ RICHARD J. LIEB

Richard J. Lieb, Director

Date: February 21, 2020

By: /s/ H. JAY SARLES

H. Jay Sarles, Director

Date: February 21, 2020

By: /s/ SUSAN SWANEZY

Susan Swanezy, Director

Date: February 21, 2020

By: /s/ W. EDWARD WALTER

W. Edward Walter, Director

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Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of AvalonBay Communities, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AvalonBay Communities, Inc. (the Company) as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 21, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Valuation of Deferred Development Costs

*Description of
the Matter*

As of December 31, 2019, the Company's capitalized deferred development costs totaled \$70.5 million and during the year ended December 31, 2019, the Company expensed costs of approximately \$4.0 million related to the abandonment of development rights as well as the costs incurred in pursuing the acquisition or disposition of assets for which the acquisition and disposition activity did not occur. As discussed in Footnote 1 of the consolidated financial statements, the Company capitalizes pre-development costs incurred in pursuit of new development opportunities for which the Company currently believes future development is probable. Future development is dependent upon various factors, including zoning and regulatory approvals, rental market conditions, construction costs and the availability of capital.

Auditing the valuation of deferred development costs involved a high degree of subjectivity as management's assessment of the probability that future development will occur was highly judgmental and subject to the various factors affecting future development discussed above. The Company's assessment of probability of future development included an analysis of the likelihood of factors outside their control that could prevent the development from occurring and factors that could cause the Company to decide not to pursue or complete the development.

*How We
Addressed
the Matter
in Our Audit*

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the Company's process to assess the valuation of deferred development costs. For example, we tested controls over the Company's pursuit monitoring process and management's review of the probability assessment related to future development.

Our procedures included, among others, evaluating the Company's determination that the future development is probable. We performed procedures to test the accuracy and completeness of the information included in the Company's analysis by agreeing data to underlying agreements, communications, minutes of management's quarterly development meetings, and third-party evidence, where available. We further assessed the likelihood of the Company's ability to obtain zoning and regulatory approvals for developments by considering, among other things, the Company's prior experience with other development projects and the current status of the future projects for which pursuit or development rights costs were capitalized. We also met with executives who lead the Company's development team to further understand the probability of future development.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2002.

Tysons, Virginia
February 21, 2020

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of AvalonBay Communities, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited AvalonBay Communities, Inc.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, AvalonBay Communities, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and financial statement schedule listed in the Index at Item 15(a)(2) and our report dated February 21, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting in Item 9A. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Ernst & Young LLP
Tysons, Virginia
February 21, 2020

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

	<u>12/31/19</u>	<u>12/31/18</u>
ASSETS		
Real estate:		
Land and improvements	\$ 4,299,162	\$ 4,077,090
Buildings and improvements	16,668,496	15,651,035
Furniture, fixtures and equipment	829,242	696,200
	<u>21,796,900</u>	<u>20,424,325</u>
Less accumulated depreciation	(5,164,398)	(4,601,447)
Net operating real estate	16,632,502	15,822,878
Construction in progress, including land	1,303,751	1,768,132
Land held for development	—	84,712
For-sale condominium inventory	457,809	—
Real estate assets held for sale, net	38,927	55,208
Total real estate, net	<u>18,432,989</u>	<u>17,730,930</u>
Cash and cash equivalents	39,687	91,659
Cash in escrow	87,927	126,205
Resident security deposits	34,224	31,816
Investments in unconsolidated real estate entities	165,806	217,432
Deferred development costs	70,486	47,443
Prepaid expenses and other assets	164,971	134,715
Right of use lease assets	124,961	—
Total assets	<u>\$ 19,121,051</u>	<u>\$ 18,380,200</u>
LIABILITIES AND EQUITY		
Unsecured notes, net	\$ 6,358,648	\$ 5,905,993
Variable rate unsecured credit facility	—	—
Mortgage notes payable, net	937,642	1,134,270
Dividends payable	215,414	204,191
Payables for construction	92,135	96,983
Accrued expenses and other liabilities	274,013	297,700
Lease liabilities	140,468	—
Accrued interest payable	47,154	46,648
Resident security deposits	61,752	58,415
Liabilities related to real estate assets held for sale	375	150
Total liabilities	<u>8,127,601</u>	<u>7,744,350</u>
Commitments and contingencies		
Redeemable noncontrolling interests	3,252	3,244
Equity:		
Preferred stock, \$0.01 par value; \$25 liquidation preference; 50,000,000 shares authorized at December 31, 2019 and December 31, 2018; zero shares issued and outstanding at December 31, 2019 and December 31, 2018	—	—
Common stock, \$0.01 par value; 280,000,000 shares authorized at December 31, 2019 and December 31, 2018; 140,643,962 and 138,508,424 shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively	1,406	1,385
Additional paid-in capital	10,736,733	10,306,588
Accumulated earnings less dividends	282,913	350,777
Accumulated other comprehensive loss	(31,503)	(26,144)
Total stockholders' equity	<u>10,989,549</u>	<u>10,632,606</u>
Noncontrolling interests	649	—
Total equity	<u>10,990,198</u>	<u>10,632,606</u>
Total liabilities and equity	<u>\$ 19,121,051</u>	<u>\$ 18,380,200</u>

See accompanying notes to Consolidated Financial Statements.

AVALONBAY COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands, except per share data)

	For the year ended		
	12/31/19	12/31/18	12/31/17
Revenue:			
Rental and other income	\$ 2,319,666	\$ 2,280,963	\$ 2,154,481
Management, development and other fees	4,960	3,572	4,147
Total revenue	2,324,626	2,284,535	2,158,628
Expenses:			
Operating expenses, excluding property taxes	515,145	524,993	500,924
Property taxes	252,961	241,563	221,375
Interest expense, net	203,585	220,974	199,661
Loss on extinguishment of debt, net	602	17,492	25,472
Depreciation expense	661,578	631,196	584,150
General and administrative expense	58,042	60,369	53,695
Expensed transaction, development and other pursuit costs, net of recoveries	4,991	3,265	2,736
Casualty and impairment loss, net	—	215	6,250
Total expenses	1,696,904	1,700,067	1,594,263
Equity in income of unconsolidated real estate entities	8,652	15,270	70,744
Gain on sale of communities	166,105	374,976	252,599
Gain (loss) on other real estate transactions, net	439	345	(10,907)
For-sale condominium marketing and administrative costs	(3,812)	(1,044)	—
Income before income taxes	799,106	974,015	876,801
Income tax expense (benefit)	13,003	(160)	141
Net income	786,103	974,175	876,660
Net (income) loss attributable to noncontrolling interests	(129)	350	261
Net income attributable to common stockholders	\$ 785,974	\$ 974,525	\$ 876,921
Other comprehensive income (loss):			
(Loss) gain on cash flow hedges	(11,930)	5,132	(13,979)
Cash flow hedge losses reclassified to earnings	6,571	6,143	7,070
Comprehensive income	\$ 780,615	\$ 985,800	\$ 870,012
Earnings per common share - basic:			
Net income attributable to common stockholders	\$ 5.64	\$ 7.05	\$ 6.36
Earnings per common share - diluted:			
Net income attributable to common stockholders	\$ 5.63	\$ 7.05	\$ 6.35

See accompanying notes to Consolidated Financial Statements.

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

	Shares issued		Preferred stock	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total AvalonBay stockholders' equity	Noncontrolling interests	Total equity
	Preferred stock	Common stock								
Balance at December 31, 2016	—	137,330,904	\$ —	\$ 1,373	\$10,105,654	\$ 94,899	\$ (30,510)	\$ 10,171,416	\$ —	\$10,171,416
Net income attributable to common stockholders	—	—	—	—	—	876,921	—	876,921	—	876,921
Loss on cash flow hedges	—	—	—	—	—	—	(13,979)	(13,979)	—	(13,979)
Cash flow hedge losses reclassified to earnings	—	—	—	—	—	—	7,070	7,070	—	7,070
Change in redemption value and acquisition of noncontrolling interest	—	—	—	—	—	2,026	—	2,026	—	2,026
Dividends declared to common stockholders (\$5.68 per share)	—	—	—	—	—	(783,912)	—	(783,912)	—	(783,912)
Issuance of common stock, net of withholdings	—	763,250	—	8	101,621	(1,325)	—	100,304	—	100,304
Amortization of deferred compensation	—	—	—	—	28,200	—	—	28,200	—	28,200
Balance at December 31, 2017	—	138,094,154	—	1,381	10,235,475	188,609	(37,419)	10,388,046	—	10,388,046
Net income attributable to common stockholders	—	—	—	—	—	974,525	—	974,525	—	974,525
Gain on cash flow hedges	—	—	—	—	—	—	5,132	5,132	—	5,132
Cash flow hedge losses reclassified to earnings	—	—	—	—	—	—	6,143	6,143	—	6,143
Change in redemption value and acquisition of noncontrolling interest	—	—	—	—	—	223	—	223	—	223
Dividends declared to common stockholders (\$5.88 per share)	—	—	—	—	—	(813,722)	—	(813,722)	—	(813,722)
Issuance of common stock, net of withholdings	—	414,270	—	4	39,408	1,142	—	40,554	—	40,554
Amortization of deferred compensation	—	—	—	—	31,705	—	—	31,705	—	31,705
Balance at December 31, 2018	—	138,508,424	—	1,385	10,306,588	350,777	(26,144)	10,632,606	—	10,632,606
Net income attributable to common stockholders	—	—	—	—	—	785,974	—	785,974	—	785,974
Loss on cash flow hedges	—	—	—	—	—	—	(11,930)	(11,930)	—	(11,930)
Cash flow hedge losses reclassified to earnings	—	—	—	—	—	—	6,571	6,571	—	6,571
Change in redemption value of noncontrolling interest	—	—	—	—	—	(373)	—	(373)	—	(373)
Noncontrolling interests contribution	—	—	—	—	—	—	—	—	649	649
Dividends declared to common stockholders (\$6.08 per share)	—	—	—	—	—	(851,287)	—	(851,287)	—	(851,287)
Issuance of common stock, net of withholdings	—	2,135,538	—	21	395,275	(2,178)	—	393,118	—	393,118
Amortization of deferred compensation	—	—	—	—	34,870	—	—	34,870	—	34,870
Balance at December 31, 2019	—	140,643,962	\$ —	\$ 1,406	\$10,736,733	\$ 282,913	\$ (31,503)	\$ 10,989,549	\$ 649	\$10,990,198

See accompanying notes to Consolidated Financial Statements.

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

	For the year ended		
	12/31/19	12/31/18	12/31/17
Cash flows from operating activities:			
Net income	\$ 786,103	\$ 974,175	\$ 876,660
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation expense	661,578	631,196	584,150
Amortization of deferred financing costs	7,346	7,939	7,657
Amortization of debt discount	1,591	1,701	(5,915)
Loss on extinguishment of debt, net	602	17,492	25,472
Amortization of stock-based compensation	25,621	20,280	17,920
Equity in loss (income) of, and return on, unconsolidated real estate entities and noncontrolling interests, net of eliminations	12,278	6,583	(19,798)
Casualty and impairment gain, net	—	826	8,568
Abandonment of development pursuits	2,943	501	388
Cash flow hedge losses reclassified to earnings	6,571	6,143	7,070
Gain on sale of real estate assets	(172,332)	(385,976)	(281,745)
(Increase) decrease in resident security deposits, prepaid expenses and other assets	(19,118)	12,583	9,382
Increase in accrued expenses, other liabilities and accrued interest payable	8,621	7,668	26,448
Net cash provided by operating activities	<u>1,321,804</u>	<u>1,301,111</u>	<u>1,256,257</u>
Cash flows from investing activities:			
Development/redevelopment of real estate assets including land acquisitions and deferred development costs	(1,052,011)	(1,139,954)	(979,947)
Acquisition of real estate assets, including partnership interest	(420,517)	(338,620)	(462,317)
Capital expenditures - existing real estate assets	(135,626)	(83,607)	(65,181)
Capital expenditures - non-real estate assets	(5,266)	(3,325)	(8,809)
(Decrease) increase in payables for construction	(4,848)	11,606	(15,621)
Proceeds from sale of real estate, net of selling costs	422,041	883,313	503,039
Insurance proceeds for property damage claims	—	—	16,233
Mortgage note receivable lending	(692)	(3,699)	(17,590)
Mortgage note receivable payments	2,779	53,136	—
Distributions from unconsolidated real estate entities	10,454	35,516	89,305
Investments in unconsolidated real estate entities	(10,183)	(11,017)	(24,493)
Net cash used in investing activities	<u>(1,193,869)</u>	<u>(596,651)</u>	<u>(965,381)</u>
Cash flows from financing activities:			
Issuance of common stock, net	409,725	52,261	111,093
Dividends paid	(839,646)	(805,239)	(772,657)
Issuance of mortgage notes payable	30,250	295,939	206,800
Repayments of mortgage notes payable, including prepayment penalties	(227,570)	(255,452)	(1,313,025)
Issuance of unsecured notes	449,804	299,442	1,696,826
Repayment of unsecured notes, including prepayment penalties	—	(258,579)	(300,000)
Payment of deferred financing costs	(10,909)	(16,258)	(17,552)
Payment of finance lease obligation	—	(1,070)	(18,951)
(Payment) receipt for termination of forward interest rate swaps	(12,309)	12,598	391
Contribution from noncontrolling interest	456	—	—
Payments related to tax withholding for share-based compensation	(16,101)	(10,556)	(10,450)
Distributions to DownREIT partnership unitholders	(46)	(44)	(42)
Contributions from joint venture and profit-sharing partners	—	—	1,038
Distributions to joint venture and profit-sharing partners	(439)	(424)	(418)
Preferred interest obligation redemption and dividends	(1,400)	(1,120)	(2,000)
Net cash used in financing activities	<u>(218,185)</u>	<u>(688,502)</u>	<u>(418,947)</u>
Net (decrease) increase in cash and cash equivalents	(90,250)	15,958	(128,071)
Cash and cash equivalents and restricted cash, beginning of year	217,864	201,906	329,977
Cash and cash equivalents and restricted cash, end of year	<u>\$ 127,614</u>	<u>\$ 217,864</u>	<u>\$ 201,906</u>
Cash paid during the year for interest, net of amount capitalized	<u>\$ 187,570</u>	<u>\$ 201,659</u>	<u>\$ 207,842</u>

See accompanying notes to Consolidated Financial Statements.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported with the Consolidated Statements of Cash Flows (dollars in thousands):

	For the year ended		
	12/31/19	12/31/18	12/31/17
Cash and cash equivalents	\$ 39,687	\$ 91,659	\$ 67,088
Cash in escrow	87,927	126,205	134,818
Cash, cash equivalents and restricted cash shown in the Consolidated Statements of Cash Flows	<u>\$ 127,614</u>	<u>\$ 217,864</u>	<u>\$ 201,906</u>

Supplemental disclosures of non-cash investing and financing activities:

During the year ended December 31, 2019:

- As described in Note 4, "Equity," 152,502 shares of common stock were issued as part of the Company's stock based compensation plans, of which 73,072 shares related to the conversion of performance awards to restricted shares, and the remaining 79,430 shares valued at \$15,603,000 were issued in connection with new stock grants; 1,838 shares valued at \$205,000 were issued in conjunction with the conversion of deferred stock awards; 2,069 shares valued at \$418,000 were issued through the Company's dividend reinvestment plan; 84,710 shares valued at \$16,101,000 were withheld to satisfy employees' tax withholding and other liabilities; and 2,361 restricted shares with an aggregate value of \$399,000 previously issued in connection with employee compensation were canceled upon forfeiture.
- Common stock dividends declared but not paid totaled \$214,832,000.
- The Company recorded an increase of \$373,000 in redeemable noncontrolling interest with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units. For further discussion of the nature and valuation of these items, see Note 11, "Fair Value."
- The Company recorded an increase in other liabilities of \$6,379,000, an increase in prepaid expenses and other assets of \$388,000 and a corresponding adjustment to other comprehensive income, and reclassified \$6,571,000 of cash flow hedge losses from other comprehensive income to interest expense, net, to record the impact of the Company's derivative and hedge accounting activity.
- The Company recorded \$122,276,000 of lease liabilities and offsetting right of use lease assets for its ground and office leases, upon the adoption of ASU 2016-02, Leases, as of January 1, 2019. For further discussion on the adoption of the guidance, see Note 1, "Organization, Basis of Presentation and Significant Accounting Policies."

During the year ended December 31, 2018:

- The Company issued 187,010 shares of common stock as part of the Company's stock based compensation plans, of which 88,297 shares related to the conversion of performance awards to restricted shares, and the remaining 98,713 shares valued at \$15,950,000 were issued in connection with new stock grants; 2,272 shares valued at \$387,000 were issued through the Company's dividend reinvestment plan; 68,565 shares valued at \$10,556,000 were withheld to satisfy employees' tax withholding and other liabilities; and 4,860 restricted shares with an aggregate value of \$717,000 previously issued in connection with employee compensation were canceled upon forfeiture.
- Common stock dividends declared but not paid totaled \$204,191,000.
- The Company recorded a decrease of \$223,000 in redeemable noncontrolling interest with a corresponding increase to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units.
- The Company recorded an increase in other liabilities of \$6,366,000, and a corresponding adjustment to other comprehensive income, and reclassified \$6,143,000 of cash flow hedge losses from other comprehensive income to interest expense, net, to record the impact of the Company's derivative and hedge accounting activity.

- In conjunction with the formation of NYTA MF Investors LLC (the "NYC Joint Venture"), the venture assumed \$395,939,000 of secured indebtedness as partial consideration for the purchase of the associated operating communities and the Company recorded an investment of \$74,159,000 in unconsolidated real estate entities, representing its 20.0% retained interest in the venture.

During the year ended December 31, 2017:

- The Company issued 201,824 shares of common stock as part of the Company's stock based compensation plan, of which 128,482 shares related to the conversion of performance awards to restricted shares, and the remaining 73,342 shares valued at \$13,171,000 were issued in connection with new stock grants; 3,058 shares valued at \$558,000 were issued through the Company's dividend reinvestment plan; 60,319 shares valued at \$10,542,000 were withheld to satisfy employees' tax withholding and other liabilities; and 3,388 restricted shares with an aggregate value of \$588,000 previously issued in connection with employee compensation were canceled upon forfeiture.
- Common stock dividends declared but not paid totaled \$196,094,000.
- The Company recorded a decrease of \$65,000 in redeemable noncontrolling interest with a corresponding increase to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units.
- The Company recorded a decrease in prepaid expenses and other assets of \$12,114,000 and an increase in other liabilities of \$1,171,000, and a corresponding adjustment to other comprehensive income, and reclassified \$7,070,000 of cash flow hedge losses from other comprehensive income to interest expense, net, to record the impact of the Company's derivative and hedge accounting activity.
- As discussed in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies," the Company recognized a non-cash charge of \$16,361,000 to write-off the net book value of the fixed assets destroyed by the fire that occurred in February 2017 at the Company's Avalon Maplewood ("Maplewood") which at the time was under construction and not yet occupied.

See accompanying notes to Consolidated Financial Statements.

AVALONBAY COMMUNITIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization, Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

AvalonBay Communities, Inc. (the “Company,” which term, unless the context otherwise requires, refers to AvalonBay Communities, Inc. together with its subsidiaries), is a Maryland corporation that has elected to be treated as a real estate investment trust (“REIT”) for federal income tax purposes under the Internal Revenue Code of 1986 (the “Code”). The Company focuses on the development, redevelopment, acquisition, ownership and operation of multifamily communities primarily in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Pacific Northwest, and Northern and Southern California.

At December 31, 2019, the Company owned or held a direct or indirect ownership interest in 275 operating apartment communities containing 79,886 apartment homes (unaudited) in 11 states and the District of Columbia, of which two communities containing 665 apartment homes were under redevelopment. In addition, the Company owned or held a direct or indirect ownership interest in 22 communities under development that are expected to contain an aggregate of 6,960 apartment homes (unaudited) when completed, as well as a mixed-use project that contains 172 for-sale residential condominiums and 67,000 square feet of retail space. The Company also owned or held a direct or indirect ownership interest in land or rights to land on which the Company expects to develop an additional 27 communities that, if developed as expected, will contain an estimated 9,587 apartment homes (unaudited).

Capitalized terms used without definition have meanings provided elsewhere in this Form 10-K.

Principles of Consolidation

The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly-owned subsidiaries, certain joint venture partnerships, subsidiary partnerships structured as DownREITs and any variable interest entities that qualify for consolidation. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company accounts for joint venture entities and subsidiary partnerships in accordance with the consolidation guidance. The Company evaluates the partnership of each joint venture entity and determines first whether to follow the variable interest entity (“VIE”) or the voting interest entity (“VOE”) model. Once the appropriate consolidation model is identified, the Company then evaluates whether it should consolidate the venture. Under the VIE model, the Company consolidates an investment when it has control to direct the activities of the venture and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. Under the VOE model, the Company consolidates an investment when 1) it controls the investment through ownership of a majority voting interest if the investment is not a limited partnership or 2) it controls the investment through its ability to remove the other partners in the investment, at its discretion, when the investment is a limited partnership.

The Company generally uses the equity method of accounting for its investment in joint ventures, including when the Company holds a noncontrolling limited partner interest in a joint venture. Any investment in excess of the Company's cost basis at acquisition or formation of an equity method venture, will be recorded as a component of the Company's investment in the joint venture and recognized over the life of the underlying fixed assets of the venture as a reduction to its equity in income from the venture. Investments in which the Company has little or no influence are accounted for using the cost method.

Real Estate

Operating real estate assets are stated at cost and consist of land and improvements, buildings and improvements, furniture, fixtures and equipment, and other costs incurred during their development, redevelopment and acquisition. Significant expenditures which improve or extend the life of an existing asset and that will benefit the Company for periods greater than a year, are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred.

Project costs related to the development, construction and redevelopment of real estate projects (including interest and related loan fees, property taxes and other direct costs) are capitalized as a cost of the project. Indirect project costs that relate to several projects are capitalized and allocated to the projects to which they relate. Indirect costs not clearly related to development, construction and redevelopment activity are expensed as incurred. For development, capitalization (i) begins when the Company has determined that development of the future asset is probable, (ii) can be suspended if there is no current development activity underway, but future development is still probable and (iii) ends when the asset, or a portion of an asset, is delivered and is ready for its intended use, or the Company's intended use changes such that capitalization is no longer appropriate.

For land parcels improved with operating real estate, for which the Company intends to pursue development, the Company generally manages the current improvements until such time as all tenant obligations have been satisfied or eliminated through negotiation, and construction of new apartment communities is ready to begin. Revenue from incidental operations received from the current improvements on land parcels in excess of any incremental costs are recorded as a reduction of total capitalized costs of the respective Development Right and not as part of net income. Incidental operating costs in excess of incidental operating income are expensed in the period incurred.

For redevelopment efforts, the Company capitalizes costs either (i) in advance of taking homes out of service when significant renovation of the common area has begun until the redevelopment is completed, or (ii) when an apartment home is taken out of service for redevelopment until the redevelopment is completed and the apartment home is available for a new resident. Rental income and operating costs incurred during the initial lease-up or post-redevelopment lease-up period are recognized in earnings as incurred.

The Company assesses acquisitions of operating communities to determine if it meets the definition of a business or if it qualifies as an asset acquisition. The Company generally views acquisitions of individual operating communities as asset acquisitions, and results in the capitalization of acquisition costs, and the allocation of purchase price to the assets acquired and liabilities assumed, based on the relative fair value of the respective assets and liabilities.

The purchase price allocation to tangible assets, such as land and improvements, buildings and improvements, and furniture, fixtures and equipment, and the in-place lease intangible assets, is reflected in real estate assets and depreciated over their estimated useful lives. Any purchase price allocation to intangible assets, other than in-place lease intangibles, is included in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets and amortized over the term of the acquired intangible asset. The Company values land based on a market approach, looking to recent sales of similar properties, adjusting for differences due to location, the state of entitlement as well as the shape and size of the parcel. Improvements to land are valued using a replacement cost approach and consider the structures and amenities included for the communities. The approach for improvements applies industry standard replacement costs adjusted for geographic specific considerations and reduced by estimated depreciation. The value for furniture, fixtures and equipment is also determined based on a replacement cost approach, considering costs for both items in the apartment homes as well as common areas and was adjusted for estimated depreciation. The fair value of buildings acquired is estimated using the replacement cost approach, assuming the buildings were vacant at acquisition. The replacement cost approach considers the composition of structures acquired, adjusted for an estimate of depreciation. The estimate of depreciation is made considering industry standard information, depreciation curves for the identified asset classes and estimated useful life of the acquired property. The value of the acquired lease-related intangibles considers the estimated cost of leasing the apartment homes as if the acquired building(s) were vacant, as well as the value of the current leases relative to market-rate leases. The in-place lease value is determined using an average total lease-up time, the number of apartment homes and net revenues generated during the lease-up time. The lease-up period for an apartment community is assumed to be 12 months to achieve stabilized occupancy. Net revenues use market rent considering actual leasing and industry rental rate data. The value of current leases relative to a market-rate lease is based on market rents obtained for market comparables, and considered a market derived discount rate. Given the heterogeneous nature of multifamily real estate, the fair values for the land, debt, real estate assets and in-place leases incorporated significant unobservable inputs and therefore are considered to be Level 3 prices within the fair value hierarchy. Consideration for acquisitions is typically in the form of cash unless otherwise disclosed.

Depreciation is calculated on buildings and related improvements using the straight-line method over their estimated useful lives, which range from seven to 30 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.

For-Sale Condominium Inventory

In conjunction with the Company's election to proceed with the sale of the residential condominiums of The Park Loggia, the Company reclassified the associated real estate to for-sale condominium inventory based on the condominiums' relative fair value to the overall development, as presented on the accompanying Consolidated Balance Sheets. The Company presents for-sale condominium inventory at historical cost and evaluates the condominiums for impairment when potential indicators exist, as further discussed under "Abandoned Pursuit Costs and Impairment of Long-Lived Assets" below.

Income Taxes

The Company elected to be treated as a REIT for U.S. federal income tax purposes for its tax year ended December 31, 1994 and has not revoked such election. A REIT is a corporate entity which holds real estate interests and can deduct from its federally taxable income qualifying dividends it pays if it meets a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to stockholders. Therefore, as a REIT, the Company generally will not be subject to corporate level federal income tax on its taxable income if it annually distributes 100% of its taxable income to its stockholders.

The states in which the Company operates have similar tax provisions which recognize the Company as a REIT for state income tax purposes. Management believes that all such conditions for the exemption from income taxes on ordinary income have been or will be met for the periods presented. Accordingly, no provision for federal and state income taxes has been made. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal corporate income taxes at regular corporate rates and may not be able to qualify as a corporate REIT for four subsequent taxable years. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income and in certain other instances.

The Company did not incur any charges or receive refunds of excise taxes related to the years ended December 31, 2019, 2018 and 2017.

Taxable income from activities performed through taxable REIT subsidiaries (“TRS”) is subject to federal, state and local income taxes. The Company recognized income tax expense of \$13,003,000 in 2019, recorded an income tax benefit of \$160,000 in 2018 and recognized income tax expense of \$141,000 in 2017, related to its activities through its TRS. The income tax expense in 2019 was primarily due to (i) a net deferred tax liability of \$5,782,000 for the GAAP to tax basis differences at the Company's for-sale condominiums, The Park Loggia, and the associated 67,000 square feet of retail space and (ii) expense for current and net deferred tax liabilities of \$7,221,000, associated with the disposition of two wholly-owned operating communities, as well as the Company's sustainability initiatives. See Note 6, "Real Estate Disposition Activities" for further discussion of transacted and planned TRS disposition activity. As of December 31, 2019 and 2018, the Company did not have any unrecognized tax benefits. The Company does not believe that there will be any material changes in its unrecognized tax positions over the next 12 months. The Company is subject to examination by the respective taxing authorities for the tax years 2016 through 2018.

On December 22, 2017, H.R. 1, the Tax Cuts and Jobs Act (the “TCJA”), was enacted. The TCJA makes major changes to the Code, including lowering the statutory U.S. federal income tax rate from 35% to 21% effective January 1, 2018, which was considered in determining the Company's current and net deferred tax liabilities.

The following reconciles net income attributable to common stockholders to taxable net income for the years ended December 31, 2019, 2018 and 2017 (unaudited, dollars in thousands):

	<u>2019 Estimate</u>	<u>2018 Actual</u>	<u>2017 Actual</u>
Net income attributable to common stockholders	\$ 785,974	\$ 974,525	\$ 876,921
GAAP gain on sale of communities in excess of tax gain	(108,962)	(192,722)	(86,661)
Depreciation/amortization timing differences on real estate	(5,619)	(15,590)	(3,642)
Amortization of debt/mark to market interest	(594)	(2,276)	(18,096)
Tax compensation expense less than GAAP	4,738	13,126	20,243
Other adjustments	22,637	19,617	(392)
Taxable net income	<u>\$ 698,174</u>	<u>\$ 796,680</u>	<u>\$ 788,373</u>

The following summarizes the tax components of the Company's common dividends declared for the years ended December 31, 2019, 2018 and 2017 (unaudited):

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Ordinary income	96%	76%	75%
20% capital gain	3%	11%	18%
Unrecaptured §1250 gain	1%	13%	7%

Deferred Financing Costs

Deferred financing costs include fees and other expenditures necessary to obtain debt financing and are amortized on a straight-line basis, which approximates the effective interest method, over the shorter of the term of the loan or the related credit enhancement facility, if applicable. Unamortized financing costs are charged to earnings when debt is retired before the maturity date. Accumulated amortization of deferred financing costs related to unsecured notes was \$25,995,000 and \$20,564,000 as of December 31, 2019 and 2018, respectively, and related to mortgage notes payable was \$1,784,000 and \$2,044,000 as of December 31, 2019 and 2018, respectively. Deferred financing costs, except for costs associated with line-of-credit arrangements, are presented as a direct deduction from the related debt liability. Accumulated amortization of deferred financing costs related to the Company's Credit Facility was \$11,815,000 and \$10,108,000 as of December 31, 2019 and 2018, respectively, and was included in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets.

Cash, Cash Equivalents and Cash in Escrow

Cash and cash equivalents include all cash and liquid investments with an original maturity of three months or less from the date acquired. Cash in escrow includes principal reserve funds that are restricted for the repayment of specified secured financing. The majority of the Company's cash, cash equivalents and cash in escrow are held at major commercial banks.

Comprehensive Income

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

Earnings per Common Share

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted average number of shares outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common shareholders and, accordingly, are considered participating securities that are included in the two-class method of computing basic earnings per share ("EPS"). Both the unvested restricted shares and 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 (dollars in thousands, except per share data):

	For the year ended		
	12/31/19	12/31/18	12/31/17
Basic and diluted shares outstanding			
Weighted average common shares—basic	139,054,191	137,844,755	137,523,771
Weighted average DownREIT units outstanding	7,500	7,500	7,500
Effect of dilutive securities	509,859	436,986	535,415
Weighted average common shares—diluted	<u>139,571,550</u>	<u>138,289,241</u>	<u>138,066,686</u>
Calculation of Earnings per Share—basic			
Net income attributable to common stockholders	\$ 785,974	\$ 974,525	\$ 876,921
Net income allocated to unvested restricted shares	(2,063)	(2,839)	(2,463)
Net income attributable to common stockholders, adjusted	<u>\$ 783,911</u>	<u>\$ 971,686</u>	<u>\$ 874,458</u>
Weighted average common shares—basic	<u>139,054,191</u>	<u>137,844,755</u>	<u>137,523,771</u>
Earnings per common share—basic	<u>\$ 5.64</u>	<u>\$ 7.05</u>	<u>\$ 6.36</u>
Calculation of Earnings per Share—diluted			
Net income attributable to common stockholders	\$ 785,974	\$ 974,525	\$ 876,921
Add: noncontrolling interests of DownREIT unitholders in consolidated partnerships, including discontinued operations	46	44	42
Adjusted net income attributable to common stockholders	<u>\$ 786,020</u>	<u>\$ 974,569</u>	<u>\$ 876,963</u>
Weighted average common shares—diluted	<u>139,571,550</u>	<u>138,289,241</u>	<u>138,066,686</u>
Earnings per common share—diluted	<u>\$ 5.63</u>	<u>\$ 7.05</u>	<u>\$ 6.35</u>

All options to purchase shares of common stock outstanding as of December 31, 2019, 2018 and 2017 are included in the computation of diluted earnings per share.

Abandoned Pursuit Costs and Impairment of Long-Lived Assets

The Company capitalizes pre-development costs incurred in pursuit of new development opportunities for which the Company currently believes future development is probable (“Development Rights”). Future development of these Development Rights is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and the availability of capital. Initial pre-development costs incurred for pursuits for which future development is not yet considered probable are expensed as incurred. In addition, if the status of a Development Right changes, making future development by the Company no longer probable, any non-recoverable capitalized pre-development costs are expensed. The Company expensed costs related to development pursuits not yet considered probable for development and the abandonment of Development Rights, as well as costs incurred in pursuing the acquisition or disposition of assets for which such acquisition and disposition activity did not occur, in the amounts of \$4,896,000, \$4,388,000 and \$2,370,000 during the years ended December 31, 2019, 2018 and 2017, respectively. These costs are included in expensed acquisition, development and other pursuit costs, net of recoveries on the accompanying Consolidated Statements of Comprehensive Income. Abandoned pursuit costs can vary greatly, and the costs incurred in any given period may be significantly different in future periods.

The Company evaluates its real estate and other long-lived assets for impairment when potential indicators of impairment exist. Such assets are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a property or long-lived asset may not be recoverable, the Company assesses its recoverability by comparing the carrying amount of the property or long-lived asset to its estimated undiscounted future cash flows. If the carrying amount exceeds the aggregate undiscounted future cash flows, the Company recognizes an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property or long-lived asset. Based on periodic tests of recoverability of long-lived assets, for the years ended December 31, 2019, 2018 and 2017, the Company did not recognize any impairment losses other than those related to the impairment on land held for investment and casualty gains and losses from property damage as discussed below.

The Company evaluates its for-sale condominium inventory for potential indicators of impairment, considering whether the fair value of the individual for-sale condominium units exceeds the carrying value of those units. For-sale condominium inventory is stated at cost, unless the carrying amount of the inventory is not recoverable when compared to the fair value of each unit. The Company determines the fair value of its for-sale condominium inventory using estimated undiscounted future cash flows. For the year ended December 31, 2019, the Company did not recognize any impairment losses on its for-sale condominium inventory.

The Company assesses its portfolio of land held for both development and investment for impairment if the intent of the Company changes with respect to either the development of, or the expected holding period for, the land. The Company did not recognize any material impairment charges on its investment in land during the year ended December 31, 2019. During the year ended December 31, 2018, the Company recognized an impairment charge of \$826,000 related to a land parcel the Company had previously acquired for development and no longer intends to develop. During the year ended December 31, 2017, the Company recognized an impairment charge of \$9,350,000 related to a land parcel the Company had acquired for development in 2004 and sold during 2017. These charges were determined as the excess of the Company's carrying basis over the expected sales price for each parcel, and are included in casualty and impairment loss (gain), net on the accompanying Consolidated Statements of Comprehensive Income.

The Company evaluates its unconsolidated investments for other than temporary impairment, considering both the extent and amount by which the carrying value of the investment exceeds the fair value, and the Company's intent and ability to hold the investment to recover its carrying value. The Company also evaluates its proportionate share of any impairment of assets held by unconsolidated investments. There were no other than temporary impairment losses recognized by any of the Company's investments in unconsolidated real estate entities during the years ended December 31, 2019, 2018 or 2017.

Casualty Gains and Losses

In February 2017, a fire occurred at the Company's Avalon Maplewood, located in Maplewood, NJ, which at the time was under construction and not yet occupied. The Company completed reconstruction of the damaged and destroyed portions of the community as well as the vertical construction of the community in 2018. During the year ended December 31, 2017, the Company recorded a net casualty loss of \$2,338,000 for the fire at Maplewood, included in casualty and impairment loss (gain), net on the accompanying Consolidated Statements of Comprehensive Income. During the year ended December 31, 2017, the Company reached a final insurance settlement for the property damage and lost income for the Maplewood casualty loss of \$19,696,000, after self-insurance and deductibles, of which the Company recognized \$3,495,000 as business interruption insurance proceeds. See Note 7, "Commitments and Contingencies," for additional discussion of the related casualty loss.

A casualty loss may also result in lost operating income from one or more communities that is covered by the Company's business interruption insurance policies. The Company recognizes income for amounts received under its business interruption insurance policies as a component of rental and other income in the Consolidated Statements of Comprehensive Income. Revenue is recognized upon resolution of all contingencies related to the receipt, typically upon written confirmation by the insurer or receipt of the actual proceeds. The Company recognized \$1,441,000, \$26,000 and \$3,498,000 (including Maplewood as discussed above) in income related business interruption insurance proceeds for the years ended December 31, 2019, 2018 and 2017, respectively.

Assets Held for Sale and Discontinued Operations

The Company presents the assets and liabilities of any communities which have been sold, or otherwise qualify as held for sale, separately in the Consolidated Balance Sheets. In addition, the results of operations for those assets that meet the definition of discontinued operations are presented as such in the accompanying Consolidated Statements of Comprehensive Income. Real estate assets held for sale are measured at the lower of the carrying amount or the fair value less the cost to sell. Both the real estate assets and corresponding liabilities are presented separately in the accompanying Consolidated Balance Sheets. Upon the classification of an asset as held for sale, no further depreciation is recorded. Disposals representing a strategic shift in operations (e.g., a disposal of a major geographic area, a major line of business or a major equity method investment) will be presented as discontinued operations, and for those assets qualifying for classification as discontinued operations, the specific components of net income presented as discontinued operations include net operating income, depreciation expense and interest expense, net. For periods prior to the asset qualifying for discontinued operations, the Company reclassifies the results of operations to discontinued operations. In addition, the net gain or loss (including any impairment loss) on the eventual disposal of assets held for sale will be presented as discontinued operations when recognized. A change in presentation for held for sale or discontinued operations has no impact on the Company's financial condition or results of operations. The Company combines the operating, investing and financing portions of cash flows attributable to discontinued operations with the respective cash flows from continuing operations on the accompanying Consolidated Statements of Cash Flows. The Company had one wholly-owned operating community that qualified as held for sale presentation at December 31, 2019.

Redeemable Noncontrolling Interests

Redeemable noncontrolling interests are comprised of potential future obligations of the Company, which allow the investors holding the noncontrolling interest to require the Company to purchase their interest. The Company classifies obligations under the redeemable noncontrolling interests at fair value, with a corresponding offset for changes in the fair value recorded in accumulated earnings less dividends. Reductions in fair value are recorded only to the extent that the Company has previously recorded increases in fair value above the redeemable noncontrolling interest's initial basis. The redeemable noncontrolling interests are presented outside of permanent equity as settlement in shares of the Company's common stock, where permitted, may not be within the Company's control. The nature and valuation of the Company's redeemable noncontrolling interests are discussed further in Note 11, "Fair Value."

Derivative Instruments and Hedging Activities

The Company enters into interest rate swap and interest rate cap agreements (collectively, "Hedging Derivatives") for interest rate risk management purposes and in conjunction with certain variable rate secured debt to satisfy lender requirements. The Company does not enter into Hedging Derivative transactions for trading or other speculative purposes. The Company assesses the effectiveness of qualifying cash flow and fair value hedges, both at inception and on an on-going basis. Hedge ineffectiveness is reported as a component of interest expense, net. The fair values of Hedging Derivatives that are in an asset position are recorded in prepaid expenses and other assets. The fair value of Hedging Derivatives that are in a liability position are included in accrued expenses and other liabilities. The Company does not present or disclose the fair value of Hedging Derivatives on a net basis. Fair value changes for derivatives that are not in qualifying hedge relationships are reported as a component of interest expense, net. For the Hedging Derivative positions that the Company has determined qualify as effective cash flow hedges, the Company has recorded the cumulative changes in the fair value of Hedging Derivatives in other comprehensive loss. Amounts recorded in accumulated other comprehensive loss will be reclassified into earnings in the periods in which earnings are affected by the hedged cash flow. The effective portion of the change in fair value of the Hedging Derivatives that the Company has determined qualified as effective fair value hedges is reported as an adjustment to the carrying amount of the corresponding debt being hedged. See Note 11, "Fair Value," for further discussion of derivative financial instruments.

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 years' notes to financial statements to conform to current year presentations as a result of changes in held for sale classification, disposition activity and segment classification.

Leases

The Company is party to leases as both a lessor and a lessee, primarily as follows:

- lessor of residential and retail space within its apartment communities; and
- lessee under (i) ground leases for land underlying current operating or development communities and (ii) office leases for its corporate headquarters and regional offices.

The Company adopted ASU 2016-02, *Leases*, as of January 1, 2019 using the prospective adoption approach, applying the provisions of the new standard to existing leases as of the date of adoption.

Lessee Considerations

The Company assessed whether a contract is or contains a lease based on whether the contract conveys the right to control the use of an identified asset, including specified portions of larger assets, for a period of time in exchange for consideration. The Company identified leases as contracts in which it has the right to direct the use of the property and obtain all of the economic benefits.

The Company's leases include both fixed and variable lease payments, which are based on an index or rate such as the consumer price index (CPI) or percentage rents based on total sales. When evaluating what payments to include in the measurement of the lease liability, the Company included lease payments that depend on an index or rate only. Variable lease payments that are not based on an index or rate including changes in CPI, percentage rents based on total sales, fair market value resets and others are not included in the measurement of the lease liability, but will be recognized as variable lease expense in the period in which they are incurred.

For leases that have options to extend the term or terminate the lease early, the Company considered whether these options are reasonably certain to be exercised, taking into account physical improvements, installation or relocation costs, rent during the option periods and the cost of returning the assets to a contractually specified condition. The Company only factored the impact of options into the lease term if the option was considered reasonably certain to be exercised.

The Company determined the discount rate associated with its ground and office leases using the Company's actual borrowing rates as well as indicative market pricing for longer term rates. The Company determined the discount rates on a lease by lease basis using the incremental borrowing rate and taking into consideration the remaining term of each of the lease agreements.

Lessor Considerations

The Company evaluated leases in which it is the lessor, which are composed of residential and retail leases at its apartment communities. The accounting model for lessors did not significantly change as a result of ASU 2016-02, with the impacts primarily related to the accounting for sales-type and direct financing leases. The Company evaluated its residential and retail leases and determined that they continue to be considered operating leases. For lease agreements that provide for rent concessions and/or scheduled fixed and determinable rent increases, rental income is recognized on a straight-line basis over the noncancellable term of the lease. The Company's residential lease term is generally one year. Some of the Company's retail leases have fixed-price renewal options, and the lessee may be able to exercise its renewal option at an amount less than the fair value of the rent at such time. The Company only includes renewal options in the lease term, if at the commencement of the lease, it is reasonably certain that the lessee will exercise this option.

Additionally, for the Company's residential and retail leases, which are comprised of the lease component and common area maintenance as a non-lease component, the Company determined that (i) the leases are operating leases, (ii) the lease component is the predominant component and (iii) that all components of its operating leases share the same timing and pattern of transfer.

The Company changed its presentation of charges for uncollectible lease revenue associated with its residential and retail leasing activity, reflecting those amounts as a component of rental and other income on the accompanying Consolidated Statement of Comprehensive Income for the year ended December 31, 2019. However, in accordance with its prospective adoption of the lease standard, the Company did not adjust the prior year period presentation of charges for uncollectible lease revenue associated with its residential and retail leasing activity as a component of operating expenses, excluding property taxes, on the accompanying Consolidated Statement of Comprehensive Income for the years ended December 31, 2018 and 2017.

Implementation Considerations and Impact

As discussed above, the Company used the prospective adoption approach for the standard. Additionally, in conjunction with the implementation of the standard, the Company elected to apply certain lessee practical expedients allowed under the standard including:

- not reassessing (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) the accounting for initial direct costs for any existing leases;
- not evaluating short term leases;
- not assessing whether existing land easements are, or contain leases; and
- making an accounting policy election by class of underlying asset, to not separate non-lease components from lease components and instead to account for each separate lease and non-lease component as a single lease component.

Also in conjunction with the implementation of the standard, the Company elected to apply the following practical expedients for lessors, making an accounting policy election:

- by class of underlying asset for retail and residential leases, to not separate non-lease components from lease components and instead to account for each separate lease and non-lease component as a single lease component;
- to exclude costs paid by lessees directly to third parties on behalf of the Company; and
- to exclude sales taxes and other similar taxes assessed by a government authority and collected by the Company from the lessee.

Upon adoption, the Company recorded lease liabilities and offsetting right of use lease assets for its ground and office leases of \$122,276,000. In addition, the Company made certain other reclassifications in the current year period of lease related amounts on its Consolidated Balance Sheet to conform to the presentation under the new standard. The adoption of the standard did not have a material impact on the accompanying Consolidated Statements of Comprehensive Income.

Revenue and Gain Recognition

Under ASU 2014-09, Revenue from Contracts with Customers, revenue is recognized in accordance with the transfer of goods and services to customers at an amount that reflects the consideration that the Company expects to be entitled to for those goods and services. The majority of the Company's revenue is derived from residential and retail rental income and other lease income, which are accounted for under ASU 2016-02, Leases, discussed above. The Company's revenue streams that are not accounted for under ASU 2016-02 include:

- Management fees - The Company has investment interests in real estate joint ventures, for which the Company may manage (i) the venture, (ii) the associated operating communities owned by the ventures and/or (iii) the development or redevelopment of those operating communities. For these activities, the Company receives asset management, property management, development and/or redevelopment fee revenue. The performance obligation is the management of the venture, community or other defined task such as the development or redevelopment of the community. While the individual activities that comprise the performance obligation of the management fees can vary day to day, the nature of the overall performance obligation to provide management service is the same and considered by the Company to be a series of services that have the same pattern of transfer to the customer and the same method to measure progress toward satisfaction of the performance obligation. The Company recognizes revenue for fees as earned on a monthly basis.
- Rental and non-rental related income - The Company recognizes revenue for new rental related income not included as components of a lease, such as reservation and application fees, as well as for non-rental related income, as earned.
- Gains or losses on sales of real estate - The Company accounts for the sale of real estate assets and any related gain recognition in accordance with the accounting guidance applicable to sales of real estate, which establishes standards for recognition of profit on all real estate sales transactions, other than retail land sales. The Company recognizes the sale, and associated gain or loss from the disposition, provided that the earnings process is complete and the Company does not have significant continuing involvement. A gain or loss is recognized when the criteria for an asset to be derecognized are met, which include when (i) a contract exists and (ii) the buyer obtained control of the nonfinancial asset that was sold. In addition, a gain or loss recognized on the sale of a nonfinancial asset to an unconsolidated entity is recognized at 100%, and not the Company's proportionate ownership percentage.

The following table provides details of the Company's revenue streams disaggregated by the Company's reportable operating segments, further discussed in Note 8, "Segment Reporting," for the years ended December 31, 2019, 2018 and 2017. The segments are classified based on the individual community's status at January 1, 2019 for the years ended December 31, 2019 and 2018, and at January 1, 2018 for the year ended December 31, 2017. Segment information for total revenue has been adjusted to exclude the real estate assets that were sold from January 1, 2017 through December 31, 2019, or otherwise qualify as held for sale as of December 31, 2019, as described in Note 6, "Real Estate Disposition Activities." Additionally, as discussed below, the Company changed its presentation of charges for uncollectible lease revenue for the year ended December 31, 2019, including it as an adjustment to revenue and not as a component of operating expenses, as it is presented for prior periods on the accompanying Consolidated Statement of Comprehensive Income. In order to provide comparability between periods presented in the Company's segment reporting, the Company has included charges for uncollectible lease revenue for its segment results as a component of revenue for all periods presented. See Note 8, "Segment Reporting," for further discussion (dollars in thousands):

	Established Communities	Other Stabilized Communities	Development/ Redevelopment Communities	Non- allocated (1)	Total
For the year ended December 31, 2019					
Management, development and other fees	\$ —	\$ —	\$ —	\$ 4,960	\$ 4,960
Rental and non-rental related income (2)	6,113	1,941	803	—	8,857
Total non-lease revenue (3)	6,113	1,941	803	4,960	13,817
Lease income (4)	1,829,748	295,511	162,668	—	2,287,927
Business interruption insurance proceeds	478	963	—	—	1,441
Total revenue	\$ 1,836,339	\$ 298,415	\$ 163,471	\$ 4,960	\$ 2,303,185
For the year ended December 31, 2018					
Management, development and other fees	\$ —	\$ —	\$ —	\$ 3,572	\$ 3,572
Rental and non-rental related income (2)	4,245	1,732	269	—	6,246
Total non-lease revenue (3)	4,245	1,732	269	3,572	9,818
Lease income (4)	1,778,841	236,852	120,553	—	2,136,246
Business interruption insurance proceeds	26	—	—	—	26
Total revenue	\$ 1,783,112	\$ 238,584	\$ 120,822	\$ 3,572	\$ 2,146,090
For the year ended December 31, 2017					
Management, development and other fees	\$ —	\$ —	\$ —	\$ 4,147	\$ 4,147
Rental and non-rental related income (2)	3,845	1,294	740	—	5,879
Total non-lease revenue (3)	3,845	1,294	740	4,147	10,026
Lease income (4)	1,570,262	173,639	231,031	—	1,974,932
Business interruption insurance proceeds (5)	3	—	3,495	—	3,498
Total revenue	\$ 1,574,110	\$ 174,933	\$ 235,266	\$ 4,147	\$ 1,988,456

- (1) Revenue represents third-party management, asset management and developer fees and miscellaneous income which are not allocated to a reportable segment.
- (2) Amounts include revenue streams related to leasing activities that are not considered components of a lease, including but not limited to, apartment hold fees and application fees, as well as revenue streams not related to leasing activities, including but not limited to, vendor revenue sharing, building advertising, vending and dry cleaning revenue.
- (3) Represents all revenue accounted for under ASC 2014-09.
- (4) Amounts include all revenue streams derived from residential and retail rental income and other lease income, which are accounted for under ASU 2016-02.
- (5) Amount for 2017 is primarily business interruption insurance proceeds related to the Maplewood casualty loss as discussed above in "Casualty Gains and Losses."

Due to the nature and timing of the Company's identified revenue streams, there are no material amounts of outstanding or unsatisfied performance obligations as of December 31, 2019.

Recently Issued and Adopted Accounting Standards

In June 2016, the FASB issued ASU 2016-13, Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments. This ASU requires entities to estimate a lifetime expected credit loss for most financial assets, including trade and other receivables and other long term financings including available for sale and held-to-maturity debt securities, and loans. Subsequently, the FASB issued ASU 2018-19, Codification Improvements to Topic 326, Financial Instruments-Credit Losses, which amends the scope of ASU 2016-13 and clarified that receivables arising from operating leases are not within the scope of the standard and should continue to be accounted for in accordance with the leases standard (Topic 842). The new standard will be effective for the Company beginning on January 1, 2020 and the Company does not expect the standard to have a material effect on the Company's financial position or results of operations.

2. Interest Capitalized

The Company capitalizes interest during the development and redevelopment of real estate assets. Capitalized interest associated with the Company's development or redevelopment activities totaled \$62,823,000, \$60,331,000 and \$64,420,000 for years ended December 31, 2019, 2018 and 2017, respectively.

3. Mortgage Notes Payable, Unsecured Notes and Credit Facility

The Company's mortgage notes payable, unsecured notes, variable rate unsecured term loans (the "Term Loans") and Credit Facility, as defined below, as of December 31, 2019 and 2018 are summarized below. The following amounts and discussion do not include the mortgage notes related to the communities classified as held for sale, if any, as of December 31, 2019 and 2018, as shown on the Consolidated Balance Sheets (dollars in thousands) (see Note 6, "Real Estate Disposition Activities").

	12/31/19	12/31/18
Fixed rate unsecured notes (1)	\$ 5,850,000	\$ 5,400,000
Variable rate unsecured notes (1)	300,000	300,000
Term Loans (1)	250,000	250,000
Fixed rate mortgage notes payable—conventional and tax-exempt (2)	479,221	533,215
Variable rate mortgage notes payable—conventional and tax-exempt (2)	476,150	619,140
Total mortgage notes payable and unsecured notes and Term Loans	7,355,371	7,102,355
Credit Facility	—	—
Total mortgage notes payable, unsecured notes, Term Loans and Credit Facility	<u>\$ 7,355,371</u>	<u>\$ 7,102,355</u>

(1) Balances at December 31, 2019 and 2018 exclude \$8,610 and \$9,879, respectively, of debt discount, and \$32,742 and \$34,128, respectively, of deferred financing costs, as reflected in unsecured notes, net on the accompanying Consolidated Balance Sheets.

(2) Balances at December 31, 2019 and 2018 exclude \$14,464 and \$14,590 of debt discount, respectively, and \$3,265 and \$3,495, respectively, of deferred financing costs, as reflected in mortgage notes payable, net on the accompanying Consolidated Balance Sheets.

The following debt activity occurred during the year ended December 31, 2019:

- In February 2019, the Company amended and restated the \$250,000,000 variable rate unsecured term loan that it originally entered into in February 2017, of which \$100,000,000 matures in February 2022 with stated pricing of LIBOR plus 0.90%, which remained the same, and \$150,000,000 matures in February 2024 with stated pricing of LIBOR plus 0.85% that decreased from LIBOR plus 1.50%.
- In April 2019, the Company repaid \$13,363,000 of 2.99% fixed rate debt and \$33,854,000 of variable rate debt secured by Avalon Natick at par on its maturity date.

- In May 2019, the Company repaid \$7,635,000 principal amount of variable rate debt secured by Eaves Mission Viejo at par in advance of its scheduled maturity date. The Company utilized \$3,706,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, the Company repaid \$20,800,000 principal amount of variable rate debt secured by AVA Nob Hill at par in advance of its scheduled maturity date. The Company utilized \$10,584,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, the Company repaid \$38,800,000 principal amount of variable rate debt secured by Avalon Campbell at par in advance of its scheduled maturity date. The Company utilized \$22,622,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, the Company repaid \$17,600,000 principal amount of variable rate debt secured by Eaves Pacifica at par in advance of its scheduled maturity date. The Company utilized \$10,263,000 of restricted cash held in a principal reserve fund to repay a portion of the outstanding indebtedness.
- In May 2019, the Company issued \$450,000,000 principal amount of unsecured notes in a public offering under its existing shelf registration statement for net proceeds of approximately \$446,877,000. The notes mature in June 2029 and were issued at a 3.30% interest rate. The effective interest rate of the notes is 3.66%, including the impact of an interest rate hedge and offering costs.
- In August 2019, as part of the tax-deferred exchange associated with the disposition of Archstone Lexington and acquisition of Avalon Cerritos, the Company (i) repaid \$21,700,000 principal amount of variable rate debt secured by Archstone Lexington at par in advance of its scheduled maturity date and (ii) entered into a \$30,250,000 fixed rate note secured by Avalon Cerritos, with a contractual interest rate of 3.26%, maturing in August 2029. See Note 6, "Real Estate Disposition Activities," and Note 5, "Investments in Real Estate Entities," for further discussion of the disposition and acquisition activity.
- In November 2019, the Company repaid \$65,749,000 of 3.38% fixed rate debt secured by Avalon Columbia Pike at par on its maturity date.

In February 2019, the Company entered into a \$1,750,000,000 Fifth Amended and Restated Revolving Loan Agreement (the "Credit Facility") with a syndicate of banks, which replaces its prior \$1,500,000,000 credit facility dated as of January 14, 2016. The term of the Credit Facility ends on February 28, 2024.

The Credit Facility bears interest at varying levels based on (i) the London Interbank Offered Rate ("LIBOR") applicable to the period of borrowing for a particular draw of funds from the facility (e.g., one month to maturity, three months to maturity, etc.) and (ii) the rating levels issued for our unsecured notes. The current stated pricing for drawn borrowings is LIBOR plus 0.775% per annum (2.54% at December 31, 2019), assuming a one month borrowing rate. The stated spread over LIBOR can vary from LIBOR plus 0.70% to LIBOR plus 1.45% based upon the rating of the Company's unsecured notes. The Credit Facility also provides a competitive bid option that is available for borrowings of up to 65% of the Credit Facility amount. This option allows banks that are part of the lender consortium to bid to provide the Company 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 than the stated rate if market conditions allow. The annual facility fee for the Credit Facility remained 0.125%, resulting in a fee of \$2,188,000 annually based on the \$1,750,000,000 facility size and based on the Company's current credit rating.

The Company had no borrowings outstanding under the Credit Facility and had \$11,488,000 and \$39,810,000 outstanding in letters of credit that reduced the borrowing capacity as of December 31, 2019 and 2018, respectively. In addition, the Company had \$24,939,000 outstanding in additional letters of credit as of December 31, 2019.

In the aggregate, secured notes payable mature at various dates from June 2020 through July 2066, and are secured by certain apartment communities (with a net carrying value of \$1,592,764,000, excluding communities classified as held for sale, as of December 31, 2019).

The weighted average interest rate of the Company's fixed rate secured notes payable (conventional and tax-exempt) was 3.9% and 3.8% at December 31, 2019 and 2018, respectively. The weighted average interest rate of the Company's variable rate secured notes payable (conventional and tax exempt), the Term Loans and its Credit Facility, including the effect of certain financing related fees, was 3.2% and 3.4% at December 31, 2019 and 2018, respectively.

Scheduled payments and maturities of secured notes payable and unsecured notes outstanding at December 31, 2019 are as follows (dollars in thousands):

Year	Secured notes payments	Secured notes maturities	Unsecured notes maturities	Stated interest rate of unsecured notes
2020	8,782	118,729	400,000	3.625%
2021	9,304	27,844	250,000	3.950%
			300,000	LIBOR + 0.43%
2022	9,918	—	450,000	2.950%
			100,000	LIBOR + 0.90%
2023	10,739	—	350,000	4.200%
			250,000	2.850%
2024	11,577	—	300,000	3.500%
			150,000	LIBOR + 0.85%
2025	12,508	—	525,000	3.450%
			300,000	3.500%
2026	13,545	—	475,000	2.950%
			300,000	2.900%
2027	14,980	185,100	400,000	3.350%
2028	20,607	—	450,000	3.200%
2029	11,742	66,250	450,000	3.300%
Thereafter	189,162	244,584	350,000	3.900%
			300,000	4.150%
			300,000	4.350%
	<u>\$ 312,864</u>	<u>\$ 642,507</u>	<u>\$ 6,400,000</u>	

The Company's unsecured notes are redeemable at the Company's option, in whole or in part, generally at a redemption price equal to the greater of (i) 100% of their principal amount or (ii) the sum of the present value of the remaining scheduled payments of principal and interest discounted at a rate equal to the yield on U.S. Treasury securities with a comparable maturity plus a spread between 20 and 45 basis points depending on the specific series of unsecured notes, plus accrued and unpaid interest to the redemption date.

The Company is subject to financial covenants contained in the Credit Facility, the Term Loans and the indentures under which the unsecured notes were issued. The principal financial covenants include the following:

- limitations on the amount of total and secured debt in relation to our overall capital structure;
- limitations on the amount of our unsecured debt relative to the undepreciated basis of real estate assets that are not encumbered by property-specific financing; and
- minimum levels of debt service coverage.

The Company was in compliance with these covenants at December 31, 2019.

4. Equity

As of December 31, 2019 and 2018, the Company's charter had authorized for issuance a total of 280,000,000 shares of common stock and 50,000,000 shares of preferred stock.

During the year ended December 31, 2019, the Company:

- i. issued 109,804 shares of common stock in connection with stock options exercised;
- ii. issued 2,069 common shares through the Company's dividend reinvestment plan;
- iii. issued 152,502 common shares in connection with restricted stock grants and the conversion of performance awards to restricted shares;
- iv. issued 1,942,502 shares under CEP IV and CEP V, including amounts in settlement of the Forward, as discussed below;
- v. issued 1,838 common shares in conjunction with the conversion of deferred stock awards;
- vi. withheld 84,710 common shares to satisfy employees' tax withholding and other liabilities;
- vii. issued 13,894 shares through the Employee Stock Purchase Plan; and
- viii. canceled 2,361 shares of restricted stock upon forfeiture.

Any deferred compensation related to the Company's stock option, restricted stock and performance award grants during the year ended December 31, 2019 is not reflected on the accompanying Consolidated Balance Sheet as of December 31, 2019, and will not be reflected until recognized as compensation cost.

In December 2015, the Company commenced a fourth continuous equity program ("CEP IV") under which the Company was able to sell (and/or enter into forward agreements for) up to \$1,000,000,000 of its common stock from time to time. In conjunction with CEP IV, the Company engaged sales agents who received compensation of up to 2.0% of the gross sales price for shares sold.

In May 2019, the Company replaced CEP IV with a new continuous equity program ("CEP V") under which the Company may sell (and/or enter into forward sale agreements for the sale of) up to \$1,000,000,000 of its common stock from time to time. Actual sales will depend on a variety of factors to be determined by the Company, including market conditions, the trading price of the Company's common stock and determinations by the Company of the appropriate sources of funding for the Company. In conjunction with CEP V, the Company engaged sales agents who will receive compensation of up to 1.5% of the gross sales price for shares sold. The Company expects that, if entered into, it will physically settle each forward sale agreement on one or more dates specified by the Company on or prior to the maturity date of that particular forward sale agreement, in which case the Company will expect to receive aggregate net cash proceeds at settlement equal to the number of shares underlying the particular forward agreement multiplied by the relevant forward sale price. However, the Company may also elect to cash settle or net share settle a forward sale agreement. In connection with each forward sale agreement, the Company will pay the relevant forward seller, in the form of a reduced initial forward sale price, a commission of up to 1.5% of the sales prices of all borrowed shares of common stock sold. During 2019, the Company entered into and settled a forward sales agreement, as discussed below.

On September 25, 2019, the Company entered into a forward contract under CEP V to sell 947,868 shares of common stock (the "Forward"). The sales price was established based on the stock price during intraday trading on September 25, 2019. In December 2019, the Company issued 947,868 shares of common stock at a weighted average sales price of \$207.96 per share, for net proceeds of \$197,122,000, in settlement of the Forward. The proceeds received by the Company were determined on the date of settlement, with adjustments during the term of the contract for the Company's dividends as well as for a daily interest factor that varied with changes in the Overnight Bank Funding rate.

In addition to the shares issued in settlement of the Forward, in 2019, the Company sold 755,054 shares at an average sales price of \$198.26 per share, for net proceeds of \$147,450,000 under CEP IV, and 239,580 shares at an average sales price of \$208.70 per share, for net proceeds of \$49,250,000 under CEP V. As of December 31, 2019, the Company had \$752,878,000 remaining authorized for issuance under CEP V.

5. Investments in Real Estate Entities

Investments in Unconsolidated Real Estate Entities

The Company accounts for its investments in unconsolidated real estate entities under the equity method of accounting, as discussed in Note 1, “Organization, Basis of Presentation and Significant Accounting Policies,” under *Principles of Consolidation*. The significant accounting policies of the Company's unconsolidated real estate entities are consistent with those of the Company in all material respects. Certain of these investments are subject to various buy-sell provisions or other rights which are customary in real estate joint venture agreements. The Company and its partners in these entities may initiate these provisions to either sell the Company's interest or acquire the joint venture interest from the Company's partner.

The following presents the Company's activities in unconsolidated real estate entities for the years ended December 31, 2019, 2018 and 2017:

Archstone Multifamily Partners AC LP (the “U.S. Fund”)—The Company is the general partner of the U.S. Fund and has a 28.6% combined general partner and limited partner equity interest. The Company acquired its interest in the U.S. Fund as part of the Archstone Acquisition (as defined in Note 5, “Investments in Real Estate Entities,” of the Consolidated Financial Statements in Item 8 in the Company's Form 10-K filed February 22, 2019). During 2019, the U.S. Fund sold Avalon Marina Bay and the adjacent marina, The Harbor at Marina Bay, located in Marina del Rey, CA, containing 205 apartment homes and 229 boat slips for \$86,000,000. The Company's proportionate share of the gain in accordance with GAAP was \$5,788,000. In conjunction with the disposition of the community, the U.S. Fund repaid \$49,800,000 of related secured indebtedness in advance of its scheduled maturity date. The U.S. Fund sold one community in each 2018 and 2017, and the Company's proportionate share of the gains in accordance with GAAP was \$8,636,000 and \$13,788,000, respectively.

Multifamily Partners AC JV LP (the “AC JV”)—The Company has a 20.0% equity interest in the AC JV, and acquired its interest as part of the Archstone Acquisition. During 2018, the AC JV sold one community, and the Company's proportionate share of the gain in accordance with GAAP was \$2,019,000.

Legacy JV—As part of the Archstone Acquisition the Company entered into a limited liability company agreement with Equity Residential, through which it assumed obligations of Archstone in the form of preferred interests, some of which are governed by tax protection arrangements (the “Legacy JV”). The Company has a 40.0% interest in the Legacy JV. During the years ended December 31, 2019, 2018 and 2017, the Legacy JV redeemed certain of the preferred interests and paid accrued dividends, of which the Company's portion was \$1,400,000, \$1,120,000 and \$2,000,000, respectively. At December 31, 2019, the remaining preferred interests had an aggregate liquidation value of \$35,542,000, the Company's 40.0% share of which was included in accrued expenses and other liabilities in the accompanying Consolidated Balance Sheets.

Sudbury Development, LLC—During 2015, the Company entered into a joint venture agreement to purchase land and pursue entitlements and pre-development activity for a mixed-use development project in Sudbury, MA, including multifamily apartment homes, retail, senior housing and age-restricted housing. The Company has a 60.0% ownership interest in the venture, which is considered a VIE. During the year ended December 31, 2017, the Company and its venture partner each acquired their respective portion of the real estate held by the venture, with the Company's portion consisting of a parcel of land on which the Company developed an apartment community, acquired for an investment of \$19,200,000. The Company and its venture partner retained continuing involvement with the venture to fund the completion of the planned infrastructure and site work, which was substantially complete during 2018.

North Point II JV, LP—During 2016, the Company entered into a joint venture to develop, own, and operate AVA North Point, an apartment community located in Cambridge, MA, which completed construction during 2018 and contains 265 apartment homes. The Company owned a 55.0% interest in the venture, and the venture partner owned the remaining 45.0% interest. During the year ended December 31, 2019, the Company acquired the 45.0% equity interest of AVA North Point that was owned by the venture partner, for a purchase price of \$71,280,000. Upon acquisition, the Company consolidated AVA North Point as a wholly-owned operating community.

NYTA MF Investors LLC (“NYC Joint Venture”)—During 2018, the Company contributed five wholly-owned operating communities located in New York, NY to a newly formed joint venture with the intent to own and operate the communities. The Company retained a 20.0% interest in the venture, with the venture partner owning the remaining 80.0% interest, and the partners sharing in returns in accordance with their ownership interests. In conjunction with the formation of the venture in 2018, the Company sold the five communities, containing an aggregate of 1,301 apartment homes and 58,000 square feet of retail space, to the venture for a sales price of \$758,900,000. The Company received net cash proceeds of \$276,799,000 and the venture assumed

\$395,939,000 of secured indebtedness from the Company. The Company recognized a gain on sale of \$179,861,000, including the recognition of the Company's 20.0% retained interest at fair value.

Avalon Alderwood MF Member, LLC—During 2019, the Company entered into a joint venture to develop, own, and operate Avalon Alderwood Mall, an apartment community located in Lynnwood, WA, which is currently under construction and expected to contain 328 apartment homes when complete. The Company has a 50.0% interest in the venture, which is considered a VIE, though the Company was not considered to be the primary beneficiary because it shares control with its third party partner. The Company and its venture partner share decision making authority for all significant aspects of the venture's activities including, but not limited to, changes in the ownership or capital structure, and the capital budget to construct Avalon Alderwood Mall.

AvalonBay Value Added Fund II, L.P. ("Fund II")—During 2018 the Company held an investment in and received the final distributions for the AvalonBay Value Added Fund II, L.P. ("Fund II"), a private, discretionary real estate investment vehicle formed in 2008. During 2017, Fund II sold its final three communities, and the Company's proportionate share of the gain in accordance with GAAP was \$26,322,000, and the Company completed the dissolution of Fund II in 2018. A wholly owned subsidiary of the Company was the general partner of Fund II. The Company had an equity interest of 31.3% in Fund II, and upon achievement of a threshold return the Company had a right to incentive distributions for its promoted interest based on current returns earned by Fund II which represented 40.0% of further Fund II distributions, which was in addition to its proportionate share of the remaining 60.0% of distributions. During the years ended December 31, 2018 and 2017, the Company recognized income of \$925,000 and \$26,472,000 for its promoted interest, respectively, which was reported as a component of equity in income of unconsolidated real estate entities on the accompanying Consolidated Statements of Comprehensive Income.

The following is a combined summary of the financial position of the entities accounted for using the equity method and presented on the accompanying Consolidated Balance Sheets as of the dates presented (dollars in thousands):

	12/31/19	12/31/18
Assets:		
Real estate, net	\$ 1,204,470	\$ 1,420,453
Other assets	196,488	47,333
Total assets	<u>\$ 1,400,958</u>	<u>\$ 1,467,786</u>
Liabilities and partners' capital:		
Mortgage notes payable, net (1)	\$ 782,257	\$ 837,311
Other liabilities	157,379	15,627
Partners' capital	461,322	614,848
Total liabilities and partners' capital	<u>\$ 1,400,958</u>	<u>\$ 1,467,786</u>

(1) The Company has not guaranteed the debt, nor does the Company have any obligation to fund this debt should the unconsolidated entity be unable to do so.

The following is a combined summary of the operating results of the entities accounted for using the equity method and presented on the accompanying Consolidated Statements of Comprehensive Income, for the years presented (dollars in thousands):

	For the year ended		
	12/31/2019 (1)	12/31/2018 (2)	12/31/17
Rental and other income	\$ 144,431	\$ 92,533	\$ 102,261
Operating and other expenses	(55,732)	(35,840)	(40,341)
Gain on sale of communities	21,748	54,202	136,333
Interest expense, net	(33,896)	(22,500)	(27,122)
Depreciation expense	(58,387)	(26,706)	(25,914)
Net income	<u>\$ 18,164</u>	<u>\$ 61,689</u>	<u>\$ 145,217</u>
Company's share of net income (3)	10,779	17,519	73,120
Amortization of excess investment and other	(2,127)	(2,249)	(2,376)
Equity in income from unconsolidated real estate investments	<u>\$ 8,652</u>	<u>\$ 15,270</u>	<u>\$ 70,744</u>

- (1) Amounts include results from AVA North Point through the date the Company acquired its venture partner's 45.0% equity interest.
- (2) Amounts include results from the NYC Joint Venture from the date the venture was formed.
- (3) Includes the Company's share of gain on sale of communities and income recognized for its promoted interest.

Investments in Consolidated Real Estate Entities

During the year ended December 31, 2019, the Company acquired five consolidated communities:

- Avalon Southlands, located in Aurora, CO, which contains 338 apartment homes and was acquired for a purchase price of \$91,250,000.
- Avalon Cerritos, located in Cerritos, CA, which contains 132 apartment homes and was acquired for a purchase price of \$60,500,000. The acquisition of Avalon Cerritos was facilitated through a tax-deferred exchange as the replacement property for Archstone Lexington, which was sold during the year ended December 31, 2019, as further discussed in Note 6, "Real Estate Disposition Activities." Archstone Lexington was acquired by the Company as part of the Archstone Acquisition, and was subject to both limitations related to disposal of the community, as well as for there to be a required level of secured financing as a result of the tax structured contribution of the assets to the prior Archstone partnerships. The Company maintained compliance with the tax protection requirements when selling Archstone Lexington by facilitating the sale through the tax-deferred exchange, acquiring and encumbering Avalon Cerritos. See Note 3, "Mortgage Notes Payable, Unsecured Notes and Credit Facility," for further discussion of indebtedness associated with Archstone Lexington and Avalon Cerritos.
- Portico at Silver Spring Metro, located in Silver Spring, MD, which contains 151 apartment homes and was acquired for a purchase price of \$43,450,000.
- Avalon Bonterra, located in Hialeah, FL, which contains 314 apartment homes and was acquired for a purchase price of \$90,000,000.
- Avalon Toscana, located in Margate, FL, which contains 240 apartment homes and was acquired for a purchase price of \$60,250,000.

During the year ended December 31, 2018, the Company acquired four communities, containing an aggregate 1,096 apartment homes, which were acquired for an aggregate purchase price of \$334,450,000. During the year ended December 31, 2017, the Company acquired three communities, containing an aggregate 1,062 apartment homes, which were acquired for an aggregate purchase price of \$365,750,000.

The Company accounted for these as asset acquisitions and recorded the acquired assets and assumed liabilities, including identifiable intangibles, at their relative fair values based on the purchase price and acquisition costs incurred. The Company used third party pricing or internal models for the values of the land, a valuation model for the values of the buildings, and an internal model to determine the fair values of the remaining real estate assets and in-place leases. Given the heterogeneous nature of multifamily real estate, the fair values for the land, debt, real estate assets and in-place leases incorporated significant unobservable inputs and therefore are considered to be Level 3 prices within the fair value hierarchy.

6. Real Estate Disposition Activities

The following activity took place during the year ended December 31, 2019:

- The Company sold six wholly-owned operating communities, containing an aggregate of 1,660 apartment homes for an aggregate sales price of \$427,600,000 and an aggregate gain in accordance with GAAP of \$166,105,000.
- The Company sold other real estate for an aggregate sales price of \$3,680,000, resulting in an aggregate gain in accordance with GAAP of \$439,000.

Details regarding the real estate sales are summarized in the following table (dollars in thousands):

Community Name	Location	Period of sale	Apartment homes	Debt	Gross sales price	Net cash proceeds
Oakwood Arlington	Arlington, VA	Q119	184	\$ —	\$ 70,000	\$ 68,317
Archstone Toscano (1)	Houston, TX	Q219	474	—	98,000	95,975
AVA Stamford	Stamford, CT	Q319	306	—	105,000	102,485
Archstone Lexington	Flower Mound, TX	Q319	222	21,700	45,100	44,524
Memorial Heights Villages (1)	Houston, TX	Q319	318	—	65,250	63,298
Avalon Orchards	Marlborough, MA	Q319	156	—	44,250	43,448
Other real estate dispositions (2)	multiple	2019	N/A	—	3,680	3,995
Total of 2019 asset sales			1,660	\$ 21,700	\$ 431,280	\$ 422,042
Total of 2018 asset sales			3,099	\$ 395,939	\$ 1,378,289	\$ 883,313
Total of 2017 asset sales			1,624	\$ —	\$ 514,654	\$ 503,039

(1) The Company held its investment in, and sold these real estate assets from, a wholly-owned TRS.

(2) Primarily composed of the sale of two undeveloped land parcels, located in Houston, TX, and Bronxville, NY.

As of December 31, 2019, the Company had one community that qualified as held for sale.

The Park Loggia

As of December 31, 2019, the Company has completed the construction of The Park Loggia, located in New York, NY, which contains 172 for-sale residential condominiums and 67,000 square feet of retail space for a total capitalized cost of \$626,000,000. The Company incurred \$3,812,000 and \$1,044,000 for the years ended December 31, 2019 and 2018, respectively, in marketing and administrative costs associated with The Park Loggia, included in for-sale condominium marketing and administrative costs, on the accompanying Consolidated Statements of Comprehensive Income. As of December 31, 2019, the for-sale residential condominiums have an aggregate carrying value of \$457,809,000, presented as for-sale condominium inventory on the accompanying Consolidated Balance Sheets. The Company recognized a net deferred tax liability of \$5,782,000 during the year ended December 31, 2019 for the GAAP to tax basis differences of The Park Loggia and the associated 67,000 square feet of retail space. See Note 1, "Organization, Basis of Presentation and Significant Accounting Policies," for further discussion of the income tax associated to The Park Loggia.

7. Commitments and Contingencies

Employment Agreements and Arrangements

At December 31, 2019, the Company does not have any employment agreements with executive officers.

The standard restricted stock and option agreements used by the Company in its compensation program provide that upon an employee's termination without cause or the employee's Retirement (as defined in the agreement), all outstanding stock options and restricted shares of stock held by the employee will vest, and the employee will have up to 12 months or until the fifth anniversary of the grant date, if later, or until the option expiration date, if earlier, to exercise any options then held. Under the agreements, Retirement generally means a termination of employment and other business relationships, other than for cause, after attainment of age 50, provided that (i) the employee has worked for the Company for at least 10 years, (ii) the employee's age at Retirement plus years of employment with the Company equals at least 70, (iii) the employee provides at least six months written notice of intent to retire, and (iv) the employee enters into a one year non-compete and employee non-solicitation agreement.

The Company also has an Officer Severance Program (the “Program”). Under the Program, in the event an officer who is not otherwise covered by a severance arrangement is terminated (other than for cause), or chooses to terminate his or her employment for good reason (as defined), in either case within 18 months following a sale event (as defined) of the Company, such officer will generally receive a cash lump sum payment equal to a multiple of the officer's covered compensation (base salary plus annual cash bonus). The multiple is one time for vice presidents and senior vice presidents, two times for executive vice presidents and three times for the chief executive officer. The officer's restricted stock and options would also vest. Costs related to the Program are deferred and recognized over the requisite service period when considered by management to be probable and estimable.

Legal Contingencies

The Company accounts for recoveries from legal matters as a reduction in the legal and related costs incurred associated with the matter, with recoveries in excess of these costs reported as a gain or, where appropriate, a reduction in the net cost basis of a community to which the suit related. During the years ended December 31, 2019, 2018 and 2017, the Company recognized \$6,292,000, \$946,000 and \$6,118,000 in legal recoveries, respectively. Legal recoveries recognized during the year ended December 31, 2019 include \$3,126,000 in proceeds related to a former Development Right and \$2,237,000 in proceeds related to a construction defect at a community. Amounts recognized during the years ended December 31, 2018 and 2017 include \$554,000 and \$5,438,000 respectively, in legal settlement proceeds relating to construction defects at communities acquired as part of the Archstone Acquisition, reported as a component of casualty and impairment loss, net on the accompanying Consolidated Statements of Comprehensive Income.

The Company is involved in various other claims and/or administrative proceedings that arise in the ordinary course of its business. While no assurances can be given, the Company does not currently believe that any of these outstanding litigation matters, individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

Lease Obligations

The Company owns 11 apartment communities, one community under development and two commercial properties, located on land subject to ground leases expiring between October 2026 and March 2142. The ground leases for 10 of 11 of the apartment communities and the rest of the ground leases, are accounted for as operating leases, with rental expense recognized on a straight-line basis over the lease term. These operating leases have varying rental escalation terms, primarily based on variables determined at future dates such as changes in the Consumer Price Index, and five of these leases have purchase options exercisable through 2095. In addition, the Company is party to 17 leases for its corporate and regional offices with varying terms through 2031, all of which are accounted for as operating leases.

As of December 31, 2019, the Company has total operating lease assets of \$103,063,000 and lease obligations of \$120,261,000, reported as components of right of use lease assets and lease liabilities, respectively, on the accompanying Consolidated Balance Sheets. The Company incurred costs of \$14,371,000, \$21,788,000 and \$23,431,000 in the years ended December 31, 2019, 2018 and 2017, respectively, related to operating leases.

One apartment community is located on land subject to a ground lease which is accounted for as a finance lease. Under the terms of the lease, the Company has the option to purchase the land during the lease term, which expires in 2046. In addition to the leases described above, the Company is party to two leases for portions of parking garages, one adjacent to an apartment community and one adjacent to a community under development, accounted for as finance leases and subject to the Company's lease accounting policies discussed in Note 1, “Organization, Basis of Presentation and Significant Accounting Policies.” The Company has total finance lease assets of \$21,898,000 and lease obligations of \$20,207,000, reported as components of right of use lease assets and lease liabilities, respectively, on the accompanying Consolidated Balance Sheets.

During the year ended December 31, 2018, the Company contributed a dual-branded apartment community, Avalon West Chelsea and AVA High Line, located on land subject to a single land lease, to the newly formed NYC Joint Venture. See Note 5, “Investments in Real Estate Entities,” for discussion of the formation of the venture. During the year ended December 31, 2017, the Company acquired the land encumbered by the ground lease for Avalon Morningside Park for \$95,000,000, recognizing a non-cash write-off of prepaid rent of \$11,153,000 associated with the ground lease termination, reported as a component of (loss) gain on other real estate transactions on the accompanying Consolidated Statements of Comprehensive Income. Also during the year ended December 31, 2017, the Company exercised its purchase option under a capital lease, acquiring the land encumbered by the ground lease for Avalon at Assembly Row and AVA Somerville for \$17,285,000.

The following table details the weighted average remaining lease term and discount rates for the Company's ground and office leases:

Weighted-average remaining lease term - finance leases	26 years
Weighted-average remaining lease term - operating leases	53 years
Weighted-average discount rate - finance leases	4.63%
Weighted-average discount rate - operating leases	5.06%

The following tables details the future minimum lease payments under the Company's current leases and a reconciliation of undiscounted and discounted cash flows for operating and finance leases (dollars in thousands):

	Payments due by period					
	2020	2021	2022	2023	2024	Thereafter
Operating Lease Obligations	\$ 12,050	\$ 14,055	\$ 14,003	\$ 13,473	\$ 13,320	\$ 364,284
Finance Lease Obligations	1,077	1,080	1,082	1,084	1,087	40,133
	<u>\$ 13,127</u>	<u>\$ 15,135</u>	<u>\$ 15,085</u>	<u>\$ 14,557</u>	<u>\$ 14,407</u>	<u>\$ 404,417</u>

	Total undiscounted cash flows	Total lease liabilities	Difference between discounted and undiscounted cash flows
Operating Lease Obligations	\$ 431,185	\$ 120,261	\$ 310,924
Finance Lease Obligations	45,543	20,207	25,336
	<u>\$ 476,728</u>	<u>\$ 140,468</u>	<u>\$ 336,260</u>

8. Segment Reporting

The Company's reportable operating segments include Established Communities, Other Stabilized Communities and Development/Redevelopment Communities. Annually as of January 1, the Company determines which of its communities fall into each of these categories and generally maintains that classification throughout the year for the purpose of reporting segment operations, unless disposition or redevelopment plans regarding a community change.

- Established Communities (also known as Same Store Communities)* are consolidated communities where the Company has a significant presence (New England, New York/New Jersey, Mid-Atlantic, Pacific Northwest, and Northern and Southern California) and 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 as of the beginning of the prior year. The Established Communities for the year ended December 31, 2019, are communities that are consolidated for financial reporting purposes, had stabilized occupancy as of January 1, 2018, are not conducting or planning to conduct substantial redevelopment activities and are not held for sale or planned for disposition within the fiscal year. A community is considered to have stabilized occupancy at the earlier of (i) attainment of 95% physical occupancy or (ii) the one year anniversary of completion of development or redevelopment.
- Other Stabilized Communities* includes all other completed consolidated communities that have stabilized occupancy, as defined above, as January 1, 2019, or which were acquired during the years ended December 31, 2019 or 2018. Other Stabilized Communities includes stabilized operating communities in our expansion markets of Denver, Colorado, and Southeast Florida, but excludes communities that are conducting or planning to conduct substantial redevelopment activities within the fiscal year.
- Development/Redevelopment Communities* consists of (i) consolidated communities that are either currently under construction, or were under construction during the fiscal year, which may be partially or fully complete and operating, (ii) consolidated communities where substantial redevelopment is in progress or is planned to begin during the fiscal year and (iii) communities under lease-up that have been complete for less than one year and have not reached stabilized occupancy, as defined above, as of January 1, 2019.

In addition, the Company owns land for future development and has other corporate assets that are not allocated to an operating segment.

The Company's segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing each segment's performance. The Company's chief operating decision maker is comprised of several members of its executive

management team who use net operating income (“NOI”) as the primary financial measure for Established Communities and Other Stabilized Communities. NOI is defined by the Company as total property revenue less direct property operating expenses (including property taxes), and excluding corporate-level income (including management, development and other fees), corporate-level property management and other indirect operating expenses, expensed transaction, development and other pursuit costs, net of recoveries, interest expense, net, loss (gain) on extinguishment of debt, net, general and administrative expense, equity in income of unconsolidated real estate entities, depreciation expense, corporate income tax (benefit) expense, casualty and impairment loss (gain), net, gain on sale of communities, loss (gain) on other real estate transactions, net, for-sale condominium marketing and administrative costs and net operating income from real estate assets sold or held for sale. Although the Company considers NOI a useful measure of a community's or communities' operating performance, NOI should not be considered an alternative to net income or net cash flow from operating activities, as determined in accordance with GAAP. NOI excludes a number of income and expense categories as detailed in the reconciliation of NOI to net income.

A reconciliation of NOI to net income for years ended December 31, 2019, 2018 and 2017 is as follows (dollars in thousands):

	For the year ended		
	12/31/19	12/31/18	12/31/17
Net income	\$ 786,103	\$ 974,175	\$ 876,660
Indirect operating expenses, net of corporate income	83,008	80,227	68,312
Expensed acquisition, development and other pursuit costs, net of recoveries	4,991	3,265	2,736
Interest expense, net	203,585	220,974	199,661
Loss on extinguishment of debt, net	602	17,492	25,472
General and administrative expense	58,042	60,369	53,695
Equity in income of unconsolidated real estate entities	(8,652)	(15,270)	(70,744)
Depreciation expense	661,578	631,196	584,150
Income tax expense (benefit)	13,003	(160)	141
Casualty and impairment loss, net	—	215	6,250
Gain on sale of communities	(166,105)	(374,976)	(252,599)
(Gain) loss on other real estate transactions	(439)	(345)	10,907
For-sale condominium marketing and administrative costs	3,812	1,044	—
Net operating income from real estate assets sold or held for sale	(12,318)	(79,372)	(105,663)
Net operating income	<u>\$ 1,627,210</u>	<u>\$ 1,518,834</u>	<u>\$ 1,398,978</u>

The following is a summary of NOI from real estate assets sold or held for sale for the periods presented (dollars in thousands):

	For the year ended		
	12/31/2019	12/31/2018	12/31/2017
Rental income from real estate assets sold or held for sale	\$ 21,441	\$ 124,373	\$ 170,172
Operating expenses from real estate assets sold or held for sale	(9,123)	(45,001)	(64,509)
Net operating income from real estate assets sold or held for sale	<u>\$ 12,318</u>	<u>\$ 79,372</u>	<u>\$ 105,663</u>

The primary performance measure for communities under development or redevelopment depends on the stage of completion. While under development, management monitors actual construction costs against budgeted costs as well as lease-up pace and rent levels compared to budget.

The following table provides details of the Company's segment information as of the dates specified (dollars in thousands). The segments are classified based on the individual community's status at January 1, 2019 for the years ended December 31, 2019 and 2018 and at January 1, 2018, for the year ended December 31, 2017. Segment information for the years ended December 31, 2019, 2018 and 2017 has been adjusted to exclude the real estate assets that were sold from January 1, 2017 through December 31, 2019, or otherwise qualify as held for sale as of December 31, 2019, as described in Note 6, “Real Estate Disposition Activities.”

In addition to NOI, the Company's CODM considers total revenue in assessing each segment's performance. As discussed in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies," the Company changed its presentation of charges

for uncollectible lease revenue beginning with the year ended December 31, 2019, including it as an adjustment to revenue and not as a component of operating expenses, as it is presented for prior year periods on the accompanying Consolidated Statements of Comprehensive Income. Consistent with how the Company's CODM evaluates total revenue, and to provide comparability between periods presented in the Company's segment reporting, the Company has included charges for uncollectible lease revenue for its segment results as a component of revenue for the year ended December 31, 2018, the comparable period presented in the following table. Total revenue for the year ended December 31, 2018 as presented in the following table includes \$14,072,000 of charges for uncollectible lease revenue.

	Total revenue	NOI	Gross real estate (1)
For the year ended December 31, 2019			
Established			
New England	\$ 249,301	\$ 164,977	\$ 2,065,954
Metro NY/NJ	411,115	291,662	3,545,753
Mid-Atlantic	292,943	207,091	2,685,052
Pacific Northwest	113,021	82,186	990,563
Northern California	363,910	280,216	2,850,491
Southern California	406,049	291,340	3,609,595
Total Established (2)	<u>1,836,339</u>	<u>1,317,472</u>	<u>15,747,408</u>
Other Stabilized	298,415	202,445	3,551,512
Development / Redevelopment	163,471	107,293	3,702,194
Land Held for Future Development	N/A	N/A	—
Non-allocated (3)	4,960	N/A	557,346
Total	<u>\$ 2,303,185</u>	<u>\$ 1,627,210</u>	<u>\$ 23,558,460</u>
For the year ended December 31, 2018			
Established			
New England	\$ 241,793	\$ 159,394	\$ 2,050,131
Metro NY/NJ	400,422	284,344	3,527,098
Mid-Atlantic	284,381	200,381	2,669,040
Pacific Northwest	108,861	78,313	985,102
Northern California	353,136	272,096	2,832,026
Southern California	394,519	283,795	3,573,953
Total Established (2)	<u>1,783,112</u>	<u>1,278,323</u>	<u>15,637,350</u>
Other Stabilized	238,584	159,745	3,063,669
Development / Redevelopment	120,822	80,766	2,652,967
Land Held for Future Development	N/A	N/A	84,712
Non-allocated (3)	3,572	N/A	504,229
Total	<u>\$ 2,146,090</u>	<u>\$ 1,518,834</u>	<u>\$ 21,942,927</u>
For the year ended December 31, 2017			
Established			
New England	\$ 215,133	\$ 141,342	\$ 1,845,692
Metro NY/NJ	354,444	251,760	3,071,563
Mid-Atlantic	232,987	161,546	2,216,292
Pacific Northwest	84,313	61,705	724,751
Northern California	357,209	273,940	2,972,311
Southern California	330,024	237,796	2,905,512
Total Established (2)	<u>1,574,110</u>	<u>1,128,089</u>	<u>13,736,121</u>
Other Stabilized	174,933	117,837	2,392,244
Development / Redevelopment (4)	235,266	153,052	4,104,956
Land Held for Future Development	N/A	N/A	68,364
Non-allocated (3)	4,147	N/A	78,864
Total	<u>\$ 1,988,456</u>	<u>\$ 1,398,978</u>	<u>\$ 20,380,549</u>

(1) Does not include gross real estate assets held for sale of \$48,412 as of December 31, 2019 and gross real estate either sold or classified as held for sale subsequent to December 31, 2018 and 2017 of \$334,242 and \$1,555,387, respectively.

- (2) Gross real estate for the Company's Established Communities includes capitalized additions of approximately \$128,324, \$78,469 and \$78,241 in 2019, 2018 and 2017, respectively.
- (3) Revenue represents third-party management, accounting, and developer fees and miscellaneous income which are not allocated to a reportable segment. Gross real estate includes the for-sale residential condominiums at The Park Loggia, as discussed in Note 6, "Real Estate Disposition Activities."
- (4) Total revenue and NOI for the year ended December 31, 2017 includes \$3,495 in business interruption insurance proceeds related to the Maplewood casualty loss.

9. Stock-Based Compensation Plans

The Company's Second Amended and Restated 2009 Equity Incentive Plan (the "2009 Plan") includes an authorization to issue shares of the Company's common stock, par value \$0.01 per share. At December 31, 2019, the Company had 7,227,600 shares remaining available to issue under the 2009 Plan, exclusive of shares that may be issued to satisfy currently outstanding awards such as stock options or performance awards. In addition, any awards that were outstanding under the Company's 1994 Stock Option and Incentive Plan (the "1994 Plan") on May 21, 2009, the date the Company adopted the 2009 Plan, that are subsequently forfeited, canceled, surrendered or terminated (other than by exercise) will become available for awards under the 2009 Plan. The 2009 Plan provides for various types of equity awards to associates, officers, non-employee directors and other key personnel of the Company and its subsidiaries. The types of awards that may be granted under the 2009 Plan include restricted stock, restricted stock units, stock options that qualify as incentive stock options ("ISOs") under Section 422 of the Code, non-qualified stock options, stock appreciation rights and performance awards, among others. No grants of stock options and other awards will be made after May 15, 2027, and no grants of incentive stock options will be made after February 16, 2027.

Information with respect to stock options granted under the 2009 and 1994 Plans is as follows:

	2009 Plan shares	Weighted average exercise price per share	1994 Plan shares	Weighted average exercise price per share
Options Outstanding, December 31, 2016	177,333	\$ 124.25	22,541	\$ 77.91
Exercised	(27,360)	110.47	(14,763)	93.35
Granted	—	—	—	—
Forfeited	—	—	—	—
Options Outstanding, December 31, 2017	149,973	\$ 126.77	7,778	\$ 48.60
Exercised	(32,756)	126.24	(7,778)	48.60
Granted (1)	6,995	161.10	—	—
Forfeited	—	—	—	—
Options Outstanding, December 31, 2018	124,212	\$ 128.84	—	\$ —
Exercised	(109,804)	129.47	—	—
Granted	—	—	—	—
Forfeited	—	—	—	—
Options Outstanding, December 31, 2019	14,408	\$ 124.05	—	\$ —
Options Exercisable:				
December 31, 2017	149,973	\$ 126.77	7,778	\$ 48.60
December 31, 2018	117,217	\$ 126.91	—	\$ —
December 31, 2019	14,408	\$ 124.05	—	\$ —

- (1) Options granted during the year ended December 31, 2018 are a result of recipient elections to receive a portion of earned performance awards and time-vesting restricted stock in the form of stock options.

The following summarizes the exercise prices and contractual lives of options outstanding as of December 31, 2019:

2009 Plan Number of Options	Range—Exercise Price			Weighted Average Remaining Contractual Term (in years)
1,218	\$70.00	-	\$79.99	0.1
2,071	\$110.00	-	\$119.99	1.1
11,119	\$130.00	-	\$139.99	2.8
14,408				

Options outstanding and exercisable at December 31, 2019 both had an intrinsic value of \$1,234,000. Options exercisable had a weighted average contractual life of 2.4 years. The intrinsic value of options exercised under the 2009 and 1994 Plans during 2019, 2018 and 2017 was \$7,970,000, \$3,016,000 and \$3,592,000, respectively. There were no stock options granted in 2019, 2018 and 2017, other than those elected under the Company's performance award plan discussed below.

The Company has a compensation framework under which share-based compensation granted is composed of annual restricted stock awards for which one third of the award vests annually over a three year period, and multi-year long term incentive performance awards. For annual restricted stock awards, in lieu of time-vesting restricted stock, the recipient may elect to receive up to 25% of the award value in the form of stock options, for which one third of the award vests annually over a three year period. Under the Company's multi-year long term incentive compensation framework, the Company grants a target number of performance awards, with the ultimate award determined by the total shareholder return of the Company's common stock and/or operating performance metrics, measured in each case over a measurement period of up to three years. Performance awards granted in 2017 or earlier are earned in the form of time-vesting restricted stock following the end of the three-year performance period, provided that the predetermined goals have been achieved. Performance awards granted after 2017 are fully vested for the recipient following the measurement period.

For performance awards with performance periods beginning on or after January 1, 2015, after the first year of the performance period, if the employee's employment terminates on account of death, disability, retirement, or termination without cause, the employee shall vest in a pro rata portion of the award (based on the employee's service time during the performance period), with such vested portion to be earned and converted into shares at the end of the performance period based on actual achievement under the performance award. For other terminating events, performance awards are generally forfeited.

Information with respect to performance awards granted is as follows:

	Performance awards	Weighted average grant date fair value per award
Outstanding at December 31, 2016	251,163	\$ 136.74
Granted (1)	81,708	176.59
Change in awards based on performance (2)	49,323	119.26
Converted to restricted stock	(128,482)	118.75
Forfeited	(1,942)	159.39
Outstanding at December 31, 2017	251,770	\$ 155.25
Granted (3)	100,965	155.31
Change in awards based on performance (2)	5,990	148.79
Converted to restricted stock	(88,477)	148.79
Forfeited	(3,119)	160.33
Outstanding at December 31, 2018	267,129	\$ 157.21
Granted (4)	80,512	200.75
Change in awards based on performance (2)	(16,760)	142.03
Converted to restricted stock	(73,072)	142.03
Forfeited	(4,377)	166.44
Outstanding at December 31, 2019	253,432	\$ 176.27

- (1) The amount of restricted stock that ultimately may be earned is based on the total shareholder return metrics related to the Company's common stock for 49,374 performance awards and financial metrics related to operating performance and leverage metrics of the Company for 32,334 performance awards.
- (2) Represents the change in the number of performance awards earned based on performance achievement for the performance period.
- (3) The amount of restricted stock that ultimately may be earned is based on the total shareholder return metrics related to the Company's common stock for 62,043 performance awards and financial metrics related to operating performance and leverage metrics of the Company for 38,922 performance awards.
- (4) The amount of restricted stock that ultimately may be earned is based on the total shareholder return metrics related to the Company's common stock for 47,502 performance awards and financial metrics related to operating performance and leverage metrics of the Company for 33,010 performance awards.

The Company used a Monte Carlo model to assess the compensation cost associated with the portion of the performance awards granted for which achievement will be determined by using total shareholder return measures. The assumptions used are as follows:

	2019	2018	2017
Dividend yield	3.1%	3.7%	3.2%
Estimated volatility over the life of the plan (1)	13.9% - 18.8%	11.8% - 18.7%	15.3% - 19.7%
Risk free rate	2.46% - 2.57%	1.86% - 2.46%	0.69% - 1.61%
Estimated performance award value based on total shareholder return measure	\$204.15	\$151.67	\$175.86

(1) Estimated volatility of the life of the plan is using 50% historical volatility and 50% implied volatility.

For the portion of the performance awards granted for which achievement is determined by using financial metrics, the compensation cost was based on a weighted average grant date value of \$195.86, \$161.10 and \$179.07, for the years ended December 31, 2019, 2018 and 2017, respectively, and the Company's estimate of corporate achievement for the financial metrics.

Information with respect to restricted stock granted is as follows:

	Restricted stock shares	Restricted stock shares weighted average grant date fair value per share	Restricted stock shares converted from performance awards
Outstanding at December 31, 2016	136,705	\$ 158.51	176,698
Granted - restricted stock shares	73,342	179.58	128,482
Vested - restricted stock shares	(73,683)	153.86	(70,595)
Forfeited	(2,731)	173.42	(657)
Outstanding at December 31, 2017	133,633	\$ 172.33	233,928
Granted - restricted stock shares	98,713	161.58	88,297
Vested - restricted stock shares	(67,832)	171.22	(112,230)
Forfeited	(4,103)	166.40	(757)
Outstanding at December 31, 2018	160,411	\$ 166.33	209,238
Granted - restricted stock shares	79,430	196.43	73,072
Vested - restricted stock shares	(89,289)	168.06	(119,064)
Forfeited	(2,226)	174.45	(135)
Outstanding at December 31, 2019	148,326	\$ 181.29	163,111

Total employee stock-based compensation cost recognized in income was \$24,885,000, \$19,707,000 and \$17,085,000 for the years ended December 31, 2019, 2018 and 2017, respectively, and total capitalized stock-based compensation cost was \$9,396,000, \$10,208,000 and \$9,474,000 for the years ended December 31, 2019, 2018 and 2017, respectively. At December 31, 2019, there was a total unrecognized compensation cost of \$26,002,000 for unvested restricted stock and performance awards, which does not include forfeitures, and is expected to be recognized over a weighted average period of 1.9 years.

As of January 1, 2017, the Company adopted the provisions of ASU 2016-09, electing to account for forfeitures as they occur. Prior to the adoption of ASU 2016-09, the Company was required to estimate the forfeiture of stock options and recognized compensation cost net of the estimated forfeitures. The estimated forfeitures included in compensation cost were adjusted to reflect actual forfeitures at the end of the vesting period. The actual forfeiture rate for the years ended December 31, 2019, 2018 and 2017 was 0.6%, 0.6% and 0.7%, respectively.

Employee Stock Purchase Plan

In October 1996, the Company adopted the 1996 Non-Qualified Employee Stock Purchase Plan (as amended, the “ESPP”). Initially 1,000,000 shares of common stock were reserved for issuance under this plan. There are currently 654,435 shares remaining available for issuance under the ESPP. Employees of the Company generally are eligible to participate in the ESPP if, as of the last day of the applicable purchase period, they have been employed by the Company for at least one month. Under the ESPP, eligible employees are permitted to acquire shares of the Company's common stock through payroll deductions, subject to maximum purchase limitations, during two purchase periods. The first purchase period begins January 1 and ends June 10, and the second purchase period begins July 1 and ends December 10. The purchase price for common stock purchased under the plan is 85% of the lesser of the fair market value of the Company's common stock on the first day of the applicable purchase period or the last day of the applicable purchase period. The offering dates, purchase dates and duration of purchase periods may be changed if the change is announced prior to the beginning of the affected date or purchase period. The Company issued 13,894, 12,955 and 11,528 shares and recognized compensation expense of \$761,000, \$436,000 and \$418,000 under the ESPP for the years ended December 31, 2019, 2018 and 2017, respectively. The Company accounts for transactions under the ESPP using the fair value method prescribed by accounting guidance applicable to entities that use employee share purchase plans.

10. Related Party Arrangements

Unconsolidated Entities

The Company manages unconsolidated real estate entities for which it receives asset management, property management, development and redevelopment fee revenue. From these entities, the Company earned fees of \$4,960,000, \$3,572,000 and \$4,147,000 in the years ended December 31, 2019, 2018 and 2017, respectively. In addition, the Company had outstanding receivables associated with its property and construction management role of \$3,924,000 and \$2,519,000 as of December 31, 2019 and 2018, respectively.

Director Compensation

Directors of the Company who are also employees receive no additional compensation for their services as a director. Following each annual meeting of stockholders, non-employee directors receive (i) a number of shares of restricted stock (or deferred stock units) having a value of \$160,000 and (ii) a cash payment of \$90,000, payable in equal quarterly installments of \$22,500. The number of shares of restricted stock (or deferred stock units) is calculated based on the closing price on the day of the award. Non-employee directors may elect to receive all or a portion of cash payments in the form of deferred stock units. Additionally, the Lead Independent Director receives in the aggregate an additional annual fee of \$30,000 payable in equal quarterly installments of \$7,500, the non-employee director serving as the chairperson of the Audit Committee receives additional cash compensation of \$25,000 per year payable in equal quarterly installments of \$6,250, the non-employee director serving as the chairperson of the Compensation Committee receives additional cash compensation of \$20,000 per year payable in equal quarterly installments of \$5,000 and the Nominating and Corporate Governance and Investment and Finance Committee chairpersons receive an additional annual fee of \$15,000 payable in equal quarterly installments of \$3,750.

The Company recorded non-employee director compensation expense relating to restricted stock grants and deferred stock awards in the amount of \$1,725,000, \$1,624,000 and \$1,524,000 for the years ended December 31, 2019, 2018 and 2017, respectively, as a component of general and administrative expense. Deferred compensation relating to these restricted stock grants and deferred stock awards to non-employee directors was \$594,000, \$571,000 and \$525,000 on December 31, 2019, 2018 and 2017, respectively, reported as a component of prepaid expenses and other assets on the accompanying Consolidated Balance Sheets.

11. Fair Value

Financial Instruments Carried at Fair Value

Derivative Financial Instruments

The Company uses interest rate swap and interest rate cap agreements to manage its interest rate risk. These instruments are carried at fair value in the Company's financial statements. In adjusting the fair value of its derivative contracts for the effect of counterparty nonperformance risk, the Company has considered the impact of its net position with a given counterparty, as well as any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. The Company minimizes its credit risk on these transactions by dealing with major, creditworthy financial institutions which have an A or better credit rating by the Standard & Poor's Ratings Group. As part of its on-going control procedures, the Company monitors the credit ratings of counterparties and the exposure of the Company to any single entity, thus reducing credit risk concentration. The Company believes the likelihood of realizing losses from counterparty nonperformance is remote. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, such as interest rate, term to maturity and volatility, the credit valuation adjustments associated with its derivatives use Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. As of December 31, 2019, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined it is not significant. As a result, the Company has determined that its derivative valuations are classified in Level 2 of the fair value hierarchy.

The Company recognized a gain of \$753,000 for hedge ineffectiveness for the year ended December 31, 2017, included as a component of interest expense, net on the accompanying Consolidated Statements of Comprehensive Income.

The following table summarizes the consolidated derivative positions at December 31, 2019 (dollars in thousands):

	Non-designated Hedges Interest Rate Caps	Cash Flow Hedges Interest Rate Swaps
Notional balance	\$ 443,827	\$ 350,000
Weighted average interest rate (1)	3.2%	N/A
Weighted average swapped/capped interest rate	6.5%	2.1%
Earliest maturity date	January 2021	October 2020
Latest maturity date	November 2021	October 2020

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

During 2019, in conjunction with the issuance of the Company's 3.30% notes due 2029 in May 2019, the Company settled \$250,000,000 of forward interest rate swap agreements designated as cash flow hedges of the interest rate variability on the forecasted issuance of the unsecured notes, making a payment of \$12,309,000. The Company has deferred this amount in accumulated other comprehensive loss on the accompanying Consolidated Balance Sheets, and will recognize the impact as a component of interest expense, net, over the term of the debt of ten years.

In 2019, the Company entered into \$350,000,000 of new forward interest rate swap agreements executed to reduce the impact of variability in interest rates on a portion of the Company's expected debt issuance activity in 2020, which were outstanding as of December 31, 2019. For further discussion, see Note 13, "Subsequent Events."

The Company had six derivatives designated as cash flow hedges and five derivatives not designated as hedges at December 31, 2019. Fair value changes for derivatives not in qualifying hedge relationships for the years ended December 31, 2019 and 2018, were not material. During 2019, the Company deferred \$11,930,000 of losses for cash flow hedges as a component of other comprehensive income (loss).

The following table summarizes the deferred losses reclassified from accumulated other comprehensive income as a component of interest expense, net (dollars in thousands):

	For the year ended		
	12/31/19	12/31/18	12/31/17
Cash flow hedge losses reclassified to earnings	\$ 6,571	\$ 6,143	\$ 7,070

The Company anticipates reclassifying approximately \$6,983,000 of hedging losses from accumulated other comprehensive loss into earnings within the next 12 months to offset the variability of cash flows of the hedged item during this period. The Company did not have any derivatives designated as fair value hedges as of December 31, 2019 and 2018.

Redeemable Noncontrolling Interests

The Company provided redemption options (the “Puts”) that allow joint venture partners of the Company to require the Company to purchase their interests in the investment at a guaranteed minimum amount related to two consolidated ventures. The Puts are payable in cash. The Company determines the fair value of the Puts based on unobservable inputs, applying a guaranteed rate of return to the joint venture partners' net capital contribution balances as of period end. Given the significance of the unobservable inputs, the valuations are classified in Level 3 of the fair value hierarchy.

The Company issued units of limited partnership interest in DownREITs which provide the DownREIT limited partners the ability to present all or some of their units for redemption for cash as determined by the partnership agreement. Under the DownREIT agreements, for each limited partnership unit, the limited partner is entitled to receive cash in the amount equal to the fair value of the Company's common stock on or about the date of redemption. In lieu of cash redemption, the Company may elect to exchange such units for an equal number of shares of the Company's common stock. The limited partnership units in the DownREITs are valued using the market price of the Company's common stock, a Level 1 price under the fair value hierarchy.

Financial Instruments Not Carried at Fair Value

Cash and Cash Equivalents

Cash and cash equivalent balances are held with various financial institutions within accounts designed to preserve principal. The Company monitors credit ratings of these financial institutions and the concentration of cash and cash equivalent balances with any one financial institution and believes the likelihood of realizing material losses related to cash and cash equivalent balances is remote. Cash and cash equivalents are carried at their face amounts, which reasonably approximate their fair values and are Level 1 within the fair value hierarchy.

Other Financial Instruments

Rents and other receivables and prepaids, accounts and construction payable and accrued expenses and other liabilities are carried at their face amounts, which reasonably approximate their fair values.

In conjunction with the development of Avalon Brooklyn Bay, the Company entered into a joint venture agreement to construct a mixed-use building that included for-sale residential condominium units and related common elements, in addition to the Company's rental apartments, in which the Company has a 100% interest. The venture partner has a 100% interest in the for-sale residential condominium units. The Company was responsible for the development and construction of the structure, and provided a loan to the venture partner for the venture partner's share of costs for the for-sale residential condominium units. As of December 31, 2019, the Company has a receivable from the venture partner in the form of a variable rate mortgage note, secured by the remaining for-sale residential condominium units. The balance as of December 31, 2019 was \$10,650,000, representing outstanding principal and interest, net of repayments, and as of December 31, 2018, was \$12,819,000, representing outstanding principal and interest. These amounts are reported as a component of prepaid expenses and other assets on the accompanying Consolidated Balance Sheets. The Company recognizes interest income on the accrual basis.

The Company values its unsecured notes using quoted market prices, a Level 1 price within the fair value hierarchy. The Company values its notes payable and outstanding amounts under the Credit Facility and Term Loans using a discounted cash flow analysis on the expected cash flows of each instrument. This analysis reflects the contractual terms of the instrument, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The process also considers credit valuation adjustments to appropriately reflect the Company's nonperformance risk. The Company has concluded that the value of its notes payable and amounts outstanding under its Credit Facility and Term Loans are Level 2 prices as the majority of the inputs used to value its positions fall within Level 2 of the fair value hierarchy.

Financial Instruments Measured/Disclosed at Fair Value on a Recurring Basis

The following table summarizes the classification between the three levels of the fair value hierarchy of the Company's financial instruments measured/disclosed at fair value on a recurring basis (dollars in thousands):

<u>Description</u>	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Cash Flow Hedges				
Interest Rate Swaps - Assets	\$ 388	\$ —	\$ 388	\$ —
Interest Rate Swaps - Liabilities	(6,379)	—	(6,379)	—
Puts	(206)	—	—	(206)
DownREIT units	(1,573)	(1,573)	—	—
Indebtedness				
Fixed rate unsecured notes	(6,197,771)	(6,197,771)	—	—
Secured notes and variable rate unsecured indebtedness	(1,398,147)	—	(1,398,147)	—
Total	\$ (7,603,688)	\$ (6,199,344)	\$ (1,404,138)	\$ (206)
12/31/2018				
Non Designated Hedges				
Interest Rate Caps	\$ 2	\$ —	\$ 2	\$ —
Cash Flow Hedges				
Interest Rate Swaps - Liabilities	(6,366)	—	(6,366)	—
Puts	(465)	—	—	(465)
DownREIT units	(1,305)	(1,305)	—	—
Indebtedness				
Fixed rate unsecured notes	(5,268,277)	(5,268,277)	—	—
Secured notes and variable rate unsecured indebtedness	(1,505,876)	—	(1,505,876)	—
Total	\$ (6,782,287)	\$ (5,269,582)	\$ (1,512,240)	\$ (465)

12. Quarterly Financial Information

The following summary represents the unaudited quarterly results of operations for the years ended December 31, 2019 and 2018 (dollars in thousands, except per share data):

	For the three months ended (1)			
	<u>3/31/19</u>	<u>6/30/19</u>	<u>9/30/19</u>	<u>12/31/19</u>
Total revenue	\$ 566,184	\$ 577,263	\$ 587,613	\$ 593,566
Net income	\$ 170,418	\$ 168,305	\$ 279,709	\$ 167,671
Net income attributable to common stockholders	\$ 170,366	\$ 168,281	\$ 279,677	\$ 167,650
Net income per common share - basic	\$ 1.23	\$ 1.21	\$ 2.00	\$ 1.20
Net income per common share - diluted	\$ 1.23	\$ 1.21	\$ 2.00	\$ 1.20

	For the three months ended (1)			
	3/31/18	6/30/18	9/30/18	12/31/18
Total revenue	\$ 560,792	\$ 569,239	\$ 575,982	\$ 578,522
Net income	\$ 141,590	\$ 254,543	\$ 192,407	\$ 385,636
Net income attributable to common stockholders	\$ 141,643	\$ 254,662	\$ 192,486	\$ 385,734
Net income per common share - basic	\$ 1.03	\$ 1.84	\$ 1.39	\$ 2.79
Net income per common share - diluted	\$ 1.03	\$ 1.84	\$ 1.39	\$ 2.79

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

13. Subsequent Events

The Company has evaluated subsequent events, through the date on which this Form 10-K was filed, the date on which these financial statements were issued, and identified the items below for discussion.

In January 2020, the Company sold Avalon Shelton, a wholly-owned operating community, located in Shelton, CT. Avalon Shelton contains 250 apartment homes, was sold for \$64,750,000 and was classified as held for sale as of December 31, 2019.

In January 2020, the Company entered into an agreement to sell an operating community containing 216 apartment homes and net real estate of \$28,285,000 as of December 31, 2019, resulting in the community qualifying as held for sale subsequent to December 31, 2019. The Company expects to complete the sale in the second quarter of 2020.

In February 2020, the Company entered into an agreement to sell an operating community containing 109 apartment homes and net real estate of \$22,358,000 as of December 31, 2019, resulting in the community qualifying as held for sale subsequent to December 31, 2019. The Company expects to complete the sale in the second quarter of 2020.

In February 2020, the Company priced an underwritten public offering under its existing shelf registration statement for \$700,000,000 principal amount of 2.30% unsecured notes due in 2030. The Company anticipates receiving the net proceeds from this borrowing on February 25, 2020.

In conjunction with the pricing of the \$700,000,000 principal amount of 2.30% unsecured notes due in 2030, the Company settled \$350,000,000 of forward interest rate swap agreements, making a payment of \$20,314,000.

In addition, the Company called for redemption of (i) \$400,000,000 principal amount of its 3.625% unsecured notes in advance of the October 2020 scheduled maturity and (ii) \$250,000,000 principal amount of its 3.95% unsecured notes in advance of the January 2021 scheduled maturity. In conjunction with this redemption, the Company anticipates recognizing a loss on debt extinguishment comprised of approximately \$9,300,000 in prepayment penalties and the non-cash write-off of unamortized deferred financing costs.

The Company sold 14 residential condominiums at The Park Loggia, for gross proceeds of approximately \$47,000,000. In addition, the Company has contracts outstanding on 41 of the remaining residential condominiums.

As of February 21, 2020, the Company has \$87,000,000 outstanding under the Credit Facility.

AVALONBAY COMMUNITIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION
December 31, 2019
(Dollars in thousands)

Community	City and state	# of homes	2019				2018		2019				
			Initial Cost		Total Cost		Total Cost, Net of Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Encumbrances	Year of Completion/ Acquisition			
			Land and improvements	Building/ Construction in Progress & Improvements	Costs Subsequent to Acquisition/ Construction	Building/ Construction in Progress & Improvements					Accumulated Depreciation	Accumulated Depreciation	
ESTABLISHED COMMUNITIES													
NEW ENGLAND													
Boston, MA													
Avalon at Lexington	Lexington, MA	198	\$ 2,124	\$ 12,567	\$ 11,632	\$ 2,124	\$ 24,199	\$ 26,323	\$ 15,944	\$ 10,379	\$ 10,469	\$ —	1994
Avalon Oaks	Wilmington, MA	204	2,129	17,567	6,576	2,129	24,143	26,272	15,767	10,505	11,151	—	1999
Eaves Quincy	Quincy, MA	245	1,743	14,662	11,286	1,743	25,948	27,691	16,378	11,313	11,474	—	1986/1995
Avalon Oaks West	Wilmington, MA	120	3,318	13,465	1,966	3,318	15,431	18,749	9,278	9,471	9,801	—	2002
Avalon at The Pinehills	Plymouth, MA	192	6,876	30,401	2,943	6,876	33,344	40,220	13,652	26,568	26,325	—	2004
Eaves Peabody	Peabody, MA	286	4,645	18,919	14,827	4,645	33,746	38,391	15,913	22,478	23,064	—	1962/2004
Avalon at Bedford Center	Bedford, MA	139	4,258	20,551	4,032	4,258	24,583	28,841	10,988	17,853	17,709	—	2006
Avalon at Chestnut Hill (1)	Chestnut Hill, MA	204	14,572	45,911	12,315	14,572	58,226	72,798	24,277	48,521	50,581	36,995	2007
Avalon at Lexington Hills	Lexington, MA	387	8,691	79,121	13,819	8,691	92,940	101,631	36,077	65,554	63,782	—	2008
Avalon Acton	Acton, MA	380	13,124	48,695	5,356	13,124	54,051	67,175	21,401	45,774	46,845	45,000	2008
Avalon at the Hingham Shipyard	Hingham, MA	235	12,218	41,656	8,646	12,218	50,302	62,520	17,936	44,584	42,083	—	2009
Avalon Sharon	Sharon, MA	156	4,719	25,478	5,255	4,719	30,733	35,452	11,302	24,150	21,932	—	2008
Avalon Northborough	Northborough, MA	382	8,144	52,184	3,450	8,144	55,634	63,778	19,146	44,632	45,986	—	2009
Avalon Cohasset	Cohasset, MA	220	8,802	46,166	1,395	8,802	47,561	56,363	13,259	43,104	44,013	—	2012
Avalon Exeter (2)	Boston, MA	187	—	110,028	348	—	110,376	110,376	21,565	88,811	109,017	—	2014
Avalon Natick	Natick, MA	407	15,645	64,845	421	15,645	65,266	80,911	15,156	65,755	67,787	—	2013
Avalon at Assembly Row	Somerville, MA	195	8,599	52,454	344	8,599	52,798	61,397	10,604	50,793	52,511	—	2015
AVA Somerville	Somerville, MA	250	10,945	56,460	304	10,945	56,764	67,709	10,359	57,350	59,196	—	2015
AVA Back Bay (1)	Boston, MA	271	9,034	36,540	50,996	9,034	87,536	96,570	39,957	56,613	57,206	—	1968/1998
Eaves Burlington	Burlington, MA	203	7,714	32,499	7,093	7,714	39,592	47,306	9,666	37,640	38,996	—	1988/2012
AVA Theater District	Boston, MA	398	17,072	163,633	218	17,072	163,851	180,923	24,989	155,934	161,632	—	2015
Avalon Burlington	Burlington, MA	312	15,600	60,649	16,838	15,600	77,487	93,087	19,085	74,002	76,790	—	1989/2013
Avalon Marlborough	Marlborough, MA	350	15,367	60,397	439	15,367	60,836	76,203	9,783	66,420	68,466	—	2015
Avalon Framingham	Framingham, MA	180	9,315	34,631	12	9,315	34,643	43,958	5,257	38,701	39,966	—	2015
Avalon Quincy	Quincy, MA	395	14,694	79,093	14	14,694	79,107	93,801	8,878	84,923	87,392	—	2017
Avalon Bear Hill	Waltham, MA	324	27,350	94,168	29,301	27,350	123,469	150,819	32,978	117,841	122,303	—	1999/2013
Avalon at Center Place (3)	Providence, RI	225	—	26,816	18,064	—	44,880	44,880	28,368	16,512	16,139	—	1991/1997
Total Boston, MA		7,045	\$ 246,698	\$ 1,339,556	\$ 227,890	\$ 246,698	\$ 1,567,446	\$ 1,814,144	\$ 477,963	\$ 1,336,181	\$ 1,382,616	\$ 81,995	

AVALONBAY COMMUNITIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)
December 31, 2019
(Dollars in thousands)

Community	City and state	# of homes	2019				2018				2019			
			Initial Cost		Total Cost		Total Cost, Net of Accumulated Depreciation		Total Cost, Net of Accumulated Depreciation		Total Cost, Net of Accumulated Depreciation		Encumbrances	
			Land and improvements	Building / Construction in Progress & Improvements	Land and improvements	Building / Construction in Progress & Improvements	Land and improvements	Building / Construction in Progress & Improvements	Land and improvements	Building / Construction in Progress & Improvements	Land and improvements	Building / Construction in Progress & Improvements	Land and improvements	Building / Construction in Progress & Improvements
			\$ 5,956	\$ 23,993	\$ 14,469	\$ 5,956	\$ 38,462	\$ 44,418	\$ 27,080	\$ 17,338	\$ 18,056	\$ —	\$ —	1991
Eaves Stamford	Stamford, CT	238	\$ 5,956	\$ 23,993	\$ 14,469	\$ 5,956	\$ 38,462	\$ 44,418	\$ 27,080	\$ 17,338	\$ 18,056	\$ —	\$ —	1991
Avalon Wilton on River Rd	Wilton, CT	102	2,116	14,664	7,233	2,116	21,897	24,013	13,820	10,193	10,924	—	—	1997
Avalon Norwalk	Norwalk, CT	311	11,320	62,904	1,291	11,320	64,195	75,515	20,623	54,892	56,950	—	—	2011
Avalon Wilton on Danbury Rd	Wilton, CT	100	6,604	23,758	208	6,604	23,966	30,570	7,218	23,352	24,125	—	—	2011
Avalon East Norwalk	Norwalk, CT	240	10,395	36,451	390	10,395	36,841	47,236	8,465	38,771	40,048	—	—	2013
Avalon Stratford	Stratford, CT	130	2,564	27,232	262	2,564	27,494	30,058	5,281	24,777	25,708	—	—	2014
Total Fairfield, CT		1,121	\$ 38,955	\$ 189,002	\$ 23,853	\$ 38,955	\$ 212,855	\$ 251,810	\$ 82,487	\$ 169,323	\$ 175,811	\$ —	\$ —	
TOTAL NEW ENGLAND		8,166	\$ 285,653	\$ 1,528,558	\$ 251,743	\$ 285,653	\$ 1,780,301	\$ 2,065,954	\$ 560,450	\$ 1,505,504	\$ 1,558,427	\$ 81,995	\$ —	
METRO NY/NJ														
New York City, NY														
Avalon Riverview (3)	Long Island City, NY	372	—	94,061	11,395	—	105,456	105,456	62,534	42,922	46,297	—	—	2002
Avalon Riverview North (3)	Long Island City, NY	602	—	165,954	15,435	—	181,389	181,389	72,523	108,866	114,953	—	—	2008
Avalon Fort Greene	Brooklyn, NY	631	83,038	216,802	3,827	83,038	220,629	303,667	72,696	230,971	237,426	—	—	2010
AVA DoBro	Brooklyn, NY	500	77,419	207,082	50	77,419	207,132	284,551	25,458	259,093	264,445	—	—	2017
Avalon Willoughby Square	Brooklyn, NY	326	50,477	135,017	73	50,477	135,090	185,567	16,597	168,970	172,415	—	—	2017
Avalon Clinton North	New York, NY	339	84,069	105,821	12,364	84,069	118,185	202,254	31,394	170,860	174,710	147,000	2008/2013	
Avalon Clinton South	New York, NY	288	71,421	89,851	7,132	71,421	96,983	168,404	26,700	141,704	144,705	121,500	2007/2013	
Total New York City, NY		3,058	\$ 366,424	\$ 1,014,588	\$ 50,276	\$ 366,424	\$ 1,064,864	\$ 1,431,288	\$ 307,902	\$ 1,123,386	\$ 1,154,951	\$ 268,500	\$ —	
New York - Suburban														
Avalon Commons	Smithtown, NY	312	4,679	28,286	7,147	4,679	35,433	40,112	25,091	15,021	15,925	—	—	1997
Avalon Green I	Elmsford, NY	105	1,820	10,525	7,827	1,820	18,352	20,172	11,161	9,011	9,509	—	—	1995
Avalon Towers (1)	Long Beach, NY	109	3,118	11,973	26,594	3,118	38,567	41,685	19,327	22,358	23,586	—	—	1990/1995
Avalon Bronxville	Bronxville, NY	110	2,889	28,324	8,949	2,889	37,273	40,162	22,483	17,679	18,870	—	—	1999
Avalon at Glen Cove (3)	Glen Cove, NY	256	7,871	59,969	5,265	7,871	65,234	73,105	34,102	39,003	41,374	—	—	2004
Avalon Glen Cove North (3)	Glen Cove, NY	111	2,577	37,336	871	2,577	38,207	40,784	16,539	24,245	25,465	—	—	2007
Avalon White Plains	White Plains, NY	407	15,391	137,353	1,731	15,391	139,084	154,475	50,915	103,560	107,895	—	—	2009
Avalon Rockville Centre I	Rockville Centre, NY	349	32,212	78,806	6,122	32,212	84,928	117,140	24,402	92,738	92,598	—	—	2012
Avalon Green II	Elmsford, NY	444	27,765	77,560	2,297	27,765	79,857	107,622	21,415	86,207	87,318	—	—	2012
Avalon Garden City	Garden City, NY	204	18,205	49,326	796	18,205	50,122	68,327	13,155	55,172	56,869	—	—	2013
Avalon Ossining	Ossining, NY	168	6,392	30,313	57	6,392	30,370	36,762	6,297	30,465	31,567	—	—	2014

AVALONBAY COMMUNITIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)
December 31, 2019
(Dollars in thousands)

Community	City and state	# of homes	2019					2018		2019		
			Initial Cost		Total Cost			Total Cost, Net of Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Encumbrances	Year of Completion/ Acquisition	
			Land and improvements	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land and improvements	Building / Construction in Progress & Improvements					Accumulated Depreciation
Avalon Huntington Station	Huntington Station, NY	303	\$ 21,899	\$ 58,437	\$ 233	\$ 21,899	\$ 58,670	\$ 11,333	\$ 69,236	\$ 71,290	\$ —	2014
Avalon Green III	Elmsford, NY	68	4,985	17,300	182	4,985	17,482	2,483	19,984	20,432	—	2016
Avalon Great Neck	Great Neck, NY	191	14,777	65,642	16	14,777	65,658	6,433	74,002	76,753	—	2017
Avalon Westbury	Westbury, NY	396	69,620	43,781	12,722	69,620	56,503	20,491	105,632	107,382	75,865	2006/2013
Total New York - Suburban		3,533	\$ 234,200	\$ 734,931	\$ 80,809	\$ 234,200	\$ 815,740	\$ 285,627	\$ 764,313	\$ 786,833	\$ 75,865	
New Jersey												
Avalon Cove	Jersey City, NJ	504	8,760	82,422	27,056	8,760	109,478	72,692	45,546	47,406	—	1997
Eaves Lawrenceville	Lawrenceville, NJ	632	14,650	60,486	13,106	14,650	73,592	37,957	50,285	52,498	—	1994
Avalon Princeton Junction	West Windsor, NJ	512	5,585	22,382	24,963	5,585	47,345	29,310	23,620	22,750	—	1988/1993
Avalon at Edgewater I	Edgewater, NJ	168	5,982	24,389	9,516	5,982	33,905	18,266	21,621	23,050	—	2002
Avalon Tinton Falls	Tinton Falls, NJ	216	7,939	33,170	746	7,939	33,916	13,570	28,285	29,341	—	2008
Avalon West Long Branch	West Long Branch, NJ	180	2,721	22,925	406	2,721	23,331	7,625	18,427	19,160	—	2011
Avalon North Bergen	North Bergen, NJ	164	8,984	30,994	1,090	8,984	32,084	8,891	32,177	33,278	—	2012
Avalon at Westmont Station I	Wood-Ridge, NJ	266	14,682	41,635	1,923	14,682	43,558	11,642	46,598	47,781	—	2012
Avalon Hackensack at Riverside (3)	Hackensack, NJ	226	—	44,619	719	—	45,338	10,452	34,886	36,006	—	2013
Avalon Somerset	Somerset, NJ	384	18,241	58,338	553	18,241	58,891	14,191	62,941	64,863	—	2013
Avalon Bloomfield Station (2)	Bloomfield, NJ	224	10,701	36,513	46	10,701	36,559	47,260	41,287	45,678	—	2015
Avalon at Westmont Station II	Wood-Ridge, NJ	140	6,502	16,863	131	6,502	16,994	4,140	19,356	19,879	—	2013
Avalon Bloomingdale	Bloomingdale, NJ	174	3,006	27,801	138	3,006	27,939	6,168	24,777	25,736	—	2014
Avalon Wharton	Wharton, NJ	247	2,273	48,609	171	2,273	48,780	8,673	42,380	44,054	—	2015
Avalon Roseland	Roseland, NJ	136	11,288	34,868	49	11,288	34,917	46,205	40,439	41,676	—	2015
Avalon Princeton	Princeton, NJ	280	26,461	67,989	635	26,461	68,624	7,667	87,418	90,156	—	2017
Avalon Union	Union, NJ	202	11,695	36,315	53	11,695	36,368	5,061	43,002	44,294	—	2016
Avalon Hoboken	Hoboken, NJ	217	37,237	90,475	5,724	37,237	96,199	18,374	115,062	118,205	67,904	2008/2016
Total New Jersey		4,872	\$ 196,707	\$ 780,793	\$ 87,025	\$ 196,707	\$ 867,818	\$ 286,418	\$ 778,107	\$ 805,811	\$ 67,904	
TOTAL METRO NY/NJ		11,463	\$ 797,331	\$ 2,530,312	\$ 218,110	\$ 797,331	\$ 2,748,422	\$ 879,947	\$ 2,665,806	\$ 2,747,595	\$ 412,269	

AVALONBAY COMMUNITIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)
December 31, 2019
(Dollars in thousands)

Community	City and state	# of homes	2019				2018		2019			
			Initial Cost		Total Cost		Total Cost, Net of Accumulated Depreciation	Encumbrances	Total Cost, Net of Accumulated Depreciation	Encumbrances		
			Land and improvements	Building/Construction in Progress & Improvements	Costs Subsequent to Acquisition/Construction	Land and improvements					Building/Construction in Progress & Improvements	Accumulated Depreciation
MID-ATLANTIC												
Washington Metro/Baltimore, MD												
Avalon at Foxhall	Washington, D.C.	308	\$ 6,848	\$ 27,614	\$ 17,340	\$ 6,848	\$ 44,954	\$ 33,343	\$ 18,459	\$ 19,141	\$ —	1982/1994
Avalon at Gallery Place	Washington, D.C.	203	8,800	39,658	3,026	8,800	42,684	24,196	27,288	28,531	—	2003
AVA H Street	Washington, D.C.	138	7,425	25,282	193	7,425	25,475	32,900	26,176	27,170	—	2013
Avalon The Albemarle	Washington, D.C.	234	25,140	52,459	8,649	25,140	61,108	17,555	68,693	70,248	—	1966/2013
Eaves Tunlaw Gardens	Washington, D.C.	166	16,430	22,902	2,501	16,430	25,403	7,523	34,310	35,177	—	1944/2013
The Statesman	Washington, D.C.	281	38,140	35,352	5,297	38,140	40,649	12,881	65,908	66,726	—	1961/2013
Eaves Glover Park	Washington, D.C.	120	9,580	26,532	2,580	9,580	29,112	38,692	29,891	30,940	—	1953/2013
Avalon First and M	Washington, D.C.	469	43,700	153,950	3,915	43,700	157,865	201,565	161,867	167,252	—	2012/2013
Eaves Washingtonian Center	North Potomac, MD	288	4,047	18,553	4,179	4,047	22,732	26,779	10,482	10,528	—	1996
Eaves Columbia Town Center	Columbia, MD	392	8,802	35,536	12,716	8,802	48,252	57,054	32,794	34,223	—	1986/1993
Avalon at Grosvenor Station	Bethesda, MD	497	29,159	52,993	3,879	29,159	56,872	86,031	54,793	56,205	—	2004
Avalon at Traville	Rockville, MD	520	14,365	55,398	5,509	14,365	60,907	75,272	42,541	44,001	—	2004
Avalon Hunt Valley	Hunt Valley, MD	332	10,872	62,992	39	10,872	63,031	73,903	67,052	69,292	—	2017
Avalon Laurel	Laurel, MD	344	10,130	61,685	35	10,130	61,720	71,850	64,437	66,632	—	2017
Avalon Farway Hills - Meadows	Columbia, MD	192	2,323	9,297	4,980	2,323	14,277	16,600	6,565	6,929	—	1987/1996
Avalon Farway Hills - Woods	Columbia, MD	336	3,958	15,839	8,746	3,958	24,585	28,543	11,716	11,314	—	1987/1996
Avalon Russett	Laurel, MD	238	10,200	47,524	3,721	10,200	51,245	61,445	46,563	48,232	32,200	1999/2013
Eaves Fair Lakes	Fairfax, VA	420	6,096	24,400	10,922	6,096	35,322	41,418	17,524	17,656	—	1989/1996
AVA Ballston	Arlington, VA	344	7,291	29,177	16,649	7,291	45,826	53,117	20,825	22,152	—	1990
Avalon Tysons Corner	Tysons Corner, VA	558	13,851	43,397	13,665	13,851	57,062	70,913	34,017	35,481	—	1996
Avalon at Arlington Square	Arlington, VA	842	22,041	90,296	32,150	22,041	122,446	144,487	81,854	85,846	—	2001
Avalon Park Crest	Tysons Corner, VA	354	13,554	63,526	671	13,554	64,197	77,751	61,053	63,149	—	2013
Avalon Mosaic	Fairfax, VA	531	33,490	75,801	282	33,490	76,083	109,573	93,460	96,179	—	2014
Avalon Potomac Yard	Alexandria, VA	323	24,225	81,982	2,896	24,225	84,878	109,103	93,826	97,127	—	2014/2016
Avalon Clarendon	Arlington, VA	300	22,573	95,355	8,156	22,573	103,511	126,084	109,983	111,129	—	2002/2016
Avalon Columbia Pike	Arlington, VA	269	18,830	82,427	3,233	18,830	85,660	104,490	91,868	94,521	—	2009/2016
Avalon Dunn Loring	Vienna, VA	440	29,377	115,467	8,068	29,377	123,535	152,912	135,716	141,118	—	2012/2017
Eaves Tysons Corner	Vienna, VA	217	16,030	45,420	3,107	16,030	48,527	64,557	49,535	51,389	—	1980/2013
Avalon Courthouse Place	Arlington, VA	564	56,550	178,032	10,882	56,550	188,914	245,464	194,468	200,562	—	1999/2013
Avalon Arlington North	Arlington, VA	228	21,600	59,076	225	21,600	59,301	80,901	68,838	70,891	—	2014
Avalon Reston Landing	Reston, VA	400	26,710	83,084	7,901	26,710	90,985	117,695	90,175	93,182	—	2000/2013
Avalon Falls Church	Falls Church, VA	384	39,544	66,160	93	39,544	66,253	105,797	94,976	97,374	—	2016
TOTAL MID-ATLANTIC		11,232	\$ 601,681	\$ 1,877,166	\$ 206,205	\$ 601,681	\$ 2,083,371	\$ 2,685,052	\$ 2,007,653	\$ 2,070,297	\$ 32,200	

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Community	City and state	# of homes	2019				2018		2019				
			Initial Cost		Total Cost		Total Cost, Net of Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Enclumbrances	Year of Completion/ Acquisition			
			Land and improvements	Building/ Construction in Progress & Improvements	Costs Subsequent to Acquisition/ Construction	Land and improvements					Building/ Construction in Progress & Improvements		
PACIFIC NORTHWEST													
Seattle, WA													
Avalon Redmond Place (1)	Redmond, WA	222	\$ 4,558	\$ 18,368	\$ 10,882	\$ 4,558	\$ 29,250	\$ 33,808	\$ 19,657	\$ 14,151	\$ 14,904	\$ —	1991/1997
Avalon at Bear Creek	Redmond, WA	264	6,786	27,641	5,367	6,786	33,008	39,794	23,740	16,054	17,157	—	1998/1998
Avalon Bellevue	Bellevue, WA	201	6,664	24,119	2,343	6,664	26,462	33,126	17,332	15,794	16,711	—	2001
Avalon RockMeadow	Bothell, WA	206	4,777	19,765	3,531	4,777	23,296	28,073	15,405	12,668	13,342	—	2000/2000
Avalon ParcSquare	Redmond, WA	124	3,789	15,139	3,774	3,789	18,913	22,702	12,178	10,524	10,966	—	2000/2000
AVA Belltown	Seattle, WA	100	5,644	12,733	1,295	5,644	14,028	19,672	8,985	10,687	11,151	—	2001
Avalon Meydenbauer	Bellevue, WA	368	12,697	77,450	3,503	12,697	80,953	93,650	32,110	61,540	62,634	—	2008
Avalon Towers Bellevue (3)	Bellevue, WA	397	—	123,029	1,781	—	124,810	124,810	40,596	84,214	88,063	—	2011
AVA Queen Anne	Seattle, WA	203	12,081	41,618	752	12,081	42,370	54,451	12,078	42,373	43,525	—	2012
AVA Ballard	Seattle, WA	265	16,460	46,926	1,133	16,460	48,059	64,519	12,070	52,449	54,231	—	2013
Avalon Alderwood I	Lynnwood, WA	367	12,294	55,627	13	12,294	55,640	67,934	10,637	57,297	59,340	—	2015
AVA Capitol Hill	Seattle, WA	249	20,613	59,986	710	20,613	60,696	81,309	8,814	72,495	74,790	—	2016
Avalon Esterra Park	Redmond, WA	482	23,177	112,926	1,134	23,177	114,060	137,237	13,426	123,811	127,407	—	2017
Avalon Alderwood II	Redmond, WA	124	5,072	21,418	14	5,072	21,432	26,504	2,618	23,886	24,589	—	2016
Avalon Newcastle Commons I	Newcastle, WA	378	9,623	111,624	696	9,623	112,320	121,943	9,953	111,990	114,975	—	2017
Archstone Redmond Lakeview	Redmond, WA	166	10,250	26,842	3,939	10,250	30,781	41,031	9,762	31,269	32,528	—	1987/2013
TOTAL PACIFIC NORTHWEST		4,116	\$ 154,485	\$ 795,211	\$ 40,867	\$ 154,485	\$ 836,078	\$ 990,563	\$ 249,361	\$ 741,202	\$ 766,313	\$ —	
NORTHERN CALIFORNIA													
San Jose, CA													
Avalon Campbell	Campbell, CA	348	\$ 11,830	\$ 47,828	\$ 14,424	\$ 11,830	\$ 62,252	\$ 74,082	\$ 39,755	\$ 34,327	\$ 36,004	\$ —	1995
Eaves San Jose	San Jose, CA	440	12,920	53,047	19,360	12,920	72,407	85,327	41,026	44,301	46,388	—	1985/1996
Avalon Silicon Valley	Sunnyvale, CA	710	20,713	99,573	35,209	20,713	134,782	155,495	81,161	74,334	78,904	—	1998
Avalon Mountain View	Mountain View, CA	248	9,755	39,393	11,078	9,755	50,471	60,226	33,848	26,378	27,559	—	1986
Eaves Creekside	Mountain View, CA	296	6,546	26,263	21,499	6,546	47,762	54,308	29,105	25,203	26,680	—	1962/1997
Avalon at Cahill Park	San Jose, CA	218	4,765	47,600	2,741	4,765	50,341	55,106	29,729	25,377	26,811	—	2002
Avalon Towers on the Peninsula (1)	Mountain View, CA	211	9,560	56,136	14,742	9,560	70,878	80,438	36,656	43,782	46,114	—	2002
Avalon Morrison Park	San Jose, CA	250	13,837	64,534	272	13,837	64,806	78,643	13,520	65,123	67,380	—	2014
Avalon Willow Glen	San Jose, CA	412	46,060	81,957	6,627	46,060	88,584	134,644	26,842	107,802	109,662	—	2002/2013
Eaves Mountain View at Middlefield	Mountain View, CA	402	64,070	69,018	11,550	64,070	80,568	144,638	24,005	120,633	118,299	—	1969/2013
Total San Jose, CA		3,535	\$ 200,056	\$ 585,349	\$ 137,502	\$ 200,056	\$ 722,851	\$ 922,907	\$ 355,647	\$ 567,260	\$ 583,801	\$ —	

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Community	City and state	# of homes	2019					2018					2019													
			Initial Cost		Total Cost			Initial Cost		Total Cost			Initial Cost		Total Cost											
			Land and improvements	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land and improvements	Building / Construction in Progress & Improvements	Total	Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Encumbrances	Year of Completion/ Acquisition	Land and improvements	Building / Construction in Progress & Improvements	Costs Subsequent to Acquisition / Construction	Land and improvements	Building / Construction in Progress & Improvements	Total	Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Encumbrances	Year of Completion/ Acquisition				
Oakland - East Bay, CA																										
Avalon Fremont	Fremont, CA	308	\$ 10,746	\$ 43,399	\$ 7,916	\$ 10,746	\$ 51,315	\$ 62,061	\$ 37,294	\$ 24,767	\$ 26,254	\$ —	1992/1994	Eaves Dublin	Dublin, CA	204	\$ 5,276	\$ 19,642	\$ 12,391	\$ 5,276	\$ 32,033	\$ 20,064	\$ 17,245	\$ 18,331	\$ —	1989/1997
Eaves Pleasanton	Pleasanton, CA	456	\$ 11,610	\$ 46,552	\$ 22,663	\$ 11,610	\$ 69,215	\$ 80,825	\$ 44,516	\$ 36,309	\$ 37,873	\$ —	1988/1994	Eaves Union City	Union City, CA	208	\$ 4,249	\$ 16,820	\$ 4,153	\$ 4,249	\$ 20,973	\$ 15,186	\$ 10,036	\$ 10,239	\$ —	1973/1996
Avalon Union City	Union City, CA	439	\$ 14,732	\$ 104,024	\$ 1,629	\$ 14,732	\$ 105,653	\$ 120,385	\$ 37,923	\$ 82,462	\$ 86,365	\$ —	2009	Avalon Walnut Creek (3)	Walnut Creek, CA	422	\$ —	\$ 148,469	\$ 5,781	\$ —	\$ 154,250	\$ 49,458	\$ 104,792	\$ 108,425	\$ 3,847	2010
Avalon Dublin Station	Dublin, CA	253	\$ 7,772	\$ 72,142	\$ 589	\$ 7,772	\$ 72,731	\$ 80,503	\$ 14,903	\$ 65,600	\$ 68,111	\$ —	2014	Avalon Dublin Station II	Dublin, CA	252	\$ 7,762	\$ 76,587	\$ (95)	\$ 7,662	\$ 76,492	\$ 10,198	\$ 74,056	\$ 76,646	\$ —	2016
Eaves Walnut Creek (1)	Walnut Creek, CA	510	\$ 30,320	\$ 82,375	\$ 17,257	\$ 30,320	\$ 99,632	\$ 129,952	\$ 26,842	\$ 103,110	\$ 106,654	\$ —	1987/2013	Avalon Walnut Ridge I (1)	Walnut Creek, CA	106	\$ 9,860	\$ 19,850	\$ 5,480	\$ 9,860	\$ 25,330	\$ 6,766	\$ 28,424	\$ 29,236	\$ —	2000/2013
Avalon Berkeley	Berkeley, CA	94	\$ 4,500	\$ 28,615	\$ 60	\$ 4,500	\$ 28,675	\$ 33,175	\$ 5,571	\$ 27,604	\$ 28,623	\$ —	2014	Total Oakland - East Bay, CA		3,252	\$ 106,827	\$ 658,475	\$ 77,824	\$ 106,827	\$ 736,299	\$ 268,721	\$ 574,405	\$ 596,757	\$ 3,847	
San Francisco, CA																										
Eaves Daly City	Daly City, CA	195	\$ 4,230	\$ 9,659	\$ 20,711	\$ 4,230	\$ 30,370	\$ 34,600	\$ 19,937	\$ 14,663	\$ 15,718	\$ —	1972/1997	AVA Nob Hill	San Francisco, CA	185	\$ 5,403	\$ 21,567	\$ 8,108	\$ 5,403	\$ 29,675	\$ 19,251	\$ 15,827	\$ 16,694	\$ —	1990/1995
Eaves San Rafael	San Rafael, CA	254	\$ 5,982	\$ 16,885	\$ 25,658	\$ 5,982	\$ 42,543	\$ 48,525	\$ 25,121	\$ 23,404	\$ 24,472	\$ —	1973/1996	Eaves Foster City	Foster City, CA	288	\$ 7,852	\$ 31,445	\$ 12,858	\$ 7,852	\$ 44,303	\$ 28,780	\$ 23,375	\$ 24,620	\$ —	1973/1994
Eaves Pacifica	Pacifica, CA	220	\$ 6,125	\$ 24,796	\$ 4,121	\$ 6,125	\$ 28,917	\$ 35,042	\$ 20,812	\$ 14,230	\$ 14,945	\$ —	1971/1995	Avalon Sunset Towers	San Francisco, CA	243	\$ 3,561	\$ 21,321	\$ 16,447	\$ 3,561	\$ 37,768	\$ 22,520	\$ 18,809	\$ 19,981	\$ —	1961/1996
Eaves Diamond Heights	San Francisco, CA	154	\$ 4,726	\$ 19,130	\$ 6,691	\$ 4,726	\$ 25,821	\$ 30,547	\$ 17,124	\$ 13,423	\$ 14,057	\$ —	1972/1994	Avalon at Mission Bay I	San Francisco, CA	250	\$ 14,029	\$ 78,452	\$ 8,817	\$ 14,029	\$ 87,269	\$ 47,906	\$ 53,392	\$ 54,203	\$ —	2003
Avalon at Mission Bay III	San Francisco, CA	260	\$ 28,687	\$ 119,156	\$ 717	\$ 28,687	\$ 119,873	\$ 148,560	\$ 42,981	\$ 105,579	\$ 109,469	\$ —	2009	Avalon Ocean Avenue	San Francisco, CA	173	\$ 5,544	\$ 50,906	\$ 2,064	\$ 5,544	\$ 52,970	\$ 14,405	\$ 44,109	\$ 45,895	\$ —	2012
Avalon Hayes Valley	San Francisco, CA	273	\$ 20,267	\$ 97,321	\$ 853	\$ 20,267	\$ 98,174	\$ 118,441	\$ 20,090	\$ 98,351	\$ 102,006	\$ —	2014	AVA 55 Ninth	San Francisco, CA	273	\$ 20,267	\$ 97,321	\$ 853	\$ 20,267	\$ 98,174	\$ 20,090	\$ 98,351	\$ 102,006	\$ —	2014
Avalon San Bruno I	San Bruno, CA	300	\$ 40,780	\$ 68,684	\$ 6,629	\$ 40,780	\$ 75,313	\$ 116,093	\$ 21,467	\$ 94,626	\$ 97,372	\$ 64,450	2004/2013	Avalon Hayes Valley	San Francisco, CA	182	\$ 12,595	\$ 81,228	\$ 13	\$ 12,595	\$ 93,836	\$ 13,731	\$ 80,105	\$ 83,030	\$ —	2015
Avalon San Bruno II	San Bruno, CA	185	\$ 23,787	\$ 44,934	\$ 2,366	\$ 23,787	\$ 47,300	\$ 71,087	\$ 12,404	\$ 58,683	\$ 59,911	\$ 28,435	2007/2013	Avalon San Bruno I	San Bruno, CA	300	\$ 40,780	\$ 68,684	\$ 6,629	\$ 40,780	\$ 75,313	\$ 21,467	\$ 94,626	\$ 97,372	\$ 64,450	2004/2013
Avalon San Bruno III	San Bruno, CA	187	\$ 33,303	\$ 62,910	\$ 3,140	\$ 33,303	\$ 66,050	\$ 99,353	\$ 17,538	\$ 81,815	\$ 84,113	\$ 50,825	2010/2013	Avalon San Bruno II	San Bruno, CA	185	\$ 23,787	\$ 44,934	\$ 2,366	\$ 23,787	\$ 47,300	\$ 12,404	\$ 58,683	\$ 59,911	\$ 28,435	2007/2013
Total San Francisco, CA		3,349	\$ 216,871	\$ 748,394	\$ 119,193	\$ 216,871	\$ 867,587	\$ 1,084,458	\$ 344,067	\$ 740,391	\$ 766,486	\$ 143,710		Total San Francisco, CA		10,136	\$ 523,754	\$ 1,992,218	\$ 334,519	\$ 523,754	\$ 2,326,737	\$ 968,435	\$ 1,882,056	\$ 1,947,044	\$ 147,557	

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			Initial Cost		Total Cost		Total Cost, Net of Accumulated Depreciation		Total Cost, Net of Accumulated Depreciation		Total Cost, Net of Accumulated Depreciation		Total Cost, Net of Accumulated Depreciation				
			Land and improvements	Building/Construction in Progress & Improvements	Costs Subsequent to Acquisition/Construction	Building/Construction in Progress & Improvements	Land and improvements	Building/Construction in Progress & Improvements	Accumulated Depreciation	Total	Accumulated Depreciation	Total	Accumulated Depreciation	Total	Accumulated Depreciation	Total	Encumbrances
SOUTHERN CALIFORNIA																	
Los Angeles, CA																	
AVA Burbank	Burbank, CA	748	\$ 22,483	\$ 28,104	\$ 50,163	\$ 78,267	\$ 100,750	\$ 46,263	\$ 54,487	\$ 56,386	\$ —	—	1961/1997				
Avalon Woodland Hills	Woodland Hills, CA	663	23,828	40,372	51,342	91,714	115,542	51,853	63,689	65,519	—	—	1989/1997				
Eaves Warner Center	Woodland Hills, CA	227	7,045	12,986	11,761	24,747	31,792	17,535	14,257	13,639	—	—	1979/1998				
Avalon Glendale (3)	Glendale, CA	223	—	42,564	2,668	—	45,232	25,118	20,114	21,413	—	—	2003				
Avalon Burbank	Burbank, CA	400	14,053	56,827	25,544	82,371	96,424	43,153	53,271	55,649	—	—	1988/2002				
Avalon Camarillo	Camarillo, CA	249	8,446	40,290	2,483	42,773	51,219	19,392	31,827	32,091	—	—	2006				
Avalon Wilshire	Los Angeles, CA	123	5,459	41,182	4,407	45,589	51,048	18,785	32,263	30,889	—	—	2007				
Avalon Encino	Encino, CA	131	12,789	49,073	1,261	12,789	63,123	19,404	43,719	45,443	—	—	2008				
Avalon Warner Place	Canoga Park, CA	210	7,920	44,845	1,085	7,920	53,850	18,264	35,586	36,990	—	—	2008				
AVA Little Tokyo	Los Angeles, CA	280	14,734	94,001	1,627	14,734	110,362	17,701	92,661	96,240	—	—	2015				
Eaves Phillips Ranch	Pomona, CA	501	9,796	41,740	4,049	45,789	55,585	13,963	41,622	42,409	—	—	1989/2011				
Eaves San Dimas	San Dimas, CA	102	1,916	7,819	1,621	9,440	11,356	3,054	8,302	8,572	—	—	1978/2011				
Eaves San Dimas Canyon	San Dimas, CA	156	2,953	12,428	1,068	13,496	16,449	4,236	12,213	12,510	—	—	1981/2011				
AVA Pasadena	Pasadena, CA	84	8,400	11,547	5,664	8,400	25,611	4,475	21,136	21,650	—	—	1973/2012				
Eaves Cerritos	Artesia, CA	151	8,305	21,195	1,687	22,882	31,187	6,011	25,176	25,823	—	—	1973/2012				
Avalon Playa Vista	Los Angeles, CA	309	30,900	72,008	6,497	30,900	109,405	20,207	89,198	88,951	—	—	2006/2012				
Avalon San Dimas	San Dimas, CA	156	9,141	30,726	92	9,141	39,959	6,044	33,915	34,974	—	—	2014				
Avalon Glendora	Glendora, CA	280	18,311	64,303	468	18,311	83,082	9,735	73,347	75,932	—	—	2016				
Avalon West Hollywood	West Hollywood, CA	294	35,214	118,341	1,258	35,214	154,813	11,290	143,523	146,362	—	—	2017				
Avalon Mission Oaks	Camarillo, CA	160	9,600	37,602	1,560	9,600	48,762	8,623	40,139	41,401	—	—	2014				
Avalon Chino Hills	Chino Hills, CA	331	16,617	80,869	31	16,617	97,517	7,948	89,569	93,911	—	—	2017				
AVA North Hollywood	North Hollywood, CA	156	18,408	52,280	1,982	18,408	72,670	7,968	64,702	66,616	—	—	2015/2016				
Avalon Simi Valley	Simi Valley, CA	500	42,020	73,361	5,546	42,020	120,927	23,115	97,812	100,379	—	—	2007/2013				
AVA Studio City II (1)	Studio City, CA	101	4,626	22,954	7,473	4,626	35,053	7,512	27,541	28,500	—	—	1991/2013				
Avalon Calabasas	Calabasas, CA	600	42,720	107,642	19,098	42,720	169,460	38,863	130,597	128,594	—	—	1988/2013				
Avalon Oak Creek	Agoura Hills, CA	336	43,540	79,974	6,724	43,540	86,698	28,991	101,247	104,704	—	—	2004/2013				
Avalon Santa Monica on Main	Santa Monica, CA	133	32,000	60,770	13,583	32,000	106,353	19,080	87,273	89,640	—	—	2007/2013				
Avalon Del Mar Station	Pasadena, CA	347	20,560	106,556	4,234	20,560	131,350	28,307	103,043	106,735	—	—	2006/2013				
Eaves Old Town Pasadena	Pasadena, CA	96	9,110	15,371	7,146	9,110	31,627	5,897	25,730	26,562	—	—	1972/2013				
Eaves Thousand Oaks	Thousand Oaks, CA	154	13,950	20,211	5,131	13,950	39,292	8,508	30,784	29,739	—	—	1992/2013				
Eaves Woodland Hills	Woodland Hills, CA	883	68,940	90,549	12,931	68,940	172,420	34,313	138,107	141,534	—	—	1971/2013				
Avalon Thousand Oaks Plaza	Thousand Oaks, CA	148	12,810	22,581	2,609	12,810	38,000	8,251	29,749	30,731	—	—	2002/2013				
Avalon Pasadena	Pasadena, CA	120	10,240	31,558	6,792	10,240	48,590	10,028	38,562	39,850	—	—	2004/2013				

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			Initial Cost		Total Cost			Total Cost, Net of Accumulated Depreciation	Total Cost, Net of Accumulated Depreciation	Encumbrances	Total Cost, Net of Accumulated Depreciation	Encumbrances	
			Land and improvements	Building/Construction in Progress & Improvements	Costs Subsequent to Acquisition/Construction	Land and improvements	Building/Construction in Progress & Improvements						Total
AVA Studio City I	Studio City, CA	450	\$ 17,658	\$ 90,715	\$ 35,175	\$ 17,658	\$ 125,890	\$ 143,548	\$ 29,941	\$ 113,607	\$ 116,925	\$ —	\$ 111,500
Total Los Angeles, CA		9,802	\$ 604,492	\$ 1,723,344	\$ 304,760	\$ 604,492	\$ 2,028,104	\$ 2,632,596	\$ 623,828	\$ 2,008,768	\$ 2,057,263	\$ —	\$ 1,115,500
Orange County, CA													
AVA Newport	Costa Mesa, CA	145	\$ 1,975	\$ 3,814	\$ 9,973	\$ 1,975	\$ 13,787	\$ 15,762	\$ 7,965	\$ 7,797	\$ 8,194	\$ —	\$ —
Eaves Mission Viejo	Mission Viejo, CA	166	\$ 2,517	\$ 9,257	\$ 4,012	\$ 2,517	\$ 13,269	\$ 15,786	\$ 9,720	\$ 6,066	\$ 6,250	\$ —	\$ —
Eaves South Coast	Costa Mesa, CA	258	\$ 4,709	\$ 16,063	\$ 13,810	\$ 4,709	\$ 29,873	\$ 34,582	\$ 18,909	\$ 15,673	\$ 16,526	\$ —	\$ —
Eaves Santa Margarita	Rancho Santa Margarita, CA	301	\$ 4,607	\$ 16,911	\$ 11,609	\$ 4,607	\$ 28,520	\$ 33,127	\$ 17,920	\$ 15,207	\$ 15,855	\$ —	\$ —
Eaves Huntington Beach	Huntington Beach, CA	304	\$ 4,871	\$ 19,745	\$ 11,310	\$ 4,871	\$ 31,055	\$ 35,926	\$ 22,269	\$ 13,657	\$ 14,626	\$ —	\$ —
Avalon Irvine I	Irvine, CA	279	\$ 9,911	\$ 67,520	\$ 1,882	\$ 9,911	\$ 69,402	\$ 79,313	\$ 24,446	\$ 54,867	\$ 56,970	\$ —	\$ 2010
Avalon Irvine II	Irvine, CA	179	\$ 4,358	\$ 40,905	\$ 360	\$ 4,358	\$ 41,265	\$ 45,623	\$ 10,227	\$ 35,396	\$ 36,611	\$ —	\$ 2013
Eaves Lake Forest	Lake Forest, CA	225	\$ 5,199	\$ 21,134	\$ 4,127	\$ 5,199	\$ 25,261	\$ 30,460	\$ 7,416	\$ 23,044	\$ 23,402	\$ —	\$ 1975/2011
Avalon Baker Ranch	Lake Forest, CA	430	\$ 31,689	\$ 98,004	\$ 57	\$ 31,689	\$ 98,061	\$ 129,750	\$ 16,581	\$ 113,169	\$ 117,107	\$ —	\$ 2015
Avalon Irvine III	Irvine, CA	156	\$ 11,607	\$ 43,973	\$ 52	\$ 11,607	\$ 44,025	\$ 55,632	\$ 6,051	\$ 49,581	\$ 51,155	\$ —	\$ 2016
Avalon Huntington Beach	Huntington Beach, CA	378	\$ 13,055	\$ 105,981	\$ 447	\$ 13,055	\$ 106,428	\$ 119,483	\$ 12,707	\$ 106,776	\$ 110,582	\$ —	\$ 2017
Total Orange County, CA		2,821	\$ 94,498	\$ 443,307	\$ 57,639	\$ 94,498	\$ 500,946	\$ 595,444	\$ 154,211	\$ 441,233	\$ 457,278	\$ —	\$ —
San Diego, CA													
AVA Pacific Beach	San Diego, CA	564	\$ 9,922	\$ 40,580	\$ 41,759	\$ 9,922	\$ 82,339	\$ 92,261	\$ 46,921	\$ 45,340	\$ 47,454	\$ —	\$ 1969/1997
Eaves Mission Ridge	San Diego, CA	200	\$ 2,710	\$ 10,924	\$ 13,343	\$ 2,710	\$ 24,267	\$ 26,977	\$ 16,506	\$ 10,471	\$ 10,565	\$ —	\$ 1960/1997
AVA Cortez Hill (3)	San Diego, CA	299	\$ 2,768	\$ 20,134	\$ 24,690	\$ 2,768	\$ 44,824	\$ 47,592	\$ 26,580	\$ 21,012	\$ 21,874	\$ —	\$ 1973/1998
Eaves San Marcos (I)	San Marcos, CA	184	\$ 3,277	\$ 13,385	\$ 5,089	\$ 3,277	\$ 18,474	\$ 21,751	\$ 4,951	\$ 16,800	\$ 16,912	\$ —	\$ 1988/2011
Eaves Rancho Penasquitos	San Diego, CA	250	\$ 6,692	\$ 27,143	\$ 4,887	\$ 6,692	\$ 32,030	\$ 38,722	\$ 9,637	\$ 29,085	\$ 30,025	\$ —	\$ 1986/2011
Avalon Vista	Vista, CA	221	\$ 12,689	\$ 43,328	\$ 260	\$ 12,689	\$ 43,588	\$ 56,277	\$ 7,415	\$ 48,862	\$ 50,349	\$ —	\$ 2015
Eaves La Mesa	La Mesa, CA	168	\$ 9,490	\$ 28,482	\$ 3,057	\$ 9,490	\$ 31,539	\$ 41,029	\$ 10,149	\$ 30,880	\$ 32,148	\$ —	\$ 1989/2013
Avalon La Jolla Colony (I)	San Diego, CA	180	\$ 16,760	\$ 27,694	\$ 12,492	\$ 16,760	\$ 40,186	\$ 56,946	\$ 11,322	\$ 45,624	\$ 46,859	\$ —	\$ 1987/2013
Total San Diego, CA		2,066	\$ 64,308	\$ 211,670	\$ 105,577	\$ 64,308	\$ 317,247	\$ 381,555	\$ 133,481	\$ 248,074	\$ 256,186	\$ —	\$ —
TOTAL SOUTHERN CALIFORNIA													
		14,689	\$ 763,298	\$ 2,378,321	\$ 467,976	\$ 763,298	\$ 2,846,297	\$ 3,609,595	\$ 911,520	\$ 2,698,075	\$ 2,770,727	\$ 111,500	\$ 111,500
TOTAL ESTABLISHED COMMUNITIES													
		59,802	\$ 3,126,202	\$ 11,101,786	\$ 1,519,420	\$ 3,126,202	\$ 12,621,206	\$ 15,747,408	\$ 4,247,112	\$ 11,500,296	\$ 11,860,403	\$ 785,521	\$ 785,521

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Community	City and state	# of homes	2019				2018		2019			
			Initial Cost		Total Cost		Total Cost, Net of Accumulated Depreciation	Encumbrances	Total Cost, Net of Accumulated Depreciation	Encumbrances		
			Land and improvements	Building/Construction Progress & Improvements	Costs Subsequent to Acquisition/Construction	Land and improvements					Building/Construction Progress & Improvements	
OTHER STABILIZED												
Avalon on the Alameda (1)	San Jose, CA	305	\$ 6,119	\$ 50,225	\$ 12,959	\$ 63,184	\$ 69,303	\$ 38,457	\$ 30,846	\$ 32,629	\$ —	1999
Eaves Fremont	Fremont, CA	235	6,581	26,583	10,626	37,209	43,790	25,065	18,725	19,632	—	1985/1994
Avalon Dogpatch	San Francisco, CA	326	23,523	179,915	172	23,523	203,610	13,403	190,207	196,411	—	2018
Avalon Cerritos	Cerritos, CA	132	8,869	51,257	646	8,869	60,772	1,993	58,779	N/A	30,250	2017/2019
Avalon Studio City	Studio City, CA	276	15,756	78,178	16,766	15,756	110,700	23,815	86,885	85,686	—	2002/2013
Eaves Los Feliz (1)	Los Angeles, CA	263	18,940	43,661	11,952	18,940	74,553	14,427	60,126	59,572	41,400	1989/2013
Eaves West Valley	San Jose, CA	873	90,890	132,040	11,081	90,890	234,011	42,572	191,439	197,477	—	1970/2013
Eaves Seal Beach	Seal Beach, CA	549	46,790	99,999	36,411	46,790	183,200	31,336	151,864	140,068	—	1971/2013
AVA Toluca Hills (1)	Los Angeles, CA	1,151	86,450	161,256	88,985	86,450	336,691	57,214	279,477	281,860	—	1973/2013
Avalon Walnut Ridge II (1)	Walnut Creek, CA	360	27,190	57,041	13,722	27,190	97,953	19,089	78,864	80,666	—	1989/2013
Avalon Denver West	Lakewood, CO	252	8,047	67,394	2,072	8,047	77,513	8,240	69,273	71,812	—	2016/2017
Avalon Meadows at Castle Rock	Castle Rock, CO	240	8,527	64,054	854	8,527	73,435	4,169	69,266	72,672	—	2018/2018
Avalon Red Rocks	Littleton, CO	256	4,461	69,717	1,515	4,461	75,693	5,089	70,604	74,563	—	2018/2018
Avalon Southlands	Aurora, CO	338	5,101	84,970	1,521	5,101	91,592	4,777	86,815	N/A	—	2018/2019
Avalon New Canaan	New Canaan, CT	104	4,834	22,990	6,368	4,834	34,192	15,412	18,780	15,876	—	2002
Avalon Darien	Darien, CT	189	6,926	34,558	8,968	6,926	50,452	21,189	29,263	25,087	—	2004
Avalon Shelton (4)	Shelton, CT	250	7,749	40,366	297	7,749	48,412	9,485	38,927	40,174	—	2013
AVA Van Ness	Washington, D.C.	269	22,890	58,691	20,196	22,890	101,777	19,107	82,670	83,096	—	1978/2013
AVA NoMa	Washington, D.C.	438	25,246	114,932	816	25,246	140,994	12,357	128,637	133,028	—	2018
850 Boca	Boca Raton, FL	370	21,430	114,085	3,830	21,430	139,345	12,836	126,509	130,932	—	2017/2017
The Alexander & Alexander Lofts	West Palm Beach, FL	290	9,597	90,950	2,951	9,597	103,498	7,192	96,306	101,387	—	2018/2018
Avalon Bonterra	Hialeah, FL	314	16,655	70,814	2,860	16,655	90,329	3,395	86,934	N/A	—	2018/2019
Avalon Toscana	Margate, FL	240	9,213	49,688	1,544	9,213	60,445	228	60,217	N/A	—	2016/2019
Avalon at Newton Highlands (1)	Newton, MA	294	11,039	45,547	17,047	11,039	73,633	30,717	42,916	45,028	—	2003
Avalon Prudential Center II	Boston, MA	266	8,776	35,496	61,204	8,776	105,476	39,217	66,259	67,595	—	1968/1998
Avalon North Station	Boston, MA	503	22,796	247,118	778	22,796	270,692	23,496	247,196	255,638	—	2017
Avalon Easton	Easton, MA	290	3,170	60,838	—	3,170	64,008	5,348	58,660	60,485	—	2017
AVA Wheaton	Wheaton, MD	319	6,494	69,025	—	6,494	75,519	6,011	69,508	72,130	—	2018
AVA North Point	Cambridge, MA	265	31,263	81,597	2,655	31,263	115,515	506	115,009	N/A	—	2018/2019
Avalon Arundel Crossing (1)	Linthicum Heights, MD	310	12,208	69,386	3,043	12,208	84,637	6,384	78,253	82,036	—	2018/2018
Portico at Silver Spring Metro	Silver Spring, MD	151	3,471	40,079	805	3,471	44,355	1,277	43,078	N/A	—	2009/2019
Avalon at Florham Park (1)	Florham Park, NJ	270	6,647	34,906	16,287	6,647	57,840	27,009	30,831	32,680	—	2001

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Community	City and state	# of homes	2019				2018				2019					
			Initial Cost		Total Cost		Total Cost, Net of Accumulated Depreciation		Total Cost, Net of Accumulated Depreciation		Total Cost, Net of Accumulated Depreciation		Total Cost, Net of Accumulated Depreciation			
			Land and improvements	Building/Construction in Progress & Improvements	Costs Subsequent to Acquisition/Construction	Building/Construction in Progress & Improvements	Land and improvements	Building/Construction in Progress & Improvements	Accumulated Depreciation	Total	Accumulated Depreciation	Total	Accumulated Depreciation	Total	Accumulated Depreciation	Total
Avalon Maplewood	Maplewood, NJ	235	\$ 15,179	\$ 49,558	\$ —	\$ 15,179	\$ 49,558	\$ —	\$ 64,737	\$ 4,093	\$ 60,644	\$ 62,608	\$ —	\$ 62,608	\$ —	2018
Avalon at Edgewater II	Edgewater, NJ	240	8,605	60,251	—	8,605	60,251	—	68,856	3,609	65,247	66,093	—	66,093	—	2018
Avalon Mamaroneck (I)	Mamaroneck, NY	229	6,207	40,791	15,652	6,207	56,443	15,652	62,650	30,770	31,880	33,232	—	33,232	—	2000
Avalon Melville	Melville, NY	494	9,228	50,063	22,445	9,228	72,508	22,445	81,736	40,857	40,879	36,100	—	36,100	—	1997
Avalon Brooklyn Bay	Brooklyn, NY	180	18,280	74,562	262	18,280	74,824	262	93,104	7,573	85,531	88,907	—	88,907	—	2018
Avalon Rockville Centre II	Rockville Centre, NY	165	7,534	50,984	—	7,534	50,984	—	58,518	4,510	54,008	56,114	—	56,114	—	2017
Avalon Somers	Somers, NY	152	5,608	40,453	25	5,608	40,478	25	46,086	3,548	42,538	43,958	—	43,958	—	2018
Avalon Midtown West (I)	New York, NY	550	154,730	180,253	42,710	154,730	222,963	42,710	377,693	55,973	321,720	325,479	98,200	325,479	98,200	1998/2013
Eaves Fairfax City	Fairfax, VA	141	2,152	8,907	5,636	2,152	14,543	5,636	16,695	9,152	7,543	7,985	—	7,985	—	1988/1997
Eaves Fairfax Towers	Falls Church, VA	415	17,889	74,727	15,066	17,889	89,793	15,066	107,682	24,579	83,103	79,721	—	79,721	—	1978/2011
AVA Ballston Square	Arlington, VA	714	71,640	215,937	37,794	71,640	253,731	37,794	325,371	64,753	260,618	258,067	—	258,067	—	1992/2013
TOTAL OTHER STABILIZED		14,203	\$ 904,700	\$ 3,293,842	\$ 498,521	\$ 904,700	\$ 3,792,363	\$ 498,521	\$ 4,697,063	\$ 780,229	\$ 3,916,834	\$ 3,516,484	\$ 169,850	\$ 3,516,484	\$ 169,850	
LEASE-UP																
Avalon at the Hingham Shipyard II	Hingham, MA	190	\$ 8,998	\$ 54,782	\$ —	\$ 8,998	\$ 54,782	\$ —	\$ 63,780	\$ 2,445	\$ 61,335	\$ 59,144	\$ —	\$ 59,144	\$ —	2019
Avalon Sudbury	Sudbury, MA	250	20,240	66,478	34	20,240	66,512	34	86,752	3,215	83,537	78,642	—	78,642	—	2019
Avalon Saugus	Saugus, MA	280	17,799	70,634	832	17,799	71,466	832	89,265	1,310	87,955	52,689	—	52,689	—	2019
Avalon Boonton	Boonton, NJ	350	3,592	87,821	—	3,592	87,821	—	91,413	1,672	89,741	72,902	—	72,902	—	2019
Avalon Piscataway	Piscataway, NJ	360	14,329	75,499	—	14,329	75,499	—	89,828	2,985	86,843	75,748	—	75,748	—	2019
Avalon Belltown Towers	Seattle, WA	274	24,636	120,392	1,171	24,636	121,563	1,171	146,199	1,871	144,328	117,433	—	117,433	—	2019
AVA Esterra Park	Redmond, WA	323	16,405	74,496	—	16,405	74,496	—	90,901	2,042	88,859	75,752	—	75,752	—	2019
TOTAL LEASE-UP		2,027	\$ 105,999	\$ 550,102	\$ 2,037	\$ 105,999	\$ 552,139	\$ 2,037	\$ 658,138	\$ 15,540	\$ 642,598	\$ 532,310	\$ —	\$ 532,310	\$ —	
REDEVELOPMENT																
Avalon Prudential Center I	Boston, MA	243	\$ 8,002	\$ 32,370	\$ 52,538	\$ 8,002	\$ 84,908	\$ 52,538	\$ 92,910	\$ 34,165	\$ 58,745	\$ 56,662	\$ —	\$ 56,662	\$ —	1968/1998
Eaves Redmond Campus	Redmond, WA	422	22,580	88,001	31,023	22,580	119,024	31,023	141,604	29,462	112,142	107,142	—	107,142	—	1991/2013
TOTAL REDEVELOPMENT		665	\$ 30,582	\$ 120,371	\$ 83,561	\$ 30,582	\$ 203,932	\$ 83,561	\$ 234,514	\$ 63,627	\$ 170,887	\$ 163,804	\$ —	\$ 163,804	\$ —	
TOTAL CURRENT COMMUNITIES (5)		76,697	\$ 4,167,483	\$ 15,066,101	\$ 2,103,539	\$ 4,167,483	\$ 17,169,640	\$ 2,103,539	\$ 21,337,123	\$ 5,106,508	\$ 16,230,615	\$ 16,073,001	\$ 955,371	\$ 16,073,001	\$ 955,371	

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Community	City and state	# of homes	2019				2018				2019			
			Initial Cost		Total Cost		Total Cost, Net of Accumulated Depreciation		Total Cost, Net of Accumulated Depreciation		Total Cost, Net of Accumulated Depreciation		Encumbrances	
			Land and improvements	Building / Construction in Progress & Improvements	Land and improvements	Building / Construction in Progress & Improvements	Accumulated Depreciation	Total	Accumulated Depreciation	Total	Accumulated Depreciation	Total	Accumulated Depreciation	Total
DEVELOPMENT (6)														
Avalon Public Market	Emeryville, CA	289	\$ 12,747	\$ 58,425	\$ 82,246	\$ 12,747	\$ 140,671	\$ 497	\$ 153,418	\$ 497	\$ 152,921	\$ 114,134	\$ —	N/A
AVA Hollywood	Hollywood, CA	695	13,146	39,914	272,691	13,146	312,605	175	325,751	175	325,576	221,455	—	N/A
Avalon Walnut Creek II (3)	Walnut Creek, CA	200	—	995	85,983	—	86,978	—	86,978	—	86,978	32,256	—	N/A
Avalon Brea Place	Brea, CA	653	—	181	111,844	—	112,025	—	112,025	—	112,025	N/A	—	N/A
Avalon Monrovia	Monrovia, CA	154	—	2	15,828	—	15,830	—	15,830	—	15,830	N/A	—	N/A
AVARINo	Denver, CO	246	—	14	18,212	—	18,226	—	18,226	—	18,226	N/A	—	N/A
Avalon Doral	Doral, FL	350	—	491	82,316	—	82,807	—	82,807	—	82,807	35,154	—	N/A
Avalon Acton II	Acton, MA	86	—	1	4,473	—	4,474	—	4,474	—	4,474	N/A	—	N/A
Avalon Norwood	Norwood, MA	198	3,581	21,013	33,323	3,581	54,336	327	57,917	327	57,590	21,582	—	N/A
Avalon Marlborough II	Marlborough, MA	123	—	—	15,293	—	15,293	—	15,293	—	15,293	N/A	—	N/A
Avalon Woburn	Woburn, MA	350	—	—	29,689	—	29,689	—	29,689	—	29,689	N/A	—	N/A
Twinbrook Station	Rockville, MD	238	—	13	30,775	—	30,788	—	30,788	—	30,788	15,844	—	N/A
Avalon Towson	Towson, MD	371	—	768	85,641	—	86,409	—	86,409	—	86,409	42,686	—	N/A
Avalon East Harbor	Baltimore, MD	400	—	242	86,125	—	86,367	—	86,367	—	86,367	28,101	—	N/A
Avalon Foundry Row	Owings Mill, MD	437	—	1	21,479	—	21,480	—	21,480	—	21,480	N/A	—	N/A
Avalon Teaneck	Teaneck, NJ	248	8,273	40,614	21,969	8,273	62,583	523	70,856	523	70,333	43,508	—	N/A
Avalon Old Bridge	Old Bridge, NJ	252	—	219	35,244	—	35,463	—	35,463	—	35,463	11,573	—	N/A
Avalon Yonkers	Yonkers, NY	590	6,042	36,155	123,867	6,042	160,022	315	166,064	315	165,749	89,206	—	N/A
Avalon Harrison	Harrison, NY	143	—	—	26,158	—	26,158	—	26,158	—	26,158	5,504	—	N/A
Avalon Newcastle Commons II	Newcastle, WA	293	—	444	43,522	—	43,966	—	43,966	—	43,966	22,384	—	N/A
Avalon North Creek	Bothell, WA	316	10,436	54,536	15,738	10,436	70,274	869	80,710	869	79,841	38,058	—	N/A
The Park Loggia Retail (7)	New York, NY	N/A	77,393	75,211	—	77,393	75,211	1,117	152,604	1,117	151,487	136,627	—	2019
TOTAL DEVELOPMENT		6,632	\$ 131,618	\$ 329,239	\$ 1,242,416	\$ 131,618	\$ 1,571,655	\$ 3,823	\$ 1,703,273	\$ 3,823	\$ 1,699,450	\$ 858,072	\$ —	
Land Held for Development		N/A	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 84,712	\$ —	
Corporate Overhead		N/A	7,810	11,414	89,443	7,810	100,857	63,552	108,667	63,552	45,115	49,015	6,400,000	
For-sale condominium inventory (7)	New York, NY	N/A	227,246	230,563	—	227,246	230,563	—	457,809	—	457,809	409,880	—	2019
2019 Disposed Communities		N/A	—	—	—	—	—	—	—	—	—	256,250	—	
TOTAL		83,329	\$ 4,534,157	\$ 15,637,317	\$ 3,435,398	\$ 4,534,157	\$ 19,072,715	\$ 5,173,883	\$ 23,606,872	\$ 5,173,883	\$ 18,432,989	\$ 17,730,930	\$ 7,355,371	(8)

(1) This community was under redevelopment for some or all of 2019, with the redevelopment effort primarily focused on the exterior and/or common area, or with the redevelopment effort focused on apartment homes that do not meet the definition of a Redevelopment Community. These redevelopment activities have no expected material impact on community operations, and therefore this community is included in the Established Community portfolio and not classified as a Redevelopment Community.

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(2) Some or all of the land for this community is subject to a finance land lease. The Company adopted ASU 2016-02, Leases, as of January 1, 2019, using the prospective adoption approach, applying the provisions of the new standard to existing leases as of the date of adoption. Upon adoption, the Company recorded finance lease assets for the ground lease, previously reported as land, now reported as a component of right of use lease assets on the accompanying Consolidated Balance Sheets.

(3) Some or all of the land for this community is subject to an operating land lease.

(4) As of December 31, 2019, this community qualified as held for sale.

(5) Current Communities excludes Unconsolidated Communities.

(6) Development Communities excludes Avalon Alderwood Mall, which is being developed within an unconsolidated joint venture.

(7) The Park Loggia is comprised of 172 for-sale residential condominiums and 67,000 square feet of retail space, and was completed in the fourth quarter of 2019.

(8) Balance outstanding represents total amount due at maturity, and excludes deferred financing costs and debt discount associated with the unsecured and secured notes of \$41,352 and \$17,729, respectively.

AVALONBAY COMMUNITIES, INC.
REAL ESTATE AND ACCUMULATED DEPRECIATION (Continued)
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Amounts include real estate assets held for sale.

Depreciation of AvalonBay Communities, Inc. building, improvements, upgrades and furniture, fixtures and equipment (FF&E) is calculated over the following useful lives, on a straight line basis:

Building—30 years

Improvements, upgrades and FF&E—not to exceed 7 years

The aggregate cost of total real estate for federal income tax purposes was approximately \$22,635,619 at December 31, 2019.

The changes in total real estate assets for the years ended December 31, 2019, 2018 and 2017 are as follows:

	For the year ended		
	12/31/2019	12/31/2018	12/31/2017
Balance, beginning of period	\$ 22,342,576	\$ 21,935,936	\$ 20,776,626
Acquisitions, construction costs and improvements	1,615,949	1,568,878	1,526,516
Dispositions, including casualty losses and impairment loss on planned dispositions	(351,653)	(1,162,238)	(367,206)
Balance, end of period	<u>\$ 23,606,872</u>	<u>\$ 22,342,576</u>	<u>\$ 21,935,936</u>

The changes in accumulated depreciation for the years ended December 31, 2019, 2018 and 2017, are as follows:

	For the year ended		
	12/31/2019	12/31/2018	12/31/2017
Balance, beginning of period	\$ 4,611,646	\$ 4,218,379	\$ 3,743,632
Depreciation, including discontinued operations	661,578	631,196	584,150
Dispositions, including casualty losses	(99,341)	(237,929)	(109,403)
Balance, end of period	<u>\$ 5,173,883</u>	<u>\$ 4,611,646</u>	<u>\$ 4,218,379</u>

Board of Directors

Timothy J. Naughton

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

Terry S. Brown

Chairman of the Board &
Chief Executive Officer,
Asana Partners
A real estate investment company
Investment & Finance Committee (Chair);
Nominating & Corporate Governance
Committee

Ron L. Havner, Jr.

Chairman of the Board,
Public Storage, Inc.
A real estate investment trust
Audit Committee (Chair);
Investment & Finance Committee

Richard J. Lieb

Managing Director, Chairman of Real Estate
Greenhill & Co., LLC
An investment bank
Audit Committee;
Compensation Committee

Susan Swanezy

Partner,
Hodes Weill & Associates, LP
A global advisory firm
Investment & Finance Committee;
Nominating & Corporate Governance
Committee

Glyn F. Aeppel

Chief Executive Officer & President,
Glencove Capital
A hotel investment and advisory company
Investment & Finance Committee;
Nominating & Corporate Governance
Committee

Alan B. Buckelew

Private Investor
Audit Committee;
Compensation Committee

Stephen P. Hills

Founding Director,
Business Law Scholars Program,
Georgetown University Law Center
Audit Committee;
Investment & Finance Committee

H. Jay Sarles

Private Investor
Compensation Committee;
Nominating & Corporate Governance
Committee (Chair)

W. Edward Walter

Global Chief Executive Officer,
Urban Land Institute
Nonprofit research and education program
Lead Independent Director;
Compensation Committee (Chair);
Nominating & Corporate Governance Committee

Executive and Senior Officers

Timothy J. Naughton

Chairman of the Board,
Chief Executive Officer & President

Matthew H. Birenbaum

Chief Investment Officer

William M. McLaughlin

Executive Vice President
East Coast Development & Construction

Keri A. Shea

Senior Vice President
Finance & Treasurer (Principal Accounting Officer)

Kevin P. O'Shea

Chief Financial Officer

Sean J. Breslin

Chief Operating Officer

Edward M. Schulman

Executive Vice President
General Counsel & Secretary

Investor Information

Corporate Office

AvalonBay Communities, Inc.
4040 Wilson Boulevard
Suite 1000
Arlington, VA 22203
Phone: 703.329.6300

Website

www.avalonbay.com

Investor Relations Contact

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AvalonBay Communities, Inc.
4040 Wilson Boulevard
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Phone: 703.329.6300
Email: ir@avalonbay.com

Transfer Agent

Computershare
Regular Mail
P.O. Box 505000
Louisville, KY 40233
Overnight Delivery
462 South 4th Street, Suite 1600
Louisville, KY 40202
Phone: 866.230.0668
www.computershare.com

Common Stock Listing

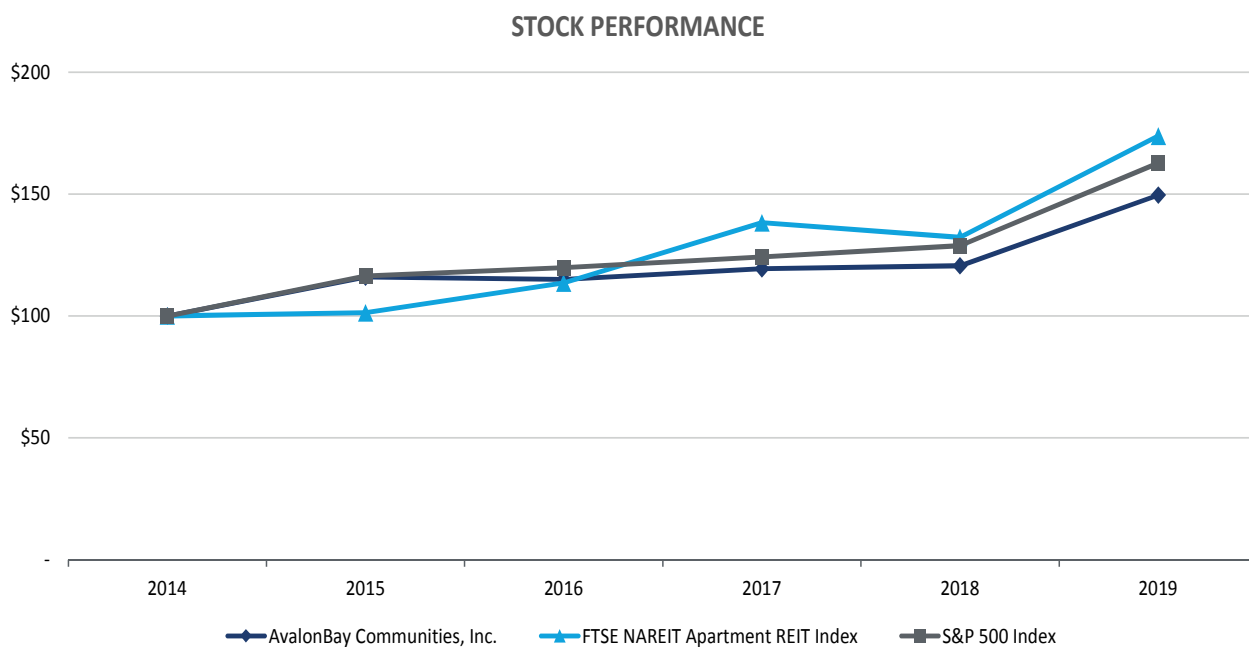
Ticker: AVB
New York Stock Exchange

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 50 of our accompanying Annual Report on Form 10-K for a discussion regarding risks associated with these statements.

Stock performance graph

The Stock Performance Graph provides a comparison, from December 31, 2014 through December 31, 2019, 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.



Index	Period Ending					
	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
AvalonBay Communities, Inc.	\$ 100	116	115	119	121	150
FTSE NAREIT Apartment REIT Index	100	101	114	138	132	174
S&P 500 Index	100	116	120	124	129	163

