

AVALONBAY COMMUNITIES INC

Form 10-K/A

May 10, 2007

**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K/A**  
**AMENDMENT NO. 1**  
**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**  
**OF THE SECURITIES EXCHANGE ACT OF 1934**  
**For the fiscal year ended December 31, 2006**  
**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.)*

2900 Eisenhower Avenue, Suite 300  
Alexandria, Virginia 22314  
*(Address of principal executive office)*  
(703) 329-6300

*(Registrant's telephone number, including area code)*

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

Common Stock, par value \$.01 per share  
8.70% Series H Cumulative Redeemable Preferred  
Stock,  
par value \$.01 per share  
*(Title of each class)*

New York Stock Exchange  
New York Stock Exchange

*(Name of each exchange on which registered)*

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.

Indicate by check mark whether the Exchange registrant is a large accelerated filer, an accelerated filer, or a nonaccelerated filer (as defined in Rule 12b-2 of the Act).

Large accelerated filer  Accelerated filer  Non-accelerated filer

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, 2006 was \$8,231,895,376.

The number of shares of the registrant's Common Stock, par value \$.01 per share, outstanding as of January 31, 2007 was 79,344,557.

Documents Incorporated by Reference

Portions of AvalonBay Communities, Inc.'s Proxy Statement for the 2007 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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### EXPLANATORY NOTE

AvalonBay Communities, Inc. is filing this Amendment No. 1 on Form 10-K/A to our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 filed on March 1, 2007 (the Form 10-K ) (i) to restate our financial statements as of December 31, 2006, 2005 and 2004, and for the years then ended, and to amend other Items contained in the Form 10-K to reflect such restatement, and (ii) to correct a typographical error in the description of the Second Amended and Restated Revolving Loan Agreement of the Company referenced as Exhibit 10.32 to the Form 10-K.

The Following items have been amended principally as a result of, and to reflect, the restatement, and no other information in the Form 10-K is amended hereby as a result of the restatement:

Part I Item 1: Business;

Part II Item 6: Selected Consolidated Financial Data;

Part II Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations;

Part II Item 8: Financial Statements and Supplementary Data;

Part II Item 9A: Controls and Procedures.

This Form 10-K/A also includes the following updated exhibits:

Exhibit 12.1: Statements re: Computation of Ratios;

Exhibit 23.1: Consent of Ernst & Young LLP;

Exhibits 31.1 and 31.2: Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer and Chief Financial Officer);

Exhibit 32: Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer and Chief Financial Officer).

We have restated our financial statements to revise the accounting for long-term land leases. In April 2007 the Company determined to measure the aggregate undiscounted cash payments required under certain long-term land leases with fixed, or minimum, escalations over the non-cancelable lease term as opposed to the Company's expected holding period of its interest in the related asset. This change primarily impacts the land lease accounting related to one consolidated asset with a 90-year lease in which the land lessor is also the Company's partner in the venture holding the asset that became effective in 1999. The change will result in an additional non-cash increase to operating expenses of approximately \$10,500,000 per year in excess of the current annual cash payments, as well as additional depreciation expense. In addition, we recognized the value associated with a provision in the associated joint venture agreement allowing our partner to put their interest in the investment to us at the future fair market value as a component of minority interest, with the offset to stockholder's equity.

We have also corrected the description of the Second Amended and Restated Revolving Loan Agreement of the Company referenced as Exhibit 10.32 in the Company's Annual Report on Form 10-K filed on March 1, 2007. The exhibit description inadvertently incorporated by reference our prior filing of a prior version of the Company's Revolving Loan Agreement. The corrected exhibit description incorporates by reference our most recent filing of our current Second Amended and Restated Revolving Loan Agreement, which was filed as an exhibit to a Form 8-K filed by the Company on November 17, 2006.

This Form 10-K/A does not reflect events occurring after the filing of the original Form 10-K, nor does it modify or update the disclosures therein in any way other than as required to reflect matters related to the Restatement or its underlying cause as specifically described herein. We have not amended and do not anticipate amending our Annual Reports on Form 10-K for any years prior to fiscal year 2006, nor will we be amending any of our previously filed Quarterly Reports on Form 10-Q. The financial statements and other information that have been previously filed or

otherwise reported for these periods should no longer be relied upon; all such prior information is superseded by the information in this Form 10-K/A and our Quaterly Rerport on Form 10-Q for the quarter ended March 31, 2007.

## 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" on page 65 of 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, or REIT, for federal income tax purposes. We engage in the development, redevelopment, acquisition, ownership and operation of multifamily communities in high barrier-to-entry markets of the United States. These barriers-to-entry generally include a difficult and lengthy entitlement process with local jurisdictions and dense urban or suburban areas where zoned and entitled land is in limited supply. Our markets are located in the Northeast, Mid-Atlantic, Midwest, Pacific Northwest, and Northern and Southern California regions of the United States. We focus on these markets because we believe that, long term, the limited new supply of apartment homes and lower housing affordability in these markets will result in larger increases in cash flows relative to other markets. In addition to increasing the rental revenues of our operating assets, we believe these market attributes will increase the value of our operating assets and enable us to create additional value through the development and selective acquisition of multifamily housing.

At January 31, 2007, we owned or held a direct or indirect ownership interest in:

151 operating apartment communities containing 43,533 apartment homes in ten states and the District of Columbia, of which six communities containing 2,381 apartment homes were under reconstruction;

17 communities under construction that are expected to contain an aggregate of 5,153 apartment homes when completed; and

rights to develop an additional 54 communities that, if developed in the manner expected, will contain an estimated 14,185 apartment homes.

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

Our real estate investments consist of the following reportable segments: Established Communities, Other Stabilized Communities and Development/Redevelopment Communities. Established Communities are generally operating communities that are consolidated for financial reporting purposes and that were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year. Other Stabilized Communities are generally all other operating communities that have stabilized occupancy and operating expenses during the current year, but that had not achieved stabilization as of the beginning of the prior year. Development/ Redevelopment Communities consist of communities that are under construction, communities where substantial redevelopment is in progress or is planned to begin during the current year and communities under lease-up. A more detailed description of these segments and other related information can be found in Note 9, "Segment Reporting," of the Consolidated Financial Statements set forth in Item 8 of this report.

Our principal financial goal is to increase long-term stockholder value by successfully and cost-effectively developing, redeveloping, acquiring, owning and operating high-quality communities in our selected markets that contain features and amenities desired by residents, as well as by providing our residents with efficient and effective service. To help fulfill this goal, we regularly (i) monitor our investment allocation by geographic market and product type, (ii) develop, redevelop and acquire apartment communities in high barrier-to-entry markets with





growing or high potential for demand and high for-sale housing costs, (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 such that we maintain continuous access to cost-effective capital. Our long-term strategy is to more deeply penetrate the high barrier-to-entry markets in our chosen regions with a broad range of products and services and an intense focus on our customer. A substantial majority of our current communities are upscale, which 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.

During the three years ended December 31, 2006, we acquired two apartment communities whose financial results are consolidated for financial reporting purposes, disposed of 16 apartment communities, and completed the development of 20 apartment communities and the redevelopment of six apartment communities. In anticipation of continued improvement in apartment fundamentals and to help position us for future growth, we increased our construction volume during 2006 (as measured by total projected capitalized cost at completion) and continued to secure new development opportunities, including the acquisition of land for future development. We also increased our investments in apartment communities through an institutional discretionary investment fund, AvalonBay Value Added Fund, L.P. (the Fund), which we manage and in which we own approximately a 15% interest. The Fund acquired communities that we believe we can redevelop or reposition, or take advantage of market cycle timing and improved operating performance, to create value. Since its inception in March 2005, the Fund has acquired 13 communities. A more detailed description of the Fund and its investment activity can be found in Financing Activities and Note 6, Investments in Unconsolidated Entities of the Consolidated Financial Statements in Item 8 of this report. As a result of strong capital flows to the industry, we also continued to dispose of assets at prices that enabled significant realized gains on cost.

In 2007, we expect additional new development activity to be in the range of \$1,000,000,000 to \$1,300,000,000, and we expect the Fund will continue to selectively acquire additional communities. We also anticipate asset sales, dependent on strategic and value realization opportunities. The level of development, acquisition and disposition activity, however, is heavily influenced by capital market conditions, including prevailing interest rates. 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 apartment communities in high barrier-to-entry markets of the United States, 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 Alexandria, Virginia, we also maintain regional offices and administrative or specialty offices in or near the following cities:

Boston, Massachusetts;

Chicago, Illinois;

Long Island, New York;

Los Angeles, California;

New York, New York;

Newport Beach, California;

San Jose, California;

Seattle, Washington;

Shelton, Connecticut; and

Woodbridge, New Jersey.

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 enable us to acquire the target site shortly before the start of construction, which reduces development-related risks and preserves capital. However, we will acquire and hold land when business conditions warrant. Due to increased competition for land based on current market conditions, we have, at times, acquired land earlier in the development cycle or acquired land zoned for uses other than residential with the potential for rezoning. After we acquire land, we generally shift our focus to construction. Except for certain mid-rise and high-rise apartment communities where we may elect to use third-party

general contractors or construction managers, we act as our own general contractor and construction manager. 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 this enables us to achieve higher construction quality, greater control over construction schedules and significant cost savings. Our development, property management and construction teams monitor construction progress to ensure high-quality workmanship and a smooth and timely transition into the leasing and operating phase.

As competition for desirable development opportunities has increased in recent years, we will in some cases be engaged in more complicated development pursuits. For example, at times we have acquired and may in the future acquire existing commercial buildings with the intent to pursue rezoning, tenant terminations or expirations and demolition of the existing structures. Generally, during the period that we hold these buildings for future development, the net revenue 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. 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 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 established procedures to minimize both the cost and risks of redevelopment. Our redevelopment teams, which include key redevelopment, construction and property management personnel, monitor redevelopment progress. We believe we achieve significant cost savings by acting as our own general contractor. More importantly, this helps to ensure high-quality design and workmanship and a smooth and timely transition into the lease-up and restabilization phase.

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 when market conditions are favorable and redeploy the proceeds from those sales to develop, redevelop and acquire communities and to rebalance our portfolio across geographic regions. This also allows us to realize a portion of the value created through our investments, and provides additional liquidity. We are then able to redeploy the net proceeds from our dispositions in lieu of raising that amount of capital externally by issuing debt or equity securities. When we decide to sell a community, we generally solicit competing bids from unrelated parties for these individual assets and consider the sales price of each proposal.

*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. In 2005 we formed the Fund, which during its investment period (ending no later than March 2008) will be the principal vehicle for us to acquire additional investments in apartment communities, subject to certain exceptions. Through the Fund's investment period (or until fully invested), we expect to continue our acquisition activity through the Fund, focusing in particular on communities in our markets that can benefit from redevelopment, repositioning or market cycle opportunities.

*Property Management Strategy.* We intend to increase operating income through innovative, proactive property management that will result in higher revenue from communities and controlled operating expenses.



Our principal strategies to maximize revenue include:

strong focus 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

managing community occupancy for optimal rental revenue levels.

Controlling operating expenses is another way in which we intend 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 control operating expenses in a variety of ways, which include the following, among others:

we use purchase order controls, acquiring goods and services from pre-approved vendors;

we 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 depending upon the least costly alternative;

we undertake preventive maintenance regularly to maximize resident satisfaction and property and equipment life; and

we aggressively pursue real estate tax appeals.

On-site property management teams receive bonuses based largely upon the net operating income 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 also pursue or arrange ancillary services for our residents to provide additional revenue sources or increase resident satisfaction. In general, as a REIT we cannot directly provide services to our tenants that are not customarily provided by a landlord, nor can we share in the income of a third party that provides such services.

However, we can provide such non-customary services to residents or share in the revenue from such services if we do so through a taxable REIT subsidiary, which is a subsidiary that is treated as a C corporation and is therefore subject to federal income taxes.

*Financing Strategy.* We have consistently maintained, and intend to continue to maintain, a capital structure that is aligned to the business risks presented by our corporate strategy. For the year ended December 31, 2006, our fixed charge ratio on an incurred and expensed basis was 1.82 and 2.58, respectively. We believe that fixed charge coverage is an important measure of balance sheet strength, as it measures our ability to service fixed payment obligations from operating cash flow. At December 31, 2006, our debt-to-total market capitalization was 22.3%, and our long-term floating rate debt was 3.4% of total market capitalization. Total market capitalization reflects the aggregate of the market value of our common stock, the market value of our operating partnership units outstanding (based on the market value of our common stock), the liquidation preference of our preferred stock and the outstanding principal

amount of our debt. We believe that debt-to-total market capitalization can be one useful measure of a real estate operating company's long-term liquidity and balance sheet strength, because it shows an approximate relationship between a company's total debt and the current total market value of its assets based on the current price at which the company's common stock trades. However, because debt-to-total market capitalization changes with fluctuations in our stock price, which occur regularly, our debt-to-total market capitalization may change even when our earnings and debt levels remain stable.

We estimate that a portion of our short-term liquidity needs will be met from retained operating cash and borrowings under our variable rate unsecured credit facility. If required to meet the balance of our current or anticipated liquidity needs, we will attempt to arrange additional capacity under our existing unsecured credit facility, sell

existing communities or land and/or issue 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, including interest rates, our short and long term liquidity needs, the adequacy of our expected liquidity sources, 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 own an indirect economic interest of less than 100% of the community or communities owned directly by such joint venture or partnership. Our decision whether to hold an apartment community in fee simple or to have an indirect interest in the community through a joint venture or partnership 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, who may prefer that (or who may require less payment if) the land or community is contributed to a joint venture or partnership; (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 or partnership vehicle is used. Investments in joint ventures or partnerships are not limited to a specified percentage of our assets. Each joint venture or partnership 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 or partnership agreement.

We have invested in the Fund, a private, discretionary investment vehicle that acquires and operates apartment communities in our markets. The Fund will serve, until March 16, 2008 or until 80% of its committed capital is invested, as the principal vehicle through which we will invest in the acquisition of apartment communities, subject to certain exceptions. These exceptions include significant individual asset and portfolio acquisitions, properties acquired in tax-deferred transactions and acquisitions that are inadvisable or inappropriate for the Fund. The Fund will not restrict our development activities, and will terminate after a term of eight years, subject to two one-year extensions. The Fund has nine institutional investors, including us, with a combined equity capital commitment of \$330,000,000. A significant portion of the investments made in the Fund by its investors are being made through AvalonBay Value Added Fund, Inc., a Maryland corporation that qualifies as a REIT under the Internal Revenue Code (the Fund REIT ). A wholly-owned subsidiary of the Company is the general partner of the Fund and has committed \$50,000,000 to the Fund and the Fund REIT (of which approximately \$22,944,000 has been invested as of January 31, 2007) representing a 15.2% combined general partner and limited partner equity interest. Under the Fund documents, the Fund has the ability to employ leverage through debt financings up to 65% on a portfolio basis, which, if achieved, would enable the Fund to invest up to \$940,000,000. We currently expect that leverage of less than 65% will be employed, reducing the projected investment value to between \$850,000,000 and \$900,000,000 (of which approximately \$514,000,000 has been invested as of January 31, 2007).

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

*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. On occasion, we own and operate 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) or (ii) we believe the retail space will enhance the attractiveness of the community to residents. As of December 31, 2006, we had a total of 327,010 square feet of rentable retail space that produced gross rental revenue in 2006 of \$5,258,000 (0.7% of total revenue). 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. At present, we expect to develop with the intent to sell, directly through a taxable REIT subsidiary or indirectly through a joint venture partnership, one or more land parcels. 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 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 (or the Treasury Regulations), the Board of Directors determines that it is no longer in our best interest to qualify as a REIT.

#### 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 effects 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. In a deflationary rent environment, we may be exposed to declining rents more quickly under these shorter-term leases.

#### Tax Matters

We filed an election with our 1994 federal income tax return to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, and intend to maintain our qualification as a REIT in the future. As a qualified REIT, with limited exceptions, we will not be taxed under federal and certain state income tax laws at the corporate level on our net income to the extent 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 Internal Revenue 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, partnerships and investment companies and other apartment REITs, 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 rent may be perceived as a better value proposition given the quality, location and amenities that the resident seeks. We also compete with the condominium and single-family home markets. 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 .

Other Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our SEC filings are also available to the public from the SEC's website at [www.sec.gov](http://www.sec.gov). In addition, you may read our SEC filings at the offices of the New York Stock Exchange ( NYSE ), which is located at 20 Board Street, New York, New York 10005. Our SEC filings are available at the NYSE because our common stock and an outstanding series of preferred stock are listed on the NYSE.

We maintain a website at [www.avalonbay.com](http://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 Corporate Governance Guidelines and Code of Conduct, are available free of charge in that section of our website or by writing to AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Chief Financial Officer.

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 December 31, 2006, we had 1,767 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 on page 65.

### *Development, redevelopment and construction 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 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 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;

we may incur costs that exceed our original estimates due to increased material, labor or other costs;

occupancy rates and rents at a community may fail to meet our 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 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 are currently engaged in a lawsuit alleging noncompliance with these statutes. See Legal Proceedings.

We project 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 have been increasing, particularly for materials such as steel, concrete and lumber, and, for some of our Development Communities and Development Rights, the total construction costs may be higher than the original budget. Total capitalized cost includes all capitalized costs projected to be incurred to develop or redevelop a community, determined in accordance with United States Generally Accepted Accounting Principles ( GAAP ), including:

land and/or property acquisition costs;

construction or reconstruction costs;

costs of environmental remediation;

real estate taxes;

capitalized interest;

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.

***Unfavorable changes in market and economic conditions could hurt occupancy or rental rates.***

Local conditions in our markets significantly affect occupancy or rental rates at our communities. The risks that may adversely affect conditions in those markets include the following:

plant closings, 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; and

rent control or rent stabilization laws, or other laws regulating housing, that could prevent us from raising rents to offset increases in operating costs.

***Changes in applicable laws, or noncompliance with applicable laws, could adversely affect our operations or expose us to liability.***

We must operate our communities in compliance with numerous federal, state and local laws and regulations, including landlord tenant laws and other laws generally applicable to business operations. Noncompliance with laws could expose us to liability.

Compliance with changes in (i) laws increasing 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 (iii) other governmental rules and regulations or enforcement policies affecting the use and operation of our communities, including changes to building codes and fire and life-safety codes, may result in lower revenue growth or significant unanticipated expenditures.

***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 that are available for rent, as well as new and existing condominiums and single-family homes 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 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.

***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 cash flow will be insufficient to meet required payments of principal and interest. In this regard, we note that 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 our net capital gain, in order for us to continue to qualify as a REIT, and 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 which 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.***

We currently have, and may in the future, incur variable interest rate debt. 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.

***Bond financing and zoning 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 communities. As a condition to obtaining tax-exempt financing, or on occasion as a condition to obtaining favorable zoning 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, 2006, approximately 7% of our apartment homes at current operating communities were under use 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 aggressively and, in consequence, can also limit increases in the value of the communities subject to these restrictions.

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.

***Risks related to indebtedness.***

We have a \$650,000,000 revolving variable rate unsecured credit facility with JPMorgan Chase Bank, N.A., and Wachovia Bank, N.A., serving together as syndication agent and as banks, Bank of America, N.A., serving as administrative agent, swing lender, issuing bank and a bank, Morgan Stanley Bank, Wells Fargo Bank, N.A., and Deutsche Bank Trust Company Americas, serving collectively as documentation agent and as banks, and a syndicate of other financial institutions, serving as 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 those of our properties subject to secured debt, our unsecured 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 severely affect our liquidity and increase our financing costs.

***Failure to generate sufficient revenue could limit cash flow available for distributions to stockholders.***

A decrease in rental revenue could have an adverse effect on our ability to pay distributions to our stockholders and our ability to maintain our status as a REIT. 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.

***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 an appropriate blend of 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.

***Difficulty of selling apartment communities could limit flexibility.***

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 hard to sell, especially if market conditions are poor. These 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.

***Acquisitions may not yield anticipated results.***

Subject to the requirements related to the Fund, we may in the future acquire apartment communities on a select basis. Our acquisition activities and their success 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 repositioning or redeveloping an acquired property may prove inaccurate.

***Failure to succeed in new markets 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. As noted in the business description above, we also own and operate retail space when a retail component represents the best use of the space, as is often the case with large urban in-fill developments. Also as noted in the business description above, we expect to develop, through a taxable REIT subsidiary, directly or through a joint venture partnership, one or more parcels with the intent to sell, which we believe represents the best use for those parcels. 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, should we choose to enter them, or that we will be successful in these other activities. We may be exposed to a variety of risks if we choose to enter new markets, including an inability to evaluate accurately 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 lack of familiarity with local governmental and permitting procedures. We may be unsuccessful in owning and operating retail space at our communities or in developing real estate with the intent to sell.

***Risks involved in real estate activity through joint ventures.***

Instead of acquiring or developing apartment communities directly, at times we invest as a partner or a co-venturer. Partnership or joint venture investments 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 which 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 arrangement, which could cause us to sell our interest, or acquire our partner's interest, at a time when we otherwise would not have initiated such a transaction.

***Risks associated with an investment in and management of a discretionary investment fund.***

We have formed the Fund which, through a wholly-owned subsidiary, we manage as the general partner and to which we have committed \$50,000,000, representing an approximate 15% equity interest. This presents risks, including the following:

investors in the Fund may fail to make their capital contributions when due and, as a result, the Fund may be unable to execute its investment objectives;

our subsidiary that is the general partner of the Fund is generally liable, under partnership law, for the debts and obligations of the Fund, subject to certain exculpation and indemnification rights pursuant to the terms of the partnership agreement of the Fund;

investors in the Fund holding a majority of the partnership interests may remove us as the general partner without cause, subject to our right to receive an additional nine months of management fees after such removal and our right to acquire one of the properties then held by the Fund;

while we have broad discretion to manage the Fund and make investment decisions on behalf of the Fund, 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 Fund to make certain investments or implement certain decisions that we consider beneficial;

we can develop communities but are generally prohibited from making acquisitions of apartment communities outside of the Fund until the earlier of March 16, 2008 or until 80% of the Fund's committed capital is invested, subject to certain exceptions; and

we may be liable if either the Fund, or the REIT through which a number of investors have invested in the Fund and which we manage, fails to comply with various tax or other regulatory matters.

***Risk of earthquake damage.***

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 is expensive due to limited industry capacity. As a result, we may experience shortages in desired coverage levels if market conditions are such that insurance is not available.

***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 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 management'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 materially and adversely affect our business and our financial condition and results of operations.

***We may incur costs and increased expenses to repair property damage resulting from inclement weather.***

Particularly in the Northeast and Midwest we are exposed to risks associated with inclement winter weather, including increased costs for the removal of snow and ice as well as from delays in construction. In addition, inclement weather could increase the need for maintenance and repair of our communities.

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

Under various federal, state and local environmental 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 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. The presence of such substances, or the failure to properly remediate the contamination, may adversely affect our ability to borrow against, sell or rent the affected property.

In addition, some environmental laws create 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. Noncompliance with such laws and regulations may subject us to fines and penalties. We do not currently anticipate that we will incur any material liabilities as a result of noncompliance with these laws.

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 several of the communities that we acquired. We implement an operations and maintenance program at each of the communities at which ACMs are detected. We do not currently anticipate that we will incur any material liabilities as a result of the presence of ACMs at our communities.

We are aware that some of our communities have lead paint and have implemented an operations and maintenance program at each of those communities. We do not currently anticipate that we will incur any material liabilities as a result of the presence of lead paint at our communities.

All of our stabilized operating communities, and all of the communities that we are currently developing or redeveloping, have been subjected to at least a Phase I or similar environmental assessment, which generally does not involve invasive techniques such as soil or ground water 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 operation. 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. 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. Although the occurrence of mold at multifamily and other structures, and the need to remediate such mold, is not a new phenomenon, there has been increased awareness in recent years that 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. 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 could relate to hazardous or toxic substances. We are not aware of any material environmental liabilities with respect to properties managed or developed by us or our predecessors for such third parties.

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.

***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 federal income tax on our taxable income at regular corporate rates (subject to any applicable alternative minimum tax). 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 Internal Revenue 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. 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 shareholders. In addition, we may engage in activities

through taxable subsidiaries and will be subject to federal income tax at regular corporate rates on the income of those subsidiaries.

***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 to otherwise address concerns about concentrations of ownership of our stock, our charter generally prohibits ownership (directly, indirectly by virtue of the attribution provisions of the Internal Revenue 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. 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.

Our bylaws provide that the affirmative vote of holders of a majority of all of the shares entitled to be cast in the election of directors is required to elect a director. In a contested election, if no nominee receives the vote of holders of a majority of all of the shares entitled to be cast, the incumbent directors would remain in office. This requirement 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 reelection 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 and Redevelopment Communities. The following is a description of each category:

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

*Established Communities (also known as Same Store Communities)* are consolidated communities where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year. For the year ended December 31, 2006, the Established Communities are communities that are consolidated for financial reporting purposes, had stabilized occupancy and operating expenses as of January 1, 2005, are not conducting or planning to conduct substantial redevelopment activities and are not held for sale or planned for disposition within the current 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 communities that we own or have a direct or indirect ownership interest in, and that have stabilized occupancy, as defined above. Other Stabilized Communities do not include communities that are conducting or planning to conduct substantial redevelopment activities within the current year.

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

*Redevelopment Communities* are communities where substantial redevelopment is in progress or is planned to begin during the current year. For communities that we wholly own, 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 acquisition cost. The definition of substantial redevelopment may differ for communities owned through a joint venture arrangement.

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

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

In addition, we own approximately 60,000 square feet of office space in Alexandria, Virginia, for our corporate office, with all other regional and administrative offices leased under operating leases.

As of December 31, 2006, communities that we owned or held a direct or indirect interest in were classified as follows:

|                                | Number of<br>communities | Number of<br>apartment<br>homes |
|--------------------------------|--------------------------|---------------------------------|
| <u>Current Communities</u>     |                          |                                 |
| Established Communities:       |                          |                                 |
| Northeast                      | 35                       | 8,674                           |
| Mid-Atlantic                   | 17                       | 5,413                           |
| Midwest                        | 3                        | 887                             |
| Pacific Northwest              | 10                       | 2,500                           |
| Northern California            | 29                       | 8,450                           |
| Southern California            | 11                       | 3,430                           |
| Total Established              | 105                      | 29,354                          |
| Other Stabilized Communities:  |                          |                                 |
| Northeast                      | 19                       | 6,088                           |
| Mid-Atlantic                   | 5                        | 1,397                           |
| Midwest                        | 2                        | 460                             |
| Pacific Northwest              | 1                        | 211                             |
| Northern California            | 3                        | 603                             |
| Southern California            | 7                        | 2,128                           |
| Total Other Stabilized         | 37                       | 10,887                          |
| Lease-Up Communities           | 2                        | 519                             |
| Redevelopment Communities      | 6                        | 2,381                           |
| Total Current Communities      | 150                      | 43,141                          |
| <u>Development Communities</u> | 17                       | 5,153                           |
| <u>Development Rights</u>      | 54                       | 14,185                          |

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

Current Communities

Our Current Communities are primarily garden-style apartment communities consisting of two and three-story buildings in landscaped settings. In January 2007, the Fund acquired one community containing 392 apartment homes. The Current Communities, as of January 31, 2007, include 115 garden-style (of which 15 are mixed communities and include townhomes), 21 high-rise and 15 mid-rise apartment communities. The Current Communities offer many



attractive amenities including some or all of the following:

vaulted ceilings;

lofts;

fireplaces;

patios/decks; and

modern appliances.

Other features at various communities may include:

swimming pools;

fitness centers;

tennis courts; and

business centers.

We also have an extensive and ongoing maintenance program to keep all communities and apartment homes substantially free of deferred maintenance and, where vacant, available for immediate occupancy. We believe that 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 this will ultimately 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 |              |
|----------------------------|--------------------------|-----------|------------------------------|---------------|--|--------------|
|                            | 1-1-06                   | 1-31-07   | 1-1-06                       | 1-31-07       | 1-1-06                                 | 1-31-07      |
| <b>Northeast</b>           | <b>55</b>                | <b>56</b> | <b>15,671</b>                | <b>15,732</b> | <b>37.8%</b>                           | <b>36.1%</b> |
| Boston, MA                 | 18                       | 18        | 4,514                        | 4,490         | 10.9%                                  | 10.3%        |
| Fairfield County, CT       | 16                       | 14        | 4,375                        | 3,812         | 10.6%                                  | 8.8%         |
| Long Island, NY            | 3                        | 6         | 915                          | 1,621         | 2.2%                                   | 3.7%         |
| Northern New Jersey        | 3                        | 3         | 1,182                        | 1,182         | 2.9%                                   | 2.7%         |
| Central New Jersey         | 5                        | 6         | 1,752                        | 2,042         | 4.2%                                   | 4.7%         |
| New York, NY               | 10                       | 9         | 2,933                        | 2,585         | 7.1%                                   | 5.9%         |
| <b>Mid-Atlantic</b>        | <b>21</b>                | <b>24</b> | <b>6,859</b>                 | <b>7,622</b>  | <b>16.6%</b>                           | <b>17.5%</b> |
| Baltimore, MD              | 6                        | 9         | 1,224                        | 1,987         | 3.0%                                   | 4.6%         |
| Washington, DC             | 15                       | 15        | 5,635                        | 5,635         | 13.6%                                  | 12.9%        |
| <b>Midwest</b>             | <b>6</b>                 | <b>7</b>  | <b>1,696</b>                 | <b>1,952</b>  | <b>4.1%</b>                            | <b>4.5%</b>  |
| Chicago, IL                | 6                        | 7         | 1,696                        | 1,952         | 4.1%                                   | 4.5%         |
| <b>Pacific Northwest</b>   | <b>12</b>                | <b>12</b> | <b>3,111</b>                 | <b>3,111</b>  | <b>7.5%</b>                            | <b>7.2%</b>  |
| Seattle, WA                | 12                       | 12        | 3,111                        | 3,111         | 7.5%                                   | 7.2%         |
| <b>Northern California</b> | <b>32</b>                | <b>33</b> | <b>9,203</b>                 | <b>9,366</b>  | <b>22.2%</b>                           | <b>21.5%</b> |
| Oakland-East Bay, CA       | 7                        | 7         | 2,089                        | 2,089         | 5.0%                                   | 4.8%         |
| San Francisco, CA          | 9                        | 11        | 2,015                        | 2,489         | 4.9%                                   | 5.7%         |
| San Jose, CA               | 16                       | 15        | 5,099                        | 4,788         | 12.3%                                  | 11.0%        |
| <b>Southern California</b> | <b>16</b>                | <b>19</b> | <b>4,872</b>                 | <b>5,750</b>  | <b>11.8%</b>                           | <b>13.2%</b> |
| Los Angeles, CA            | 7                        | 9         | 2,448                        | 3,006         | 5.9%                                   | 6.9%         |
| Orange County, CA          | 6                        | 7         | 1,366                        | 1,686         | 3.3%                                   | 3.9%         |
| San Diego, CA              | 3                        | 3         | 1,058                        | 1,058         | 2.6%                                   | 2.4%         |
|                            | 142                      | 151       | 41,412                       | 43,533        | 100.0%                                 | 100.0%       |

We manage and operate substantially all of our Current Communities. During the year ended December 31, 2006, including communities owned by joint ventures and the Fund, we completed construction of 1,368 apartment homes in six communities, acquired 1,397 apartment homes in six communities and sold 1,036 apartment homes in four communities. The average age of our Current Communities, on a weighted average basis according to number of apartment homes, is 14.1 years. When adjusted to reflect redevelopment activity, as if redevelopment were a new construction completion date, the average age of our Current Communities is 9.3 years.

Of the Current Communities, as of January 31, 2007, we own:

a full fee simple, or absolute, ownership interest in 113 operating communities, six of which are on land subject to land leases expiring in November 2028, July 2029, December 2034, January 2062, April 2095, and March 2142;

a general partnership interest in two partnerships that each own a fee simple interest in an operating community;

a general partnership interest and an indirect limited partnership interest in the Fund, which owns a fee simple interest in 14 operating communities;

a general partnership interest in five partnerships structured as DownREITs, as described more fully below, that own an aggregate of 16 communities;

a membership interest in five limited liability companies that each hold a fee simple interest in an operating community, three of which are on land subject to land leases expiring in December 2026, November 2089, and December 2103; and

a residual profits interest (with no ownership interest) in a limited liability company to which an operating community was transferred upon completion of construction in the second quarter of 2006.

We also hold, directly or through wholly-owned subsidiaries, the full fee simple ownership interest in 17 of the Development Communities.

In each of our five partnerships structured as DownREITs, either AvalonBay or one of our wholly-owned subsidiaries is the general partner, and there are one or more limited partners whose interest in the partnership is represented by units of limited partnership interest. For each DownREIT partnership, limited partners are entitled to receive an initial distribution before any distribution is made to the general partner. Although the partnership agreements for each of the DownREITs are different, generally the distributions per unit paid to the holders of units of limited partnership interests have approximated 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 applicable 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, 2007, there were 144,955 DownREIT partnership units outstanding. The DownREIT partnerships are consolidated for financial reporting purposes.

**Profile of Current, Development and Unconsolidated Communities (1)**  
**(Dollars in thousands, except per apartment home data)**

| Community Name                    | City and state        | Approx. Number of rentable area |         | Acres | Year of completion / acquisition | Average Physical occupancy |          | Average economic occupancy |       | Average rental rate |                | Financial report cost |
|-----------------------------------|-----------------------|---------------------------------|---------|-------|----------------------------------|----------------------------|----------|----------------------------|-------|---------------------|----------------|-----------------------|
|                                   |                       | (Sq. Ft.)                       |         |       |                                  | size at (Sq. Ft.)          | 12/31/06 | 2006                       | 2005  | \$ per Apt (4)      | \$ per Sq. Ft. |                       |
| <b>CURRENT COMMUNITIES</b>        |                       |                                 |         |       |                                  |                            |          |                            |       |                     |                |                       |
| <b>NORTHEAST</b>                  |                       |                                 |         |       |                                  |                            |          |                            |       |                     |                |                       |
| <b>Newton, MA</b>                 |                       |                                 |         |       |                                  |                            |          |                            |       |                     |                |                       |
| Apartment at Bedford Center       | Bedford, MA           | 139                             | 159,704 | 38.0  | 2006                             | 1,149                      | 95.7%    | 85.4%(3)                   | 17.1% | \$ 1,705            | \$ 1.27(3)     | 24,7                  |
| Apartment at Center Street (11)   | Providence, RI        | 225                             | 222,834 | 1.2   | 1991/1997                        | 990                        | 88.0%    | 93.8%                      | 95.6% | 2,247               | 2.13           | 28,7                  |
| Apartment at Crane Brook          | Danvers & Peabody, MA | 387                             | 410,454 | 20.0  | 2004                             | 1,271                      | 95.3%    | 95.5%                      | 85.6% | 1,349               | 1.21           | 54,7                  |
| Apartment at Faxon                | Quincy, MA            | 171                             | 175,649 | 8.3   | 1998                             | 1,027                      | 95.3%    | 96.3%                      | 95.7% | 1,596               | 1.50           | 15,0                  |
| Apartment at Flanders             | Westborough, MA       | 280                             | 299,828 | 62.0  | 2003                             | 1,099                      | 95.7%    | 95.4%                      | 97.0% | 1,515               | 1.35           | 37,2                  |
| Apartment at Lexington            | Lexington, MA         | 198                             | 230,277 | 16.1  | 1994                             | 1,163                      | 98.0%    | 95.9%                      | 97.1% | 1,775               | 1.46           | 16,0                  |
| Apartment at Newton Highlands (8) | Newton, MA            | 294                             | 339,484 | 7.0   | 2003                             | 1,177                      | 95.2%    | 95.2%                      | 96.0% | 2,220               | 1.83           | 56,0                  |
| Apartment at Residential Center   | Boston, MA            | 780                             | 732,237 | 1.0   | 1968/1998                        | 939                        | 97.4%    | 97.5%                      | 96.8% | 2,767               | 2.87           | 156,0                 |
| Apartment at Steven's Pond        | Saugus, MA            | 326                             | 381,825 | 82.6  | 2004                             | 1,106                      | 96.0%    | 95.7%                      | 94.6% | 1,587               | 1.30           | 54,2                  |
| Apartment at The Hills I          | Plymouth, MA          | 101                             | 151,712 | 6.0   | 2004                             | 1,954                      | 96.0%    | 93.4%                      | 83.9% | 1,814               | 1.13           | 19,9                  |
| Apartment at Essex                | Peabody, MA           | 154                             | 198,478 | 11.1  | 2000                             | 1,289                      | 98.1%    | 97.3%                      | 96.6% | 1,605               | 1.21           | 21,8                  |
| Apartment at Ledges               | Weymouth, MA          | 304                             | 329,822 | 57.6  | 2002                             | 1,023                      | 95.4%    | 95.3%                      | 94.3% | 1,432               | 1.26           | 36,3                  |
| Apartment at Oaks                 | Wilmington, MA        | 204                             | 229,752 | 22.5  | 1999                             | 1,023                      | 98.5%    | 95.1%                      | 93.5% | 1,515               | 1.28           | 21,2                  |
| Apartment at Oaks West            | Wilmington, MA        | 120                             | 133,376 | 27.0  | 2002                             | 1,033                      | 97.5%    | 93.7%                      | 93.8% | 1,432               | 1.21           | 16,8                  |
| Apartment at Orchards             | Marlborough, MA       | 156                             | 176,497 | 23.0  | 2002                             | 1,219                      | 95.5%    | 96.4%                      | 97.2% | 1,495               | 1.27           | 21,1                  |
| Apartment at Summit               | Quincy, MA            | 245                             | 224,418 | 8.0   | 1986/1996                        | 916                        | 97.6%    | 95.5%                      | 95.2% | 1,221               | 1.27           | 17,3                  |
| Apartment at West                 | Westborough, MA       | 120                             | 147,472 | 8.0   | 1996                             | 1,229                      | 95.8%    | 95.9%                      | 96.7% | 1,432               | 1.12           | 11,3                  |
| Apartment at Exchange Place       | Peabody, MA           | 286                             | 250,322 | 18.0  | 2004                             | 875                        | 96.2%    | 97.8%                      | 96.3% | 1,090               | 1.22           | 23,7                  |

| <b>Stamford, CT</b>         |                 |     |         |      |           |       |       |          |          |       |         |      |
|-----------------------------|-----------------|-----|---------|------|-----------|-------|-------|----------|----------|-------|---------|------|
| Stamford at                 | Stamford, CT    |     |         |      | 2002      |       |       |          |          |       |         |      |
| Brook Place                 |                 | 306 | 314,600 | 3.0  |           | 1,040 | 97.4% | 97.9%    | 97.6%    | 2,088 | 1.99    | 70.3 |
| Stamford Danbury            | Danbury, CT     | 234 | 235,320 | 36.0 | 2005      | 1,006 | 94.0% | 94.5%    | 40.8%(3) | 1,619 | 1.52    | 35.4 |
| Stamford Darien             | Darien, CT      | 189 | 242,533 | 32.0 | 2004      | 1,282 | 95.8% | 93.7%    | 97.7%    | 2,500 | 1.82    | 41.5 |
| Stamford Gates              | Trumbull, CT    | 340 | 379,282 | 37.0 | 1997      | 1,116 | 95.0% | 98.1%    | 96.3%    | 1,554 | 1.37    | 37.1 |
| Stamford Glen               | Stamford, CT    | 238 | 229,644 | 4.1  | 1991      | 965   | 93.7% | 97.2%    | 98.0%    | 1,878 | 1.89    | 32.1 |
|                             | North Haven, CT |     |         |      | 2000      |       |       |          |          |       |         |      |
| Stamford Haven              | CT              | 128 | 139,972 | 10.6 |           | 1,094 | 96.1% | 97.4%    | 95.9%    | 1,511 | 1.35    | 13.9 |
| Stamford Milford I          | Milford, CT     | 246 | 216,746 | 22.0 | 2004      | 886   | 95.9% | 98.1%    | 93.9%    | 1,363 | 1.52    | 31.4 |
| Stamford New Canaan (7)     | New Canaan, CT  | 104 | 131,782 | 9.1  | 2002      |       |       |          |          |       |         |      |
|                             |                 |     |         |      |           | 1,251 | 92.3% | 95.7%    | 96.4%    | 2,910 | 2.20    | 24.3 |
| Stamford on                 | Stamford, CT    |     |         |      | 2003      |       |       |          |          |       |         |      |
| Stamford Harbor             |                 | 323 | 323,587 | 12.1 |           | 1,002 | 98.8% | 97.6%    | 96.5%    | 2,334 | 2.27    | 62.8 |
| Stamford Orange             | Orange, CT      | 168 | 163,238 | 9.6  | 2005      | 972   | 95.2% | 97.9%    | 64.1%(3) | 1,436 | 1.45    | 22.0 |
| Stamford Springs            | Wilton, CT      | 102 | 158,259 | 12.0 | 1996      | 1,552 | 95.1% | 92.7%    | 93.9%    | 2,845 | 1.70    | 17.1 |
| Stamford Valley             | Danbury, CT     | 268 | 300,044 | 17.1 | 1999      | 1,070 | 97.4% | 98.1%    | 94.9%    | 1,621 | 1.42    | 26.3 |
| Stamford Walk I & II        | Hamden, CT      |     |         |      | 1992/1994 |       |       |          |          |       |         |      |
|                             |                 | 764 | 766,604 | 38.4 |           | 996   | 89.9% | 91.7%(2) | 93.2%    | 1,242 | 1.14(2) | 65.4 |
| <b>Long Island, NY</b>      |                 |     |         |      |           |       |       |          |          |       |         |      |
| Stamford at Glen Cove South | Glen Cove, NY   | 256 | 261,425 | 4.0  | 2004      |       |       |          |          |       |         |      |
|                             | Smithtown, NY   |     |         |      | 1997      |       |       |          |          |       |         |      |
| Stamford Commons            | NY              | 312 | 377,240 | 20.6 |           | 1,209 | 96.8% | 97.1%    | 97.4%    | 2,014 | 1.62    | 33.7 |
| Stamford Court              | Melville, NY    | 494 | 596,942 | 35.4 | 1997/2000 | 1,208 | 96.4% | 96.3%    | 96.8%    | 2,394 | 1.91    | 59.8 |
| Stamford Pines I            | Coram, NY       | 298 | 362,124 | 32.0 | 2005      | 1,485 | 95.3% | 95.9%    | 71.6%(3) | 1,816 | 1.43    | 46.4 |
| Stamford Pines II           | Coram, NY       | 152 | 185,954 | 42.0 | 2006      | 1,223 | 98.7% | 71.0%(3) | N/A      | 2,310 | 1.34(3) | 23.8 |
|                             | Long Beach, NY  |     |         |      | 1990/1995 |       |       |          |          |       |         |      |
| Stamford Towers             | NY              | 109 | 124,611 | 1.3  |           | 1,143 | 98.2% | 97.7%    | 97.7%    | 3,339 | 2.85    | 21.2 |

**Profile of Current, Development and Unconsolidated Communities (1)**  
**(Dollars in thousands, except per apartment home data)**

|                            | City and state       | Approx. Number of rentable homes (Sq. Ft.) Acres |         | Year of completion / acquisition | Average Physical occupancy at 12/31/06 |       | Average economic occupancy 2006 2005 |          | Average rental rate \$ per Apt (4) \$ per Sq. Ft. |       | Financial report cost (5) |       |
|----------------------------|----------------------|--|---------|----------------------------------|--|-------|--------------------------------------|----------|---|-------|---------------------------|-------|
|                            |                      |  |         |                                  | size (Sq. Ft.)                         |       |                                      |          |   |       |                           |       |
| <b>Northern New Jersey</b> |                      |  |         |                                  |  |       |                                      |          |   |       |                           |       |
| Avalon at Edgewater        | Edgewater, NJ        | 408  | 428,611 | 7.6                              | 2002                                   | 1,051 | 96.3%                                | 95.8%    | 96.3%   | 2,269 | 2.07                      | 75,2  |
| Avalon at Florham Park     | Florham Park, NJ     | 270  | 330,410 | 41.9                             | 2001                                   | 1,224 | 95.6%                                | 97.6%    | 96.4%   | 2,467 | 1.97                      | 41,8  |
| Avalon Cove                | Jersey City, NJ      | 504  | 575,334 | 11.0                             | 1997                                   | 1,142 | 98.8%                                | 97.7%    | 97.5%   | 2,677 | 2.29                      | 92,8  |
| <b>Central New Jersey</b>  |                      |  |         |                                  |  |       |                                      |          |   |       |                           |       |
| Avalon at Freehold         | Freehold, NJ         | 296  | 317,331 | 40.3                             | 2002                                   | 1,072 | 98.0%                                | 96.3%    | 95.6%   | 1,679 | 1.51                      | 34,7  |
| Avalon Run (13)            | Lawrenceville, NJ    | 426  | 443,168 | 9.0                              | 1994                                   | 1,010 | 95.8%                                | 94.6%    | 95.5%   | 1,401 | 1.27                      | 60,0  |
| Avalon Run East            | Lawrenceville, NJ    | 206  | 257,938 | 27.1                             | 1996                                   | 1,287 | 97.1%                                | 95.8%    | 96.0%   | 1,594 | 1.22                      | 16,3  |
| Avalon Run East (8)        | Lawrenceville, NJ    | 312  | 341,320 | 70.5                             | 2003                                   | 1,095 | 96.5%                                | 96.2%    | 87.6%   | 1,722 | 1.51                      | 52,1  |
| Avalon Watch               | West Windsor, NJ     | 512  | 486,069 | 64.4                             | 1988                                   | 949   | 96.1%                                | 96.4%    | 95.3%   | 1,368 | 1.39                      | 30,1  |
| <b>New York, NY</b>        |                      |  |         |                                  |  |       |                                      |          |   |       |                           |       |
| Avalon Bowery              | New York, NY         | 206  | 162,000 | 1.1                              | 2006                                   | 786   | 59.7%                                | 32.2%(3) | N/A   | 3,418 | 1.40(3)                   | 89,5  |
| Avalon Gardens             | Nanuet, NY           | 504  | 608,842 | 62.5                             | 1998                                   | 1,208 | 95.2%                                | 97.0%    | 97.8%   | 2,035 | 1.63                      | 55,1  |
| Avalon Green               | Elmsford, NY         | 105  | 113,538 | 16.9                             | 1995                                   | 1,081 | 94.3%                                | 96.5%    | 96.3%   | 2,148 | 1.92                      | 13,2  |
| Avalon on the Grand (11)   | New Rochelle, NY     | 412  | 372,860 | 2.4                              | 2001                                   | 905   | 96.4%                                | 96.2%    | 96.2%   | 2,237 | 2.38                      | 117,0 |
| Avalon Riverview (1)       | Long Island City, NY | 372  | 332,947 | 1.0                              | 2002                                   | 895   | 97.0%                                | 96.7%    | 96.7%   | 2,956 | 3.19                      | 94,5  |
| Avalon View                | Wappingers Falls, NY | 288  | 327,547 | 41.0                             | 1993                                   | 1,137 | 92.0%                                | 95.0%    | 92.7%   | 1,320 | 1.10                      | 19,2  |
| Avalon Willow              | Mamaroneck, NY       | 227  | 199,842 | 4.0                              | 2000                                   | 880   | 98.2%                                | 98.9%    | 96.4%   | 2,044 | 2.29                      | 47,5  |
| Avalon                     | Bronxville, NY       | 110  | 119,410 | 1.5                              | 1999                                   | 1,085 | 96.4%                                | 97.0%    | 96.4%   | 3,438 | 3.07                      | 31,3  |

**D-ATLANTIC**  
**Baltimore, MD**

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|                               |                       |     |         |      |           |       |        |          |          |       |         |       |
|-------------------------------|-----------------------|-----|---------|------|-----------|-------|--------|----------|----------|-------|---------|-------|
| alton at<br>rway Hills I &    | Columbia,<br>MD       | 384 | 386,344 | 23.8 | 1987/1996 | 1,005 | 95.1%  | 97.0%    | 94.7%    | 1,207 | 1.16    | 22,7  |
| alton at<br>rway Hills III    | Columbia,<br>MD       | 336 | 337,683 | 20.2 | 1987/1996 | 1,005 | 94.9%  | 95.1%(2) | 91.1%(2) | 1,293 | 1.22(2) | 29,3  |
| alton at<br>nphony Glen       | Columbia,<br>MD       | 176 | 179,880 | 10.0 | 1986      | 1,022 | 91.0%  | 96.6%    | 95.9%    | 1,200 | 1.13    | 9,3   |
| alton Landing<br>thgate       | Annapolis,<br>MD      | 158 | 117,033 | 13.8 | 1984/1995 | 741   | 97.5%  | 97.8%    | 97.2%    | 1,177 | 1.55    | 10,1  |
| ssing                         | Columbia,<br>MD       | 215 | 212,420 | 12.7 | 1986/2006 | 988   | 95.3%  | 93.8%    | N/A      | 248   | 0.24    | 36,3  |
| <b>Washington, DC</b>         |                       |     |         |      |           |       |        |          |          |       |         |       |
| umnWoods                      | Fairfax, VA           | 420 | 355,228 | 24.3 | 1989/1996 | 846   | 86.4%  | 94.6%(2) | 95.2%    | 1,225 | 1.37(2) | 33,2  |
| alton at<br>ngton Square      | Arlington, VA         | 842 | 901,120 | 20.1 | 2001      | 1,070 | 97.1%  | 96.5%    | 94.7%    | 1,770 | 1.60    | 112,6 |
| alton at<br>lston             | Arlington, VA         |     |         |      | 1990      |       |        |          |          |       |         |       |
| shington<br>vers              |                       | 344 | 294,954 | 4.1  |           | 857   | 95.9%  | 97.8%    | 97.2%    | 1,602 | 1.83    | 38,1  |
| alton at<br>neron Court       | Alexandria,<br>VA     | 460 | 467,292 | 16.0 | 1998      | 1,016 | 95.2%  | 97.3%    | 95.3%    | 1,725 | 1.65    | 43,5  |
| alton at<br>roverly           | Rockville,<br>MD      | 368 | 368,374 | 24.0 | 1991/1995 | 1,001 | 94.8%  | 97.0%    | 95.3%    | 1,369 | 1.33    | 32,2  |
| alton at Foxhall              | Washington,<br>DC     | 308 | 297,875 | 2.7  | 1982      | 967   | 98.7%  | 96.6%    | 94.3%    | 2,050 | 2.05    | 44,3  |
| alton at Gallery<br>ce I      | Washington,<br>DC     | 203 | 184,230 | 0.5  | 2003      | 903   | 97.5%  | 95.7%    | 95.6%    | 2,235 | 2.36    | 48,8  |
| alton at<br>svenor Station    | North<br>Bethesda, MD | 497 | 477,459 | 10.0 | 2004      | 963   | 96.8%  | 97.3%    | 95.7%    | 1,627 | 1.65    | 82,1  |
| alton at<br>vidence Park      | Fairfax, VA           | 141 | 148,282 | 9.3  | 1988/1997 | 1,052 | 100.0% | 96.9%    | 96.8%    | 1,387 | 1.28    | 11,6  |
| alton at Rock<br>ing (9) (11) | North<br>Bethesda, MD | 386 | 388,232 | 10.2 | 2003      | 1,006 | 97.2%  | 96.6%    | 94.9%    | 1,659 | 1.59    | 46,2  |
| alton at Traville             | North<br>Potomac, MD  | 520 | 573,717 | 47.9 | 2004      | 1,103 | 96.5%  | 97.7%    | 94.7%    | 1,595 | 1.41    | 69,7  |
| alton Crescent                | McLean, VA            | 558 | 613,426 | 19.1 | 1996      | 1,099 | 96.1%  | 96.0%    | 96.2%    | 1,770 | 1.55    | 57,6  |
| alton Fields I &              | Gaithersburg,<br>MD   | 288 | 292,282 | 9.2  | 1998      | 1,050 | 92.7%  | 97.0%    | 95.7%    | 1,350 | 1.29    | 22,7  |
| alton Knoll                   | Germantown,<br>MD     | 300 | 290,544 | 26.7 | 1985      | 968   | 95.7%  | 97.2%    | 95.8%    | 1,147 | 1.15    | 9,3   |



**Profile of Current, Development and Unconsolidated Communities (1)**  
**(Dollars in thousands, except per apartment home data)**

| City and state homes          | Approx. Number rentable of area |      | Acres | Year of completion / acquisition | Average Physical occupancy |          | Average economic occupancy |       | Average rental rate |                | Financial reporting cost (5) |
|-------------------------------|---------------------------------|------|-------|----------------------------------|----------------------------|----------|----------------------------|-------|---------------------|----------------|------------------------------|
|                               | (Sq. Ft.)                       |      |       |                                  | size at (Sq. Ft.)          | 12/31/06 | 2006                       | 2005  | \$ per Apt (4)      | \$ per Sq. Ft. |                              |
| <b>MIDWEST</b>                |                                 |      |       |                                  |                            |          |                            |       |                     |                |                              |
| <b>Chicago, IL</b>            |                                 |      |       |                                  |                            |          |                            |       |                     |                |                              |
| Avalon Arlington Heights      | Arlington Heights, IL           |      |       | 1987/2000                        |                            |          |                            |       |                     |                |                              |
| 409                           | 346,416                         | 2.8  |       |                                  | 848                        | 91.9%    | 92.9%(2)                   | 95.0% | 1,374               | 1.51(2)        | 55,857                       |
| Avalon at Danada Farms (8)    | Wheaton, IL                     |      |       | 1997                             |                            |          |                            |       |                     |                |                              |
| 295                           | 350,606                         | 19.2 |       |                                  | 1,188                      | 95.9%    | 95.3%                      | 95.6% | 1,346               | 1.08           | 38,972                       |
| Avalon at Stratford Green (8) | Bloomington, IL                 |      |       | 1997                             |                            |          |                            |       |                     |                |                              |
| 192                           | 237,084                         | 12.7 |       |                                  | 1,235                      | 95.3%    | 95.9%                      | 95.1% | 1,322               | 1.03           | 22,164                       |
| Avalon at West Grove (8)      | Westmont, IL                    |      |       | 1967                             |                            |          |                            |       |                     |                |                              |
| 400                           | 388,500                         | 17.4 |       |                                  | 971                        | 94.5%    | 95.0%                      | 96.2% | 881                 | 0.86           | 31,272                       |
| <b>PACIFIC NORTHWEST</b>      |                                 |      |       |                                  |                            |          |                            |       |                     |                |                              |
| <b>Seattle, WA</b>            |                                 |      |       |                                  |                            |          |                            |       |                     |                |                              |
| Avalon at Bear Creek (8)      | Redmond, WA                     |      |       | 1998                             |                            |          |                            |       |                     |                |                              |
| 264                           | 288,250                         | 22.2 |       |                                  | 1,092                      | 95.8%    | 96.3%                      | 94.6% | 1,174               | 1.04           | 34,857                       |
| Avalon Bellevue               | Bellevue, WA                    |      |       | 2001                             |                            |          |                            |       |                     |                |                              |
| 202                           | 167,069                         | 1.7  |       |                                  | 827                        | 98.0%    | 96.5%                      | 95.8% | 1,361               | 1.59           | 30,862                       |
| Avalon Belltown               | Seattle, WA                     |      |       | 2001                             |                            |          |                            |       |                     |                |                              |
| 100                           | 82,418                          | 0.7  |       |                                  | 824                        | 96.0%    | 96.4%                      | 95.5% | 1,610               | 1.88           | 18,444                       |
| Avalon Brandemoor (8)         | Lynwood, WA                     |      |       | 2001                             |                            |          |                            |       |                     |                |                              |
| 424                           | 453,602                         | 27.0 |       |                                  | 1,070                      | 96.0%    | 96.8%                      | 96.6% | 1,034               | 0.94           | 45,646                       |
| Avalon HighGrove (8)          | Everett, WA                     |      |       | 2000                             |                            |          |                            |       |                     |                |                              |
| 391                           | 422,482                         | 19.0 |       |                                  | 1,081                      | 96.4%    | 96.5%                      | 94.9% | 962                 | 0.86           | 39,879                       |
| Avalon ParcSquare (8)         | Redmond, WA                     |      |       | 2000                             |                            |          |                            |       |                     |                |                              |
| 124                           | 126,951                         | 2.0  |       |                                  | 1,024                      | 94.4%    | 96.4%                      | 95.4% | 1,371               | 1.29           | 19,245                       |
| Avalon Redmond Place (8)      | Redmond, WA                     |      |       | 1991/1997                        |                            |          |                            |       |                     |                |                              |
| 222                           | 211,450                         | 8.4  |       |                                  | 952                        | 94.6%    | 96.7%                      | 96.4% | 1,116               | 1.13           | 26,409                       |
| Avalon RockMeadow (8)         | Bothell, WA                     |      |       | 2000                             |                            |          |                            |       |                     |                |                              |
| 206                           | 243,958                         | 11.2 |       |                                  | 1,184                      | 97.1%    | 96.1%                      | 95.0% | 1,132               | 0.92           | 24,806                       |
| Avalon WildReed (8)           | Everett, WA                     |      |       | 2000                             |                            |          |                            |       |                     |                |                              |
| 234                           | 259,080                         | 23.0 |       |                                  | 1,107                      | 96.2%    | 96.7%                      | 95.7% | 955                 | 0.83           | 23,095                       |
| Avalon Wynhaven (8)           | Issaquah, WA                    |      |       | 2001                             |                            |          |                            |       |                     |                |                              |
| 333                           | 424,803                         | 11.6 |       |                                  | 1,276                      | 93.7%    | 95.4%                      | 94.0% | 1,286               | 0.96           | 52,844                       |

**NORTHERN  
CALIFORNIA  
Oakland-East  
Bay, CA**

|                             |                   |     |         |      |           |       |        |       |       |       |      |        |
|-----------------------------|-------------------|-----|---------|------|-----------|-------|--------|-------|-------|-------|------|--------|
| Avalon at Union Square      | Union City, CA    | 208 | 150,320 | 8.5  | 1973/1996 | 723   | 98.1%  | 96.7% | 96.9% | 1,106 | 1.48 | 22,581 |
| Avalon at Willow Creek      | Fremont, CA       | 235 | 191,935 | 13.5 | 1985/1994 | 817   | 100.0% | 97.7% | 96.9% | 1,336 | 1.60 | 36,212 |
| Avalon Dublin               | Dublin, CA        | 204 | 179,004 | 13.0 | 1989/1997 | 877   | 96.6%  | 97.2% | 96.2% | 1,400 | 1.55 | 27,866 |
| Avalon Fremont I            | Fremont, CA       | 308 | 316,052 | 14.3 | 1994      | 1,026 | 95.8%  | 96.9% | 96.3% | 1,583 | 1.49 | 56,612 |
| Avalon Pleasanton           | Pleasanton, CA    | 456 | 366,062 | 14.7 | 1988/1994 | 803   | 97.4%  | 96.8% | 95.9% | 1,304 | 1.57 | 62,350 |
| Avalon Waterford            | Hayward, CA       | 544 | 452,043 | 11.1 | 1985/1986 | 831   | 95.6%  | 95.6% | 94.9% | 1,154 | 1.33 | 61,686 |
| <b>San Francisco, CA</b>    |                   |     |         |      |           |       |        |       |       |       |      |        |
| Avalon at Cedar Ridge       | Daly City, CA     | 195 | 141,411 | 7.0  | 1972/1997 | 725   | 97.4%  | 96.8% | 96.0% | 1,404 | 1.87 | 26,546 |
| Avalon at Diamond Heights   | San Francisco, CA | 154 | 123,047 | 3.0  | 1972/1994 | 799   | 98.1%  | 97.4% | 95.9% | 1,649 | 2.01 | 25,327 |
| Avalon at Mission Bay North | San Francisco, CA | 250 | 243,089 | 1.4  | 2003      | 977   | 92.8%  | 95.2% | 95.5% | 3,057 | 2.99 | 92,812 |
| Avalon at Nob Hill          | San Francisco, CA | 185 | 108,745 | 1.4  | 1990/1995 | 588   | 97.3%  | 96.4% | 96.3% | 1,672 | 2.74 | 28,071 |
| Avalon Foster City          | Foster City, CA   | 288 | 222,364 | 11.0 | 1973/1994 | 772   | 97.9%  | 97.1% | 97.0% | 1,377 | 1.73 | 43,588 |
| Avalon Pacifica             | Pacific, CA       | 220 | 186,800 | 21.9 | 1971/1995 | 849   | 96.8%  | 96.7% | 96.1% | 1,495 | 1.70 | 32,165 |
| Avalon Sunset Towers        | San Francisco, CA | 243 | 171,800 | 16.0 | 1961/1996 | 707   | 95.9%  | 96.7% | 97.4% | 1,714 | 2.34 | 28,778 |
| Avalon Towers by the Bay    | San Francisco, CA | 227 | 243,090 | 1.0  | 1999      | 1,071 | 97.8%  | 96.8% | 96.2% | 2,843 | 2.57 | 67,006 |
| Avalon Crowne Ridge         | San Rafael, CA    | 254 | 221,635 | 21.9 | 1973/1996 | 873   | 98.4%  | 96.3% | 95.8% | 1,324 | 1.46 | 33,063 |

**Profile of Current, Development and Unconsolidated Communities (1)**  
**(Dollars in thousands, except per apartment home data)**

|                                | City and state    | Approx. Number of rentable area |         | Year of completion / acquisition | Average Physical occupancy |             | Average economic occupancy |       | Average rental rate |                | Financial reporting cost |         |
|--------------------------------|-------------------|---------------------------------|---------|----------------------------------|----------------------------|-------------|----------------------------|-------|---------------------|----------------|--------------------------|---------|
|                                |                   | (Sq. Ft.)                       | Acres   |                                  | size (Sq. Ft.)             | at 12/31/06 | 2006                       | 2005  | \$ per Apt (4)      | \$ per Sq. Ft. |                          |         |
| <b>SAN JOSE, CA</b>            |                   |                                 |         |                                  |                            |             |                            |       |                     |                |                          |         |
| Avalon at Blossom Hill         | San Jose, CA      | 324                             | 323,496 | 7.5                              | 1995                       | 998         | 97.8%                      | 96.7% | 96.2%               | 1,484          | 1.44                     | 62,060  |
| Avalon at Cahill Park          | San Jose, CA      | 218                             | 218,177 | 3.8                              | 2002                       | 1,001       | 95.9%                      | 97.0% | 97.1%               | 1,868          | 1.81                     | 52,570  |
| Avalon at Creekside            | Mountain View, CA | 294                             | 215,680 | 13.0                             | 1962/1997                  | 734         | 98.0%                      | 97.7% | 96.5%               | 1,257          | 1.67                     | 43,423  |
| Avalon at Foxchase I & II      | San Jose, CA      | 396                             | 334,956 | 12.0                             | 1988/1987                  | 844         | 97.5%                      | 96.9% | 96.0%               | 1,247          | 1.43                     | 60,670  |
| Avalon at Parkside             | Sunnyvale, CA     | 192                             | 203,990 | 8.0                              | 1991/1996                  | 1,062       | 99.5%                      | 98.0% | 97.4%               | 1,655          | 1.53                     | 38,218  |
| Avalon at Pruneyard            | Campbell, CA      | 252                             | 197,000 | 8.5                              | 1968/1997                  | 782         | 99.6%                      | 97.4% | 97.0%               | 1,251          | 1.56                     | 32,141  |
| Avalon at River Oaks           | San Jose, CA      | 226                             | 210,050 | 4.0                              | 1990/1996                  | 929         | 97.3%                      | 97.6% | 96.7%               | 1,487          | 1.56                     | 45,009  |
| Avalon at Campbell             | Campbell, CA      | 348                             | 326,796 | 10.8                             | 1995                       | 939         | 98.3%                      | 96.9% | 96.2%               | 1,528          | 1.58                     | 60,114  |
| Avalon at Mountain View (7)    | Mountain View, CA | 248                             | 211,552 | 10.5                             | 1986                       | 853         | 96.4%                      | 95.9% | 95.1%               | 1,567          | 1.76                     | 51,609  |
| Avalon on the Alameda          | San Jose, CA      | 305                             | 299,762 | 8.9                              | 1999                       | 983         | 97.0%                      | 96.9% | 95.2%               | 1,850          | 1.82                     | 56,506  |
| Avalon at Rosewalk             | San Jose, CA      | 456                             | 448,488 | 16.6                             | 1997/1999                  | 984         | 98.0%                      | 96.4% | 95.7%               | 1,480          | 1.45                     | 79,364  |
| Avalon Silicon Valley          | Sunnyvale, CA     | 710                             | 653,929 | 13.6                             | 1997                       | 921         | 95.2%                      | 96.5% | 95.8%               | 1,732          | 1.81                     | 122,123 |
| Avalon Towers on the Peninsula | Mountain View, CA | 211                             | 218,392 | 1.9                              | 2002                       | 1,035       | 97.6%                      | 96.5% | 96.7%               | 2,422          | 2.26                     | 65,752  |
| Avalon at CountryBrook (8)     | San Jose, CA      | 360                             | 322,992 | 14.0                             | 1985/1996                  | 897         | 99.4%                      | 97.8% | 96.8%               | 1,347          | 1.47                     | 48,790  |
| Avalon at San Marino           | San Jose, CA      | 248                             | 209,000 | 11.5                             | 1984/1988                  | 843         | 99.2%                      | 97.4% | 96.7%               | 1,249          | 1.44                     | 35,017  |
| <b>SOUTHERN CALIFORNIA</b>     |                   |                                 |         |                                  |                            |             |                            |       |                     |                |                          |         |
| <b>Los Angeles, CA</b>         |                   |                                 |         |                                  |                            |             |                            |       |                     |                |                          |         |
| Avalon at Media Center         | Burbank, CA       | 748                             | 530,084 | 14.1                             | 1961/1997                  | 709         | 96.7%                      | 95.7% | 95.9%               | 1,370          | 1.85                     | 76,461  |
|                                |                   | 227                             | 191,114 | 7.0                              | 1979/1998                  | 842         | 96.0%                      | 96.8% | 97.5%               | 1,614          | 1.86                     | 26,943  |

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|                          |                            |     |         |      |           |       |        |          |       |       |         |        |  |
|--------------------------|----------------------------|-----|---------|------|-----------|-------|--------|----------|-------|-------|---------|--------|--|
| Avalon at Warner Center  | Woodland Hills, CA         |     |         |      | 2006      |       |        |          |       |       |         |        |  |
| Avalon Camarillo         | Camarillo, CA              | 249 | 233,267 | 10.0 |           | 937   | 99.2%  | 54.4%(3) | N/A   | 3,196 | 1.85(3) | 47,174 |  |
| Avalon Glendale (11)     | Burbank, CA                | 223 | 241,714 | 5.1  | 2003      | 1,084 | 96.0%  | 95.4%    | 95.7% | 2,237 | 1.97    | 40,248 |  |
| Avalon Woodland Hills    | Woodland Hills, CA         | 663 | 594,396 | 18.2 | 1989/1997 | 897   | 97.0%  | 95.5%    | 96.0% | 1,491 | 1.59    | 72,073 |  |
| The Promenade            | Burbank, CA                | 400 | 360,587 | 6.9  | 1988/2002 | 901   | 98.0%  | 97.4%    | 96.9% | 1,759 | 1.90    | 71,003 |  |
| Avalon Del Rey (9) (12)  | Los Angeles, CA            | 309 | 284,636 | 5.0  | 2006      | 921   | 97.4%  | 51.5%(3) | N/A   | 3,710 | 2.07(3) | 65,075 |  |
| <b>Orange County, CA</b> |                            |     |         |      |           |       |        |          |       |       |         |        |  |
| Avalon at Pacific Bay    | Huntington Beach, CA       | 304 | 268,000 | 9.7  | 1971/1997 | 882   | 96.7%  | 96.0%    | 96.7% | 1,455 | 1.58    | 32,296 |  |
| Avalon at South Coast    | Costa Mesa, CA             | 258 | 207,672 | 8.0  | 1973/1996 | 805   | 98.1%  | 98.3%    | 97.2% | 1,356 | 1.66    | 25,490 |  |
| Avalon Mission Viejo     | Mission Viejo, CA          | 166 | 124,600 | 7.8  | 1984/1996 | 751   | 95.8%  | 95.5%    | 95.4% | 1,233 | 1.57    | 14,012 |  |
| Avalon Newport           | Costa Mesa, CA             | 145 | 122,415 | 6.6  | 1956/1996 | 844   | 100.0% | 98.2%    | 97.5% | 1,566 | 1.82    | 10,352 |  |
| Avalon Santa Margarita   | Rancho Santa Margarita, CA | 301 | 229,593 | 20.0 | 1990/1997 | 763   | 97.7%  | 96.9%    | 96.5% | 1,295 | 1.64    | 24,361 |  |
| <b>San Diego, CA</b>     |                            |     |         |      |           |       |        |          |       |       |         |        |  |
| Avalon at Cortez Hill    | San Diego, CA              | 294 | 226,140 | 1.4  | 1973/1998 | 769   | 95.6%  | 95.1%    | 95.0% | 1,404 | 1.74    | 34,556 |  |
| Avalon at Mission Bay    | San Diego, CA              | 564 | 402,285 | 12.9 | 1969/1997 | 713   | 97.3%  | 95.7%    | 95.1% | 1,378 | 1.85    | 66,281 |  |
| Avalon at Mission Ridge  | San Diego, CA              | 200 | 207,625 | 4.0  | 1960/1997 | 1,038 | 97.0%  | 96.3%    | 96.1% | 1,509 | 1.40    | 22,421 |  |

**Profile of Current, Development and Unconsolidated Communities (1)**  
**(Dollars in thousands, except per apartment home data)**

|                                   | City and state       | Number of homes | Approx. rentable area (Sq. Ft.) | Acres | Year of completion / acquisition | Average Physical occupancy |             | Average economic occupancy |      | Average rental rate |                | Fin rep |
|-----------------------------------|----------------------|-----------------|---------------------------------|-------|----------------------------------|----------------------------|-------------|----------------------------|------|---------------------|----------------|---------|
|                                   |                      |                 |                                 |       |                                  | size at 12/31/06 (Sq. Ft.) | at 12/31/06 | 2006                       | 2005 | \$ per Apt (4)      | \$ per Sq. Ft. |         |
| <b>DEVELOPMENT COMMUNITIES</b>    |                      |                 |                                 |       |                                  |                            |             |                            |      |                     |                |         |
| Community at Decoverly II         | Rockville, MD        | 196             | 182,560                         | 10.8  | N/A                              | 931                        | N/A         | N/A                        | N/A  | N/A                 | N/A            | 2       |
| Community at Dublin               | Dublin, CA           | 305             | 299,329                         | 4.7   | N/A                              | 981                        | N/A         | N/A                        | N/A  | N/A                 | N/A            | 4       |
| Community at Glen Cove (11)       | Glen Cove, NY        | 111             | 101,161                         | 1.3   | N/A                              | 911                        | N/A         | N/A                        | N/A  | N/A                 | N/A            | 2       |
| Community at Lexington            | Lexington, MA        | 387             | 487,139                         | 2.3   | N/A                              | 1,259                      | N/A         | N/A                        | N/A  | N/A                 | N/A            | 2       |
| Community at Acton                | Acton, MA            | 380             | 353,790                         | 5.0   | N/A                              | 931                        | N/A         | N/A                        | N/A  | N/A                 | N/A            | 1       |
| Community at Bowery Place         | New York, NY         | 90              | 73,624                          | 1.1   | N/A                              | 838                        | N/A         | N/A                        | N/A  | N/A                 | N/A            | 1       |
| Community at Chestnut Hill        | Chestnut Hill, MA    | 204             | 275,563                         | 4.7   | N/A                              | 1,351                      | N/A         | N/A                        | N/A  | N/A                 | N/A            | 5       |
| Community at Danvers              | Danvers, MA          | 433             | 493,095                         | 75.0  | N/A                              | 1,139                      | N/A         | N/A                        | N/A  | N/A                 | N/A            | 4       |
| Community at Encino               | Los Angeles, CA      | 131             | 131,252                         | 2.0   | N/A                              | 1,002                      | N/A         | N/A                        | N/A  | N/A                 | N/A            | 2       |
| Community at Lyndhurst            | Lyndhurst, NJ        | 328             | 331,122                         | 5.8   | N/A                              | 1,010                      | N/A         | N/A                        | N/A  | N/A                 | N/A            | 6       |
| Community at Meydenbauer          | Bellevue, WA         | 368             | 329,613                         | 3.6   | N/A                              | 896                        | N/A         | N/A                        | N/A  | N/A                 | N/A            | 3       |
| Community on the Sound II         | New Rochelle, NY     | 588             | 561,981                         | 1.7   | N/A                              | 956                        | N/A         | N/A                        | N/A  | N/A                 | N/A            | 10      |
| Community at Riverview            | Long Island City, NY | 602             | 477,657                         | 1.8   | N/A                              | 793                        | N/A         | N/A                        | N/A  | N/A                 | N/A            | 8       |
| Community at Shrewsbury           | Shrewsbury, MA       | 251             | 209,548                         | 25.5  | N/A                              | 835                        | N/A         | N/A                        | N/A  | N/A                 | N/A            | 3       |
| Community at Wilshire             | Los Angeles, CA      | 123             | 125,109                         | 1.6   | N/A                              | 1,017                      | N/A         | N/A                        | N/A  | N/A                 | N/A            | 3       |
| Community at Woburn               | Woburn, MA           | 446             | 483,995                         | 56.0  | N/A                              | 1,085                      | N/A         | N/A                        | N/A  | N/A                 | N/A            | 6       |
| Community at Canoga Park          | Conoga Park, CA      | 210             | 186,599                         | 3.3   | N/A                              | 889                        | N/A         | N/A                        | N/A  | N/A                 | N/A            | 1       |
| <b>UNCONSOLIDATED COMMUNITIES</b> |                      |                 |                                 |       |                                  |                            |             |                            |      |                     |                |         |
| Community at Yerba Buena          | San Francisco, CA    | 160             | 125,636                         | 0.9   | 2000/2006                        | 785                        | 94.4%       | 95.4%(3)                   | N/A  | 2,523               | 3.07(3)        |         |
|                                   | Aberdeen, NJ         | 290             | 296,033                         | 16.8  | 2002/2006                        | 1,021                      | 97.0%       | 95.0%(3)                   | N/A  | 1,736               | 1.61(3)        |         |

|                                |                   |     |         |      |           |       |        |           |          |       |         |
|--------------------------------|-------------------|-----|---------|------|-----------|-------|--------|-----------|----------|-------|---------|
| n at Aberdeen<br>(6)           | San Francisco, CA | 313 | 291,817 | 1.5  | 2006      | 932   | 36.4%  | 27.8%(3)  | N/A      | 9,048 | 2.69(3) |
| n at Mission Bay<br>II (9)(11) | Schaumburg, IL    | 196 | 178,490 | 12.8 | 1986/2005 | 911   | 90.8%  | 95.9%(2)  | 94.3%(3) | 1,073 | 1.13(2) |
| n at Poplar Creek              | New York, NY      | 361 | 266,940 | 1.5  | 2005      | 739   | 98.6%  | 98.4%     | 62.5%(3) | 3,125 | 4.16    |
| n Chrystie Place<br>(1)        | Columbia, MD      | 170 | 177,284 | 11.3 | 1989/2004 | 1,043 | 96.5%  | 96.1%(2)  | 84.4%(3) | 1,273 | 1.17(2) |
| n Columbia (6)                 | Stamford, CT      | 402 | 365,252 | 5.1  | 1996      | 906   | 96.8%  | 96.9%     | 96.6%    | 2,101 | 2.24    |
| n Grove (9)                    | Wheaton, IL       | 204 | 162,821 | 12.4 | 2004      | 798   | 96.6%  | 95.5%     | 79.6%    | 894   | 1.07    |
| n Lakeside (6)                 | Redondo Beach, CA | 105 | 85,380  | 1.2  | 1971/2004 | 813   | 97.1%  | 94.4%     | 95.9%    | 1,929 | 2.24    |
| n at Redondo<br>(6)            | Columbia, MD      | 156 | 150,276 | 11.4 | 1972/2006 | 963   | 97.0%  | 96.6% (3) | N/A      | 1,187 | 1.19    |
| Valley (6)                     | Norwalk, CA       | 192 | 173,568 | 8.7  | 1987/2005 | 904   | 89.1%  | 94.8%(2)  | 98.6%(3) | 1,468 | 1.54(2) |
| Center (6)                     | Los Angeles, CA   | 82  | 71,846  | 0.8  | 1987/2005 | 876   | 96.3%  | 96.1%     | 97.4%(3) | 1,650 | 1.81    |
| Martel (6)                     | Fremont, CA       | 134 | 105,900 | 7.0  | 1987/2005 | 790   | 100.0% | 96.9%     | 96.0%(3) | 1,114 | 1.37(3) |
| Park (6)                       | Redmond, WA       | 400 | 340,448 | 24.0 | 1983/2004 | 851   | 87.5%  | 88.4%(2)  | 93.9%    | 1,016 | 1.06(2) |
| n Redmond (6)                  | Schaumburg, IL    | 256 | 201,924 | 13.2 | 1988/2006 | 789   | 85.9%  | 83.8% (3) | N/A      | 1,008 | 1.07(3) |
| ovington (6)                   | Kirkland, WA      | 211 | 207,511 | 2.9  | 2005      | 983   | 94.3%  | 94.1%     | 45.4%(3) | 1,289 | 1.23    |
| n Juanita Village              | Corona, CA        | 320 | 241,440 | 13.3 | 1987/2006 | 755   | 94.1%  | 94.7%(3)  | N/A      | 1,066 | 1.34(3) |
| springs (6)                    |                   |     |         |      | 2006      |       |        |           |          |       |         |

*Profile of Current, Development and Unconsolidated Communities (1)*  
*(Dollars in thousands, except per apartment home data)*

- (1) We own a fee simple interest in the communities listed, excepted as noted below.
- (2) Represents community which was under redevelopment during the year, resulting in lower average economic occupancy and average rental rate per square foot for the year.
- (3) Represents community that completed development or was purchased during the year, which could result in lower average economic occupancy and average rental rate per square foot for the year.
- (4) Represents the average rental revenue per occupied apartment home.
- (5) Costs are presented in accordance with generally accepted accounting

principles. For current Development Communities, cost represents total costs incurred through December 31, 2006. Financial reporting costs are excluded for unconsolidated communities, see Note 6,

Investments in Unconsolidated Entities of our Consolidated Financial Statements in Item 8 of this report.

- (6) We own a 15.2% combined general partnership and indirect limited partner equity interest in this community.
- (7) We own a general partnership interest in a partnership that owns a fee simple interest in this community.
- (8) We own a general partnership interest in a partnership structured as a DownREIT that owns this community.



- (9) We own a membership interest in a limited liability company that holds a fee simple interest in this community.
  
- (10) This community was transferred to a joint venture entity upon completion of development. We do not hold an equity interest in the entity, but retain a promoted residual interest in the profits of the entity. We receive a property management fee for this community.
  
- (11) Community is located on land subject to a land lease.
  
- (12) Upon completion of this community we admitted a 70% joint venture partner to the LLC. However, due to an operating guarantee provided to the joint venture partner, this community is consolidated for financial reporting

purposes.

- (13) In December 2006, we completed the purchase of our partner's interest in Avalon Run, and this community is now a wholly-owned community. See Note 6, Investments in Unconsolidated Entities of our Consolidated Financial Statements in Item 8 of this report.

**Features and Recreational Amenities Current and Development Communities**

|  | 1<br>BR     | 2BR         | 3BR         | Studios<br>/ | Efficiency | Other | Total | Washer<br>&<br>dryer<br>hook-ups | Parking<br>spaces | Washer<br>&<br>dryer<br>hook-ups | Large<br>storage<br>Balcony,<br>patio,<br>walk-in<br>closets<br>or<br>lockers | Non-<br>w/<br>Direct<br>access | Homes<br>w/<br>Direct<br>access |
|--|-------------|-------------|-------------|--------------|------------|-------|-------|----------------------------------|-------------------|----------------------------------|---|--------------------------------|---------------------------------|
|  | 1/1.5<br>BA | 2/2.5<br>BA | 3/2.5<br>BA | 3BA          | Efficiency | Other | Total | units                            | units             | units                            | units   | units                          | units                           |

**CURRENT COMMUNITIES (1)**

**NORTHEAST**

**Boston, MA**

|                             |     |     |     |    |    |     |     |     |      |      |      |      |      |      |      |     |     |      |
|-----------------------------|-----|-----|-----|----|----|-----|-----|-----|------|------|------|------|------|------|------|-----|-----|------|
| Avalon at Bedford Center    | 52  |     | 87  |    |    |     | 139 | 269 | All  | Some | Some | Some | All  | None | No   | No  | Yes | None |
| Avalon at Center Place      | 103 |     | 112 | 4  |    | 6   | 225 | 371 | All  | None | None | None | Some | None | No   | No  | No  | None |
| Avalon at Crane Brook       | 162 | 12  | 175 | 38 |    |     | 387 | 658 | All  | Some | Some | All  | All  | None | No   | Yes | No  | All  |
| Avalon at Faxon Park        | 68  |     | 75  | 28 |    |     | 171 | 327 | All  | Some | Some | Most | All  | None | No   | Yes | No  | All  |
| Avalon at Flanders Hill     | 108 | 22  | 120 | 30 |    |     | 280 | 589 | All  | Some | Some | All  | All  | None | No   | Yes | Yes | All  |
| Avalon at Lexington         | 28  | 25  | 89  | 56 |    |     | 198 | 362 | All  | Some | Some | Most | All  | None | Yes  | Yes | No  | None |
| Avalon at Newton Highlands  | 90  | 40  | 99  | 55 | 4  | 6   | 294 | 551 | All  | Some | Some | Most | Most | None | No   | No  | No  | All  |
| Avalon at Prudential Center | 361 |     | 242 |    | 29 | 149 | 781 | 538 | None | None | None | None | Most | Some | None | No  | No  | No   |
| Avalon at Steven's Pond     | 102 |     | 202 | 22 |    |     | 326 | 749 | All  | Some | Some | All  | All  | None | No   | Yes | Yes | All  |
| Avalon at The Pinehills I   | 12  |     | 73  | 16 |    |     | 101 | 235 | All  | Most | Some | Some | All  | All  | None | No  | No  | Yes  |
| Avalon Essex                | 50  |     | 104 |    |    |     | 154 | 336 | All  | Some | Some | Half | Most | All  | None | No  | Yes | Yes  |
| Avalon Ledges               | 124 | 28  | 124 | 28 |    |     | 304 | 594 | All  | Some | Some | All  | All  | None | No   | Yes | No  | All  |
| Avalon Oaks                 | 60  | 24  | 96  | 24 |    |     | 204 | 394 | All  | Some | Some | All  | All  | None | No   | Yes | No  | All  |
| Avalon West                 | 48  | 12  | 48  | 12 |    |     | 120 | 232 | All  | Some | Some | All  | All  | None | No   | Yes | No  | All  |
| Avalon Orchards             | 69  | 87  |     |    |    |     | 156 | 307 | All  | Some | Some | All  | All  | None | No   | Yes | Yes | All  |
| Avalon Summit               | 154 | 58  | 31  | 1  |    |     | 245 | 359 | None | None | None | None | Some | Most | None | No  | No  | Yes  |
| Avalon West                 | 40  |     | 55  | 25 |    |     | 120 | 285 | All  | Some | Some | All  | Half | None | No   | Yes | Yes | All  |
| Essex Place                 | 40  | 246 |     |    |    |     | 286 | 450 | Some | None | None | None | Some | Some | None | No  | No  | No   |

**Fairfield-New Haven, CT**

|                           |     |     |     |    |    |     |     |       |      |      |      |      |      |      |      |     |     |     |      |
|---------------------------|-----|-----|-----|----|----|-----|-----|-------|------|------|------|------|------|------|------|-----|-----|-----|------|
| Avalon at Greyrock Place  | 52  | 91  | 99  | 12 |    | 52  | 306 | 464   | All  | None | None | None | Most | All  | None | No  | No  | No  | All  |
| Avalon Danbury            | 112 |     | 98  | 24 |    |     | 234 | 54    | All  | None | Some | Some | Some | All  | None | No  | Yes | No  | Some |
| Avalon Darien             | 77  |     | 80  | 32 |    |     | 189 | 443   | All  | All  | Some | Some | All  | All  | None | No  | Yes | Yes | All  |
| Avalon Gates              | 122 |     | 168 | 50 |    |     | 340 | 688   | All  | Some | Some | Half | All  | All  | None | Yes | Yes | No  | All  |
| Avalon Glen               | 112 |     | 125 | 1  |    |     | 238 | 363   | Most | Some | Some | Some | Some | Most | Some | Yes | No  | Yes | Most |
| Avalon Haven              | 28  |     | 40  | 24 |    | 36  | 128 | 256   | All  | Some | Some | Some | All  | All  | None | Yes | Yes | No  | All  |
| Avalon Milford I          | 184 |     | 62  |    |    |     | 246 | 426   | All  | Some | None | Some | Some | All  | None | Yes | Yes | No  | All  |
| Avalon New Canaan         | 16  |     | 64  | 24 |    |     | 104 | 194   | All  | Some | Some | Some | All  | All  | None | No  | Yes | Yes | All  |
| Avalon on Stamford Harbor | 159 |     | 130 | 20 | 14 |     | 323 | 503   | All  | Some | Some | Some | All  | Most | None | No  | No  | No  | All  |
| Avalon Orange             | 84  |     | 28  | 28 |    | 28  | 168 | 362   | All  | Some | Some | Some | All  | All  | None | Yes | No  | No  | All  |
| Avalon Springs            |     |     | 70  | 32 |    |     | 102 | 264   | All  | Half | Half | Most | All  | All  | None | No  | No  | Yes | All  |
| Avalon Valley             | 106 |     | 134 | 28 |    |     | 268 | 637   | All  | Some | Some | Some | All  | All  | None | Yes | Yes | No  | All  |
| Avalon Walk I & II        | 272 | 116 | 122 | 98 |    | 156 | 764 | 1,411 | All  | Some | Some | Some | Most | All  | None | Yes | No  | No  | Half |

**Long Island, NY**

|                           |     |    |     |    |    |   |     |       |     |      |      |      |      |      |      |      |      |      |      |
|---------------------------|-----|----|-----|----|----|---|-----|-------|-----|------|------|------|------|------|------|------|------|------|------|
| Avalon at Glen Cove South | 124 |    | 91  |    | 41 |   | 256 | 366   | All | None | None | Some | All  | Some | None | No   | No   | No   | Some |
| Avalon Commons            | 128 | 40 | 112 | 32 |    |   | 312 | 485   | All | Some | Some | Some | All  | All  | None | No   | Yes  | No   | All  |
| Avalon Court              | 172 | 54 | 194 | 74 |    |   | 494 | 797   | All | Half | Half | Some | Some | All  | None | No   | Yes  | Yes  | All  |
| Avalon Pines I            | 72  |    | 220 |    | 6  |   | 298 | 1,094 | All | Most | Some | Some | Most | All  | None | No   | Yes  | Yes  | All  |
| Avalon Pines II           | 50  |    | 102 |    |    |   | 152 | 135   | All | Most | Some | Some | All  | All  | None | No   | Some | Some | All  |
| Avalon Towers             |     |    | 38  |    | 3  | 1 | 67  | 109   | 198 | All  | None | None | None | Most | Most | None | No   | Yes  | No   |

**Features and Recreational Amenities Current and Development Communities**

|                                | 1<br>BR     | 2BR         | 3BR           | Studios<br>/ | Other             | Total | Washer<br>&<br>dryer<br>hook-ups | Large<br>storage<br>balcony,<br>patio,<br>walk-in<br>closets<br>or<br>built-in<br>cabinets | Non-<br>direct<br>access   | Homes<br>w/<br>wired<br>security<br>systems |   |
|--------------------------------|-------------|-------------|---------------|--------------|-------------------|-------|----------------------------------|--|--|---|---|
|                                | 1/1.5<br>BA | 1/1.5<br>BA | 2/2.5/3<br>BA | 2/2.5<br>BA  | 3BA<br>Efficiency | Other | Parking<br>spaces                | Washer<br>&<br>dryer<br>hook-ups   | Large<br>storage<br>balcony,<br>patio,<br>walk-in<br>closets<br>or<br>built-in<br>cabinets | Non-<br>direct<br>access                    | Homes<br>w/<br>wired<br>security<br>systems |
| <b>Northern New Jersey</b>     |             |             |               |              |                   |       |                                  |  |  |   |   |
| Avalon at Edgewater            | 158         |             | 190           | 60           |                   | 408   | 872                              | All  | Some   | Some  | All   |
| Avalon at Florham Park         | 46          |             | 162           | 62           |                   | 270   | 583                              | All  | All  | None  | Some  |
| Avalon Cove                    | 197         |             | 231           | 26           | 2                 | 504   | 460                              | All  | Some   | Some  | All   |
| <b>Central New Jersey</b>      |             |             |               |              |                   |       |                                  |  |  |   |   |
| Avalon at Freehold             | 40          | 24          | 192           | 40           |                   | 296   | 591                              | All  | Some   | Half  | All   |
| Avalon Run                     | 144         | 90          | 108           | 84           |                   | 426   | 640                              | All  | Some   | Some  | All   |
| Avalon Run East                | 64          | 106         |               | 36           |                   | 206   | 401                              | All  | Some   | Some  | Most  |
| Avalon Run East II             | 72          | 36          | 148           | 56           |                   | 312   | 500                              | All  | Some   | Some  | Some  |
| Avalon Watch                   | 252         | 48          | 172           | 40           |                   | 512   | 781                              | All  | Some   | None  | Half  |
| <b>New York, NY</b>            |             |             |               |              |                   |       |                                  |  |  |   |   |
| Avalon Bowery Place I          | 98          | 54          |               |              | 54                | 206   | 131                              | All  | None   | None  | Some  |
| Avalon Gardens                 | 208         | 48          | 144           | 104          |                   | 504   | 1,382                            | All  | Half   | Half  | Some  |
| Avalon Green                   | 25          | 24          | 56            |              |                   | 105   | 208                              | All  | Some   | Some  | All   |
| Avalon on the Sound            | 142         |             | 185           | 21           | 21                | 412   | 648                              | Most   | Some   | None  | Most  |
| Avalon Riverview I             | 186         |             | 114           | 15           | 14                | 372   | 426                              | All  | None   | Some  | Most  |
| Avalon View                    | 112         | 47          | 65            | 64           |                   | 288   | 598                              | All  | Some   | Some  | Most  |
| Avalon Willow                  | 151         |             | 76            |              |                   | 227   | 371                              | All  | Some   | Some  | Some  |
| The Avalon                     | 55          | 2           | 43            | 10           |                   | 110   | 170                              | All  | Some   | Some  | Most  |
| <b>MID-ATLANTIC</b>            |             |             |               |              |                   |       |                                  |  |  |   |   |
| <b>Baltimore, MD</b>           |             |             |               |              |                   |       |                                  |  |  |   |   |
| Avalon at Fairway Hills I & II | 185         | 78          | 100           | 38           |                   | 401   | 283                              | All  | Some   | None  | Most  |
| Avalon at Fairway Hills III    | 97          | 146         | 54            | 22           |                   | 342   | 522                              | All  | Some   | None  | Most  |

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|                                      |     |     |     |    |     |     |       |       |      |      |      |      |      |      |      |     |     |      |      |
|--------------------------------------|-----|-----|-----|----|-----|-----|-------|-------|------|------|------|------|------|------|------|-----|-----|------|------|
| Avalon at Symphony Glen              | 88  | 14  | 54  | 20 |     | 176 | 268   | All   | Some | None | Most | All  | Most | Some | No   | No  | No  | None |      |
| Avalon Landing                       | 83  | 18  | 57  |    |     | 158 | 256   | All   | None | None | Most | Most | All  | None | Yes  | No  | No  | None |      |
| Southgate Crossing                   | 63  | 94  | 48  | 10 |     | 215 | 353   | All   | None | None | Most | None | All  | None | No   | No  | No  | None |      |
| <b>Washington, DC</b>                |     |     |     |    |     |     |       |       |      |      |      |      |      |      |      |     |     |      |      |
| AutumnWoods                          | 220 | 104 | 96  |    |     | 420 | 720   | All   | Some | None | Some | All  | All  | None | Yes  | No  | No  | None |      |
| Avalon at Arlington Square           | 404 | 24  | 196 | 60 | 158 | 842 | 1,411 | All   | Some | Some | Some | All  | All  | Some | No   | Yes | Yes | All  |      |
| Avalon at Ballston Washington Towers | 233 | 111 |     |    |     | 344 | 470   | All   | None | None | Some | Most | All  | Some | No   | No  | No  | None |      |
| Avalon at Cameron Court              | 208 |     | 168 |    | 84  | 460 | 897   | All   | Most | Some | Some | All  | Most | None | No   | Yes | Yes | All  |      |
| Avalon at Discoverly                 | 156 |     | 168 | 44 |     | 368 | 627   | All   | Some | Some | Some | Most | All  | None | No   | Yes | No  | None |      |
| Avalon at Foxhall                    | 160 | 70  | 32  | 2  | 28  | 16  | 308   | 349   | All  | Some | None | Some | All  | All  | Some | No  | No  | Yes  | None |
| Avalon at Gallery Place I            | 113 | 75  |     | 4  | 11  |     | 203   | 148   | All  | Some | None | None | Most | Some | None | No  | No  | Yes  | None |
| Avalon at Grosvenor Station          | 265 | 33  | 185 | 13 | 1   |     | 497   | 746   | All  | Some | Some | None | Most | Most | None | No  | Yes | Yes  | All  |
| Avalon at Providence Park            | 19  |     | 112 | 4  |     | 6   | 141   | 299   | All  | Some | None | Most | All  | All  | None | No  | No  | No   | None |
| Avalon at Rock Spring                | 178 | 39  | 133 | 36 |     |     | 386   | 680   | All  | Some | Some | Some | Most | All  | None | No  | Yes | No   | All  |
| Avalon at Traville                   | 190 | 30  | 232 | 68 |     |     | 520   | 1,062 | All  | Some | Some | Some | All  | Most | Some | Yes | Yes | Yes  | None |
| Avalon Crescent                      | 186 | 26  | 346 |    |     |     | 558   | 989   | All  | Some | Some | Most | Most | All  | Some | No  | Yes | Yes  | All  |
| Avalon Fields I & II                 | 112 | 32  | 112 | 32 |     | 66  | 288   | 461   | All  | Some | Some | Some | Most | Most | None | No  | Yes | No   | All  |
| Avalon Knoll                         | 136 | 56  | 80  | 28 |     |     | 300   | 477   | All  | Some | None | Most | All  | All  | Most | No  | No  | No   | None |

**Features and Recreational Amenities Current and Development Communities**

|  | 1<br>BR | 2BR | 3BR | Studios<br>/ | Efficiency | Other | Total spaces | Washer<br>&<br>dryer<br>hook-ups | Parking or<br>vaulted | Units<br>tiling | Stairs<br>platform | Large<br>storage<br>balcony,<br>patio,<br>walk-in<br>closets<br>or<br>bookcases | Direct<br>access | Homes<br>w/<br>wired<br>security<br>systems |
|--|---------|-----|-----|--------------|------------|-------|--------------|----------------------------------|-----------------------|-----------------|--------------------|---|------------------|---|
|  | BA      | BA  | BA  | BA           | BA         | BA    |              |                                  |                       |                 |                    |   |                  |   |

**MIDWEST**

**Chicago, IL**

|                                   |     |     |     |    |    |  |     |     |      |      |      |      |      |      |     |     |     |      |
|-----------------------------------|-----|-----|-----|----|----|--|-----|-----|------|------|------|------|------|------|-----|-----|-----|------|
| Avalon at<br>Arlington<br>Heights | 232 |     | 147 |    | 30 |  | 409 | 650 | All  | None | None | Some | Half | None | No  | No  | No  | None |
| Avalon at<br>Danada Farms         | 132 |     | 134 | 14 | 15 |  | 295 | 555 | All  | None | None | Some | Most | Some | No  | No  | Yes | None |
| Avalon at<br>Stratford Green      | 63  |     | 108 | 21 |    |  | 192 | 424 | All  | None | None | Some | Most | Some | No  | Yes | Yes | None |
| Avalon at West<br>Grove           | 200 | 200 |     |    |    |  | 400 | 594 | None | None | None | Some | Half | None | Yes | No  | No  | None |

**PACIFIC**

**NORTHWEST**

**Seattle, WA**

|                         |     |     |     |    |    |     |     |     |     |      |      |      |      |      |      |     |     |     |      |
|-------------------------|-----|-----|-----|----|----|-----|-----|-----|-----|------|------|------|------|------|------|-----|-----|-----|------|
| Avalon at Bear<br>Creek | 55  | 40  | 110 | 56 | 3  |     | 264 | 515 | All | Some | None | Most | All  | All  | Half | Yes | Yes | Yes | All  |
| Avalon Bellevue         | 112 |     | 67  |    | 23 |     | 202 | 300 | All | Some | Some | Some | Most | Some | None | No  | No  | No  | Some |
| Avalon Belltown         | 64  |     | 20  |    | 16 |     | 100 | 118 | All | None | None | None | Most | Some | None | No  | No  | No  | Yes  |
| Avalon<br>Brandemoor    | 88  | 109 | 149 | 78 |    |     | 424 | 737 | All | Some | None | Most | All  | All  | Some | Yes | Yes | Yes | All  |
| Avalon<br>HighGrove     | 84  | 119 | 124 | 56 | 8  |     | 391 | 721 | All | Half | None | Most | All  | All  | Some | Yes | Yes | Yes | All  |
| Avalon<br>ParcSquare    | 31  | 26  | 55  | 12 |    | 117 | 124 | 189 | All | Some | None | None | All  | All  | None | No  | Yes | Yes | Some |
| Avalon<br>Redmond Place | 76  | 44  | 67  | 35 |    |     | 222 | 161 | All | Some | None | Most | Most | All  | None | Yes | Yes | No  | None |
| Avalon<br>RockMeadow    | 28  | 48  | 86  | 28 | 16 |     | 206 | 415 | All | Some | None | Most | Most | All  | Some | Yes | No  | Yes | All  |
| Avalon<br>WildReed      | 36  | 60  | 78  | 60 |    |     | 234 | 463 | All | Some | None | Most | All  | All  | Some | Yes | Yes | No  | All  |
| Avalon<br>Wynhaven      | 3   | 42  | 239 | 13 | 28 | 8   | 333 | 780 | All | Most | Some | Most | Half | Most | None | Yes | Yes | Yes | All  |

**NORTHERN  
CALIFORNIA**

**Oakland-East  
Bay, CA**

|                        |     |    |     |    |    |     |     |      |      |      |      |      |     |      |     |     |     |      |
|------------------------|-----|----|-----|----|----|-----|-----|------|------|------|------|------|-----|------|-----|-----|-----|------|
| Avalon at Union Square | 124 | 84 |     |    |    | 208 | 296 | None | None | None | Most | All  | All | None | Yes | No  | No  | None |
| Avalon at Willow Creek | 99  |    | 136 |    |    | 235 | 240 | All  | None | None | None | All  | All | None | Yes | No  | No  | None |
| Avalon Dublin          | 72  | 8  | 60  | 48 | 16 | 204 | 428 | Most | Some | None | Most | All  | All | None | No  | Yes | No  | None |
| Avalon Fremont I       | 88  |    | 176 |    | 44 | 308 | 609 | All  | Some | None | Some | Half | All | None | Yes | Yes | No  | All  |
| Avalon Pleasanton      | 238 |    | 218 |    |    | 456 | 941 | All  | Some | None | Most | Some | All | None | Yes | Yes | Yes | None |
| Avalon Waterford       | 208 |    | 336 |    |    | 544 | 927 | Some | Some | None | None | All  | All | None | Yes | No  | No  | None |

**San Francisco,  
CA**

|                             |     |     |     |    |    |     |     |      |      |      |      |      |      |      |     |     |     |      |
|-----------------------------|-----|-----|-----|----|----|-----|-----|------|------|------|------|------|------|------|-----|-----|-----|------|
| Avalon at Cedar Ridge       | 117 | 33  | 24  |    | 21 | 195 | 259 | None | None | Some | None | Some | All  | None | Yes | No  | Yes | None |
| Avalon at Diamond Heights   | 90  |     | 49  | 15 |    | 154 | 155 | None | Some | None | None | All  | All  | None | No  | Yes | No  | None |
| Avalon at Mission Bay North | 148 |     | 95  | 6  | 1  | 250 | 191 | All  | None | Some | None | All  | Most | Some | No  | Yes | No  | Some |
| Avalon at Nob Hill          | 114 |     | 25  |    | 46 | 185 | 105 | None | None | None | None | Some | Some | Most | No  | Yes | No  | None |
| Avalon Foster City          | 125 | 122 | 1   |    | 40 | 288 | 290 | None | None | None | None | Most | All  | Some | Yes | No  | No  | None |
| Avalon Pacifica             | 58  | 106 | 56  |    |    | 220 | 301 | None | None | None | Some | Some | All  | None | Yes | Yes | No  | None |
| Avalon Sunset Towers        | 183 | 20  | 20  |    | 20 | 243 | 244 | None | None | None | None | None | Some | None | No  | No  | Yes | None |
| Avalon Towers by the Bay    | 103 |     | 120 |    | 3  | 226 | 212 | All  | None | None | Some | Half | Most | None | No  | No  | No  | None |
| Avalon Crowne Ridge         | 158 | 68  | 24  |    | 4  | 254 | 404 | Some | Some | None | Some | None | All  | None | Yes | No  | Yes | None |



**Features and Recreational Amenities Current and Development Communities**

|                                | 1<br>BR     | 2BR         | 3BR           | Studios<br>/ | Other | Total            | Parking<br>spaces | Washer<br>&<br>dryer<br>hook-ups | Vaulted<br>ceilings | Site<br>placement | Large<br>storage<br>Balcony,<br>patio,<br>walk-in<br>closets<br>or<br>bookcases | Direct<br>access<br>to<br>garage | Homes<br>w/<br>direct<br>wired<br>security<br>systems |      |      |     |     |      |
|--------------------------------|-------------|-------------|---------------|--------------|-------|------------------|-------------------|----------------------------------|---------------------|-------------------|---|----------------------------------|---|------|------|-----|-----|------|
|                                | 1/1.5<br>BA | 1/1.5<br>BA | 2/2.5/3<br>BA | 2/2.5<br>BA  | 3BA   | Efficient<br>Cul |                   | units                            |                     |                   |   |                                  |   |      |      |     |     |      |
| <b>San Jose, CA</b>            |             |             |               |              |       |                  |                   |                                  |                     |                   |   |                                  |   |      |      |     |     |      |
| Avalon at Blossom Hill         | 90          |             | 210           |              | 24    | 324              | 549               | All                              | Some                | None              | None  | Most                             | All   | None | Yes  | No  | No  | None |
| Avalon at Cahill Park          | 118         |             | 94            |              | 6     | 218              | 314               | All                              | Some                | Some              | None  | All                              | Some  | None | No   | No  | No  | Yes  |
| Avalon at Creekside            | 158         | 128         |               |              |       | 294              | 441               | None                             | None                | None              | Some  | None                             | Most  | None | Yes  | No  | No  | None |
| Avalon at Foxchase I & II      | 156         |             | 240           |              |       | 396              | 666               | All                              | Some                | None              | None  | All                              | All   | None | Yes  | Yes | No  | None |
| Avalon at Parkside             | 60          |             | 96            | 36           |       | 192              | 353               | All                              | Some                | None              | Half  | All                              | All   | Some | Yes  | Yes | No  | None |
| Avalon at Pruneyard            | 212         | 40          |               |              |       | 252              | 400               | All                              | None                | None              | None  | None                             | Half  | None | Yes  | Yes | No  | None |
| Avalon at River Oaks           | 100         |             | 126           |              |       | 226              | 356               | Most                             | None                | None              | Most  | All                              | All   | None | No   | Yes | No  | None |
| Avalon Campbell                | 157         |             | 179           |              | 12    | 348              | 454               | All                              | Some                | None              | None  | All                              | All   | None | Yes  | No  | No  | All  |
| Avalon Mountain View           | 108         |             | 88            | 52           |       | 248              | 672               | All                              | Some                | None              | None  | Some                             | All   | None | Yes  | No  | No  | None |
| Avalon on the Alameda          | 113         |             | 164           |              | 28    | 305              | 534               | All                              | Some                | Some              | Some  | Most                             | All   | None | Some | Yes | No  | None |
| Avalon Rosewalk                | 168         |             | 264           |              | 24    | 456              | 684               | All                              | Some                | None              | Some  | All                              | All   | Most | Yes  | Yes | No  | None |
| Avalon Silicon Valley          | 338         |             | 336           | 18           | 15    | 710              | 2,000             | All                              | Some                | Some              | Some  | All                              | All   | Some | Yes  | Yes | No  | None |
| Avalon Towers on the Peninsula | 88          |             | 117           |              | 6     | 211              | 307               | All                              | Some                | None              | None  | Most                             | All   | None | No   | No  | Yes | None |
| Country Brook                  | 108         |             | 252           |              |       | 360              | 692               | All                              | None                | None              | All   | All                              | All   | None | Yes  | Yes | No  | None |
| San Marino                     | 102         |             | 146           |              |       | 248              | 439               | All                              | Some                | None              | None  | None                             | All   | None | Yes  | No  | No  | None |
| <b>SOUTHERN CALIFORNIA</b>     |             |             |               |              |       |                  |                   |                                  |                     |                   |   |                                  |   |      |      |     |     |      |
| <b>Los Angeles, CA</b>         |             |             |               |              |       |                  |                   |                                  |                     |                   |   |                                  |   |      |      |     |     |      |
| Avalon at Media Center         | 296         | 169         | 50            | 12           |       | 748              | 893               | Most                             | Some                | None              | Some  | Some                             | Some  | None | Yes  | Yes | No  | None |
|                                | 88          | 54          | 65            | 20           |       | 227              | 427               | All                              | Some                | None              | Some  | Some                             | All   | None | Yes  | Yes | No  | None |

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|                         |     |     |     |     |     |       |      |      |      |      |      |     |      |    |     |     |      |  |  |  |
|-------------------------|-----|-----|-----|-----|-----|-------|------|------|------|------|------|-----|------|----|-----|-----|------|--|--|--|
| Avalon at Warner Center |     |     |     |     |     |       |      |      |      |      |      |     |      |    |     |     |      |  |  |  |
| Avalon Camarillo        | 125 |     | 124 |     | 249 | 482   | All  | None | None | None | All  | All | None | No | Yes | Yes | None |  |  |  |
| Avalon Glendale         | 75  | 121 |     | 27  | 223 | 519   | All  | None | Some | Some | All  | All | None | No | No  | No  | All  |  |  |  |
| Avalon Woodland Hills   | 222 |     | 441 |     | 663 | 1,356 | Some | Some | Some | None | Most | All | None | No | No  | No  | None |  |  |  |
| The Promenade           | 153 |     | 196 | 51  | 400 | 736   | Some | Some | Some | All  | Some | All | None | No | No  | No  | None |  |  |  |
| Avalon Del Rey          | 190 |     |     | 119 | 309 | 623   | All  | None | Some | None | All  | All | None | No | Yes | No  | None |  |  |  |

**Orange County, CA**

|                        |     |    |     |    |     |     |      |      |      |      |      |      |      |      |     |     |      |      |  |  |
|------------------------|-----|----|-----|----|-----|-----|------|------|------|------|------|------|------|------|-----|-----|------|------|--|--|
| Avalon at Pacific Bay  | 144 | 56 | 104 |    | 304 | 492 | All  | None | None | None | All  | All  | None | Yes  | Yes | No  | None |      |  |  |
| Avalon at South Coast  | 124 |    | 86  |    | 48  | 258 | 428  | Some | Half | None | None | Half | All  | None | Yes | Yes | No   | None |  |  |
| Avalon Mission Viejo   | 94  | 28 | 44  |    | 166 | 232 | None | None | None | None | None | All  | None | Yes  | Yes | No  | None |      |  |  |
| Avalon Newport         | 44  | 54 |     | 35 | 12  | 145 | 249  | Most | Some | None | Some | Most | Most | Some | Yes | Yes | No   | None |  |  |
| Avalon Santa Margarita | 160 |    | 141 |    | 301 | 521 | All  | None | None | None | None | All  | None | Yes  | Yes | No  | None |      |  |  |

**San Diego, CA**

|                         |     |    |     |    |     |     |     |      |      |      |      |      |      |      |    |     |      |      |  |  |
|-------------------------|-----|----|-----|----|-----|-----|-----|------|------|------|------|------|------|------|----|-----|------|------|--|--|
| Avalon at Cortez Hill   | 113 |    | 84  |    | 97  | 294 | 298 | None | None | None | None | None | All  | None | No | No  | No   | None |  |  |
| Avalon at Mission Bay   | 270 | 9  | 165 |    | 120 | 564 | 755 | None | None | None | Some | All  | None | No   | No | No  | None |      |  |  |
| Avalon at Mission Ridge | 18  | 98 | 1   | 83 |     | 200 | 387 | Most | None | None | Most | Most | Most | Most | No | Yes | No   | None |  |  |

**Features and Recreational Amenities Current and Development Communities**

|                                | 1 BR     | 2BR      | 3BR        | Studios   | Washer & dryer hook-ups | Large storage balcony, patio, or walk-in closet | Homes w/ direct wired access |                  |          |
|--------------------------------|----------|----------|------------|-----------|-------------------------|---|------------------------------|------------------|----------|
|                                | 1/1.5 BA | 1/1.5 BA | 2/2.5/3 BA | 2/2.5 BA  | Parking or valet spaces | hook-ups  | Non-direct wired access      | Security systems | garages  |
|                                |          |          |            | Efficient | Other                   | Total   | units                        | Fireplaces       | Sunrooms |
| <b>DEVELOPMENT COMMUNITIES</b> |          |          |            |           |                         |   |                              |                  |          |
| Avalon at Discoverly II        | 106      |          | 90         |           |                         | 196   | 327                          | All              | Some     |
| Avalon at Glen Cove North      | 87       | 8        |            | 16        |                         | 111   | 190                          | All              | None     |
| Avalon at Lexington Hills      | 109      |          | 254        | 24        |                         | 387   | 823                          | All              | Some     |
| Avalon Lyndhurst               | 118      | 45       | 157        | 8         |                         | 328   | 569                          | Most             | Some     |
| Avalon Acton                   | 192      |          | 188        |           |                         | 380   | 732                          | All              | Some     |
| Avalon Bowery Place II         | 62       | 18       |            | 10        |                         | 90  | 50                           | All              | None     |
| Avalon Canoga Park             | 125      |          | 70         | 15        |                         | 210   | 370                          | All              | Some     |
| Avalon Chestnut Hill           | 36       | 28       | 85         | 50        | 5                       | 204   | 427                          | All              | None     |
| Avalon Danvers                 | 148      |          | 235        | 50        |                         | 433   | 856                          | All              | Some     |
| Avalon Encino                  | 61       |          | 56         | 14        |                         | 131   | 357                          | All              | Some     |
| Avalon Meydenbauer             | 174      | 5        | 88         | 23        | 78                      | 368   | 485                          | All              | None     |
| Avalon on the Sound II         | 208      |          | 162        | 128       | 90                      | 588   | 489                          | All              | None     |
| Avalon Riverview North         | 381      |          | 146        | 1         | 74                      | 602   | 361                          | Some             | None     |
| Avalon Shrewsbury              | 92       | 12       | 123        | 24        |                         | 251   | 529                          | All              | None     |
| Avalon Woburn                  | 158      |          | 288        |           |                         | 446   | 892                          | All              | None     |
| Avalon Wilshire                | 53       |          | 62         | 8         |                         | 123   | 350                          | All              | None     |

**Features and Recreational Amenities Current and Development Communities**

| Community | Building entrance controlled access | Underground parking | Aerobics dance studio | Car wash | Picnic area | Walking / jogging trail | Pool | Sauna / whirlpool | Tennis court | Racquetball | Fitness center | Sand volleyball | Indoor / outdoor basketball |
|-----------|-------------------------------------|---------------------|-----------------------|----------|-------------|-------------------------|------|-------------------|--------------|-------------|----------------|-----------------|-----------------------------|
|           | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | Yes                 | No                    | Yes      | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | Yes               | No           | No          | Yes            | No              | Yes                         |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | Yes               | No           | No          | Yes            | No              | Yes                         |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | Yes                         |
|           | Yes                                 | Yes                 | No                    | No       | Yes         | No                      | Yes  | Yes               | No           | No          | Yes            | No              | Yes                         |
|           | Yes                                 | Yes                 | No                    | No       | No          | No                      | No   | No                | No           | No          | No             | No              | No                          |
|           | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | Yes               | No           | No          | Yes            | No              | Yes                         |
|           | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | Yes      | Yes         | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | Yes               | No           | No          | Yes            | No              | Yes                         |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | No             | No              | Yes                         |
|           | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | No                | Yes          | No          | No             | No              | Yes                         |
|           | Yes                                 | Yes                 | No                    | No       | Yes         | No                      | Yes  | No                | Yes          | No          | Yes            | No              | No                          |
|           | Yes                                 | No                  | No                    | No       | Yes         | Yes                     | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | Yes         | Yes            | Yes             | Yes                         |
|           | Yes                                 | Yes                 | No                    | No       | Yes         | No                      | Yes  | No                | No           | Yes         | Yes            | No              | No                          |

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|     |     |     |     |     |     |     |     |     |     |     |    |     |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|----|-----|
| Yes | No  | No  | No  | Yes | No  | Yes | No  | No  | No  | Yes | No | No  |
| Yes | No  | No  | No  | No  | No  | Yes | No  | No  | No  | Yes | No | Yes |
| Yes | No  | No  | No  | Yes | Yes | Yes | No  | No  | No  | Yes | No | No  |
| Yes | Yes | No  | No  | Yes | Yes | Yes | No  | No  | Yes | Yes | No | Yes |
| Yes | No  | No  | No  | Yes | No  | Yes | No  | No  | No  | Yes | No | No  |
| Yes | No  | No  | No  | Yes | No  | Yes | No  | No  | No  | Yes | No | No  |
| No  | No  | No  | No  | Yes | No  | Yes | No  | No  | No  | Yes | No | Yes |
| No  | No  | Yes | No  | Yes | Yes | Yes | No  | Yes | Yes | Yes | No | Yes |
| Yes | No  | Yes | No  | Yes | Yes | Yes | No  | No  | No  | Yes | No | No  |
| Yes | No  | No  | No  | Yes | No  | Yes | No  | No  | No  | Yes | No | Yes |
| Yes | No  | No  | No  | Yes | Yes | Yes | No  | No  | Yes | Yes | No | Yes |
| No  | No  | No  | No  | Yes | Yes | Yes | No  | Yes | No  | Yes | No | Yes |
| No  | No  | No  | No  | Yes | Yes | Yes | No  | Yes | No  | Yes | No | Yes |
| No  | Yes | No  | Yes | Yes | No  | Yes | Yes | No  | No  | Yes | No | No  |

**Features and Recreational Amenities Current and Development Communities**

| Community | Building entrance controlled access | Underground parking | Aerobics dance studio | Car wash | Picnic area | Walking / jogging trail | Pool | Sauna / whirlpool | Tennis court | Racquetball | Fitness center | Sand volleyball | Indoor / outdoor basketball |
|-----------|-------------------------------------|---------------------|-----------------------|----------|-------------|-------------------------|------|-------------------|--------------|-------------|----------------|-----------------|-----------------------------|
|           | Yes                                 | Yes                 | No                    | No       | No          | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | No                | Yes          | Yes         | Yes            | No              | Yes                         |
|           | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | No                | Yes          | Yes         | Yes            | No              | Yes                         |
|           | No                                  | No                  | No                    | No       | Yes         | Yes                     | Yes  | No                | Yes          | No          | Yes            | No              | Yes                         |
|           | No                                  | No                  | No                    | No       | Yes         | Yes                     | Yes  | No                | Yes          | No          | Yes            | No              | Yes                         |
| Some      | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | No                | Yes          | Yes         | Yes            | No              | No                          |
|           | Yes                                 | Yes                 | No                    | No       | No          | No                      | No   | No                | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | No                | Yes          | Yes         | Yes            | No              | Yes                         |
|           | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | No             | No              | No                          |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | Yes                         |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | Yes         | Yes            | No              | No                          |
|           | Yes                                 | Yes                 | No                    | No       | No          | No                      | No   | No                | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | Yes      | Yes         | No                      | Yes  | No                | Yes          | Yes         | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | Yes      | Yes         | No                      | Yes  | No                | Yes          | Yes         | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | Yes      | Yes         | Yes                     | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | Yes      | Yes         | Yes                     | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | Yes      | No          | No                      | No   | No                | No           | No          | No             | No              | No                          |

|     |     |    |     |     |     |     |     |     |     |     |     |     |
|-----|-----|----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| No  | No  | No | Yes | Yes | No  | Yes | No  | Yes | No  | Yes | Yes | Yes |
| Yes | No  | No | Yes | Yes | No  | Yes | No  | No  | No  | Yes | No  | Yes |
| Yes | Yes | No | Yes | Yes | Yes | Yes | No  | Yes | No  | Yes | No  | No  |
| Yes | No  | No | Yes | Yes | No  | Yes | Yes | No  | No  | Yes | Yes | Yes |
| No  | No  | No | Yes | Yes | No  | Yes | No  | Yes | Yes | Yes | No  | Yes |
| Yes | Yes | No | No  | No  | No  | Yes | No  | No  | No  | Yes | No  | No  |
| Yes | Yes | No | No  | No  | No  | No  | No  | No  | No  | Yes | No  | No  |
| Yes | Yes | No | Yes | Yes | No  | Yes | No  | No  | No  | Yes | No  | No  |
| No  | No  | No | Yes | No  | Yes | Yes | No  | No  | No  | No  | No  | No  |
| Yes | No  | No | No  | Yes | No  | Yes | No  | No  | No  | Yes | No  | No  |
| Yes | No  | No | Yes | Yes | Yes | Yes | No  | No  | No  | Yes | No  | Yes |
| No  | No  | No | Yes | Yes | Yes | Yes | No  | No  | No  | Yes | No  | Yes |
| No  | No  | No | Yes | Yes | No  | Yes | No  | No  | No  | Yes | No  | No  |
| Yes | No  | No | Yes | Yes | No  | Yes | No  | Yes | No  | Yes | No  | Yes |

**Features and Recreational Amenities Current and Development Communities**

| Community | Building entrance controlled access | Underground parking | Aerobics dance studio | Car wash | Picnic area | Walking / jogging trail | Pool | Sauna / whirlpool | Tennis court | Racquetball | Fitness center | Sand volleyball | Indoor / outdoor basketball |
|-----------|-------------------------------------|---------------------|-----------------------|----------|-------------|-------------------------|------|-------------------|--------------|-------------|----------------|-----------------|-----------------------------|
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | No       | No          | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | Yes      | Yes         | Yes                     | Yes  | No                | No           | No          | No             | No              | No                          |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | Yes               | No           | Yes         | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | No       | No          | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | Yes                 | No                    | No       | No          | No                      | No   | No                | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | Yes                 | No                    | No       | Yes         | No                      | No   | No                | No           | No          | No             | No              | No                          |
|           | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | No       | No          | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | No       | No          | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | No       | Yes         | Yes                     | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | Yes                 | No                    | No       | Yes         | Yes                     | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | No       | No          | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |



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|     |     |     |     |     |     |     |     |    |    |     |     |     |
|-----|-----|-----|-----|-----|-----|-----|-----|----|----|-----|-----|-----|
| No  | No  | No  | Yes | Yes | No  | Yes | Yes | No | No | Yes | No  | No  |
| No  | No  | No  | Yes | Yes | No  | Yes | Yes | No | No | Yes | Yes | Yes |
| No  | No  | No  | Yes | No  | No  | Yes | Yes | No | No | Yes | No  | No  |
| No  | No  | No  | Yes | No  | No  | Yes | Yes | No | No | Yes | No  | No  |
| No  | No  | No  | No  | No  | No  | Yes | Yes | No | No | Yes | No  | No  |
| Yes | Yes | No  | No  | No  | No  | Yes | Yes | No | No | Yes | No  | No  |
| Yes | Yes | Yes | No  | No  | No  | No  | No  | No | No | Yes | No  | No  |
| Yes | Yes | No  | No  | Yes | No  | No  | No  | No | No | Yes | No  | No  |
| No  | No  | No  | Yes | No  | Yes | Yes | No  | No | No | Yes | No  | Yes |
| No  | No  | No  | No  | No  | No  | Yes | No  | No | No | Yes | No  | No  |
| Yes | Yes | No  | Yes | Yes | No  | No  | No  | No | No | No  | No  | No  |
| Yes | Yes | No  | No  | No  | No  | No  | Yes | No | No | Yes | No  | No  |
| No  | Yes | No  | No  | No  | Yes | Yes | Yes | No | No | Yes | No  | No  |

**Features and Recreational Amenities Current and Development Communities**

| Community | Building entrance controlled access | Underground parking | Aerobics dance studio | Car wash | Picnic area | Walking / jogging trail | Pool | Sauna / whirlpool | Tennis court | Racquetball | Fitness center | Sand volleyball | Indoor / outdoor basketball |
|-----------|-------------------------------------|---------------------|-----------------------|----------|-------------|-------------------------|------|-------------------|--------------|-------------|----------------|-----------------|-----------------------------|
|           | No                                  | No                  | No                    | Yes      | No          | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | Yes                 | Yes                   | No       | No          | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | Yes      | Yes         | Yes                     | Yes  | No                | Yes          | No          | Yes            | No              | Yes                         |
|           | No                                  | Yes                 | No                    | Yes      | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | No                                  | Yes                 | No                    | No       | Yes         | No                      | Yes  | Yes               | No           | No          | Yes            | No              | Yes                         |
|           | No                                  | No                  | No                    | Yes      | Yes         | No                      | Yes  | Yes               | No           | No          | Yes            | No              | Yes                         |
|           | No                                  | No                  | No                    | Yes      | No          | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | No                                  | Yes                 | No                    | No       | No          | Yes                     | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | No                                  | Yes                 | No                    | Yes      | Yes         | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | Yes                 | No                    | No       | No          | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | No       | No          | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | Yes                 | Yes                   | No       | Yes         | No                      | Yes  | Yes               | Yes          | No          | Yes            | No              | Yes                         |
|           | Yes                                 | Yes                 | No                    | Yes      | No          | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | Yes      | No          | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | Yes      | No          | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | No                  | No                    | No       | No          | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | No                                  | No                  | No                    | Yes      | Yes         | No                      | Yes  | Yes               | Yes          | Yes         | Yes            | Yes             | No                          |
|           | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | No                                  | Yes                 | No                    | No       | No          | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |

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|     |     |     |     |     |     |     |     |     |    |     |     |     |
|-----|-----|-----|-----|-----|-----|-----|-----|-----|----|-----|-----|-----|
| No  | Yes | No  | No  | No  | No  | Yes | Yes | No  | No | Yes | No  | No  |
| Yes | Yes | No  | No  | No  | No  | Yes | Yes | No  | No | No  | No  | No  |
| Yes | No  | No  | No  | Yes | No  | Yes | No  | No  | No | Yes | No  | No  |
| No  | No  | No  | No  | No  | No  | Yes | Yes | No  | No | Yes | No  | No  |
| No  | No  | No  | Yes | No  | No  | Yes | Yes | Yes | No | Yes | Yes | No  |
| No  | No  | No  | No  | No  | Yes | Yes | Yes | No  | No | Yes | No  | No  |
| No  | No  | No  | Yes | No  | No  | Yes | Yes | No  | No | Yes | No  | No  |
| No  | No  | No  | No  | Yes | Yes | Yes | Yes | No  | No | Yes | No  | No  |
| Yes | No  | No  | No  | No  | No  | Yes | Yes | Yes | No | Yes | No  | No  |
| No  | Yes | Yes | No  | Yes | No  | Yes | Yes | Yes | No | Yes | Yes | Yes |
| No  | No  | No  | No  | Yes | No  | Yes | Yes | No  | No | Yes | No  | No  |

**Features and Recreational Amenities Current and Development Communities**

| Community | Building entrance controlled access | Underground parking | Aerobics dance studio | Car wash | Picnic area | Walking / jogging trail | Pool | Sauna / whirlpool | Tennis court | Racquetball | Fitness center | Sand volleyball | Indoor / outdoor basketball |
|-----------|-------------------------------------|---------------------|-----------------------|----------|-------------|-------------------------|------|-------------------|--------------|-------------|----------------|-----------------|-----------------------------|
|           | No                                  | No                  | No                    | No       | Yes         | No                      | Yes  | No                | Yes          | Yes         | Yes            | No              | No                          |
|           | Yes                                 | No                  | No                    | No       | No          | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | Yes                 | No                    | No       | Yes         | No                      | Yes  | No                | No           | Yes         | Yes            | No              | No                          |
|           | Some                                | Some                | Yes                   | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | Yes                         |
|           | Yes                                 | No                  | Yes                   | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | Yes                 | No                    | No       | Yes         | Yes                     | No   | Yes               | No           | No          | Yes            | No              | Yes                         |
|           | Some                                | Some                | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | Yes                         |
|           | Yes                                 | Yes                 | No                    | No       | No          | No                      | No   | No                | No           | No          | No             | No              | No                          |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | Yes                 | No                    | No       | No          | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | Yes                         |
|           | Yes                                 | Yes                 | No                    | No       | Yes         | No                      | Yes  | Yes               | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | Yes                 | No                    | No       | Yes         | No                      | No   | No                | No           | No          | Yes            | No              | No                          |
|           | All                                 | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | No                  | Yes                   | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | No                          |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | Yes                         |
|           | Yes                                 | No                  | No                    | No       | Yes         | No                      | Yes  | No                | No           | No          | Yes            | No              | Yes                         |
|           | Yes                                 | Yes                 | No                    | No       | Yes         | No                      | No   | No                | No           | No          | Yes            | No              | No                          |

Development Communities

As of December 31, 2006, we had 17 Development Communities under construction. We expect these Development Communities, when completed, to add a total of 5,153 apartment homes to our portfolio for a total capitalized cost, including land acquisition costs, of approximately \$1,323,300,000. You should carefully review Item 1a., Risk Factors, for a discussion of the risks associated with development activity.

The following table presents a summary of the Development Communities. We hold a direct or indirect fee simple ownership interest in these communities except where noted.

|  | Number<br>of<br>apartment<br>homes | Total<br>capitalized<br>cost (1)<br>(\$<br>millions) | Construction<br>start | Initial<br>occupancy (2) | Estimated<br>completion | Estimated<br>stabilization (3) |
|--|------------------------------------|--|-----------------------|--------------------------|-------------------------|--------------------------------|
| 1. Avalon Wilshire<br><i>Los Angeles, CA</i>             | 123                                | \$46.6   | Q1 2005               | Q1 2007                  | Q2 2007                 | Q4 2007                        |
| 2. Avalon Chestnut<br>Hill<br><i>Chestnut Hill, MA</i>   | 204                                | 60.6   | Q2 2005               | Q3 2006                  | Q1 2007                 | Q3 2007                        |
| 3. Avalon at<br>Decoverly II<br><i>Rockville, MD</i>     | 196                                | 30.5   | Q3 2005               | Q2 2006                  | Q1 2007                 | Q3 2007                        |
| 4. Avalon Lyndhurst<br>(4)<br><i>Lyndhurst, NJ</i>       | 328                                | 78.8   | Q3 2005               | Q4 2006                  | Q4 2007                 | Q2 2008                        |
| 5. Avalon Shrewsbury<br><i>Shrewsbury, MA</i>            | 251                                | 36.1   | Q3 2005               | Q2 2006                  | Q2 2007                 | Q4 2007                        |
| 6. Avalon Riverview<br>North<br><i>New York, NY</i>      | 602                                | 175.6  | Q3 2005               | Q3 2007                  | Q3 2008                 | Q1 2009                        |
| 7. Avalon at Glen<br>Cove North<br><i>Glen Cove, NY</i>  | 111                                | 42.4   | Q4 2005               | Q2 2007                  | Q3 2007                 | Q1 2008                        |
| 8. Avalon Danvers<br><i>Danvers, MA</i>                  | 433                                | 84.8   | Q4 2005               | Q1 2007                  | Q2 2008                 | Q4 2008                        |
| 9. Avalon Woburn<br><i>Woburn, MA</i>                    | 446                                | 81.3   | Q4 2005               | Q3 2006                  | Q1 2008                 | Q3 2008                        |
| 10. Avalon on the<br>Sound II<br><i>New Rochelle, NY</i> | 588                                | 184.2  | Q1 2006               | Q3 2007                  | Q3 2008                 | Q1 2009                        |
| 11. Avalon<br>Meydenbauer<br><i>Bellevue, WA</i>         | 368                                | 84.3   | Q1 2006               | Q4 2007                  | Q3 2008                 | Q1 2009                        |
| 12. Avalon at Dublin<br>Station I<br><i>Dublin, CA</i>   | 305                                | 85.8   | Q2 2006               | Q3 2007                  | Q2 2008                 | Q4 2008                        |
| 13. Avalon at<br>Lexington Hills<br><i>Lexington, MA</i> | 387                                | 86.2   | Q2 2006               | Q2 2007                  | Q3 2008                 | Q1 2009                        |

|   |       |            |         |         |         |         |
|---|-------|------------|---------|---------|---------|---------|
| 14. Avalon Bowery Place II (5)<br><i>New York, NY</i> | 90    | 61.9       | Q3 2006 | Q4 2007 | Q1 2008 | Q2 2008 |
| 15. Avalon Encino<br><i>Los Angeles, CA</i>           | 131   | 61.5       | Q3 2006 | Q3 2008 | Q4 2008 | Q1 2009 |
| 16. Avalon Canoga Park<br><i>Canoga Park, CA</i>      | 210   | 53.9       | Q4 2006 | Q1 2008 | Q2 2008 | Q4 2008 |
| 17. Avalon Acton (5)<br><i>Acton, MA</i>              | 380   | 68.8       | Q4 2006 | Q1 2008 | Q4 2008 | Q2 2009 |
| Total   | 5,153 | \$ 1,323.3 |         |         |         |         |

(1) 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. 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.

- (2) Future initial occupancy dates are estimates. There can be no assurance that we will pursue to completion any or all of these proposed developments.
- (3) Stabilized operations is defined as the earlier of
  - (i) attainment of 95% or greater physical occupancy or
  - (ii) the one-year anniversary of completion of development.

- (4) The remediation of our Avalon Lyndhurst development site, as discussed in Note 8, Commitment and Contingencies of the Consolidated Financial Statements included as Item 8 of this report, is substantially complete. The net cost associated with this remediation effort after considering insurance proceeds received to date, including costs associated with construction delays, is expected to total approximately \$7.5 million. We are pursuing the recovery of these additional costs through insurance as well as from the third parties involved, but any additional recoverable amounts are not currently estimable. The total expected capitalized cost cited above does



not reflect the potential impact of these additional net costs.

- (5) This community is being financed in part by third party, tax-exempt debt.

#### Redevelopment Communities

As of December 31, 2006, we had three consolidated communities under redevelopment. We expect the total capitalized cost to redevelop these communities to be \$25,800,000, excluding costs prior to redevelopment. In addition, the Fund has three communities under 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 restabilized operations, or that we will meet our budgeted costs, either individually or in the aggregate. We anticipate increasing our redevelopment activity related to Fund-owned communities, as well as communities in our current operating portfolio. You should carefully review Item 1a., Risk Factors, for a discussion of the risks associated with redevelopment activity.

The following presents a summary of these Redevelopment Communities:

|   | Number of apartment homes | Total cost (\$ millions) |                            | Reconstruction start | Estimated reconstruction completion | Estimated restabilized operations (2) |
|---|---------------------------|--------------------------|----------------------------|----------------------|-------------------------------------|---------------------------------------|
|   |                           | Pre-redevelopment cost   | Total capitalized cost (1) |                      |                                     |                                       |
| <b>Consolidated Communities</b>                             |                           |                          |                            |                      |                                     |                                       |
| 1. Avalon Arlington Heights<br><i>Arlington Heights, IL</i> | 409                       | \$50.2                   | \$57.1                     | Q1 2006              | Q1 2007                             | Q3 2007                               |
| 2. Avalon Walk I and II<br><i>Hamden, CT</i>                | 764                       | 59.4                     | 71.2                       | Q1 2006              | Q4 2007                             | Q2 2008                               |
| 3. Avalon at AutumnWoods<br><i>Fairfax, VA</i>              | 420                       | 31.2                     | 38.3                       | Q3 2006              | Q3 2008                             | Q1 2009                               |
| Subtotal  | 1,593                     | \$ 140.8                 | \$ 166.6                   |                      |                                     |                                       |
| <b>Fund Communities</b>                                     |                           |                          |                            |                      |                                     |                                       |
| 1. Avalon Redmond<br><i>Redmond, WA</i>                     | 400                       | \$49.2                   | \$56.7                     | Q2                   | Q4                                  | Q2                                    |

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|   |       |          |          | 2006       | 2007       | 2008       |
|---|-------|----------|----------|------------|------------|------------|
| 2. Civic Center Place<br><i>Norwalk, CA</i>           | 192   | 38.1     | 43.5     | Q4<br>2006 | Q2<br>2008 | Q4<br>2008 |
| 3. Avalon at Poplar<br>Creek<br><i>Schaumburg, IL</i> | 196   | 25.2     | 28.6     | Q4<br>2006 | Q1<br>2008 | Q3<br>2008 |
| Subtotal  | 788   | \$ 112.5 | \$ 128.8 |            |            |            |
| Total   | 2,381 | \$ 253.3 | \$ 295.4 |            |            |            |

(1) Total capitalized cost includes all capitalized costs projected to be or actually incurred to develop the respective Redevelopment Community, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees, all as determined in accordance with GAAP.

(2) Restabilized operations is defined as the earlier of (i) attainment of 95% or greater

physical  
occupancy or  
(ii) the one-year  
anniversary of  
completion of  
redevelopment.

Development Rights

As of December 31, 2006, we are evaluating the future development of 54 new apartment communities on land that is either owned by us, under contract, subject to a leasehold interest or for which we hold either a purchase or lease option. We generally hold Development Rights through options to acquire land, although for 18 of the Development Rights we currently own the land on which a community would be built if we proceeded with development. 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 14,185 apartment homes to our portfolio. Substantially all of these apartment homes will offer features like those offered by the communities we currently own. At December 31, 2006, there were cumulative capitalized costs (including legal fees, design fees and related overhead costs, but excluding land costs) of \$39,365,000 relating to Development Rights that we consider probable for future development. In addition, land costs related to the pursuit of Development Rights (consisting of original land and additional carrying costs) of \$209,568,000 are reflected as land held for development as of December 31, 2006 on the Consolidated Balance Sheet of the Consolidated Financial Statements set forth in Item 8 of this report.

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 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 capitalized pre-development costs are written-off with a charge to expense.

You should carefully review Section 1a., Risk Factors, for a discussion of the risks associated with Development Rights.

The table below presents a summary of these Development Rights:

| Location                    |     | Estimated<br>number<br><br>of homes | Total<br>capitalized<br>cost<br>(\$ millions)<br>(1) |
|-----------------------------|-----|-------------------------------------|--|
| 1. White Plains, NY         | (2) | 393                                 | \$ 155   |
| 2. New York, NY             |     | 296                                 | 125  |
| 3. Tinton Falls, NJ         |     | 216                                 | 41   |
| 4. Coram, NY                | (2) | 200                                 | 47   |
| 5. Kirkland, WA Phase II    | (2) | 176                                 | 53   |
| 6. Hingham, MA              | (2) | 235                                 | 44   |
| 7. Northborough, MA         |     | 350                                 | 60   |
| 8. Wilton, CT               | (2) | 100                                 | 24   |
| 9. Union City, CA           | (5) | 438                                 | 120  |
| 10. Andover, MA             | (2) | 115                                 | 21   |
| 11. Norwalk, CT             |     | 319                                 | 83   |
| 12. Sharon, MA              |     | 156                                 | 26   |
| 13. Brooklyn, NY            |     | 628                                 | 317  |
| 14. Pleasant Hill, CA       | (4) | 416                                 | 153  |
| 15. Milford, CT             | (2) | 284                                 | 45   |
| 16. West Haven, CT          |     | 170                                 | 23   |
| 17. Cohasset, MA            | (2) | 200                                 | 38   |
| 18. Quincy, MA              | (2) | 146                                 | 24   |
| 19. West Long Branch, NJ    | (3) | 216                                 | 36   |
| 20. Plymouth, MA Phase II   |     | 81                                  | 17   |
| 21. Shelton, CT             |     | 302                                 | 49   |
| 22. Shelton, CT II          |     | 171                                 | 34   |
| 23. Roselle Park, NJ        |     | 340                                 | 75   |
| 24. Wanaque, NJ             |     | 210                                 | 45   |
| 25. San Francisco, CA       |     | 152                                 | 40   |
| 26. North Bergen, NJ        | (3) | 156                                 | 48   |
| 27. Howell, NJ              |     | 265                                 | 42   |
| 28. Gaithersburg, MD        |     | 254                                 | 41   |
| 29. Highland Park, NJ       |     | 285                                 | 67   |
| 30. Dublin, CA Phase II     |     | 200                                 | 52   |
| 31. Dublin, CA Phase III    |     | 205                                 | 53   |
| 32. Canoga Park, CA         |     | 297                                 | 85   |
| 33. New York, NY II         |     | 680                                 | 261  |
| 34. Camarillo, CA           |     | 376                                 | 55   |
| 35. Bloomingdale, NJ        |     | 173                                 | 38   |
| 36. Greenburgh, NY Phase II |     | 444                                 | 112  |
| 37. Irvine, CA              | (2) | 280                                 | 76   |
| 38. Stratford, CT           | (2) | 146                                 | 23   |
| 39. Hackensack, NJ          |     | 210                                 | 47   |
| 40. Oyster Bay, NY          | (2) | 150                                 | 42   |
| 41. Saddle Brook, NJ        |     | 300                                 | 55   |
| 42. Oakland, NJ             |     | 308                                 | 62   |

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|                       |     |        |    |       |
|-----------------------|-----|--------|----|-------|
| 43. Randolph, NJ      |     | 128    |    | 31    |
| 44. Irvine, CA II     |     | 180    |    | 57    |
| 45. Garden City, NY   |     | 160    |    | 58    |
| 46. Alexandria, VA    | (5) | 283    |    | 73    |
| 47. Tysons Corner, VA | (5) | 439    |    | 101   |
| 48. Yonkers, NY       |     | 400    |    | 88    |
| 49. Plainview, NY     |     | 160    |    | 38    |
| 50. Wheaton, MD       | (5) | 320    |    | 56    |
| 51. Yaphank, NY       | (2) | 343    |    | 57    |
| 52. Camarillo, CA II  |     | 233    |    | 57    |
| 53. Rockville, MD     | (5) | 240    |    | 46    |
| 54. Winchester, MA    |     | 260    |    | 65    |
| Total                 |     | 14,185 | \$ | 3,581 |

- (1) 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.
- (2) We own the land parcel, but construction has not yet begun.
- (3) This Development Right is subject to a joint venture ownership structure.
- (4) This Development Right is subject to a joint venture arrangement. In

connection with the pursuit of this Development Right, \$125 million in bond financing was issued and immediately invested in a guaranteed investment contract ( GIC ) administered by a trustee as described in the Notes to the Consolidated Financial Statements set forth in Item 8 of this report.

- (5) Represents improved land encumbered with debt. The improved land consists of occupied office buildings and industrial space. Net operating income from incidental operations from the current improvements are recorded as a reduction in the cost basis as described in the Notes to the Consolidated Financial Statements set forth in Item 8 of this report.

Recent Developments

*Sales of Existing Communities.* We seek to increase the value of our interests and increase our presence in selected high barrier-to-entry markets where we believe we can:



apply sufficient market and management presence to enhance revenue growth;

reduce operating expenses; and

leverage management talent.

To achieve this increased value creation and presence, we (i) sell assets that do not meet our long-term investment strategy or when capital and real estate markets allow us to realize a portion of the value created over the past business cycle and (ii) 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 variable rate unsecured credit facility. On occasion, we will set aside the proceeds from the sale of communities into a cash escrow account to facilitate a non-taxable, like-kind exchange transaction. We sold four communities, including one community previously held by a joint venture entity, containing an aggregate of 1,036 apartment homes, during the period from January 1, 2006 through January 31, 2007. Net proceeds from the sale of these assets were \$218,492,000.

*Land Acquisitions.* We select land for development and follow established procedures that we believe minimize both the cost and the risks of development. During 2006, we acquired nine land parcels for an aggregate purchase price of \$91,574,000. The land parcels purchased, which are currently being developed or are held for future development, are as follows:

|                                   | Gross<br>acres | Estimated<br>number<br>of<br>apartment<br>homes | Total<br>capitalized<br>cost (1)<br>(\$<br>millions) | Date<br>acquired | Construction<br>start (2) |
|-----------------------------------|----------------|---|--|------------------|---------------------------|
| 1. Avalon Cohasset                |                |   |  | January<br>2006  | 2008                      |
| <i>Cohasset, MA</i>               | 62.0           | 200   | \$ 38  |                  |                           |
| 2. Avalon Canoga Park             |                |   |  | January<br>2006  | 2006                      |
| <i>Canoga Park, CA</i>            | 3.3            | 210   | 54   |                  |                           |
| 3. Avalon Jamboree Village        |                |   |  | May 2006         | 2008                      |
| <i>Irvine, CA</i>                 | 4.5            | 280   | 76   |                  |                           |
| 4. Avalon at Lexington Hills      |                |   |  | June 2006        | 2006                      |
| <i>Lexington, MA</i>              | 22.5           | 387   | 86   |                  |                           |
| 5. Avalon at Charles Pond (3)     |                |   |  | June 2006        | 2007                      |
| <i>Coram, NY</i>                  | 39.0           | 200   | 47   |                  |                           |
| 6. Avalon at the Hingham Shipyard |                |   |  | June 2006        | 2007                      |
| <i>Hingham, MA</i>                | 12.9           | 235   | 44   |                  |                           |
| 7. Avalon at Oyster Bay           |                |   |  | August<br>2006   | 2008                      |
| <i>Oyster Bay, NY</i>             | 5.0            | 150   | 42   |                  |                           |
| 8. Avalon Acton (3)               |                |   |  | December<br>2006 | 2006                      |
| <i>Acton, MA</i>                  | 50.3           | 380   | 69   |                  |                           |
| 9. Avalon White Plains            |                |   |  | December<br>2006 | 2007                      |
| <i>White Plains, NY</i>           | 3.2            | 393   | 155  |                  |                           |
| <i>Total</i>                      | 202.7          | 2,435   | \$ 611   |                  |                           |

(1) 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.

- (2) Future  
construction  
start dates are  
estimates. There  
can be no  
assurance that  
we will pursue  
to completion  
any or all of  
these proposed  
developments.

- (3) Excludes  
portion of land  
acquired that is  
not planned for  
development

In addition, in January 2007, we acquired a parcel of land located in Brooklyn, NY for approximately \$70,000,000. We expect to begin construction of this high-rise community in the second half of 2007.

Insurance and Risk of Uninsured Losses

We carry commercial general liability insurance and property insurance with respect to all of our communities. These policies, and other insurance policies we carry, have policy specifications, insured limits and deductibles that 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 management's view, economically impractical. You should carefully review the discussion under Item 1a., Risk Factors, for a discussion of risks associated with an uninsured property or liability loss.

Many of our West Coast communities are located in the general vicinity of active earthquake faults. A large concentration of our communities lies near, and thus is susceptible to, the major fault lines in California, including the San Andreas Fault and the Hayward Fault. We cannot assure you that an earthquake would not cause damage or losses greater than insured levels. We have in place with respect to communities located in California, for any single occurrence and in the aggregate, \$75,000,000 of coverage with a deductible per building equal to five percent of the

insured value of that building. The five percent deductible is subject to a minimum of \$100,000 per occurrence. Earthquake coverage outside of California is subject to a \$100,000,000 limit, except with respect to the state of

Washington, for which the limit is \$65,000,000. Our earthquake insurance outside of California provides for a \$100,000 deductible per occurrence. In addition, up to a policy aggregate of \$2,000,000, the next \$400,000 of loss per occurrence outside California will be treated as an additional deductible.

We renewed the first \$15,000,000 layer of our property insurance policy on May 1, 2006. We renewed the remaining layers on this policy on December 1, 2006. At that time, we elected to renew most of these layers so that they will now expire on May 1, 2007, in order to mitigate the risk of cost escalation and align the renewal date for the upper layers with the renewal date for the primary layer.

Our annual general liability policy and workman's compensation coverage renewed on August 1, 2006. We have completed our negotiations with the incumbent carrier and the insurance coverage provided for in these renewal policies did not materially change from the preceding year.

Just as with office buildings, transportation systems and government buildings, there have been reports that apartment communities could become targets of terrorism. In December 2005, Congress passed the Terrorism Risk Insurance Extension Act ( TRIEA ) which is designed to make terrorism insurance available. In connection with this legislation, we have purchased insurance for property damage due to terrorism up to \$200,000,000. Additionally, we have purchased insurance for certain terrorist acts, not covered under TRIEA, such as domestic-based terrorism. This insurance, often referred to as non-certified terrorism insurance, is subject to deductibles, limits and exclusions. Our general liability policy provides TRIEA coverage (subject to deductibles and insured limits) for liability to third parties that result from terrorist acts at our communities. TRIEA is scheduled to expire on December 31, 2007. It is uncertain if Congress will extend TRIEA and continue to provide federal support for terrorism insurance. If Congress does not extend TRIEA, the cost and availability of terrorism insurance may be in question.

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 the Company's related prevention and remediation activities, please refer to the discussion on environmental contamination. 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.

**ITEM 3. LEGAL PROCEEDINGS**

We are currently involved in litigation alleging that communities constructed by us violate the accessibility requirements of the Fair Housing Act and the Americans with Disabilities Act. The lawsuit, Equal Rights Center v. AvalonBay Communities, Inc., was filed on September 23, 2005 in the federal district court in Maryland. The plaintiff seeks compensatory and punitive damages in unspecified amounts as well as injunctive relief (such as modification of existing communities), an award of attorneys' fees, expenses and costs of suit. The Company has filed a motion to dismiss all or parts of the suit, which has not been ruled on yet by the court. Due to the preliminary nature of the litigation, we cannot predict or determine the outcome of this lawsuit, nor is it reasonably possible to estimate the amount of loss, if any, that would be associated with an adverse decision or settlement.

On January 11, 2007, a former leasing consultant of the Company, individually and on behalf of other leasing consultants allegedly similarly situated, filed suit against the Company in the U.S. District Court for the Southern District of New York alleging that the Company did not pay all leasing consultants overtime as required under the Fair Labor Standards Act. The Company disputes this allegation and maintains that it has accurately tracked and paid all leasing consultants overtime as required by law. We cannot predict the outcome of this lawsuit, nor is it reasonably possible at this time to estimate the amount of loss, if any, that would be associated with an adverse decision.

In addition to the matters described above, we are involved in various other claims and/or administrative proceedings that arise in the ordinary course of our business. While no assurances can be given, we do not believe that any of these outstanding litigation matters, individually or in the aggregate, will have a material adverse effect on our operations.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of our security holders during the fourth quarter of 2006.

**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. The following table sets forth the quarterly high and low sales prices per share of our common stock for the years 2006 and 2005, as reported by the NYSE. On January 31, 2007 there were 795 holders of record of an aggregate of 79,344,557 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.

|                            | 2006        |           |           | 2005        |         |           |
|----------------------------|-------------|-----------|-----------|-------------|---------|-----------|
|                            | Sales Price |           | Dividends | Sales Price |         | Dividends |
|                            | High        | Low       | declared  | High        | Low     | declared  |
| Quarter ended March 31     | \$ 110.45   | \$ 88.95  | \$0.78    | \$75.59     | \$65.18 | \$0.71    |
| Quarter ended June 30      | \$ 112.00   | \$ 100.50 | \$0.78    | \$81.80     | \$64.99 | \$0.71    |
| Quarter ended September 30 | \$ 125.21   | \$ 110.27 | \$0.78    | \$88.23     | \$78.37 | \$0.71    |
| Quarter ended December 31  | \$ 134.60   | \$ 119.31 | \$0.78    | \$92.99     | \$78.82 | \$0.71    |

We expect to continue our policy of paying regular quarterly cash dividends. However, 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 Internal Revenue 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 January 2007, we announced that our Board of Directors declared a dividend on our common stock for the first quarter of 2007 of \$0.85 per share, a 9.0% increase over the previous quarterly dividend of \$0.78 per share. The increased dividend will be payable on April 16, 2007 to all common stockholders of record as of April 2, 2007.

During the three months ended December 31, 2006, the Company issued (i) 2,287 shares of common stock in exchange for 2,287 units of limited partnership held by two limited partners of Bay Countrybrook, L.P., and (ii) 3,235 shares of common stock in exchange for 3,235 limited partnership units in Avalon DownREIT V, L.P. The shares were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933. AvalonBay is relying on the exemption based on factual representations received from the limited partners who received these shares.

*Issuer Purchases of Equity Securities*

| Period                        | (a)<br>Total<br>Number of<br>Shares<br>Purchased<br>(1) | (b)<br>Average<br>Price<br>Paid per<br>Share<br>(1) | (c)<br>Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Plans<br>or Programs<br>(2) | (d)<br>Maximum Dollar<br>Amount<br>that May Yet be<br>Purchased<br>Under the Plans or<br>Programs<br>(in thousands)<br>(2) |
|-------------------------------|---|---|--|--|
| Month Ended October 31, 2006  | 549   | \$ 121.78   |  | \$ 100,000   |
| Month Ended November 30, 2006 | 757   | \$ 131.77   |  | \$ 100,000   |
| Month Ended December 31, 2006 | 254   | \$ 127.91   |  | \$ 100,000   |

(1) Includes shares surrendered to the Company in connection with employee stock option exercises or vesting of restricted stock as payment of exercise price or as payment of taxes.

(2) As disclosed for the first time in our Form 10-K for the year ended December 31, 2005, our Board of Directors has adopted a Stock Repurchase Program under which we may acquire, from time to time, shares of common stock in the open market with an



aggregate purchase price of up to \$100,000,000. In 2006 and 2005, no purchases were made (a) under this program, or (b) outside of this program. In determining whether to repurchase shares, we consider a variety of factors, including our liquidity needs, the then current market price of our shares and the effect of the share repurchases on our per share earnings and FFO. 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 "Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters" on page 69 of this Form 10-K.

**ITEM 6. SELECTED FINANCIAL DATA**

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

|  | 12-31-06       | 12-31-05       | For the year ended |                | 12-31-02       |
|--|----------------|----------------|--------------------|----------------|----------------|
|  | As Restated    | As Restated    | 12-31-04           | 12-31-03       | As Restated    |
|  |                |                | As Restated        | As Restated    |                |
| <b>Revenue:</b>  |                |                |                    |                |                |
| Rental and other income  | \$ 731,041     | \$ 666,376     | \$ 613,240         | \$ 556,582     | \$ 531,595     |
| Management, development and other fees   | 6,259          | 4,304          | 604                | 931            | 2,145          |
| <b>Total revenue</b>   | <b>737,300</b> | <b>670,680</b> | <b>613,844</b>     | <b>557,513</b> | <b>533,740</b> |
| <b>Expenses:</b>   |                |                |                    |                |                |
| Operating expenses, excluding property taxes   | 221,515        | 202,235        | 192,084            | 172,346        | 148,412        |
| Property taxes   | 68,257         | 65,487         | 59,458             | 53,257         | 47,580         |
| Interest expense, net  | 111,046        | 127,099        | 131,103            | 130,178        | 114,282        |
| Depreciation expense   | 164,129        | 160,055        | 153,224            | 139,654        | 122,041        |
| General and administrative expense   | 24,767         | 25,761         | 18,074             | 14,830         | 13,449         |
| Impairment Loss  |                |                |                    |                | 6,800          |
| <b>Total expenses</b>  | <b>589,714</b> | <b>580,637</b> | <b>553,943</b>     | <b>510,265</b> | <b>452,564</b> |
| Equity in income of unconsolidated entities  | 7,455          | 7,198          | 1,100              | 25,535         | 55             |
| Venture partner interest in profit-sharing   |                |                | (1,178)            | (1,688)        | (857)          |
| Minority interest in consolidated partnerships   | (573)          | (1,481)        | (150)              | (950)          | (865)          |
| Gain on sale of communities  | 13,519         | 4,479          | 1,138              | 1,234          |                |
| Income from continuing operations before cumulative effect of change in accounting principle | 167,987        | 100,239        | 60,811             | 71,379         | 79,509         |
| <b>Discontinued operations:</b>  |                |                |                    |                |                |
| Income from discontinued operations  | 1,148          | 14,942         | 21,134             | 31,368         | 44,723         |
| Gain on sale of communities  | 97,411         | 195,287        | 121,287            | 159,756        | 48,893         |
| <b>Total discontinued operations</b>   | <b>98,559</b>  | <b>210,229</b> | <b>142,421</b>     | <b>191,124</b> | <b>93,616</b>  |

|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| Income before cumulative effect of change in accounting principle                    | 266,546    | 310,468    | 203,232    | 262,503    | 173,125    |
| Cumulative effect of change in accounting principle                                  |            |            | 4,547      |            |            |
| Net income   | 266,546    | 310,468    | 207,779    | 262,503    | 173,125    |
| Dividends attributable to preferred stock  | (8,700)    | (8,700)    | (8,700)    | (10,744)   | (17,896)   |
| Net income available to common stockholders  | \$ 257,846 | \$ 301,768 | \$ 199,079 | \$ 251,759 | \$ 155,229 |
| <b>Per Common Share and Share Information:</b>                                       |            |            |            |            |            |
| Earnings per common share basic:   |            |            |            |            |            |
| Income from continuing operations (net of dividends attributable to preferred stock) | \$ 2.15    | \$ 1.26    | \$ 0.79    | \$ 0.88    | \$ 0.90    |
| Discontinued operations  | 1.33       | 2.88       | 1.99       | 2.79       | 1.36       |
| Net income available to common stockholders  | \$ 3.48    | \$ 4.14    | \$ 2.78    | \$ 3.67    | \$ 2.26    |
| Weighted average common shares outstanding basic                                     | 74,125,795 | 72,952,492 | 71,564,202 | 68,559,657 | 68,772,139 |
| Earnings per common share diluted:   |            |            |            |            |            |
| Income from continuing operations (net of dividends attributable to preferred stock) | \$ 2.12    | \$ 1.24    | \$ 0.79    | \$ 0.87    | \$ 0.88    |
| Discontinued operations  | 1.30       | 2.81       | 1.96       | 2.73       | 1.34       |
| Net income available to common stockholders  | \$ 3.42    | \$ 4.05    | \$ 2.75    | \$ 3.60    | \$ 2.22    |
| Weighted average common shares outstanding diluted                                   | 75,586,898 | 74,759,318 | 73,354,956 | 70,203,467 | 70,674,211 |
| Cash dividends declared  | \$ 3.12    | \$ 2.84    | \$ 2.80    | \$ 2.80    | \$ 2.80    |



|   | For the year ended         |                         |                         |                         |                         |
|---|----------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
|   | 12-31-06<br>As<br>Restated | 12-31-05<br>As Restated | 12-31-04<br>As Restated | 12-31-03<br>As Restated | 12-31-02<br>As Restated |
| <b>Other Information:</b>                                 |                            |                         |                         |                         |                         |
| Net income  | \$ 266,546                 | \$ 310,468              | \$ 207,779              | \$ 262,503              | \$ 173,125              |
| Depreciation continuing operations                        | 164,129                    | 160,055                 | 153,224                 | 139,654                 | 122,041                 |
| Depreciation discontinued operations                      |                            | 3,241                   | 10,676                  | 14,380                  | 22,482                  |
| Interest expense, net continuing operations               | 111,046                    | 127,099                 | 131,103                 | 130,178                 | 114,282                 |
| Interest expense, net discontinued operations             |                            |                         | 525                     | 2,399                   | 3,122                   |
| EBITDA (1)  | \$ 541,721                 | \$ 600,863              | \$ 503,307              | \$ 549,114              | \$ 435,052              |
| Funds from Operations (2)                                 | \$ 320,199                 | \$ 271,096              | \$ 235,514              | \$ 222,473              | \$ 250,963              |
| Number of Current Communities (3)                         | 150                        | 143                     | 138                     | 131                     | 137                     |
| Number of apartment homes                                 | 43,141                     | 41,412                  | 40,142                  | 38,504                  | 40,179                  |
| <b>Balance Sheet Information:</b>                         |                            |                         |                         |                         |                         |
| Real estate, before accumulated depreciation              | \$ 6,615,593               | \$ 5,940,146            | \$ 5,734,122            | \$ 5,468,735            | \$ 5,403,633            |
| Total assets  | \$ 5,845,491               | \$ 5,198,598            | \$ 5,116,019            | \$ 4,945,585            | \$ 4,984,969            |
| Notes payable and unsecured credit facilities             | \$ 2,825,586               | \$ 2,334,017            | \$ 2,451,354            | \$ 2,337,817            | \$ 2,471,163            |
| <b>Cash Flow Information:</b>                             |                            |                         |                         |                         |                         |
| Net cash flows provided by operating activities           | \$ 351,943                 | \$ 306,248              | \$ 275,617              | \$ 239,677              | \$ 307,810              |
| Net cash flows provided by (used in) investing activities | \$ (511,371)               | \$ (19,761)             | \$ (251,683)            | \$ 33,935               | \$ (435,796)            |
| Net cash flows provided by (used in) financing activities | \$ 162,280                 | \$ (282,293)            | \$ (29,471)             | \$ (279,465)            | \$ 68,008               |
| Notes to Selected Financial Data                          |                            |                         |                         |                         |                         |

(1) EBITDA is defined as net income before interest income and expense, income taxes, depreciation and amortization from both

continuing and discontinued operations.

Under this definition, EBITDA includes gains on sale of assets and gains 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 generally accepted accounting principles, or

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.

- (2) We generally consider Funds from Operations, or FFO, as defined below, to be an appropriate supplemental measure of our operating and financial performance because, by excluding gains or losses related to dispositions of previously depreciated property 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 performance of a real estate company between periods or as compared to different

companies. We believe that in order to understand our operating results, FFO should be examined with net income as presented in the Consolidated Statements of Operations and Other Comprehensive Income included elsewhere in this report.

- (3) Current Communities consist of all communities other than those which are still under construction and have not received a certificate of occupancy.



Consistent with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts<sup>â</sup> ( NAREIT ), we calculate FFO as net income or loss computed in accordance with GAAP, adjusted for:

gains or losses on sales of previously depreciated operating communities;

extraordinary gains or losses (as defined by GAAP);

cumulative effect of change in accounting principle;

depreciation of real estate assets; and

adjustments for unconsolidated partnerships and joint ventures.

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

FFO also does 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 on the previous page.

The following is a reconciliation of net income to FFO (dollars in thousands, except per share data)

|  | 12-31-06    | 12-31-05    | For the year ended |             | 12-31-02    |
|--|-------------|-------------|--------------------|-------------|-------------|
|  | As Restated | As Restated | 12-31-04           | 12-31-03    | As Restated |
|  | \$          | \$          | As Restated        | As Restated | \$          |
| Net income   | \$ 266,546  | \$ 310,468  | \$ 207,779         | \$ 262,503  | \$ 173,125  |
| Dividends attributable to preferred stock  | (8,700)     | (8,700)     | (8,700)            | (10,744)    | (17,896)    |
| Depreciation real estate assets, including discontinued operations and joint venture adjustments | 165,982     | 163,252     | 159,221            | 129,207     | 143,026     |
| Minority interest expense, including discontinued operations                                     | 391         | 1,363       | 3,048              | 1,263       | 1,601       |
| Gain on sale of unconsolidated entities holding previously depreciated real estate assets        | (6,609)     |             |                    |             |             |
| Cumulative effect of change in accounting principle  |             |             | (4,547)            |             |             |
| Gain on sale of previously depreciated real estate assets  | (97,411)    | (195,287)   | (121,287)          | (159,756)   | (48,893)    |
| Funds from Operations attributable to common stockholders  | \$ 320,199  | \$ 271,096  | \$ 235,514         | \$ 222,473  | \$ 250,963  |

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|   |            |            |            |            |            |
|---|------------|------------|------------|------------|------------|
| Weighted average common<br>shares outstanding diluted | 75,586,898 | 74,759,318 | 73,354,956 | 70,203,467 | 70,674,211 |
| FFO per common share<br>diluted                       | \$ 4.24    | \$ 3.63    | \$ 3.21    | \$ 3.17    | \$ 3.55    |

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## **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 facilitate an understanding of our business 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 as described more fully under Forward-Looking Statements on page 65 of this report. Actual results or developments could differ materially from those projected in such statements as a result of the risk factors described in Item 1a, Risk Factors, of this report.

### Overview

#### *Business Description*

We are primarily engaged in developing, acquiring, owning and operating apartment communities in high barrier-to-entry markets of the United States. 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 high barrier-to-entry markets; operating apartment communities; and selling communities when they no longer meet our long-term investment strategy or when pricing is attractive.

We believe that apartment communities present an attractive long-term investment opportunity compared to other real estate investments because a broad potential resident base should help reduce demand volatility over a real estate cycle. We intend to continue to pursue real estate investments in markets where constraints to new supply exist, and where new rental household formations are expected to out-pace multifamily permit activity over the course of the real estate cycle. Barriers-to-entry in our markets generally include a difficult and lengthy entitlement process with local jurisdictions and dense urban or suburban areas where zoned and entitled land is in limited supply.

We regularly evaluate the allocation of our investments by the amount of invested capital and by product type within our individual markets, which are located in the Northeast, Mid-Atlantic, Midwest, Pacific Northwest, and Northern and Southern California regions of the United States. Our strategy is to more deeply penetrate these markets with a broad range of products and services and an intense focus on our customer. A substantial majority of our communities are upscale, which 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 believe that, over an entire real estate cycle, lower housing affordability and the limited new supply of apartment homes in our markets will result in a higher propensity to rent and larger revenue and cash flow increases relative to other markets. However, throughout the real estate cycle, apartment market fundamentals, and therefore operating cash flows, are affected by overall economic conditions. A number of our markets experienced economic contraction due to job losses in 2002 and 2003, resulting in a prolonged period of weak apartment market fundamentals (i.e., the ratio of demand, including from new renter household formations, to supply) as reflected in declining rental revenue and demand. However, 2004 was a year of transition with apartment fundamentals further improving in 2005 and 2006. The economic upturn, as evidenced by job growth and declining unemployment claims, and modest increases in net supply, are contributing to the current strong apartment market fundamentals.

*Financial Highlights and Outlook*

Strong apartment fundamentals in 2006 were evidenced by the year-over-year rental revenue growth of 6.8% achieved within our Established Community portfolio (as defined later in this report) during the year ended December 31, 2006, comprised of an increase in rental rates of 6.3% and an increase in occupancy of 0.5%. This revenue growth combined with constrained expense growth contributed to our Established Community portfolio achieving year-over-year growth in net operating income ( NOI ) of 9.4% in 2006. For the fourth quarter of 2006, our Established Communities experienced an increase in rental revenue of 7.4% and a corresponding increase in NOI of 11.3% over the prior year period, our strongest operating performance since 2001.

We expect the positive revenue and NOI growth of Established Communities to continue in 2007 but at a more moderate pace. Modest net new supply, low home affordability and continued but moderating job growth should support favorable apartment fundamentals. We expect modest increases in net rental supply in our markets in 2007 that will remain below the national average. The single-family housing market continues to moderate, such that the increase in home prices is flat or down and for-sale inventory has increased. However, the current gap between the cost to rent and the cost to own continues to make rental apartments an economically attractive housing alternative in our markets. These recent trends increase the likelihood that potential home buyers will extend the period they rent a home. Finally, we expect that job growth will continue in our markets, however, at a more modest rate in 2007. Accordingly, we expect apartment market fundamentals to remain strong in our markets such that apartment rental demand will outpace new supply. Our current financial outlook provides for rental revenue growth of 5.0% to 6.5% in our Established Community portfolio in 2007, and projected NOI growth of 5.5% to 7.5%.

In positioning for future growth, we have increased our development activity and our investments in Development Rights, as discussed below. We currently have in excess of \$1,300,000,000 under construction (measured by total projected capitalized cost of the communities at completion, including the portions in which joint venture partners hold an equity or economic interest). For 2007, we expect additional new development activity to be in the range of \$1,000,000,000 to \$1,300,000,000. In addition, we continue to secure new Development Rights, including the acquisition of land for future development. We currently have Development Rights for construction of new apartment communities that, based on total projected capitalized cost if developed as expected, total approximately \$3,600,000,000.

We continue to look for opportunities to acquire existing communities through our investment in and management of a discretionary investment fund (the Fund ), in which the Company holds an interest of approximately 15%. During its investment period (which will end on or before March 16, 2008), the Fund will be our principal vehicle for acquiring apartment communities, subject to certain exceptions. The Fund acquired five communities for an aggregate purchase price of \$223,670,000 during 2006 and has approximately \$115,000,000 under contract for acquisition in early 2007. As of January 31, 2007, the total amount invested by the Fund is \$514,000,000. We expect the Fund to continue to focus on acquisition opportunities where value can be created, generally through redevelopment, repositioning and market cycle timing opportunities.

Real estate capital flows remain strong, with income investors seeking to acquire existing apartment communities. As a result, opportunities to realize value upon disposition have continued to be available. In 2006, we sold four communities (one through a joint venture) for an aggregate sales price of \$261,850,000 resulting in a gain in accordance with GAAP of \$104,020,000. We expect asset sales of approximately \$150,000,000 to \$200,000,000 in 2007.

For new development, the slowing for-sale market has resulted in increased investment opportunities. We are being selective in pursuing these opportunities, given continued high land prices and construction costs. In addition, we are seeing greater availability of experienced subcontractors and development and construction professionals as a result of slowing construction in both the condominium and single-family housing markets. These positives are somewhat offset by higher construction and development costs.

### *Communities Overview*

Our real estate investments consist primarily of current operating apartment communities, communities in various stages of development ( Development Communities ) and Development Rights (i.e., land or options to purchase land held for development), as further described in Item 2 of this report. Our current operating communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities and Redevelopment Communities. Established Communities are generally operating communities that are consolidated for financial reporting purposes and were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, which allows the performance of these communities and the markets in which they are located to be compared and monitored between years. Other Stabilized Communities are generally all other operating communities that have stabilized occupancy and operating expenses during the current year, but had not achieved stabilization as of the beginning of the prior year. Lease-Up Communities consist of communities where construction is complete but stabilization has not been achieved. Redevelopment Communities consist of communities where substantial redevelopment is in progress or is planned to begin during the current year. A more detailed description of our reportable segments and other related operating information can be found in Note 9, 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, and discussions related to these segments of our business can be found in Liquidity and Capital Resources.

The NOI of our current operating communities, as defined later in this report, is one of the financial measures that we use to evaluate community performance. 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 and acquired apartment communities.

As of December 31, 2006, we owned or held a direct or indirect ownership interest in 167 apartment communities containing 48,294 apartment homes in ten states and the District of Columbia, of which 17 communities were under construction and six communities were under reconstruction. In addition, we owned a direct or indirect ownership interest in Development Rights to develop an additional 54 communities that, if developed in the manner expected, will contain an estimated 14,185 apartment homes.

### Critical Accounting Policies

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ( 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 estimates or assumptions had been 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 a number of accounting policies that we consider critical to an understanding of our financial condition and operating results that may require complex 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 and Significant Accounting Policies of our Consolidated Financial Statements.

### *Cost Capitalization*

We capitalize costs during the development of assets (including interest and related loan fees, property taxes and other direct and indirect costs) beginning when development efforts commence until the asset, or a portion of the asset, is delivered and is ready for its intended use, which is generally indicated by the issuance of a certificate of occupancy. We capitalize costs during redevelopment of apartment homes (including interest and related loan fees, property taxes and other direct and indirect costs) beginning when an apartment home is taken out-of-service for redevelopment until the apartment home 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 as they accrue.

We capitalize pre-development costs incurred in pursuit of Development Rights for which we currently believe future development is probable. These costs include legal fees, design fees and related overhead costs. Future development of these Development Rights is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and availability of capital. 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 capitalized pre-development costs are written-off with a charge to expense.

We generally capitalize only non-recurring expenditures. We capitalize improvements and upgrades only if the item: (i) exceeds \$15,000; (ii) extends the useful life of the asset; and (iii) is not related to making an apartment home ready for the next resident. Under this policy, a significant portion of our capitalized costs are non-recurring, as recurring make-ready costs are expensed as incurred. Recurring make-ready costs include: (i) carpet and appliance replacements; (ii) floor coverings; (iii) interior painting; and (iv) other redecorating costs. Because we expense recurring make-ready costs, such as carpet replacements, our expense levels and volatility are greatest in the third quarter of each year as this is when we experience our greatest amount of turnover. We capitalize purchases of personal property, such as computers and furniture, only if the item is a new addition and the item exceeds \$2,500. We generally expense replacements of personal property.

In 2006, 2005 and 2004, the amounts capitalized (excluding land costs) related to acquisitions, development and redevelopment were \$677,587,000, \$425,170,000 and \$347,091,000, respectively. For Established and Other Stabilized Communities, we recorded non-revenue generating capital expenditures of \$18,000,000 or \$497 per apartment home in 2006, \$16,753,000 or \$471 per apartment home in 2005 and \$12,347,000 or \$354 per apartment home in 2004. In addition, revenue generating, or expense saving capital expenditures, such as water sub metering equipment and cable installations, were \$153,000, \$817,000 and \$637,000 in 2006, 2005 and 2004, respectively. The average maintenance costs charged to expense per apartment home, including carpet and appliance replacements, related to these communities was \$1,638 in 2006, \$1,546 in 2005 and \$1,348 in 2004. Historically, we have experienced a gradual increase in capitalized costs and expensed maintenance costs per apartment home as the average age of our communities has increased. We expect to return to the trend of gradual increases in maintenance costs in future years.

#### *Asset Impairment Evaluation*

We assess the impairment of our investments and long-lived assets whenever events or changes in circumstances indicate that the carrying value may not be recoverable. For both our consolidated and unconsolidated entities, factors that could trigger an assessment for impairment include, but are not limited to: i) underperformance of the asset relative to historical or expected future operating results, ii) significant change in legal and economic factors, iii) incurrence of costs significantly in excess of amounts originally forecasted for construction or acquisition of an asset, or iv) an expectation that a long-lived asset will be disposed of at an amount below the current carrying value. We evaluate the key factors necessary in the assessment of asset impairment on a quarterly basis. In 2006, 2005 and 2004, we did not recognize any impairment in value associated with our investments or long-lived assets. We cannot predict the occurrence of future events that may cause an impairment assessment to be performed.

#### *REIT Status*

We are a Maryland corporation that has elected to be treated, for federal income tax purposes, as a REIT. We elected to be taxed as a REIT under the Internal Revenue Code of 1986 ( the Code ), as amended, for the year ended December 31, 1994 and have not revoked such election. A corporate REIT is a legal entity which holds real estate interests and must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to stockholders. As a REIT, we generally will not be subject to corporate level federal income tax on taxable income if we distribute 100% of taxable income over time periods allowed under the Code to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes at regular corporate rates (subject to any applicable alternative minimum tax) and may not be able to elect to qualify as a REIT for four subsequent taxable years.

Results of Operations

Our year-over-year operating performance is primarily affected by changes in net operating income of our current operating apartment communities due to market conditions; net operating income derived from acquisitions and development completions; the loss of net operating income related to disposed communities; and capital market, disposition and financing activity. A comparison of our operating results for the years 2006, 2005 and 2004 follows (dollars in thousands):

|   | 2006<br>(Restated) | 2005<br>(Restated) | \$ Change<br>(Restated) | %<br>Change<br>(Restated) | 2005<br>(Restated) | 2004<br>(Restated) | \$ Change<br>(Restated) | %<br>Change<br>(Restated) |
|---|--------------------|--------------------|-------------------------|---------------------------|--------------------|--------------------|-------------------------|---------------------------|
| Revenue:  |                    |                    |                         |                           |                    |                    |                         |                           |
| Rental and other income   | \$ 731,041         | \$ 666,376         | \$ 64,665               | 9.7%                      | \$ 666,376         | \$ 613,240         | \$ 53,136               | 8.7%                      |
| Management, development and other fees                                    | 6,259              | 4,304              | 1,955                   | 45.4%                     | 4,304              | 604                | 3,700                   | 612.6%                    |
| Total revenue   | 737,300            | 670,680            | 66,620                  | 9.9%                      | 670,680            | 613,844            | 56,836                  | 9.3%                      |
| Expenses:   |                    |                    |                         |                           |                    |                    |                         |                           |
| Direct property operating expenses, excluding property taxes              | 180,305            | 166,158            | 14,147                  | 8.5%                      | 166,158            | 159,438            | 6,720                   | 4.2%                      |
| Property taxes  | 68,257             | 65,487             | 2,770                   | 4.2%                      | 65,487             | 59,458             | 6,029                   | 10.1%                     |
| Total community operating expenses  | 248,562            | 231,645            | 16,917                  | 7.3%                      | 231,645            | 218,896            | 12,749                  | 5.8%                      |
| Corporate-level property management and other indirect operating expenses |                    |                    |                         |                           |                    |                    |                         |                           |
| Investments and investment management                                     | 34,177             | 31,243             | 2,934                   | 9.4%                      | 31,243             | 27,956             | 3,287                   | 11.8%                     |
| Interest expense, net   | 7,033              | 4,834              | 2,199                   | 45.5%                     | 4,834              | 4,690              | 144                     | 3.1%                      |
| Depreciation expense  | 111,046            | 127,099            | (16,053)                | (12.6%)                   | 127,099            | 131,103            | (4,004)                 | (3.1%)                    |
| General and administrative expense  | 164,129            | 160,055            | 4,074                   | 2.5%                      | 160,055            | 153,224            | 6,831                   | 4.5%                      |
|   | 24,767             | 25,761             | (994)                   | (3.9%)                    | 25,761             | 18,074             | 7,687                   | 42.5%                     |



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|  |         |         |           |         |         |         |         |          |
|--|---------|---------|-----------|---------|---------|---------|---------|----------|
| Total other expenses   | 341,152 | 348,992 | (7,840)   | (2.2%)  | 348,992 | 335,047 | 13,945  | 4.2%     |
| Equity in income of unconsolidated entities  | 7,455   | 7,198   | 257       | 3.6%    | 7,198   | 1,100   | 6,098   | n/a      |
| Venture partner interest in profit-sharing   |         |         |           | n/a     |         | (1,178) | 1,178   | (100.0%) |
| Minority interest in consolidated partnerships   | (573)   | (1,481) | 908       | (61.3%) | (1,481) | (150)   | (1,331) | n/a      |
| Gain on sale of land   | 13,519  | 4,479   | 9,040     | 201.8%  | 4,479   | 1,138   | 3,341   | 293.6%   |
| Income from continuing operations before cumulative effect of change in accounting principle | 167,987 | 100,239 | 67,748    | 67.6%   | 100,239 | 60,811  | 39,428  | 64.8%    |
| Discontinued operations:   |         |         |           |         |         |         |         |          |
| Income from discontinued operations  | 1,148   | 14,942  | (13,794)  | (92.3%) | 14,942  | 21,134  | (6,192) | (29.3%)  |
| Gain on sale of communities  | 97,411  | 195,287 | (97,876)  | (50.1%) | 195,287 | 121,287 | 74,000  | 61.0%    |
| Total discontinued operations  | 98,559  | 210,229 | (111,670) | (53.1%) | 210,229 | 142,421 | 67,808  | 47.6%    |
| Income before cumulative effect of change in accounting principle                            | 266,546 | 310,468 | (43,922)  | (14.1%) | 310,468 | 203,232 | 107,236 | 52.8%    |
| Cumulative effect of change in accounting principle  |         |         |           | n/a     |         | 4,547   | (4,547) | n/a      |

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|   |            |            |             |         |            |            |            |       |
|---|------------|------------|-------------|---------|------------|------------|------------|-------|
| Net income                                  | 266,546    | 310,468    | (43,922)    | (14.1%) | 310,468    | 207,779    | 102,689    | 49.4% |
| Dividends attributable to preferred stock   | (8,700)    | (8,700)    |             |         | (8,700)    | (8,700)    |            |       |
| Net income available to common stockholders | \$ 257,846 | \$ 301,768 | \$ (43,922) | (14.6%) | \$ 301,768 | \$ 199,079 | \$ 102,689 | 51.6% |

*Net income available to common stockholders* decreased \$43,922,000 or 14.6%, to \$257,846,000 in 2006. This decrease is primarily attributable to reduced asset sales and related gains in 2006, partially offset by growth in net operating income from Established Communities and contributions to net operating income from newly developed communities. Net income available to common stockholders increased \$102,689,000, or 51.6%, to \$301,768,000 in 2005. This increase is primarily attributable to higher gains on sales of assets in 2005, including the gain related to the sale of a technology investment, as well as increased net operating income from Established Communities and newly developed communities.

*Net operating income ( 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 easy 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 impacts to overhead by 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.

NOI does not represent cash generated from operating activities in accordance with GAAP. Therefore, 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 necessarily indicative of cash available to fund cash needs. A calculation of NOI for the years ended December 31, 2006, 2005 and 2004, along with a reconciliation to net income for each year, is as follows (dollars in thousands):

|  | For the year ended     |                        |                        |
|--|------------------------|------------------------|------------------------|
|  | 12-31-06<br>(Restated) | 12-31-05<br>(Restated) | 12-31-04<br>(Restated) |
| Net income   | \$ 266,546             | \$ 310,468             | \$ 207,779             |
| Indirect operating expenses, net of corporate income | 28,809                 | 26,675                 | 26,612                 |
| Investments and investment management                | 7,033                  | 4,834                  | 4,690                  |
| Interest expense, net                                | 111,046                | 127,099                | 131,103                |
| General and administrative expense                   | 24,767                 | 25,761                 | 18,074                 |
| Equity in income of unconsolidated entities          | (7,455)                | (7,198)                | (1,100)                |
| Minority interest in consolidated partnerships       | 573                    | 1,481                  | 150                    |
| Venture partner interest in profit-sharing           |                        |                        | 1,178                  |
| Depreciation expense                                 | 164,129                | 160,055                | 153,224                |
| Cumulative effect of change in accounting principle  |                        |                        | (4,547)                |
| Gain on sale of real estate assets                   | (110,930)              | (199,766)              | (122,425)              |
| Income from discontinued operations                  | (1,148)                | (14,942)               | (21,134)               |
| Net operating income                                 | \$ 483,370             | \$ 434,467             | \$ 393,604             |

The NOI increases in both 2006 and 2005 as compared to the prior years, consist of changes in the following categories (dollars in thousands):

|   | 2006                   | 2005                   |
|---|------------------------|------------------------|
|   | Increase<br>(Restated) | Increase<br>(Restated) |
| Established Communities                   | \$ 32,273              | \$ 13,052              |
| Other Stabilized Communities              | 5,497                  | 3,842                  |
| Development and Redevelopment Communities | 11,133                 | 23,969                 |
| Total                                     | \$ 48,903              | \$ 40,863              |

The NOI increase in Established Communities in 2006 was largely due to the improved apartment market fundamentals. During 2006, we focused on rental rate growth, while maintaining occupancy of at least 95% in all regions. We will continue to seek increases in rental rates. However we anticipate that increases in rental rates and overall rental revenue growth may moderate in 2007, as we expect continued but moderating job growth (demand) and increased net supply as compared to recent periods. We expect revenue growth from our Established Communities of 5.0% to 6.5% in 2007 as compared to 2006. In addition, although we will continue to aggressively manage operating expenses, there is upward pressure on operating expenses from increasing utility, labor, insurance and property tax expenses. We expect operating expenses at our Established Communities to increase by 3.5% to 5.0% in 2007 as compared to 2006. Overall, we anticipate growth in NOI from our Established Communities of 5.5% to 7.5% in 2007 as compared to 2006.

The Company has given projected NOI growth in 2007 only for Established Communities and not on a company-wide basis. The Company believes that NOI growth of the Established Communities assists investors in understanding management's estimate of the likely contribution to operations from Established Communities. However, the Company

has not provided a projection of NOI growth on a company-wide basis due to the difficulty in projecting the timing of new development starts, dispositions and acquisitions, as well as the complexities involved in projecting the allocation of corporate-level property management overhead, general and administrative costs and interest expense to communities not yet developed, disposed or acquired. NOI growth expected from Established Communities is not a projection of the Company's projected consolidated financial performance or projected cash flow.

*Rental and other income* increased in 2006 due to increased rental rates and occupancy for our Established Communities, coupled with additional rental income generated from newly developed communities. We expect the strong apartment fundamentals experienced in 2006 to continue in 2007, but at a more moderate pace.

**Overall Portfolio** The weighted average number of occupied apartment homes increased to 37,716 apartment homes for 2006 as compared to 36,520 apartment homes for 2005 and 34,540 apartment homes for 2004. This change is primarily the result of an increase in the overall occupancy rate and increased homes available from newly developed and acquired communities, partially offset by communities sold in 2006 and 2005. The weighted average monthly revenue per occupied apartment home increased to \$1,610 in 2006 as compared to \$1,516 in 2005 and \$1,477 in 2004.

**Established Communities** Rental revenue increased \$35,871,000, or 6.8%, in 2006 and increased \$16,523,000, or 3.6%, in 2005. The increases in 2006 and 2005 are due to both increased rental rates and increased economic occupancy as compared to the prior years. For 2006, the weighted average monthly revenue per occupied apartment home increased 6.3% to \$1,647 compared to \$1,549 in 2005, primarily due to increased market rents and decreased concessions. The average economic occupancy increased from 96.0% in 2005 to 96.5% in 2006. 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. We expect rental revenue from Established Communities to increase 5.0% to 6.5% in 2007 as compared to 2006.

We experienced increases in Established Communities' rental revenue in all six of our regions in 2006 as compared to 2005. The largest increases in rental revenue were in the Pacific Northwest, the Mid-Atlantic and Northern California, with increases of 10.1%, 8.9% and 8.4%, respectively, between years. The Northeast and Northern California regions comprise the majority of our Established Community revenue, and therefore are discussed in more detail below.

Northern California, which represented approximately 27.4% of Established Community rental revenue during 2006, experienced an increase in rental revenue of 8.4% in 2006 as compared to 2005. Average rental rates increased by 7.9% to \$1,561 in 2006, and economic occupancy increased 0.5% to 96.7% in 2006. Apartment fundamentals improved in Northern California in 2006, resulting in accelerated revenue growth in this region. We expect Northern California to see continued revenue growth in 2007.

The Northeast region, which accounted for approximately 36.5% of Established Community rental revenue during 2006, experienced an increase in rental revenue of 4.5% in 2006 as compared to 2005. Average rental rates increased 4.4% to \$2,032 in 2006 and economic occupancy increased 0.1% to 96.5% during 2006. We expect job growth in 2007 to increase slightly over the growth levels experienced in 2006 in the Northeast, and net supply to increase.

However, we expect overall apartment fundamentals will remain favorable, resulting in moderate rental rate growth in the Northeast during 2007. The Company believes that Northern New Jersey will lead the region in revenue growth as a result of the strong apartment fundamentals in neighboring New York City. We expect Boston, Massachusetts will lag the region in revenue growth, as economic recovery is not occurring as quickly as in other areas of the region.

In accordance with GAAP, cash concessions are amortized as an offset to rental revenue over the approximate lease term, which is generally one year. As a supplemental measure, we also present rental revenue with concessions stated on a cash basis to help investors evaluate the impact of both current and historical concessions on GAAP based rental revenue and to more readily enable comparisons to revenue as reported by other companies. Rental revenue with concessions stated on a cash basis also allows investors to understand historical trends in cash concessions, as well as current rental market conditions.

The following table reconciles total rental revenue in conformity with GAAP to total rental revenue adjusted to state concessions on a cash basis for our Established Communities for the years ended December 31, 2006 and 2005 (dollars in thousands). Information for the year ended December 31, 2004 is not presented, as Established Community classification is not comparable prior to January 1, 2005. See Note 9, Segment Reporting, of our Consolidated Financial Statements.

|  | For the year ended |            |
|--|--------------------|------------|
|  | 12-31-06           | 12-31-05   |
| Rental revenue (GAAP basis)                                  | \$ 559,771         | \$ 523,900 |
| Concessions amortized  | 11,082             | 20,010     |
| Concessions granted  | (5,796)            | (17,399)   |
| <br>   |                    |            |
| Rental revenue adjusted to state concessions on a cash basis | \$ 565,057         | \$ 526,511 |
| <br>   |                    |            |
| Year-over-year % change GAAP revenue                         | 6.8%               | n/a        |

|   |      |     |
|---|------|-----|
| Year-over-year % change cash concession based revenue | 7.3% | n/a |
|---|------|-----|

*Management, development and other fees* increased in 2006 and 2005 due to increased asset management, property management and redevelopment fees earned from the Fund. The Fund was formed in March 2005, and continues to grow through purchases, acquiring five more communities in 2006. In addition, construction and development fees earned from unconsolidated entities in 2006 and 2005 contributed to increased fee income.

*Direct property operating expenses, excluding property taxes* increased in both 2006 and 2005, primarily due to the addition of recently developed and acquired apartment homes coupled with expense growth in our Established Communities.

For Established Communities, direct property operating expenses, excluding property taxes, increased \$3,030,000, or 2.4%, to \$131,106,000 in 2006 due primarily to increases in payroll, maintenance and utility costs, partially offset by decreases in marketing and office and administration expenses. During 2005, direct property operating expenses increased \$965,000, or 0.9%, to \$104,346,000 in 2005 due primarily to increases in utility, maintenance and payroll costs, partially offset by decreases in marketing and bad debt expenses. We expect operating expenses for Established Communities to increase by 3.5% to 5.0% in 2007 as compared to 2006, primarily as a result of continued higher utility and payroll costs as well as increased insurance costs.

*Property taxes* increased in both 2006 and 2005 due to overall higher assessments and the addition of newly developed and redeveloped apartment homes, and are impacted by the size and timing of successful tax appeals in both years.

For Established Communities, property taxes increased by \$721,000, or 1.4%, in 2006 and \$2,527,000, or 5.7%, in 2005, due to overall higher assessments throughout all regions and are impacted by the size and timing of successful tax appeals in both years. We expect property taxes to continue to increase in 2007 as compared to 2006 to reflect increased valuations. However, property tax increases are mitigated for communities in California, where increases in property taxes are limited by law (Proposition 13). We evaluate property tax increases internally, as well as engage third-party consultants, and appeal increases when appropriate.

*Corporate-level property management and other indirect operating expenses* increased in both 2006 and 2005 due to increased compensation, as well as increased costs relating to corporate initiatives focused on increasing efficiency and enhancing controls at our operating communities.

*Investments and investment management* reflects the costs incurred related to investment acquisitions, investment management and abandoned pursuit costs, which include costs incurred on development pursuits not yet considered probable for development, as well as the abandonment or impairment of development pursuits, acquisition pursuits and disposition pursuits. Investments and investment management increased in 2006 as compared to 2005 due primarily to increased compensation costs and increased staffing related to management of the Fund redevelopment activity, coupled with an increase in abandoned pursuit costs. Abandoned pursuit costs were \$2,115,000 in 2006, \$816,000 in 2005 and \$1,726,000 in 2004. Abandoned pursuit costs can be volatile, and the costs incurred in any given period may vary significantly in future years.

*Interest expense, net* decreased in 2006 as compared to 2005 due primarily to higher levels of capitalized interest in connection with our increased development activity, lower average outstanding balances on our unsecured credit facility and increased interest income. In addition, through a maturity and the subsequent issuance of unsecured notes, we reduced the effective annual interest rate on \$150,000,000 of debt by approximately 1%. These decreases in interest expense are partially offset by higher interest rates on variable rate debt in 2006 and the timing of the repayment and re-issuance of unsecured debt in 2005. Interest income increased in 2006 due to higher invested cash balances as well as increases in the interest rate earned on cash deposits. In addition, interest income in 2006 includes interest earned on an escrow funded from a disposition in 2005 that was used in a tax-deferred exchange.

*Depreciation expense* increased in both 2006 and 2005 primarily due to the completion of development and redevelopment activities, coupled with the timing of depreciation expense for a community previously classified as held for sale.

*General and administrative expense ( G&A )* decreased in 2006 and increased in 2005 relative to the prior years primarily due to the incurrence in 2005 of the following: (i) separation costs of approximately \$2,100,000 due to the departure of a senior executive; (ii) the accrual of costs related to various litigation matters of approximately \$1,500,000; and (iii) increased board of director fees due to the acceleration of equity awards with the resignation of a director due to disability in 2005, partially offset by higher compensation costs in 2006. We expect expensed overhead costs, including G&A, corporate-level property management and investments and investment management, to increase approximately 6.0% to 7.5% in 2007 as compared to 2006 in support of the Company's continued growth.

*Equity in income of unconsolidated entities* in 2006 includes our share of gain on the sale of a joint venture community in the amount of \$6,609,000, and the release of amounts previously withheld in escrow allowing recognition of the final installment of the gain from the sale of our investment in Rent.com to eBay in the amount of \$433,000. Equity in income of unconsolidated entities in 2005 includes the initial gain recognized in the amount of \$6,252,000 related to the sale of our investment in Rent.com to eBay.

*Minority interest in consolidated partnerships* decreased in 2006 as compared to 2005 due to the conversion of limited partnership units, thereby reducing outside ownership interests and the allocation of net income to outside ownership interests. However, minority interest increased in 2005 due to the consolidation of an entity under FASB Interpretation No. 46 ( FIN 46 ), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, as revised in December 2003. Effective January 1, 2004, we consolidated an entity from which we held a participating mortgage note in accordance with FIN 46. We did not hold an equity interest in this entity, and therefore 100% of the entity's net loss was recognized as minority interest in consolidated partnerships during the year ended December 31, 2004. In October 2004, we received payment in full of the outstanding mortgage note due from this entity. Upon repayment of the mortgage note, our economic interest in this entity ended, and therefore we discontinued consolidation as this entity was no longer considered a variable interest entity under FIN 46.

*Gain on sale of land* in 2006 represents the gain on sale of three land parcels located in Danvers, Massachusetts, Jersey City, New Jersey and Stamford, Connecticut. During 2005, we sold three land parcels, one located in Dublin, California, one in Madison, Washington, and one in Freehold, New Jersey.

*Income from discontinued operations* represents the net income generated by communities sold during the period from January 1, 2004 through December 31, 2006. See Note 7, Real Estate Disposition Activities, of our Consolidated Financial Statements. The decreases in 2006 and 2005 are due to the sale of three consolidated communities in 2006, seven communities and one office building in 2005 and five communities in 2004, eliminating the income generated from these assets upon dispositions.

*Gain on sale of real estate assets* decreased in 2006 as compared to 2005 primarily due to the volume and size of dispositions, coupled with the carrying value of the communities sold. Gain on sale of real estate assets increased in 2005 and decreased in 2004 due to the volume and size of dispositions in each year. The amount of gain realized in any given reporting period depends on many factors, including the number of communities sold, the size and carrying value of those communities and the sales prices, which are driven by local and national market conditions.

*Cumulative effect of change in accounting principle* in 2004 is a result of the implementation of FIN 46, discussed above, and represents the difference between the net assets consolidated under FIN 46 and the previously recorded net assets.

#### Funds from Operations Attributable to Common Stockholders ( FFO )

FFO is considered by management to be an appropriate supplemental measure 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. These amounts are generally excluded in the industry definition of FFO as amounts 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. We believe that in order to understand our operating results, FFO should be examined with net income as presented in our Consolidated Financial Statements. For a more detailed discussion and presentation of FFO, see Selected Financial Data, included in Item 6 of this report.

#### Liquidity and Capital Resources

Factors affecting our liquidity and capital resources are our cash flows from operations, financing activities and investing activities, 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, source and amount of cash flows provided by financing activities and used in investing activities are sensitive to the capital markets environment, particularly to changes in interest rates. 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 believe our principal short-term liquidity needs are to fund:

normal recurring operating expenses;

debt service and maturity payments;

preferred stock dividends and DownREIT partnership unit distributions;

the minimum dividend payments on our common stock required to maintain our REIT qualification under the Internal Revenue Code of 1986;

development and redevelopment activity in which we are currently engaged; and

capital calls for the Fund, as required.

We anticipate that we can fully satisfy these needs from a combination of cash flow provided by operating activities, proceeds from asset dispositions and borrowing capacity under our variable rate unsecured credit facility, as well as other public or private sources of liquidity.





Cash and cash equivalents totaled \$8,567,000 at December 31, 2006, an increase of \$2,852,000 from \$5,715,000 at December 31, 2005. The following discussion relates to changes in 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 \$351,943,000 in 2006 from \$306,248,000 in 2005. The increase was driven primarily by the additional NOI from our Established Communities operations, as well as NOI from recently developed communities, partially offset by the loss of NOI from the four communities sold in 2006, as discussed earlier in this report.

**Investing Activities** Net cash used in investing activities of \$511,371,000 in 2006 related to investments in assets through the development, redevelopment and acquisition of apartment communities, partially offset by proceeds from asset dispositions. During 2006, we invested \$832,337,000 in the purchase and development of the following real estate and capital expenditures:

We began the development of eight new communities. These eight communities, if developed as expected, will contain a total of 2,459 apartment homes, and the total capitalized cost, including land acquisition costs, is projected to be approximately \$686,600,000. We completed the development of six communities containing a total of 1,368 apartment homes for a total capitalized cost, including land acquisition cost, of \$375,200,000.

We began the redevelopment of three consolidated communities, which contain an aggregate of 1,593 apartment homes and, if redeveloped as expected, will be completed for a total redevelopment capitalized cost of \$25,800,000, excluding costs incurred prior to redevelopment. We completed the redevelopment of one consolidated community containing 336 apartment homes for a total capitalized cost of \$6,000,000, excluding costs incurred prior to redevelopment.

We acquired nine parcels of land in connection with Development Rights, for an aggregate purchase price of \$91,574,000.

We had capital expenditures relating to current communities real estate assets of \$21,289,000 and non-real estate capital expenditures of \$957,000.

We disposed of four communities (one through a joint venture) for an aggregate sales price of \$261,850,000 and a total gain in accordance with GAAP of \$104,020,000. We also disposed of three parcels of land for an aggregate sales price of \$19,635,000 and a total gain in accordance with GAAP of \$13,519,000. In addition, we received proceeds in the amount of \$20,482,000 from the sale of a 70% interest in our investment in Avalon Del Rey Apartments, LLC. For further discussion see Note 6, Investments in Unconsolidated Entities, included in Item 8 of this report.

**Financing Activities** Net cash provided by financing activities totaled \$162,280,000 in 2006. The net cash inflow is due primarily to the proceeds from \$500,000,000 of unsecured notes that we issued in September 2006, partially offset by the \$150,000,000 of unsecured notes that were repaid upon maturity in July 2006. In addition, net cash provided by financing activities includes the issuance of common stock for option exercises and the issuance of secured mortgage loans, partially offset by dividends paid and repayment of borrowings under our unsecured credit facility. See Note 3, Notes Payable, Unsecured Notes and Credit Facility, and Note 4, Stockholders Equity, of our Consolidated Financial Statements, for additional information.

*Variable Rate Unsecured Credit Facility*

We entered into a \$650,000,000 revolving variable rate unsecured credit facility with a syndicate of commercial banks. JPMorgan Chase Bank, Wachovia Bank, N.A. and Bank of America, N.A. led the syndication effort in varying capacities. Under the terms of the credit facility, we may elect to increase the facility up to \$1,000,000,000, provided that one or more banks (from the syndicate or otherwise) voluntarily agree to provide the additional commitment. No member of the syndicate of banks can prohibit such an increase; such an increase in the facility will only be effective to the extent banks (from the syndicate or otherwise) choose to commit to lend additional funds. We pay participating banks, in the aggregate, an annual facility fee of approximately \$813,000. The unsecured credit facility bears interest at varying levels based on the London Interbank Offered Rate ( LIBOR ), our credit rating and on a maturity schedule selected by us. The current stated pricing is LIBOR plus 0.40% per annum (5.72% on January 31, 2007). The spread over LIBOR can vary from LIBOR plus 0.325% to LIBOR plus 1.00% based on our credit rating. In addition, a competitive bid option is available for borrowings of up to \$422,500,000. This option allows banks that are part of the lender consortium to bid to provide us loans at a rate that is lower than the stated pricing provided by the unsecured credit facility. The competitive bid option may result in lower pricing if market conditions allow. We had no outstanding balance under this competitive bid option at January 31, 2007. We are subject to certain customary covenants under the unsecured credit facility, including, but not limited to, maintaining certain maximum leverage ratios, a minimum fixed charges coverage ratio and minimum unencumbered assets and equity levels. The credit facility matures in November 2011, assuming our exercise of a one-year renewal option. At January 31, 2007, no amounts were outstanding on the credit facility, \$38,088,000 was used to provide letters of credit and \$611,912,000 was available for borrowing under the unsecured credit facility.

*Future Financing and Capital Needs Debt Maturities*

One of our principal long-term liquidity needs is the repayment of long-term debt at the time that such debt matures. For unsecured notes, we anticipate that no significant portion of the principal of these notes will be repaid prior to maturity. 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 the debt. This refinancing may be accomplished by uncollateralized private or public debt offerings, additional debt financing that is collateralized by mortgages on individual communities or groups of communities, draws on our unsecured credit facility or by additional equity offerings. Although we believe we will have the capacity to meet our long-term liquidity needs, we cannot assure you that additional debt financing or debt or equity offerings will be available or, if available, that they will be on terms we consider satisfactory.

The following debt activity occurred during the year ended December 31, 2006:

We repaid \$150,000,000 in previously issued unsecured notes in July 2006, along with any unpaid interest, pursuant to their scheduled maturity. No prepayment penalty was incurred;

We issued a total of \$500,000,000 of unsecured notes in September 2006 under our existing shelf registration statement. The offering consisted of two separate tranches of \$250,000,000 with an annual effective interest rate of 5.586% and 5.820%, maturing in 2012 and 2016, respectively;

We issued \$34,000,000 of variable rate mortgage debt for one community in April 2006, maturing in April 2011;

We issued \$93,800,000 of variable rate, tax-exempt debt for one community in December 2006, maturing in November 2037;

We issued \$48,500,000 of variable rate, tax-exempt debt for one community in December 2006, maturing in November 2039; and

We issued \$45,000,000 of variable rate, tax-exempt debt for one community in December 2006, maturing in July 2040.

In January 2007, the Company filed a shelf registration statement with the Securities and Exchange Commission, allowing us to sell an undetermined number or amount of certain debt and equity securities as defined in the

prospectus. In addition, in January 2007, in conjunction with the inclusion of our common stock in the S&P 500 Index, we issued 4,600,000 shares of our common stock at \$129.30 per share. Net proceeds of approximately \$594,000,000 will be used for general corporate purposes.

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The table below details debt maturities for the next five years, excluding our unsecured credit facility, for debt outstanding at December 31, 2006 (dollars in thousands).

| Community               | All-IF principal interest maturity |          | Balance outstanding |           | Scheduled maturities |        |        |        |        |            |
|-------------------------|------------------------------------|----------|---------------------|-----------|----------------------|--------|--------|--------|--------|------------|
|                         | (1)                                | date     | 12-31-05            | 12-31-06  | 2007                 | 2008   | 2009   | 2010   | 2011   | Thereafter |
| <b>Tax-exempt bonds</b> |                                    |          |                     |           |                      |        |        |        |        |            |
| <b>Fixed rate</b>       |                                    |          |                     |           |                      |        |        |        |        |            |
| Country Brook           | 6.30%                              | Mar-2012 | 16,586              | \$ 15,990 | \$ 634               | \$ 676 | \$ 719 | \$ 766 | \$ 816 | \$ 12,379  |
| Avalon at Symphony Glen | 4.90%                              | Jul-2024 | 9,780               | 9,780     |                      |        |        |        |        | 9,780      |
| Avalon View             | 7.55%                              | Aug-2024 | 16,465              | 15,980    | 515                  | 555    | 595    | 635    | 680    | 13,000     |
| Avalon at Lexington     | 6.55%                              | Feb-2025 | 12,834              | 12,467    | 367                  | 415    | 441    | 469    | 498    | 10,277     |
| Avalon at Nob Hill      | 5.80%                              | Jan-2025 | 18,494              | 18,116(2) |                      |        |        |        |        | 18,116     |
| Avalon Campbell         | 6.48%                              | Jan-2025 | 33,614              | 32,776(2) |                      |        |        |        |        | 32,776     |
| Avalon Pacifica         | 6.48%                              | Jan-2025 | 15,247              | 14,867(2) |                      |        |        |        |        | 14,867     |
| Avalon Knoll            | 6.95%                              | Jan-2026 | 12,239              | 11,957    | 302                  | 324    | 347    | 371    | 398    | 10,215     |
| Avalon Landing          | 6.85%                              | Jan-2026 | 6,044               | 5,903     | 153                  | 162    | 173    | 185    | 198    | 5,032      |
| Avalon Fields           | 7.55%                              | May-2027 | 10,705              | 10,483    | 237                  | 256    | 275    | 295    | 316    | 9,104      |
| Avalon West             | 7.73%                              | Dec-2036 | 8,259               | 8,179     | 92                   | 91     | 98     | 105    | 112    | 7,681      |
| Avalon Oaks             | 7.45%                              | Jul-2041 | 17,324              | 17,205    | 129                  | 137    | 147    | 157    | 168    | 16,467     |
| Avalon Oaks West        | 7.48%                              | Apr-2043 | 17,145              | 17,036    | 117                  | 125    | 133    | 142    | 152    | 16,367     |
|                         |                                    |          | 194,736             | 190,739   | 2,546                | 2,741  | 2,928  | 3,125  | 3,338  | 176,061    |
| <b>Variable rate</b>    |                                    |          |                     |           |                      |        |        |        |        |            |
| <b>(3)</b>              |                                    |          |                     |           |                      |        |        |        |        |            |
| The Promenade           | 5.68%                              | Oct-2010 | 32,100              | 31,495    | 651                  | 701    | 755    | 29,388 |        |            |
| Waterford               | 4.27%                              | Jul-2014 | 33,100              | 33,100(4) |                      |        |        |        |        | 33,100     |
| Avalon at Mountain View | 4.27%                              | Feb-2017 | 18,300              | 18,300(4) |                      |        |        |        |        | 18,300     |
| Avalon at Foxchase I    | 4.27%                              | Nov-2017 | 16,800              | 16,800(4) |                      |        |        |        |        | 16,800     |
| Avalon at Foxchase II   | 4.27%                              | Nov-2017 | 9,600               | 9,600(4)  |                      |        |        |        |        | 9,600      |
| Avalon at Mission Viejo | 4.82%                              | Jan-2025 | 7,635               | 7,635(4)  |                      |        |        |        |        | 7,635      |
|                         | 3.65%                              | Jan-2025 | 2,306               | 2,684(2)  |                      |        |        |        |        | 2,684      |

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|  |       |          |         |           |         |         |         |         |         |         |
|--|-------|----------|---------|-----------|---------|---------|---------|---------|---------|---------|
| Avalon at<br>Nob Hill<br>Avalon<br>Campbell      | 3.65% | Jan-2025 | 5,186   | 6,024(2)  |         |         |         |         | 6,024   |         |
| Avalon<br>Pacifica                               | 3.65% | Jan-2025 | 2,353   | 2,733(2)  |         |         |         |         | 2,733   |         |
| Bowery Place<br>I                                | 4.10% | Nov-2037 |         | 93,800(5) | 521     | 576     | 636     | 703     | 91,364  |         |
| Bowery Place<br>II                               | 4.23% | Nov-2039 |         | 48,500(5) |         |         | 270     | 298     | 47,932  |         |
| Avalon Acton                                     | 4.96% | Jul-2040 |         | 45,000(5) |         |         |         |         | 45,000  |         |
| Avalon at<br>Fairway Hills<br>I                  | 4.91% | Jan-2026 | 11,500  | 11,500    |         |         |         |         | 11,500  |         |
|  |       |          | 138,880 | 327,171   | 651     | 1,222   | 1,331   | 30,294  | 1,001   | 292,672 |
| <b>Conventional<br/>loans (6)<br/>Fixed rate</b> |       |          |         |           |         |         |         |         |         |         |
| \$150 million<br>unsecured<br>notes              | 6.93% | Jul-2006 | 150,000 |           |         |         |         |         |         |         |
| \$150 million<br>unsecured<br>notes              | 5.18% | Aug-2007 | 150,000 | 150,000   | 150,000 |         |         |         |         |         |
| \$110 million<br>unsecured<br>notes              | 7.13% | Dec-2007 | 110,000 | 110,000   | 110,000 |         |         |         |         |         |
| \$50 million<br>unsecured<br>notes               | 6.63% | Jan-2008 | 50,000  | 50,000    |         | 50,000  |         |         |         |         |
| \$150 million<br>unsecured<br>notes              | 8.38% | Jul-2008 | 150,000 | 146,000   |         | 146,000 |         |         |         |         |
| \$150 million<br>unsecured<br>notes              | 7.63% | Aug-2009 | 150,000 | 150,000   |         |         | 150,000 |         |         |         |
| \$200 million<br>unsecured<br>notes              | 7.66% | Dec-2010 | 200,000 | 200,000   |         |         |         | 200,000 |         |         |
| \$300 million<br>unsecured<br>notes              | 6.79% | Sep-2011 | 300,000 | 300,000   |         |         |         |         | 300,000 |         |
| \$50 million<br>unsecured<br>notes               | 6.31% | Sep-2011 | 50,000  | 50,000    |         |         |         |         | 50,000  |         |
| \$250 million<br>unsecured<br>notes              | 6.26% | Nov-2012 | 250,000 | 250,000   |         |         |         |         | 250,000 |         |
|  | 5.11% | Mar-2013 | 100,000 | 100,000   |         |         |         |         | 100,000 |         |

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|   |       |          |              |              |            |            |            |            |              |
|---|-------|----------|--------------|--------------|------------|------------|------------|------------|--------------|
| \$100 million unsecured notes                                 |       |          |              |              |            |            |            |            |              |
| \$150 million unsecured notes                                 | 5.52% | Apr-2014 | 150,000      | 150,000      |            |            |            |            | 150,000      |
| \$250 million unsecured notes                                 | 5.88% | Jan-2012 |              | 250,000      |            |            |            |            | 250,000      |
| \$250 million unsecured notes                                 | 5.72% | Sep-2016 |              | 250,000      |            |            |            |            | 250,000      |
| Wheaton Development Right                                     | 6.99% | Oct-2008 | 4,589        | 4,513        | 81         | 4,432      |            |            |              |
| Eisenhower Ave. Development Right                             | 8.08% | Apr-2009 | 4,504        | 4,402        | 109        | 118        | 4,175      |            |              |
| Twinbrook Development Right                                   | 7.25% | Oct-2011 | 8,379        | 8,200        | 193        | 207        | 222        | 239        | 7,339        |
| Tyson's West Development Right                                | 5.55% | Jul-2028 | 6,681        | 6,535        | 156        | 162        | 173        | 183        | 193          |
| Avalon Orchards   | 7.65% | Jul-2033 | 20,136       | 19,883       | 272        | 290        | 311        | 333        | 357          |
|   |       |          | 1,854,289    | 2,199,533    | 260,811    | 201,209    | 154,881    | 200,755    | 357,889      |
|   |       |          |              |              |            |            |            |            | 1,023,988    |
| <b>Variable rate</b>  |       |          |              |              |            |            |            |            |              |
| <b>(3)</b>  |       |          |              |              |            |            |            |            |              |
| Avalon Ledges   | 6.75% | May-2009 | 19,290       | 18,635(4)    | 811        | 688        | 17,136     |            |              |
| Avalon at Flanders Hill                                       | 6.75% | May-2009 | 21,935       | 21,245(4)    | 926        | 784        | 19,535     |            |              |
| Avalon at Newton Highlands                                    | 6.69% | Dec-2009 | 38,905       | 37,650(4)    | 1,546      | 1,397      | 34,707     |            |              |
| Avalon at Crane Brook   | 6.66% | Mar-2011 |              | 33,535(4)    | 1,230      | 1,045      | 1,106      | 1,169      | 28,985       |
|   |       |          | 80,130       | 111,065      | 4,513      | 3,914      | 72,484     | 1,169      | 28,985       |
| <b>Total indebtedness excluding unsecured credit facility</b> |       |          |              |              |            |            |            |            |              |
|   |       |          | \$ 2,268,035 | \$ 2,828,508 | \$ 268,521 | \$ 209,086 | \$ 231,624 | \$ 235,343 | \$ 391,213   |
|   |       |          |              |              |            |            |            |            | \$ 1,492,721 |

- (1) Includes credit enhancement fees, facility fees, trustees fees and other fees.
- (2) Financed by variable rate, tax-exempt debt, but the interest rate on a portion of this debt is effectively fixed at December 31, 2006 and December 31, 2005 through a swap agreement. The portion of the debt fixed through a swap agreement decreases (and therefore the variable portion of the debt increases) monthly as payments are made to a principal reserve fund.
- (3) Variable rates are given as of December 31, 2006.
- (4) Financed by variable rate debt, but interest rate is capped through an interest rate protection agreement.
- (5)



Represents full amount of the debt as of December 31, 2006. Actual amounts drawn on the debt as of December 31, 2006 are \$79,849 for Bowery Place I and \$0 for both Bowery Place II and Avalon Acton.

- (6) Balances outstanding represent total amounts due at maturity, and are not net of \$2,922 and \$818 of debt discount as of December 31, 2006 and December 31, 2005, respectively, as reflected in unsecured notes on our Consolidated Balance Sheets included elsewhere in this report.

*Future Financing and Capital Needs Portfolio and Other Activity*

As of December 31, 2006, we had 17 new communities under construction, for which a total estimated cost of \$639,458,000 remained to be invested. In addition, we had six communities which we own, or in which we have a direct or indirect interest, under reconstruction, for which a total estimated cost of \$13,791,000 remained to be invested. Substantially all of the capital expenditures necessary to complete the communities currently under construction and reconstruction, as well as development costs related to pursuing Development Rights, will be funded from:

cash currently on hand invested in highly liquid overnight money market funds and repurchase agreements;

the remaining capacity under our current \$650,000,000 unsecured credit facility;

the net proceeds from sales of existing communities;

retained operating cash;

the issuance of debt or equity securities (including proceeds from the recent stock offering); and/or

private equity funding.

Before planned reconstruction activity, including reconstruction activity related to communities acquired by the Fund as discussed below, or the construction of a Development Right begins, we intend to arrange adequate financing to complete these undertakings, although we cannot assure you that we will be able to obtain such financing. In the event that financing cannot be obtained, we may have to abandon Development Rights, write-off associated 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.

We have invested in the Fund, a private, discretionary investment vehicle that acquires and operates apartment communities in our markets. The Fund will serve, until March 16, 2008 or until 80% of its committed capital is invested, as the principal vehicle through which we will invest in the acquisition of apartment communities, subject to certain exceptions. These exceptions include significant individual asset and portfolio acquisitions, properties acquired in tax-deferred transactions and acquisitions that are inadvisable or inappropriate for the Fund. The Fund will not restrict our development activities, and will terminate after a term of eight years, subject to two one-year extensions. The Fund has nine institutional investors, including us, with a combined capital equity commitment of \$330,000,000. A significant portion of the investments made in the Fund by its investors are being made through AvalonBay Value Added Fund, Inc., a Maryland corporation that qualifies as a REIT under the Internal Revenue Code (the Fund REIT). A wholly-owned subsidiary of the Company is the general partner of the Fund and has committed \$50,000,000 to the Fund and the Fund REIT (of which approximately \$22,944,000 has been invested as of January 31, 2007) representing a 15.2% combined general partner and limited partner equity interest. Under the Fund documents, the Fund has the ability to employ leverage through debt financings up to 65% on a portfolio basis, which, if achieved, would enable the Fund to invest up to \$940,000,000 (of which approximately \$514,000,000 has been invested as of January 31, 2007). We currently expect that leverage of less than 65% will be employed, reducing the projected investment value to between \$850,000,000 and \$900,000,000.

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 or secondarily as a source of liquidity. We may also use joint ventures related to mixed-use land development opportunities where our partners bring development and operational expertise to the venture. Each joint venture or partnership agreement has been and will continue to be 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. However, 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 the past business cycle and redeploy the proceeds from those sales to develop and redevelop communities. In response to real estate and capital markets conditions, we sold four communities, including an investment held in a joint venture, with net proceeds in the aggregate of approximately \$218,492,000 from January 1, 2006 through January 31, 2007. Because the proceeds from the sale of communities may not be immediately redeployed into revenue generating assets, 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. However, we believe that the absence of future cash flows from communities sold will have a minimal impact on our ability to fund future liquidity and capital resource needs.

#### Off Balance Sheet Arrangements

In addition to the 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 6, Investments in Unconsolidated Entities, and Note 8, Commitments and Contingencies, of our Consolidated Financial Statements located elsewhere in this report.

CVP I, LLC has outstanding tax-exempt, variable rate bonds maturing in November 2036 in the amount of \$117,000,000, which have permanent credit enhancement. We have agreed to guarantee, under limited circumstances, the repayment to the credit enhancer of any advances it may make in fulfillment of CVP I, LLC's repayment obligations under the bonds. We have also guaranteed to the credit enhancer that CVP I, LLC will obtain a final certificate of occupancy for the project (Chrystie Place in New York City) overall once tenant improvements related to a retail tenant are complete, which is expected in 2007. Our 80% partner in this venture has agreed that it will reimburse us its pro rata share of any amounts paid relative to these guaranteed obligations. The estimated fair value of, and our obligation under these guarantees, both at inception and as of December 31, 2006 were not significant. As a result we have not recorded any obligation associated with these guarantees at December 31, 2006.

MVP I, LLC has a construction loan in the amount of \$94,400,000 (of which \$76,739,000 is outstanding as of December 31, 2006), which matures in September 2010, assuming exercise of two one-year renewal options, and is payable by the unconsolidated real estate entity. In connection with the construction management services that we provided to MVP I, LLC, the entity that owns and developed Avalon at Mission Bay North II in San Francisco, we have provided a construction completion guarantee to the lender in order to fulfill their standard financing requirements related to the construction financing. Construction was completed in 2006, and our obligations under this guarantee will terminate once all of the lender's standard completion requirements have been satisfied, which we currently expect to occur in 2007. The estimated fair value of and our obligation under this guarantee, both at inception and as of December 31, 2006 was not significant and therefore no liability has been recorded related to this construction completion guarantee as of December 31, 2006.

The Fund has 12 mortgage loans with amounts outstanding in the aggregate of \$259,645,000. These mortgage loans have varying maturity dates (or dates after which the loans can be prepaid), ranging from February 2007 to October 2014. These mortgage loans are secured by the underlying real estate. In addition, the Fund has a credit facility with \$57,400,000 outstanding as of December 31, 2006, which matures in January 2008. The mortgage loans and the credit facility are payable by the Fund with operating cash flow from the underlying real estate, and the credit facility is secured by capital commitments. We have not guaranteed the debt of the Fund, nor do we have any obligation to fund this debt should the Fund be unable to do so.

In addition, as part of the formation of the Fund, we have provided to one of the limited partners a guarantee. The guarantee provides that if, upon final liquidation of the Fund, the total amount of all distributions to that partner during the life of the Fund (whether from operating cash flow or property sales) does not equal a minimum of the total capital contributions made by that partner, then we will pay the partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the partner (maximum of approximately \$3,400,000 as of December 31, 2006). As of December 31, 2006, the fair value of the real estate assets owned by the Fund is considered adequate to cover such potential payment to that partner under a liquidation scenario. The estimated fair value of and our obligation under this guarantee, both at inception and as of December 31, 2006 was not significant and therefore we have not recorded any obligation for this guarantee as of December 31, 2006.

In connection with the pursuit of a Development Right in Pleasant Hill, California, \$125,000,000 in bond financing was issued by the Contra Costa County Redevelopment Agency (the Agency) in connection with the possible future construction of a multifamily rental community by PHVP I, LLC. The bond proceeds were immediately invested in their entirety in a guaranteed investment contract (GIC) administered by a trustee. This Development Right is planned as a mixed-use development, with residential, for-sale, retail and office components. The bond proceeds will remain in the GIC until at least June 1, 2007, but no later than December 5, 2007, at which time a loan will be made to PHVP I, LLC to fund construction of the multifamily portion of the development, or the bonds will be redeemed by the Agency. Although we do not have any equity or economic interest in PHVP I, LLC at this time, we do have an option to make a capital contribution to PHVP I, LLC in exchange for a 99% general partner interest in the entity. Should we decide not to exercise this option, the bonds will be redeemed, and a loan will not be made to PHVP I, LLC. The bonds are payable from the proceeds of the GIC and are non-recourse to both PHVP I, LLC and to us. There is no loan payable outstanding by PHVP I, LLC as of December 31, 2006.

In addition, as part of providing construction management services to PHVP I, LLC for the construction of a public garage, we have provided a construction completion guarantee to the related lender in order to fulfill their standard financing requirements related to the garage construction financing. Our obligations under this guarantee will terminate following construction completion of the garage once all of the lender's standard completion requirements have been satisfied, which we currently expect to occur in 2008. In the third quarter of 2006, significant modifications were requested by the local transit authority to change the garage structure design. We do not believe that the requested design changes impact the construction schedule. However, it is expected that these changes will increase the original budget by an amount up to \$5,000,000. We believe that substantially all potential additional amounts are reimbursable from unrelated third parties. At this time we do not believe that it is probable that we will incur any additional costs. The estimated fair value of, and our obligation under this guarantee, both at inception and as of December 31, 2006 was not significant and therefore we have not recorded any obligation for this guarantee as of December 31, 2006.

In the fourth quarter of 2006, we admitted a 70% venture partner to the Avalon Del Rey Apartments, LLC for an investment of \$49,000,000, including the assumption of debt. In conjunction with this investment, we provided an operating guarantee to the joint venture partner. This guarantee provides that if the initial year return earned by the joint venture partner is less than a threshold return of 7% on its initial equity investment, we will pay the joint venture partner an amount equal to the shortfall, up to the 7% threshold return required. As of December 31, 2006, the cash flows and expected return on investment of the community are expected to meet and exceed the initial year threshold return required by our joint venture partner. Therefore we have not recorded any liability associated with this guarantee as of December 31, 2006.

There are no other lines of credit, side agreements, financial guarantees or any other derivative financial instruments related to or between us and our unconsolidated real estate entities. In evaluating our capital structure and overall leverage, management takes into consideration our proportionate share of this unconsolidated debt.



Contractual Obligations

We currently have contractual obligations consisting primarily of long-term debt obligations and lease obligations for certain land parcels and regional and administrative office space. Scheduled contractual obligations required for the next five years and thereafter are as follows as of December 31, 2006 (dollars in thousands):

|                                 | Total        | Payments due by period |            |            |                      |
|---------------------------------|--------------|------------------------|------------|------------|----------------------|
|                                 |              | Less than<br>1<br>Year | 1-3 Years  | 3-5 Years  | More than 5<br>Years |
| Long-Term Debt Obligations (1)  | \$ 2,828,508 | \$ 268,521             | \$ 440,710 | \$ 626,556 | \$ 1,492,721         |
| Operating Lease Obligations (2) | 1,868,720    | 8,045                  | 16,411     | 16,156     | 1,828,108            |
| Total                           | \$ 4,697,228 | \$ 276,566             | \$ 457,121 | \$ 642,712 | \$ 3,320,829         |

(1) No balance outstanding under our variable rate unsecured credit facility as of December 31, 2006. Amounts exclude interest payable as of December 31, 2006.

(2) Includes land leases expiring between July 2029 and March 2142. Amounts do not include any adjustment for purchase options available under the land leases.

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 effects 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. In a deflationary rent environment, we may be exposed to declining rents more quickly under these shorter term leases.

Forward-Looking Statements

This Form 10-K/A 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 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 pursuit of land on which we are considering future development;

the anticipated operating performance of our communities;

cost, yield and earnings estimates;

our declaration or payment of distributions;

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 and markets in selected states in the Mid-Atlantic, Northeast, Midwest and Pacific Northwest regions of the United States and in general;

the availability of debt and equity financing;

interest rates;

general economic conditions; and

trends affecting our financial condition or results of operations.



We cannot assure the future results or outcome of the matters described in these statements; rather, these statements merely reflect our current expectations of the approximate outcomes of the matters discussed. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors, which we describe in Item 1a, Risk Factors, elsewhere in this report, 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. In addition, these forward-looking statements represent our estimates and assumptions only as of the date of this report. 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.

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 abandon or defer development opportunities for a number of reasons, including changes in local market conditions which make development less desirable, increases in costs of development and increases in the cost of capital, 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;

- 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;

- 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 Fund and the Fund REIT;

- we may be unsuccessful in managing changes in our portfolio composition.

- we may not be able to obtain an amendment of certain land lease terms or sell our interest in the assets subject to such leases; and

- 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.

#### **ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

We are exposed to certain financial market risks, the most predominant being interest rate risk. We monitor interest rate risk as an integral part of our overall risk management program, which recognizes the unpredictability of financial markets and seeks to reduce the potentially adverse effect on our results of operations. The effect of interest rate fluctuations historically has been small relative to other factors affecting operating results, such as rental rates and occupancy. The specific market risks and the potential impact on our operating results are described below.

Our operating results are affected by changes in interest rates as a result of borrowings under our variable rate unsecured credit facility as well as outstanding bonds with variable interest rates. We had \$426,795,000 and \$209,165,000 in variable rate debt outstanding (excluding variable rate debt effectively fixed through swap

agreements) as of December 31, 2006 and 2005, respectively. If interest rates on the variable rate debt had been 100 basis points higher throughout 2006 and 2005, our annual interest costs would have increased by approximately \$3,027,000 and \$3,990,000, respectively, based on balances outstanding during the applicable years.

We currently use interest rate protection agreements (consisting of interest rate swap and interest rate cap agreements) to reduce the impact of interest rate fluctuations on certain variable rate indebtedness, not for trading or speculative purposes. Under swap agreements:

we agree to pay to a counterparty the interest that would have been incurred on a fixed principal amount at a fixed interest rate (generally, the interest rate on a particular treasury bond on the date the agreement is entered into, plus a fixed increment); and

the counterparty agrees to pay to us the interest that would have been incurred on the same principal amount at an assumed floating interest rate tied to a particular market index.

As of December 31, 2006, the effect of swap agreements is to fix the interest rate on approximately \$65,800,000 of our variable rate, tax-exempt debt. The interest rate protection provided by certain swap agreements on the consolidated variable rate, tax-exempt debt was not electively entered into by us but, rather, was a requirement of either the bond issuer or the credit enhancement provider related to certain tax-exempt bond financings. Had these swap agreements not been in place during 2006 and 2005, our annual interest costs would have been approximately \$1,182,000 and \$1,878,000 lower, respectively, based on balances outstanding and reported interest rates during the applicable years. Additionally, if the variable interest rates on this debt had been 100 basis points higher throughout 2006 and 2005 and these swap agreements had not been in place, our annual interest costs would have been approximately \$37,000 higher in 2006 and \$1,200,000 lower in 2005.

Because the counterparties providing the swap agreements are major financial institutions which have an A+ or better credit rating by the Standard & Poor's Ratings Group and the interest rates fixed by the swap agreements are significantly higher than current market rates for such agreements, 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, which impacts the fair value of our aggregate indebtedness. Debt securities and notes payable (excluding amounts outstanding under our variable rate unsecured credit facility) with an aggregate carrying value of \$2,828,508,000 at December 31, 2006 had an estimated aggregate fair value of \$2,939,717,000 at December 31, 2006. Fixed rate debt (excluding our variable rate debt effectively fixed through swap agreements) represented \$2,324,513,000 of the carrying value and \$2,435,722,000 of the fair value at December 31, 2006. If interest rates had been 100 basis points higher as of December 31, 2006, the fair value of this fixed rate debt would have decreased by \$102,909,000.

We do not have any exposure to foreign currency or equity price risk, and our exposure to commodity price risk is insignificant.

## **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, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports we file or submit 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.

In connection with the restatement and the filing of this Form 10-K/A, we re-evaluated, with the participation of management including our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of December 31, 2006. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2006, our disclosure controls and procedures were functioning effectively to ensure that the information included in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and disclosed within the time periods specified in the SEC's rules and forms.

In concluding that our disclosure controls and procedures were effective as of December 31, 2006, management considered, among other things, the facts and circumstances that resulted in the restatement of its previously issued financial statements as more fully described in Note 15, Restatement of Financial Statements, to the consolidated financial statements included within this Form 10-K/A. This restatement relates to leases entered into in 1999 and 2002, and the disclosure controls and procedures in effect as of December 31, 2006 were not the same disclosure controls and procedures in place at the time we entered into these land lease arrangements.

We continue to review and document our disclosure controls and procedures, including our internal control over 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, 2006 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, 2006.

Management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2006 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.* There was no change in our internal control over financial reporting that occurred during the fourth quarter of the period covered by this Annual Report on Form

10-K that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 9b. OTHER INFORMATION**

None.

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

Information pertaining to directors and executive officers of the Company and the Company's Code of Conduct are 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 16, 2007.

**ITEM 11. EXECUTIVE COMPENSATION**

Information 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 to be held on May 16, 2007.

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

Information 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 to be held on May 16, 2007.

The Company maintains the 1994 Stock Incentive Plan (the "1994 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 Company's 1994 Plan and ESPP as of December 31, 2006:

| Plan category   | (a)<br>Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b)<br>Weighted-average exercise price of outstanding options, warrants and rights | (c)<br>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 <sup>(1)</sup>     | 2,603,738 <sup>(2) (3)</sup>   | \$ 69.65 <sup>(3) (4)</sup>  | 1,791,861 <sup>(5)</sup>   |
| Equity compensation plans not approved by security holders <sup>(6)</sup> |  | n/a  | 789,312  |
| Total   | 2,603,738  | \$ 69.65 <sup>(3) (4)</sup>  | 2,581,173  |

(1) Consists of the 1994 Plan.

(2) Includes 116,499 deferred units

granted under the 1994 Plan, which, subject to vesting requirements, will convert in the future to common stock on a one-for-one basis, but does not include 274,986 shares of restricted stock that are outstanding and that are already reflected in the Company's outstanding shares.

- (3) Does not include outstanding options to acquire 4,240 shares, at a weighted-average exercise price of \$36.83 per share, that were assumed, in connection with the 1998 merger of Avalon Properties, Inc. with and into the Company, under the Avalon Properties, Inc. 1995 Equity Incentive Plan and the Avalon Properties, Inc. 1993 Stock Option and Incentive Plan.

- (4) Excludes deferred units granted under the 1994 Plan, which, subject to vesting requirements, will convert in the future to common stock on a one-for-one basis.
- (5) The 1994 Plan incorporates an evergreen formula pursuant to which the aggregate number of shares reserved for issuance under the 1994 Plan will increase annually. On each January 1, the aggregate number of shares reserved for issuance under the 1994 Plan will increase by a number of shares equal to a percentage (ranging from 0.48% to 1.00%) of all outstanding shares of common stock and operating partnership units at the end of the year. The exact percentage used



is determined based on the percentage of all awards made under the 1994 Plan during the calendar year that were in the form of stock options with an exercise price equal to the fair market value of a share of common stock on the date of the grant. In accordance with this procedure, on January 1, 2007, the maximum number of shares remaining available for future issuance under the 1994 Plan was increased by 748,133 to 2,539,994.

- (6) 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 10, Stock-Based Compensation Plans, of our Consolidated Financial Statements included in this report.

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

Information 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 16, 2007.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Information 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 16, 2007.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE**

**15(a)(1) Financial Statements**

**Index to Financial Statements**

Consolidated Financial Statements and Financial Statement Schedule:

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| Reports of Independent Registered Public Accounting Firm  | F-1 |
| Consolidated Balance Sheets as of December 31, 2006 and 2005  | F-3 |
| Consolidated Statements of Operations and Other Comprehensive Income for the years ended December 31, 2006, 2005 and 2004 | F-4 |
| Consolidated Statements of Stockholders' Equity for the years ended December 31, 2006, 2005 and 2004                      | F-5 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005 and 2004                                | F-6 |
| Notes to Consolidated Financial Statements  | F-8 |

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

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| Schedule III Real Estate and Accumulated Depreciation | F-38 |
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**15(a)(3) Exhibits**

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

### INDEX TO EXHIBITS

- 3(i).1 Articles of Amendment and Restatement of Articles of Incorporation of the Company, dated as of June 4, 1998. (Filed with the Company's Form 10-K for the fiscal year ended December 31, 2006, filed on March 1, 2007.)
- 3(i).2 Articles of Amendment, dated as of October 2, 1998. (Filed with the Company's original Form 10-K for the fiscal year ended December 31, 2006, filed on March 1, 2007.)
- 3(i).3 Articles Supplementary, dated as of October 13, 1998, relating to the 8.70% Series H Cumulative Redeemable Preferred Stock. (Filed with the Company's Form 10-K for the fiscal year ended December 31, 2006, filed on March 1, 2007.)
- 3(ii).1 Amended and Restated Bylaws of the Company, as adopted by the Board of Directors on February 13, 2003. (Incorporated by reference to Exhibit 3(ii) to Form 10-K of the Company filed March 11, 2003.)
- 4.1 Second Supplemental Indenture of Avalon Properties dated as of December 16, 1997. (Incorporated by reference to Exhibit 4.3 to Form 10-K of the Company filed March 11, 2003.)
- 4.2 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.)
- 4.3 First Supplemental Indenture, dated as of January 20, 1998, between the Company and State Street Bank and Trust Company as Trustee. (Incorporated by reference to Exhibit 4.2 to Registration Statement on Form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
- 4.4 Second Supplemental Indenture, dated as of July 7, 1998, between the Company and State Street Bank and Trust Company as Trustee. (Incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-3 of the Company (File No. 333-139839), filed January 8, 2007.)
- 4.5 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.)
- 4.6 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.)
- 4.7 Dividend Reinvestment and Stock Purchase Plan of the Company. (Incorporated by reference to Exhibit 8.1 to Registration Statement on Form S-3 of the Company (File No. 333-87063), filed September 14, 1999.)
- 4.8 Amendment to the Company's Dividend Reinvestment and Stock Purchase Plan filed on December 17, 1999. (Incorporated by reference to the Prospectus Supplement filed pursuant to Rule 424(b)(2) of the Securities Act of 1933 on December 17, 1999.)
- 4.9 Amendment to the Company's Dividend Reinvestment and Stock Purchase Plan filed on March 26, 2004. (Incorporated by reference to the Prospectus Supplement filed pursuant to Rule 424(b)(3) of the Securities Act of 1933 on March 26, 2004.)
- 10.1 Amended and Restated Distribution Agreement, dated August 6, 2003, among the Company and the Agents, including Administrative Procedures, relating to the MTNs. (Incorporated by reference to Exhibit 10.1 to Form 10-K of the Company filed March 5, 2004.)
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- 10.2 Amended and Restated Limited Partnership Agreement of AvalonBay Value Added Fund, L.P., dated as of March 16, 2005. (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed May 6, 2005.)
- 10.3+ Endorsement Split Dollar Agreements and Amendments thereto with Messrs. Blair, Naughton, Fuller, Sargeant, Horey and Meyer (Incorporated by reference to Exhibit 10.2 to Form 10-Q of the Company filed May 6, 2005.)
- 10.4+ Employment Agreement, dated as of July 1, 2003, between the Company and Thomas J. Sargeant. (Incorporated by reference to Exhibit 10.1 to Amendment No. 3 to the Company's Registration Statement on Form S-3 (File No. 333-103755), filed July 7, 2003.)
- 10.5+ First Amendment to Employment Agreement between the Company and Thomas J. Sargeant, dated as of March 31, 2005. (Incorporated by reference to Exhibit 10.5 to Form 10-Q of the Company filed May 6, 2005.)
- 10.6+ Employment Agreement, dated as of January 10, 2003, between the Company and Bryce Blair. (Incorporated by reference to Exhibit 10.5 to Form 10-K of the Company filed March 11, 2003.)
- 10.7+ First Amendment to Employment Agreement between the Company and Bryce Blair, dated as of March 31, 2005. (Incorporated by reference to Exhibit 10.3 to Form 10-Q of the Company filed May 6, 2005.)
- 10.8+ Employment Agreement, dated as of February 26, 2001, between the Company and Timothy J. Naughton. (Filed with the Company's Form 10-K for the fiscal year ended December 31, 2006, filed on March 1, 2007.)
- 10.9+ First Amendment to Employment Agreement between the Company and Timothy J. Naughton, dated as of March 31, 2005. (Incorporated by reference to Exhibit 10.4 to Form 10-Q of the Company filed May 6, 2005.)
- 10.10+ Employment Agreement, dated as of September 10, 2001, between the Company and Leo S. Horey. (Filed with the Company's Form 10-K for the fiscal year ended December 31, 2006, filed on March 1, 2007.)
- 10.11+ First Amendment to Employment Agreement between the Company and Leo S. Horey, dated as of March 31, 2005. (Incorporated by reference to Exhibit 10.6 to Form 10-Q of the Company filed May 6, 2005.)
- 10.12+ Employment Agreement, dated as of December 31, 2001, between the Company and Samuel B. Fuller. (Incorporated by reference to Exhibit 10.9 to Form 10-K of the Company filed March 26, 2002.)
- 10.13+ First Amendment to Employment Agreement between the Company and Samuel B. Fuller, dated as of March 31, 2005. (Incorporated by reference to Exhibit 10.7 to Form 10-Q of the Company filed May 6, 2005.)
- 10.14+ Separation Agreement between the Company and Samuel B. Fuller, dated as of April 6, 2005. (Incorporated by reference to Exhibit 10.9 to Form 10-Q of the Company filed May 6, 2005.)
- 10.15+ Retirement Agreement, dated as of March 24, 2000, between the Company and Gilbert M. Meyer. (Filed with the Company's Form 10-K for the fiscal year ended December 31, 2006, filed on March 1, 2007.)
- 10.16+ First Amendment to Retirement Agreement between the Company and Gilbert M. Meyer, dated as of March 31, 2005. (Incorporated by reference to Exhibit 10.8 to Form 10-Q of the Company filed May 6, 2005.)
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- 10.17+ Avalon Properties, Inc. 1993 Stock Option and Incentive Plan. (Filed with the Company's Form 10-K for the fiscal year ended December 31, 2006, filed on March 1, 2007.)
- 10.18+ Avalon Properties, Inc. 1995 Equity Incentive Plan. (Filed with the Company's Form 10-K for the fiscal year ended December 31, 2006, filed on March 1, 2007.)
- 10.19+ Amendment, dated May 6, 1999, to the Avalon Properties Amended and Restated 1995 Equity Incentive Plan. (Filed with the Company's Form 10-K for the fiscal year ended December 31, 2006, filed on March 1, 2007.)
- 10.20+ AvalonBay Communities, Inc. 1994 Stock Incentive Plan, as amended and restated in full on December 8, 2004. (Incorporated by reference to Exhibit 10.B 1 to Form 8-K of the Company filed December 14, 2004.)
- 10.21+ Amendment, dated February 9, 2006, to the AvalonBay Communities, Inc. 1994 Stock Incentive Plan, as amended and restated on December 8, 2004. (Incorporated by reference to Exhibit 10.32 to Form 10-K of the Company filed March 14, 2006.)
- 10.22+ Amendment, dated December 6, 2006, to the AvalonBay Communities, Inc. 1994 Stock Incentive Plan, as amended and restated on December 8, 2004. (Filed with the Company's Form 10-K for the fiscal year ended December 31, 2006, filed on March 1, 2007.)
- 10.23+ 1996 Non-Qualified Employee Stock Purchase Plan, dated June 26, 1997, as amended and restated. (Incorporated by reference to Exhibit 99.1 to Post-effective Amendment No. 1 to Registration Statement on Form S-8 of the Company (File No. 333-16837), filed June 26, 1997.)
- 10.24+ 1996 Non-Qualified Employee Stock Purchase Plan Plan Information Statement dated June 26, 1997. (Incorporated by reference to Exhibit 99.2 to Registration Statement on Form S-8 of the Company (File No. 333-16837), filed November 26, 1996.)
- 10.25+ Form of Indemnity Agreement between the Company and its Directors. (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed November 9, 2005.)
- 10.26+ The Company's Officer Severance Plan. (Filed with the Company's Form 10-K for the fiscal year ended December 31, 2006, filed on March 1, 2007.)
- 10.27+ Form of AvalonBay Communities, Inc. Non-Qualified Stock Option Agreement (1994 Stock Incentive Plan, as Amended and Restated). (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on November 4, 2004.)
- 10.28+ Form of AvalonBay Communities, Inc. Incentive Stock Option Agreement (1994 Stock Incentive Plan, as Amended and Restated). (Incorporated by reference to Exhibit 10.2 to the Company's Form 10-Q filed on November 4, 2004.)
- 10.29+ Form of AvalonBay Communities, Inc. Employee Stock Grant and Restricted Stock Agreement. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on November 4, 2004.)
- 10.30+ Form of AvalonBay Communities, Inc. Director Restricted Unit Agreement. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on November 4, 2004.)
- 10.31+ Form of AvalonBay Communities, Inc. Director Restricted Stock Agreement. (Incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q filed on November 4, 2004.)
- 10.32 Second Amended and Restated Revolving Loan Agreement, dated as of November 14, 2006, among the Company, as Borrower, JPMorgan Chase Bank, N.A., and Wachovia Bank, National Association, each as a Bank and Syndication Agent, Bank of America, N.A., as a Bank, Swing Lender and Issuing Bank, Morgan Stanley Bank, Wells Fargo Bank, National Association, and Deutsche Bank Trust Company Americas, each as a Bank and Documentation Agent, the other banks signatory thereto, each as a Bank, J.P. Morgan Securities, Inc., as Sole Bookrunner and Lead Arranger, and Bank of America, N.A., as Administrative Agent. (Incorporated by reference to Exhibit 10.1 to Form 8-K of the Company filed November 17, 2006.)
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- 10.33+ Rules and Procedures for Non-Employee Directors Deferred Compensation Program. (Filed with the Company's Form 10-K for the fiscal year ended December 31, 2006, filed on March 1, 2007.)
- 10.34+ Compensation Arrangements for Directors and Named Executive Officers. (Filed with the Company's Form 10-K for the fiscal year ended December 31, 2006, filed on March 1, 2007.)
- 12.1 Statements re: Computation of Ratios. (Filed herewith.)
- 21.1 Schedule of Subsidiaries of the Company. (Filed with the Company's Form 10-K for the fiscal year ended December 31, 2006, filed on March 1, 2007.)
- 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). (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 154(c) 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: May 10, 2007

By: /s/ Thomas J. Sargeant  
Thomas J. Sargeant, Chief Financial  
Officer

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of  
AvalonBay Communities, Inc.:

We have audited the accompanying consolidated balance sheets of AvalonBay Communities, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations and other comprehensive income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AvalonBay Communities, Inc. at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed in Note 15 to the consolidated financial statements, the accompanying consolidated balance sheets as of December 31, 2006 and 2005 and the related consolidated statements of operations and other comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006 have been restated.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of AvalonBay Communities, Inc.'s internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

McLean, Virginia

February 26, 2007, except for notes 1, 9 and 15, as to which the date is May 8, 2007

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**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Shareholders of  
AvalonBay Communities, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting in Item 9a., that AvalonBay Communities, Inc. maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AvalonBay Communities, Inc.'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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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.

In our opinion, management's assessment that AvalonBay Communities, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, AvalonBay Communities, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of AvalonBay Communities, Inc. as of December 31, 2006 and 2005, and the related consolidated statements of operations and other comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006 of AvalonBay Communities, Inc. and our report dated February 26, 2007, except for notes 1, 9 and 15, as to which the date is May 8, 2007 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP  
McLean, Virginia  
February 26, 2007



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

|   | 12-31-06<br>(restated) | 12-31-05<br>(restated) |
|---|------------------------|------------------------|
| <b>ASSETS</b>   |                        |                        |
| Real estate:  |                        |                        |
| Land  | \$ 958,254             | \$ 872,822             |
| Buildings and improvements                                    | 4,597,435              | 4,291,892              |
| Furniture, fixtures and equipment                             | 143,480                | 131,689                |
|   | 5,699,169              | 5,296,403              |
| Less accumulated depreciation                                 | (1,104,507)            | (941,264)              |
| Net operating real estate                                     | 4,594,662              | 4,355,139              |
| Construction in progress, including land                      | 641,781                | 261,743                |
| Land held for development                                     | 209,568                | 179,739                |
| Operating real estate assets held for sale, net               | 64,351                 | 182,705                |
| Total real estate, net  | 5,510,362              | 4,979,326              |
| Cash and cash equivalents                                     | 8,567                  | 5,715                  |
| Cash in escrow  | 136,989                | 48,266                 |
| Resident security deposits                                    | 26,574                 | 26,290                 |
| Investments in unconsolidated real estate entities            | 42,724                 | 41,942                 |
| Deferred financing costs, net                                 | 26,343                 | 17,976                 |
| Deferred development costs                                    | 39,365                 | 31,467                 |
| Prepaid expenses and other assets                             | 54,567                 | 47,616                 |
| Total assets  | \$ 5,845,491           | \$ 5,198,598           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                    |                        |                        |
| Unsecured notes, net  | \$ 2,153,078           | \$ 1,809,182           |
| Variable rate unsecured credit facility                       |                        | 66,800                 |
| Mortgage notes payable  | 672,508                | 458,035                |
| Dividends payable   | 60,417                 | 54,476                 |
| Payables for construction                                     | 59,232                 | 24,690                 |
| Accrued expenses and other liabilities                        | 189,767                | 149,134                |
| Accrued interest payable                                      | 37,236                 | 34,649                 |
| Resident security deposits                                    | 38,803                 | 35,544                 |
| Liabilities related to real estate assets held for sale       | 42,985                 | 38,352                 |
| Total liabilities   | 3,254,026              | 2,670,862              |
| Minority interest of unitholders in consolidated partnerships | 18,311                 | 29,911                 |

## Commitments and contingencies

## Stockholders' equity:

|   |              |              |
|---|--------------|--------------|
| Preferred stock, \$0.01 par value; \$25 liquidation preference; 50,000,000 shares authorized at both December 31, 2006 and 2005; 4,000,000 shares issued and outstanding at both December 31, 2006 and 2005 | 40           | 40           |
| Common stock, \$0.01 par value; 140,000,000 shares authorized at both December 31, 2006 and 2005; 74,668,372 and 73,663,048 shares issued and outstanding at December 31, 2006 and 2005, respectively       | 747          | 737          |
| Additional paid-in capital  | 2,482,516    | 2,429,568    |
| Accumulated earnings less dividends   | 93,430       | 71,950       |
| Accumulated other comprehensive loss  | (3,579)      | (4,470)      |
| Total stockholders' equity  | 2,573,154    | 2,497,825    |
| <br>  |              |              |
| Total liabilities and stockholders' equity  | \$ 5,845,491 | \$ 5,198,598 |

See accompanying notes to Consolidated Financial Statements.

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

|   | For the year ended |             |             |
|---|--------------------|-------------|-------------|
|   | 12-31-06           | 12-31-05    | 12-31-04    |
|   | (restated)         | (restated)  | (restated)  |
| Revenue:  |                    |             |             |
| Rental and other income   | \$ 731,041         | \$ 666,376  | \$ 613,240  |
| Management, development and other fees  | 6,259              | 4,304       | 604         |
| <br>Total revenue   | <br>737,300        | <br>670,680 | <br>613,844 |
| <br>Expenses:   |                    |             |             |
| Operating expenses, excluding property taxes  | 221,515            | 202,235     | 192,084     |
| Property taxes  | 68,257             | 65,487      | 59,458      |
| Interest expense, net   | 111,046            | 127,099     | 131,103     |
| Depreciation expense  | 164,129            | 160,055     | 153,224     |
| General and administrative expense  | 24,767             | 25,761      | 18,074      |
| <br>Total expenses  | <br>589,714        | <br>580,637 | <br>553,943 |
| <br>Equity in income of unconsolidated entities   | <br>7,455          | <br>7,198   | <br>1,100   |
| Venture partner interest in profit-sharing  |                    |             | (1,178)     |
| Minority interest in consolidated partnerships  | (573)              | (1,481)     | (150)       |
| Gain on sale of land  | 13,519             | 4,479       | 1,138       |
| <br>Income from continuing operations before cumulative effect of<br>change in accounting principle | <br>167,987        | <br>100,239 | <br>60,811  |
| <br>Discontinued operations:  |                    |             |             |
| Income from discontinued operations   | 1,148              | 14,942      | 21,134      |
| Gain on sale of communities   | 97,411             | 195,287     | 121,287     |
| <br>Total discontinued operations   | <br>98,559         | <br>210,229 | <br>142,421 |
| <br>Income before cumulative effect of change in accounting principle                               | <br>266,546        | <br>310,468 | <br>203,232 |
| Cumulative effect of change in accounting principle   |                    |             | 4,547       |
| <br>Net income  | <br>266,546        | <br>310,468 | <br>207,779 |
| Dividends attributable to preferred stock   | (8,700)            | (8,700)     | (8,700)     |

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|  |            |            |            |
|--|------------|------------|------------|
| Net income available to common stockholders  | \$ 257,846 | \$ 301,768 | \$ 199,079 |
| Other comprehensive income:  |            |            |            |
| Unrealized gain on cash flow hedges  | 891        | 2,626      | 1,116      |
| Comprehensive income   | \$ 258,737 | \$ 304,394 | \$ 200,195 |
| Earnings per common share basic:   |            |            |            |
| Income from continuing operations (net of dividends attributable to preferred stock) | \$ 2.15    | \$ 1.26    | \$ 0.79    |
| Discontinued operations  | 1.33       | 2.88       | 1.99       |
| Net income available to common stockholders  | \$ 3.48    | \$ 4.14    | \$ 2.78    |
| Earnings per common share diluted:   |            |            |            |
| Income from continuing operations (net of dividends attributable to preferred stock) | \$ 2.12    | \$ 1.24    | \$ 0.79    |
| Discontinued operations  | 1.30       | 2.81       | 1.96       |
| Net income available to common stockholders  | \$ 3.42    | \$ 4.05    | \$ 2.75    |

See accompanying notes to Consolidated Financial Statements.

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

|   | Shares issued      |                 | Preferred<br>stock | Common<br>stock | Additional<br>paid-in<br>capital | Accumulated                   | Accumulated                   | Total<br>stockholders<br>equity |
|---|--------------------|-----------------|--------------------|-----------------|----------------------------------|-------------------------------|-------------------------------|---------------------------------|
|   | Preferred<br>stock | Common<br>stock |                    |                 |                                  | earnings<br>less<br>dividends | other<br>comprehensiv<br>loss |                                 |
| Balance at<br>December 31,<br>2003, As<br>Restated                  | 4,000,000          | 70,937,526      | \$ 40              | \$ 709          | \$ 2,316,773                     | \$ (16,525)                   | \$ (8,212)                    | \$ 2,292,785                    |
| Net income, as<br>restated  |                    |                 |                    |                 |                                  | 207,779                       |                               | 207,779                         |
| Unrealized gain<br>on cash flow<br>hedges                           |                    |                 |                    |                 |                                  |                               | 1,116                         | 1,116                           |
| Change in<br>redemption<br>value of<br>minority interest            |                    |                 |                    |                 |                                  | (1,413)                       |                               | (1,413)                         |
| Dividends<br>declared to<br>common and<br>preferred<br>stockholders |                    |                 |                    |                 |                                  | (210,338)                     |                               | (210,338)                       |
| Issuance of<br>common stock   |                    | 1,644,550       |                    | 17              | 59,147                           | (662)                         |                               | 58,502                          |
| Amortization of<br>deferred<br>compensation                         |                    |                 |                    |                 | 4,932                            |                               |                               | 4,932                           |
| Balance at<br>December 31,<br>2004, As<br>Restated                  | 4,000,000          | 72,582,076      | 40                 | 726             | 2,380,852                        | (21,159)                      | (7,096)                       | 2,353,363                       |
| Net income, as<br>restated  |                    |                 |                    |                 |                                  | 310,468                       |                               | 310,468                         |
| Unrealized gain<br>on cash flow<br>hedges                           |                    |                 |                    |                 |                                  |                               | 2,626                         | 2,626                           |
| Change in<br>redemption<br>value of<br>minority interest            |                    |                 |                    |                 |                                  | (216,982)                     |                               | (216,982)                       |

|   |           |            |       |        |              |           |            |              |
|---|-----------|------------|-------|--------|--------------|-----------|------------|--------------|
| Dividends declared to common and preferred stockholders |           |            |       |        |              |           |            |              |
| Issuance of common stock                                |           | 1,080,972  |       | 11     | 40,378       | (377)     |            | 40,012       |
| Amortization of deferred compensation                   |           |            |       |        | 8,338        |           |            | 8,338        |
| Balance at December 31, 2005 As Restated                | 4,000,000 | 73,663,048 | 40    | 737    | 2,429,568    | 71,950    | (4,470)    | 2,497,825    |
| Net income, as restated                                 |           |            |       |        |              | 266,546   |            | 266,546      |
| Unrealized gain on cash flow hedges                     |           |            |       |        |              |           | 891        | 891          |
| Change in redemption value of minority interest         |           |            |       |        |              | (2,593)   |            | (2,593)      |
| Dividends declared to common and preferred stockholders |           |            |       |        |              | (241,155) |            | (241,155)    |
| Issuance of common stock                                |           | 1,005,324  |       | 10     | 38,839       | (1,318)   |            | 37,531       |
| Amortization of deferred compensation                   |           |            |       |        | 14,109       |           |            | 14,109       |
| Balance at December 31, 2006 As Restated                | 4,000,000 | 74,668,372 | \$ 40 | \$ 747 | \$ 2,482,516 | \$ 93,430 | \$ (3,579) | \$ 2,573,154 |

See accompanying notes to Consolidated Financial Statements.

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

|  | For the year ended     |                        |                        |
|--|------------------------|------------------------|------------------------|
|  | 12-31-06<br>(restated) | 12-31-05<br>(restated) | 12-31-04<br>(restated) |
| Cash flows from operating activities:  |                        |                        |                        |
| Net income   | \$ 266,546             | \$ 310,468             | \$ 207,779             |
| Adjustments to reconcile net income to cash provided by operating activities:  |                        |                        |                        |
| Depreciation expense   | 164,129                | 160,055                | 153,224                |
| Depreciation expense from discontinued operations  |                        | 3,241                  | 10,676                 |
| Amortization of deferred financing costs and debt premium/discount   | 4,474                  | 4,022                  | 3,962                  |
| Amortization of deferred compensation  | 10,095                 | 4,292                  | 2,593                  |
| Income allocated to minority interest in consolidated partnerships   | 573                    | 1,481                  | 187                    |
| Income allocated to venture partner interest in profit-sharing   |                        |                        | 1,178                  |
| Equity in income of unconsolidated entities, net of eliminations   | (6,480)                | (6,565)                | (1,100)                |
| Return on investment of unconsolidated entities  | 298                    | 330                    | 43                     |
| Gain on sale of real estate assets   | (110,930)              | (199,766)              | (122,425)              |
| Cumulative effect of change in accounting principle  |                        |                        | (4,547)                |
| Increase in cash in operating escrows  | (844)                  | (4,344)                | (1,451)                |
| Decrease (increase) in resident security deposits, prepaid expenses and other assets   | (2,197)                | 8,547                  | (10,589)               |
| Increase in accrued expenses, other liabilities and accrued interest payable   | 26,279                 | 24,487                 | 36,087                 |
| Net cash provided by operating activities  | 351,943                | 306,248                | 275,617                |
| Cash flows from investing activities:  |                        |                        |                        |
| Development/redevelopment of real estate assets including land acquisitions and deferred development costs                       | (735,167)              | (382,871)              | (355,938)              |
| Acquisition of real estate assets, including partner equity interest   | (74,924)               | (57,415)               | (128,238)              |
| Capital expenditures existing real estate assets   | (21,289)               | (17,570)               | (12,984)               |
| Capital expenditures non-real estate assets  | (957)                  | (1,520)                | (860)                  |
| Proceeds from sale of real estate and technology investments, including reimbursement for Fund communities, net of selling costs | 272,223                | 469,292                | 219,649                |
| Increase (decrease) in payables for construction   | 34,542                 | 5,198                  | (3,962)                |
| Decrease (increase) in cash in construction escrows  | 19,572                 | (21,784)               | 201                    |
| Repayment of participating mortgage note, including interest and prepayment premium  |                        |                        | 34,846                 |
| Increase in investments in unconsolidated real estate entities   | (5,371)                | (13,091)               | (4,397)                |
| Net cash used in investing activities  | (511,371)              | (19,761)               | (251,683)              |
| Cash flows from financing activities:  |                        |                        |                        |

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|  |            |            |            |
|--|------------|------------|------------|
| Issuance of common stock   | 26,551     | 36,611     | 54,031     |
| Dividends paid   | (234,958)  | (215,391)  | (209,095)  |
| Net borrowings (repayments) under unsecured credit facility        | (66,800)   | (35,200)   | 50,900     |
| Issuance of mortgage notes payable and draws on construction loans | 113,849    | 26,269     | 105,843    |
| Repayments of mortgage notes payable                               | (6,827)    | (41,932)   | (40,270)   |
| Issuance (repayment) of unsecured notes                            | 343,743    | (50,000)   | 25,000     |
| Payment of deferred financing costs                                | (12,698)   | (1,292)    | (9,318)    |
| Redemption of units for cash by minority partners                  | (80)       | (50)       | (1,691)    |
| Distributions to DownREIT partnership unitholders                  | (392)      | (1,194)    | (1,425)    |
| Distributions to joint venture and profit-sharing partners         | (108)      | (114)      | (3,446)    |
| Net cash provided by (used in) financing activities                | 162,280    | (282,293)  | (29,471)   |
| Net increase (decrease) in cash and cash equivalents               | 2,852      | 4,194      | (5,537)    |
| Cash and cash equivalents, beginning of year                       | 5,715      | 1,521      | 7,058      |
| Cash and cash equivalents, end of year                             | \$ 8,567   | \$ 5,715   | \$ 1,521   |
| Cash paid during year for interest, net of amount capitalized      | \$ 102,640 | \$ 121,526 | \$ 124,895 |

See accompanying notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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

During the year ended December 31, 2006:

As described in Note 4, Stockholders Equity, 122,172 shares of common stock valued at \$12,568 were issued in connection with stock grants, 2,306 shares valued at \$256 were issued through the Company's dividend reinvestment plan, 47,111 shares valued at \$3,449 were withheld to satisfy employees' tax withholding and other liabilities and 5,910 shares valued at \$193 were forfeited, for a net value of \$9,182. In addition, the Company granted 849,769 options for common stock, net of forfeitures, at a value of \$9,946.

308,345 units of limited partnership, valued at \$14,166, were presented for redemption to the DownREIT partnerships that issued such units and were acquired by the Company in exchange for an equal number of shares of the Company's common stock.

The Company issued \$187,300 of variable rate, tax-exempt debt, of which \$107,451 in proceeds were not received, but placed in an escrow until requisitioned for construction funding.

The Company recorded a decrease to other liabilities and a corresponding gain to other comprehensive income of \$891 to adjust the Company's Hedging Derivatives (as defined in Note 5, Derivative Instruments and Hedging Activities) to their fair value.

Common and preferred dividends declared but not paid totaled \$60,417.

During the year ended December 31, 2005:

165,790 shares of common stock were issued in connection with stock grants, 1,295 shares were issued through the Company's dividend reinvestment plan, 8,971 shares were issued to a member of the Board of Directors in fulfillment of a deferred stock award, 50,916 shares were withheld to satisfy employees' tax withholding and other liabilities and 9,965 shares were forfeited, for a net value of \$9,317. In addition, the Company granted 696,484 options for common stock, net of forfeitures, at a value of \$4,521.

49,263 units of limited partnership, valued at \$2,202, were presented for redemption to the DownREIT partnerships that issued such units and were acquired by the Company in exchange for an equal number of shares of the Company's common stock.

The Company deconsolidated mortgage notes payable in the aggregate amount of \$24,869 upon admittance of outside investors into the Fund (as defined in Note 6, Investments in Unconsolidated Entities).

The Company assumed fixed rate debt of \$4,566 as part of the acquisition of an improved land parcel.

The Company recorded a decrease to other liabilities and a corresponding gain to other comprehensive income of \$2,626 to adjust the Company's Hedging Derivatives to their fair value.

Common and preferred dividends declared but not paid totaled \$54,476.

During the year ended December 31, 2004:

147,517 shares of common stock were issued in connection with stock grants, 78,509 shares were issued in connection with non-cash stock option exercises, 1,545 shares were issued through the Company's dividend reinvestment plan, 75,515 shares were withheld to satisfy employees' tax withholding and other liabilities and 3,012 shares were forfeited, for a net value of \$6,138. In addition, the Company granted 465,232 options for common stock, net of forfeitures, at a value of \$2,081.

104,160 units of limited partnership, valued at \$4,035, were presented for redemption to the DownREIT partnerships that issued such units and were acquired by the Company in exchange for an equal number of shares of the Company's common stock.

The Company sold two communities with mortgage notes payable of \$28,335 in the aggregate, that were assumed by the respective buyers as part of the total sales price.

The Company assumed fixed rate debt of \$8,155 in connection with the acquisition of a community and \$20,141 in connection with the acquisition of three improved land parcels.

The Company recorded a decrease to other liabilities and a corresponding gain to other comprehensive income of \$1,116 to adjust the Company's Hedging Derivatives to their fair value.

Common and preferred dividends declared but not paid totaled \$52,982.

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

**1. Organization and Significant Accounting Policies**

*Organization*

AvalonBay Communities, Inc. (the Company, which term, unless the context otherwise requires, refers to AvalonBay Communities, Inc. together with its subsidiaries) is a Maryland corporation that has elected to be taxed as a real estate investment trust ( REIT ) under the Internal Revenue Code of 1986 ( the Code ), as amended. The Company focuses on the ownership and operation of apartment communities in high barrier-to-entry markets of the United States. These markets are located in the Northeast, Mid-Atlantic, Midwest, Pacific Northwest, and Northern and Southern California regions of the country.

At December 31, 2006, the Company owned or held a direct or indirect ownership interest in 150 operating apartment communities containing 43,141 apartment homes in ten states and the District of Columbia, of which six communities containing 2,381 apartment homes were under reconstruction. In addition, the Company owned or held a direct or indirect ownership interest in 17 communities under construction that are expected to contain an aggregate of 5,153 apartment homes when completed. The Company also owned or held a direct or indirect ownership interest in rights to develop an additional 54 communities that, if developed in the manner expected, will contain an estimated 14,185 apartment homes.

*Principles of Consolidation*

The Company is the surviving corporation from the merger (the Merger ) of Bay Apartment Communities, Inc. ( Bay ) and Avalon Properties, Inc. ( Avalon ) on June 4, 1998, in which Avalon shareholders received 0.7683 of a share of common stock of the Company for each share owned of Avalon common stock. The Merger was accounted for under the purchase method of accounting, with the historical financial statements for Avalon presented prior to the Merger. At that time, Avalon ceased to legally exist, and Bay as the surviving legal entity adopted the historical financial statements of Avalon. Consequently, Bay s assets were recorded in the historical financial statements of Avalon at an amount equal to Bay s debt outstanding at that time plus the value of capital stock retained by the Bay stockholders, which approximates fair value. In connection with the Merger, the Company changed its name from Bay Apartment Communities, Inc. to AvalonBay Communities, Inc.

The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly-owned partnerships, certain joint venture partnerships, subsidiary partnerships structured as DownREITs and any variable interest entities consolidated under FASB Interpretation No. 46 ( FIN 46(R) ), Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51, as revised in December 2003. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company assesses consolidation of variable interest entities under the guidance of FIN 46(R). The Company accounts for joint venture entities and subsidiary partnerships, including those structured as DownREITs, that are not variable interest entities, in accordance with EITF Issue No. 04-5, Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights , Statement of Position ( SOP ) 78-9, Accounting for Investments in Real Estate Ventures , Accounting Principles Board ( APB ) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock and EITF Topic D-46, Accounting for Limited Partnership Investments. The Company uses EITF Issue No. 04-5 to evaluate the partnership of each joint venture entity and determine whether control over the partnership, as defined by the EITF, lies with the general partner, or the limited partners, when the limited partners have certain rights. The general partner in a limited partnership is presumed to control that limited partnership, unless that presumption is overcome by the limited partners having either: (i) the substantive ability, either by a single limited partner or through a simple majority vote, to dissolve the limited partnership or otherwise remove the general partner without cause; or (ii) substantive participating rights. If the Company is the general partner and has control over the partnership, or if the Company s limited partnership ownership includes the ability to dissolve the partnership, or has substantive participating rights, as discussed above, the Company consolidates the investments. If the Company is not the general partner, or the Company s partnership interest does not contain either of the above terms which overcome the presumption of control in a limited partnership residing with the general partner, the Company then looks to the

guidance in SOP 78-9, APB 18 and EITF D-46 to determine the accounting framework to apply. The Company generally uses the equity method to account for these investments unless our ownership interest is so minor that we have virtually no influence over the partnership operating and financial policies. Investments in which the Company has little or no influence are accounted for using the cost method.

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In each of the partnerships structured as DownREITs, either the Company or one of the Company's wholly-owned subsidiaries is the general partner, and there are one or more limited partners whose interest in the partnership is represented by units of limited partnership interest. For each DownREIT partnership, limited partners are entitled to receive an initial distribution before any distribution is made to the general partner. Although the partnership agreements for each of the DownREITs are different, generally the distributions per unit paid to the holders of units of limited partnership interests have approximated the Company's current common stock dividend per share. 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 applicable partnership agreement and based on the fair value of the Company's common stock. 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.

In conjunction with the acquisition and development of investments in unconsolidated entities, the Company may incur costs in excess of its equity in the underlying assets. These costs are capitalized and depreciated over the life of the underlying assets to the extent that the Company expects to recover the costs.

If there is an event or change in circumstance that indicates a loss in the value of an investment, the Company's policy is to record the loss and reduce the value of the investment to its fair value. A loss in value would be indicated if the Company could not recover the carrying value of the investment or if the investee could not sustain an earnings capacity that would justify the carrying amount of the investment. During the year ended December 31, 2004, the Company recorded an impairment loss of \$1,002 related to a technology investment, which is included in operating expenses, excluding property taxes on the accompanying Consolidated Statements of Operations and Other Comprehensive Income. The Company did not recognize an impairment loss on any of its investments in unconsolidated entities during the years ended December 31, 2006 or 2005.

#### *Revenue and Gain Recognition*

Rental income related to leases is recognized on an accrual basis when due from residents in accordance with SEC Staff Accounting Bulletin No. 104, Revenue Recognition, and Statement of Financial Accounting Standards (SFAS) No. 13, Accounting for Leases. In accordance with the Company's standard lease terms, rental payments are generally due on a monthly basis. Any cash concessions given at the inception of the lease are amortized over the approximate life of the lease, which is generally one year.

The Company accounts for sales of real estate assets and the related gain recognition in accordance with SFAS No. 66, Accounting for Sales of Real Estate.

#### *Real Estate*

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

The Company's policy with respect to capital expenditures is generally to capitalize only non-recurring expenditures. Improvements and upgrades are capitalized only if the item exceeds \$15, extends the useful life of the asset and is not related to making an apartment home ready for the next resident. Purchases of personal property, such as computers and furniture, are capitalized only if the item is a new addition and exceeds \$2.5. The Company generally expenses purchases of personal property made for replacement purposes.

The capitalization of costs during the development of assets (including interest and related loan fees, property taxes and other direct and indirect costs) begins when development efforts commence and ends when the asset, or a portion of an asset, is delivered and is ready for its intended use. Cost capitalization during redevelopment of apartment homes (including interest and related loan fees, property taxes and other direct and indirect costs) begins when an apartment home is taken out-of-service for redevelopment and ends when the apartment home redevelopment is completed and the apartment home is available for a new resident. Rental income and operating costs incurred during the initial lease-up or post-redevelopment lease-up period are recognized as they accrue.

In accordance with SFAS No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects*, 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 availability of capital. 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 by the Company no longer probable, any capitalized pre-development costs are written-off with a charge to expense. The Company expenses costs related to abandoned pursuits, which includes the abandonment or impairment of *Development Rights*, acquisition pursuits, disposition pursuits and technology investments, in the amounts of \$2,115 in 2006, \$816 in 2005 and \$1,726 in 2004. These costs are included in operating expenses, excluding property taxes on the accompanying Consolidated Statements of Operations and Other Comprehensive Income. Abandoned pursuit costs can vary greatly, and the costs incurred in any given period may be significantly different in future years.

The Company owns land improved with office buildings and industrial space occupied by unrelated third-parties in connection with five *Development Rights*. The Company intends to manage 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. As provided under the guidance of SFAS No. 67, the revenue from incidental operations received from the current improvements in excess of any incremental costs are being recorded as a reduction of total capitalized costs of the *Development Right* and not as part of net income.

In connection with the acquisition of an operating community, the Company performs a valuation and allocation to each asset and liability acquired in such transaction, based on their estimated fair values at the date of acquisition in accordance with SFAS No. 141, *Business Combinations*. The purchase price allocations to tangible assets, such as land, buildings and improvements, and furniture, fixtures and equipment, are reflected in real estate assets and depreciated over their estimated useful lives. Any purchase price allocation to intangible assets, such as in-place leases, is included in prepaid expenses and other assets on the accompanying Consolidated Balance Sheets and amortized over the average remaining lease term of the acquired leases. The fair value of acquired in-place leases is determined based on the estimated cost to replace such leases, including foregone rents during an assumed re-lease period, as well as the impact on projected cash flow of acquired leases with leased rents above or below current market rents.

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

It is the Company's policy to perform a quarterly qualitative analysis to determine if there are changes in circumstances that suggest the carrying value of a long lived asset may not be recoverable. If there is an event or change in circumstance that indicates an impairment in the value of an operating community, the Company compares the current and projected operating cash flow of the community over its remaining useful life, on an undiscounted basis, to the carrying amount of the community. If the carrying amount is in excess of the estimated projected operating cash flow of the community, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value. The Company has not recognized an impairment loss on any of its operating communities during the years ended December 31, 2006, 2005 or 2004.



*Income Taxes*

The Company elected to be taxed as a REIT under the Code, as amended, for the year ended December 31, 1994 and has not revoked such election. A corporate REIT is a legal entity which holds real estate interests and must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to stockholders. As a REIT, the Company generally will not be subject to corporate level federal income tax on taxable income if it distributes 100% of the taxable income over the time period allowed under the Code to its stockholders. Management believes that all such conditions for the avoidance of income taxes have been 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 income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a 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. In addition, taxable income from non-REIT activities managed through taxable REIT subsidiaries is subject to federal, state and local income taxes.

The following reconciles net income available to common stockholders to taxable net income for the years ended December 31, 2006, 2005 and 2004 (unaudited):

|   | 2006<br>Estimate | 2005<br>Actual | 2004<br>Actual |
|---|------------------|----------------|----------------|
| Net income available to common stockholders                       | \$ 257,846       | \$ 301,768     | \$ 199,079     |
| Dividends attributable to preferred stock, not deductible for tax | 8,700            | 8,700          | 8,700          |
| GAAP gain on sale of communities less than tax gain               | 7,326            | 9,345          | 8,305          |
| Depreciation/Amortization timing differences on real estate       | (23,684)         | (13,503)       | (2,560)        |
| Tax compensation expense in excess of GAAP                        | (20,968)         | (18,969)       | (19,758)       |
| Other adjustments   | 15,755           | 8,423          | 898            |
| Taxable net income  | \$ 244,975       | \$ 295,764     | \$ 194,664     |

The following summarizes the tax components of the Company's common and preferred dividends declared for the years ended December 31, 2006, 2005 and 2004 (unaudited):

|                         | 2006 | 2005 | 2004 |
|-------------------------|------|------|------|
| Ordinary income         | 48%  | 9%   | 39%  |
| 15% capital gain        | 43%  | 77%  | 51%  |
| Unrecaptured §1250 gain | 9%   | 14%  | 10%  |

*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 written-off when debt is retired before the maturity date. Accumulated amortization of deferred financing costs was \$16,179 at December 31, 2006 and was \$16,074 at December 31, 2005.

*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 consists primarily of construction financing proceeds that is restricted for use in the construction of a specific community. The majority of the Company's cash, cash equivalents and cash in escrows are held at major commercial banks.



*Interest Rate Contracts*

The Company utilizes derivative financial instruments to manage interest rate risk and has designated these financial instruments as cash flow hedges under the guidance of SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities, and SFAS No. 138, Accounting for Certain Instruments and Certain Hedging Activities, an Amendment of Statement No. 133. This statement requires that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value, with changes in fair value recognized currently in earnings unless specific hedge accounting criteria are met. For cash flow hedge relationships, changes in the fair value of the derivative instrument that are deemed effective at offsetting the risk being hedged are reported in other comprehensive income. For cash flow hedges where the cumulative changes in the fair value of the derivative exceed the cumulative changes in fair value of the hedged item, the ineffective portion is recognized in current period earnings. As of December 31, 2006 and December 31, 2005, the Company had approximately \$262,000 and \$233,000, respectively, in variable rate debt subject to cash flow hedges. See Note 5, Derivative Instruments and Hedging Activities for further discussion of derivative financial instruments.

*Comprehensive Income*

Comprehensive income, as reflected on the Consolidated Statements of Operations and Other 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 Stockholders 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*

In accordance with the provisions of SFAS No. 128, Earnings per Share, basic earnings per share is computed by dividing earnings available to common stockholders by the weighted average number of shares outstanding during the period. Other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis. The Company's earnings per common share are determined as follows:

|  | 12-31-06   | For the year ended<br>12-31-05 | 12-31-04   |
|--|------------|--------------------------------|------------|
| <u>Basic and diluted shares outstanding</u>  |            |                                |            |
| Weighted average common shares basic   | 74,125,795 | 72,952,492                     | 71,564,202 |
| Weighted average DownREIT units outstanding  | 172,255    | 474,440                        | 573,529    |
| Effect of dilutive securities  | 1,288,848  | 1,332,386                      | 1,217,225  |
| Weighted average common shares diluted   | 75,586,898 | 74,759,318                     | 73,354,956 |
| <u>Calculation of Earnings per Share basic</u>   |            |                                |            |
| Net income available to common stockholders  | \$ 257,846 | \$ 301,768                     | \$ 199,079 |
| Weighted average common shares basic   | 74,125,795 | 72,952,492                     | 71,564,202 |
| Earnings per common share basic  | \$ 3.48    | \$ 4.14                        | \$ 2.78    |
| <u>Calculation of Earnings per Share diluted</u>   |            |                                |            |
| Net income available to common stockholders  | \$ 257,846 | \$ 301,768                     | \$ 199,079 |
| Add: Minority interest of DownREIT unitholders in consolidated partnerships, including discontinued operations | 391        | 1,363                          | 3,048      |
| Adjusted net income available to common stockholders   | \$ 258,237 | \$ 303,131                     | \$ 202,127 |
| Weighted average common shares diluted   | 75,586,898 | 74,759,318                     | 73,354,956 |

|                                      |    |      |    |      |    |      |
|--------------------------------------|----|------|----|------|----|------|
| Earnings per common share    diluted | \$ | 3.42 | \$ | 4.05 | \$ | 2.75 |
|--------------------------------------|----|------|----|------|----|------|

Certain options to purchase shares of common stock in the amounts of 3,000 were outstanding during the year ended December 31, 2006, but were not included in the computation of diluted earnings per share because in applying the treasury stock method under the provisions of SFAS 123(R), as discussed below, such options are anti-dilutive. Employee options to purchase shares of common stock of 4,500 and 6,000 were outstanding during the years ended December 31, 2005 and 2004, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares for the period and therefore, are anti-dilutive.

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*Stock-Based Compensation*

Effective January 1, 2003, the Company adopted the fair value recognition provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended by SFAS No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* an amendment of FASB Statement No. 123, prospectively to all employee awards granted, modified, or settled on or after January 1, 2003. Awards under the Company's stock option plans vest over a three-year period. Therefore, the cost related to stock-based employee compensation for employee stock options included in the determination of net income for the year ended 2006 is the same as the cost that would have been recognized if the fair value based method had been applied to all awards since the original effective date of SFAS No. 123. However, the cost related to stock-based employee compensation for employee stock options included in the determination of net income for the years ended December 31, 2005 and 2004 is less than that which would have been recognized if the fair value based method had been applied to all awards granted since the original effective date of SFAS No. 123. If the fair value based method had been applied to all outstanding and unvested awards in the years ended December 31, 2005 and 2004, net income would have been \$112 and \$967 lower for the years ended December 31, 2005 and 2004, respectively. There would not have been any material impact on earnings per common share diluted for the years ended December 31, 2005 and 2004.

The Company adopted the provisions of SFAS No. 123(R), *Share Based Payment*, using the modified prospective transition method on January 1, 2006. The adoption of SFAS No. 123(R) did not have a material impact on the Company's financial position or results of operations. However, the adoption of SFAS No. 123(R) changed the service period for, and timing of, the recognition of compensation cost related to retirement eligibility, which will generally result in accelerated expense recognition by the Company for its stock-based compensation programs. For the years ended December 31, 2005 and 2004, the Company recorded compensation cost over the vesting period, regardless of eligibility for retirement (see Note 8, *Commitments and Contingencies*, for a discussion of the Company's retirement plan). If the Company had recorded compensation cost based on retirement eligibility, the increase to compensation cost during the years ended December 31, 2005 and 2004 would not have been material.

Under the provisions of SFAS No. 123(R), the Company is required to estimate the forfeiture of stock options and recognize compensation cost net of the estimated forfeitures. The estimated forfeitures included in compensation cost are adjusted to reflect actual forfeitures at the end of the vesting period. Prior to the adoption of SFAS No. 123(R), option forfeitures were recognized as they occurred. The forfeiture rate at December 31, 2006 was 1.9%. The application of estimated forfeitures did not materially impact compensation expense for the year ended December 31, 2006.

*Variable Interest Entities under FIN 46(R)*

The Company adopted the final provisions of FIN 46(R) as of January 1, 2004, which resulted in the consolidation of one entity during 2004 from which the Company held a participating mortgage note. As a result, the Company recognized a cumulative effect of change in accounting principle in January 2004 in the amount of \$4,547, which increased earnings per common share diluted by \$0.06. The Company did not hold an equity interest in this entity, and therefore 100% of the entity's net income or loss was recognized by the Company as minority interest in consolidated partnerships on the Consolidated Statements of Operations and Other Comprehensive Income. In October 2004, the Company received payment in full of the outstanding mortgage note. Upon note repayment, the Company did not continue to hold a variable interest in this entity and therefore the Company discontinued consolidating the entity under the provisions of FIN 46(R). Related interest income in the year ended December 31, 2004 has been eliminated in consolidation.

*Assets Held for Sale & Discontinued Operations*

The Company follows SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ( SFAS No. 144 ) which requires that the assets and liabilities of any communities which have been sold, or otherwise qualify as held for sale, be presented 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 Company's Consolidated Statements of Operations and Other Comprehensive Income. Held for sale and discontinued operations classifications are provided in both the current and prior years presented. 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. Subsequent to classification of a community as held for sale, no further depreciation is recorded. For those assets qualifying for classification as discontinued operations, the community specific components of net income presented as discontinued operations include net operating income, minority interest expense, interest expense, net and depreciation expense. For periods prior to the asset qualifying for discontinued operations under SFAS No. 144, the Company reclassified the results of operations to discontinued operations in accordance with SFAS No. 144. Subsequent to the reclassification to discontinued operations, the impact of assets classified as discontinued operations on the statements of operations and other comprehensive income will include depreciation. In addition, the net gain or loss (including any impairment loss) on the eventual disposal of communities held for sale will be presented as discontinued operations when recognized. A change in presentation for held for sale or discontinued operations will not have any 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.

*Recently Issued Accounting Standards*

In June 2006, the Financial Accounting Standards Board ( FASB ) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an interpretation of FASB Statement No. 109, ( FIN 48 ) which provides guidance for the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 establishes a threshold for the recognition and measurement in financial statements of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for all fiscal years beginning after December 15, 2006. The Company is still assessing the impact and disclosure requirements of FIN 48.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, which standardizes the definition of fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements, and accordingly, this statement does not require any new fair value measurements. SFAS No. 157 is effective for all fiscal years beginning after November 15, 2007. The Company does not believe that the adoption of SFAS No. 157 will have any material impact on its financial position or results of operations.

*Use of Estimates*

The preparation of financial statements in conformity with U.S. generally accepted accounting principles ( 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' financial statements to conform to current year presentations.

2. Interest Capitalized

The Company capitalized interest during the development and redevelopment of real estate assets in accordance with SFAS No. 34, Capitalization of Interest Cost. Capitalized interest associated with communities under development or redevelopment totaled \$46,388 for 2006, \$25,284 for 2005 and \$20,566 for 2004.

3. Notes Payable, Unsecured Notes and Credit Facility

The Company's mortgage notes payable, unsecured notes and variable rate unsecured credit facility as of December 31, 2006 and December 31, 2005 are summarized below. The following amounts and discussion do not include the construction loan payable related to a community classified as held for sale as of December 31, 2006 (see Note 7, Real Estate Disposition Activities ).

|   | 12-31-06     | 12-31-05     |
|---|--------------|--------------|
| Fixed rate unsecured notes <sup>(1)</sup>                                   | \$ 2,153,078 | \$ 1,809,182 |
| Fixed rate mortgage notes payable - conventional and tax-exempt             | 234,272      | 239,025      |
| Variable rate mortgage notes payable - conventional and tax-exempt          | 438,236      | 219,010      |
| <br>  |              |              |
| Total notes payable and unsecured notes                                     | 2,825,586    | 2,267,217    |
| Variable rate unsecured credit facility                                     |              | 66,800       |
| <br>  |              |              |
| Total mortgage notes payable, unsecured notes and unsecured credit facility | \$ 2,825,586 | \$ 2,334,017 |

(1) Balances at December 31, 2006 and December 31, 2005 include \$2,922 and \$818 of debt discount, respectively.

The following debt activity occurred during the year ended December 31, 2006:

The Company issued \$34,000 of variable rate mortgage debt maturing in March 2011;

The Company issued \$93,800 of variable rate tax-exempt debt maturing in November 2037;

The Company issued \$48,500 of variable rate tax-exempt debt maturing in November 2039;

The Company issued \$45,000 of variable rate tax-exempt debt maturing in July 2040;

The Company repaid \$150,000 of unsecured notes with an annual interest rate of 6.8%, pursuant to their scheduled maturity; and

The Company issued a total of \$500,000 of unsecured notes under its shelf registration statement. The offering consisted of two separate tranches in the aggregate principal amount of \$250,000 each, with effective interest rates of 5.586% and 5.820%, maturing in January 2012 and September 2016, respectively.

In the aggregate, secured notes payable mature at various dates from October 2008 through April 2043 and are secured by certain apartment communities and improved land parcels (with a net carrying value of \$954,612 as of December 31, 2006). As of December 31, 2006, the Company has guaranteed approximately \$67,395 of mortgage notes payable held by wholly-owned subsidiaries; all such mortgage notes payable are consolidated for financial reporting purposes. The weighted average interest rate of the Company's fixed rate mortgage notes payable

(conventional and tax-exempt) was 6.8% at December 31, 2006 and December 31, 2005. The weighted average interest rate of the Company's variable rate mortgage notes payable and its unsecured credit facility (as discussed on the following page), including the effect of certain financing related fees, was 5.8% at December 31, 2006 and 5.5% at December 31, 2005.

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Scheduled payments and maturities of mortgage notes payable and unsecured notes outstanding at December 31, 2006 are as follows:

| Year       | Secured<br>notes<br>payments | Secured<br>notes<br>maturities | Unsecured<br>notes<br>maturities | Stated<br>interest<br>rate<br>of<br>unsecured<br>notes |
|------------|------------------------------|--------------------------------|----------------------------------|--|
| 2007       | \$ 8,521                     | \$                             | \$ 110,000                       | 6.875%   |
|            |                              |                                | 150,000                          | 5.000%   |
| 2008       | 8,718                        | 4,368                          | 50,000                           | 6.625%   |
|            |                              |                                | 146,000                          | 8.250%   |
| 2009       | 7,831                        | 73,793                         | 150,000                          | 7.500%   |
| 2010       | 6,354                        | 28,989                         | 200,000                          | 7.500%   |
| 2011       | 5,303                        | 35,910                         | 300,000                          | 6.625%   |
|            |                              |                                | 50,000                           | 6.625%   |
| 2012       | 4,601                        | 12,166                         | 250,000                          | 6.125%   |
|            |                              |                                | 250,000                          | 5.500%   |
| 2013       | 4,728                        |                                | 100,000                          | 4.950%   |
| 2014       | 3,748                        | 34,450                         | 150,000                          | 5.375%   |
| 2015       | 5,499                        |                                |                                  |  |
| 2016       | 5,926                        |                                | 250,000                          | 5.750%   |
| Thereafter | 144,364                      | 277,239                        |                                  |  |
|            | \$ 205,593                   | \$ 466,915                     | \$ 2,156,000                     |  |

The Company's unsecured notes contain a number of financial and other covenants with which the Company must comply, including, but not limited to, limits on the aggregate amount of total and secured indebtedness the Company may have on a consolidated basis and limits on the Company's required debt service payments.

The Company has entered into a \$650,000 revolving variable rate unsecured credit facility with a syndicate of commercial banks. JPMorgan Chase Bank, Wachovia Bank, N.A. and Bank of America, N.A. led the syndication effort in varying capacities. There were no amounts outstanding under the current facility and \$38,713 outstanding in letters of credit on December 31, 2006. The Company had \$66,800 outstanding under the prior credit facility and \$40,154 in letters of credit on December 31, 2005. Under the terms of the credit facility, the Company may elect to increase the facility up to \$1,000,000, provided that one or more banks (from the syndicate or otherwise) voluntarily agree to provide the additional commitment. No member of the syndicate of banks can prohibit such increase; such an increase in the facility will only be effective to the extent banks (from the syndicate or otherwise) choose to commit to lend additional funds. The Company pays participating banks, in the aggregate, an annual facility fee of approximately \$813, which is subject to increase in the event that the amount available on the facility is increased. The unsecured credit facility bears interest at varying levels based on the London Interbank Offered Rate (LIBOR), rating levels achieved on the Company's unsecured notes and on a maturity schedule selected by the Company. The current stated pricing is LIBOR plus 0.40% per annum. The stated spread over LIBOR can vary from LIBOR plus 0.325% to LIBOR plus 1.00% based on credit conditions. In addition, the unsecured credit facility includes a competitive bid option, which allows banks that are part of the lender consortium to bid to make loans to the Company at a rate that is lower than the stated rate provided by the unsecured credit facility for up to \$422,500. The competitive bid option may result in lower pricing than the stated rate if market conditions allow. The Company had no amounts outstanding under this competitive bid option as of December 31, 2006. The Company is subject to certain customary covenants

under the unsecured credit facility, including, but not limited to, maintaining certain maximum leverage ratios, a minimum fixed charges coverage ratio and minimum unencumbered assets and equity levels. The credit facility matures in November 2011, assuming exercise of a one-year renewal option by the Company.

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#### 4. Stockholders Equity

As of both December 31, 2006 and 2005, the Company had authorized for issuance 140,000,000 and 50,000,000 shares of common and preferred stock, respectively. As of December 31, 2006, the Company has the following series of redeemable preferred stock outstanding at a stated value of \$100,000. This series has no stated maturity and is not subject to any sinking fund or mandatory redemptions.

| Series | Shares outstanding<br>December 31, 2006 | Payable<br>quarterly                | Annual<br>rate | Liquidation<br>preference | Non-redeemable<br>prior to |
|--------|---|-------------------------------------|----------------|---------------------------|----------------------------|
| H      | 4,000,000                               | March, June, September,<br>December | 8.70%          | \$25.00                   | October 15, 2008           |

Dividends on the preferred stock are cumulative from the date of original issue and are payable quarterly in arrears on or before the 15th day of each month as stated in the table above. The preferred stock is not redeemable prior to the date stated in the table above, but on or after the stated date, may be redeemed for cash at the option of the Company in whole or in part at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends, if any.

During the year ended December 31, 2006, the Company:

- (i) issued 614,692 shares of common stock in connection with stock options exercised;
- (ii) issued 308,345 shares of common stock to acquire an equal number of DownREIT limited partnership units;
- (iii) issued 2,306 shares through the Company's dividend reinvestment plan;
- (iv) issued 122,172 common shares in connection with stock grants;
- (v) issued 10,830 shares of common stock in connection with its employee stock purchase plan;
- (vi) had 5,910 shares of restricted stock forfeited; and
- (vii) withheld 47,111 shares to satisfy employees' tax withholding and other liabilities.

In addition, the Company granted 867,113 options for common stock to employees. As required under SFAS No. 123(R), any deferred compensation related to the Company's stock option and restricted stock grants during the year ended December 31, 2006 is not reflected on the Company's Consolidated Balance Sheet as of December 31, 2006 or on the Consolidated Statements of Stockholders' Equity, and will not be reflected until earned as compensation cost.

Dividends per common share were \$3.12 for the year ended December 31, 2006, \$2.84 for year ended December 31, 2005, and \$2.80 for the year ended December 31, 2004. The average dividend for all non-redeemed preferred shares during 2006, 2005 and 2004 was \$2.18 per share. No preferred shares were redeemed in 2006, 2005 or 2004.

In 2004, the Company resumed its Dividend Reinvestment and Stock Purchase Plan (the "DRIP"). The DRIP allows for holders of the Company's common stock or preferred stock to purchase shares of common stock through either reinvested dividends or optional cash payments. The purchase price per share for newly issued shares of common stock under the DRIP will be equal to the last reported sale price for a share of the Company's common stock as reported by the New York Stock Exchange ("NYSE") on the applicable investment date.

### 5. Derivative Instruments and Hedging Activities

The Company enters into interest rate swap and interest rate cap agreements (collectively, the Hedging Derivatives ) to reduce the impact of interest rate fluctuations on its variable rate, tax-exempt bonds and its variable rate conventional secured debt (collectively, the Hedged Debt ). The Company has not entered into any interest rate hedge agreements for its conventional unsecured debt and does not enter into derivative transactions for trading or other speculative purposes. The following table summarizes the consolidated Hedging Derivatives at December 31, 2006 (dollars in thousands):

|   | Interest<br>Rate Caps | Interest<br>Rate Swaps |
|---|-----------------------|------------------------|
| Notional balance                              | \$196,500             | \$65,759               |
| Weighted average interest rate <sup>(1)</sup> | 5.7%                  | 6.3%                   |
| Weighted average capped interest rate         | 7.7%                  | n/a                    |
| Earliest maturity date                        | Mar-07                | Aug-07                 |
| Latest maturity date                          | Apr-11                | Jul-10                 |
| Estimated liability fair value                | \$ (78)               | \$ (3,084)             |

<sup>(1)</sup> For interest rate caps, this represents the weighted average interest rate on the debt.

The Company has determined that its Hedging Derivatives qualify as effective cash flow hedges under SFAS No. 133, resulting in the Company recording the effective portion of cumulative changes in the fair value of the Hedging Derivatives in other comprehensive income. Amounts recorded in other comprehensive income will be reclassified into earnings in the periods in which earnings are affected by the hedged cash flow. To adjust the Hedging Derivatives to their fair value, the Company recorded unrealized gains in other comprehensive income of \$891, \$2,626 and \$1,116 during the years ended December 31, 2006, 2005 and 2004, respectively. These amounts will be reclassified into earnings in conjunction with the periodic adjustment of the floating rates on the Hedged Debt, in interest expense, net. The amount reclassified into earnings in 2006, as well as the estimated amount included in accumulated other comprehensive income as of December 31, 2006, expected to be reclassified into earnings within the next twelve months to offset the variability of cash flows of the hedged items during this period are not material.

The Company assesses both at inception and on an on-going basis, the effectiveness of qualifying cash flow hedges. Hedge ineffectiveness, reported as a component of General and Administrative expenses, did not have a material impact on earnings of the Company for any prior period, and the Company does not anticipate that it will have a material effect in the future. The fair values of the Hedging Derivatives are included in accrued expenses and other liabilities on the accompanying Consolidated Balance Sheets.

Derivative financial instruments expose the Company to credit risk in the event of non-performance by the counterparties under the terms of the Hedging Derivatives. 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 minimizing credit risk concentration. The Company believes the likelihood of realizing losses from counterparty non-performance is remote.

### 6. Investments in Unconsolidated Entities

#### *Investments in Unconsolidated Real Estate Entities*

The Company accounts for its investments in unconsolidated real estate entities that are not considered variable interest entities under FIN 46(R) in accordance with EITF Issue No. 04-5, SOP 78-9 and APB 18, and EITF Topic D-46.

During 2006, the Company engaged in the following transactions impacting our investments in unconsolidated real estate entities.

*Town Run Associates* In the fourth quarter of 2006, the Company purchased its partner's interest in Avalon Run for \$58,500. Town Run Associates was formed as a general partnership in November 1994 to develop, own and operate Avalon Run, a 426 apartment-home community located in Lawrenceville, New Jersey. Avalon Run

is currently a wholly-owned community and has since been consolidated for financial reporting purposes.

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*Avalon Terrace, LLC* In December 2006, the Company and its joint venture partner sold Avalon Bedford to an unrelated third party for a sales price of \$79,100. The Company's share of the gain calculated in accordance with GAAP was \$6,609 and is included in equity income of unconsolidated entities on the accompanying Consolidated Statements of Operations and Other Comprehensive Income. The Company acquired Avalon Bedford, a 368 apartment-home community located in Stamford, Connecticut in December 1998. In May 2000, the Company transferred Avalon Bedford to Avalon Terrace, LLC and subsequently admitted a joint venture partner, while retaining a 25% ownership interest in this limited liability company for an investment of \$5,394 and a right to 50% of cash flow distributions after achievement of a threshold return.

As of December 31, 2006, the Company had investments in the following real estate entities:

*Town Grove, LLC* The limited liability corporation was formed in December 1997 to develop, own and operate Avalon Grove, a 402 apartment-home community located in Stamford, Connecticut. Since formation of this venture, the Company has invested \$12,600, and following a preferred return on all contributed equity (which was achieved in 2006), has a 50% ownership and a 50% cash flow and residual economic interest. The Company is responsible for the day-to-day operations of the Avalon Grove community and is the management agent subject to the terms of a management agreement. The development of Avalon Grove was funded through contributions from the Company and the other venture partner, and therefore Avalon Grove is not subject to any outstanding debt as of December 31, 2006. This community is unconsolidated for financial reporting purposes and is accounted for under the equity method.

*Arna Valley View LP* In connection with the municipal approval process for the development of a consolidated community, the Company agreed to participate in the formation of a limited partnership in February 1999 to develop, finance, own and operate Arna Valley View, a 101 apartment-home community located in Arlington, Virginia. This community has affordable rents for 100% of apartment homes related to the tax-exempt bond financing and tax credits used to finance construction of the community. A subsidiary of the Company is the general partner of the partnership with a 0.01% ownership interest. The Company is responsible for the day-to-day operations of the community and is the management agent subject to the terms of a management agreement. As of December 31, 2006, Arna Valley View has \$5,793 of variable rate, tax-exempt bonds outstanding, which mature in June 2032. In addition, Arna Valley View has \$4,834 of 4% fixed rate county bonds outstanding that mature in December 2030. Arna Valley View's debt is neither guaranteed by, nor recourse to the Company. Due to the Company's limited ownership in this venture and the terms of the management agreement regarding the rights of the limited partners, it is accounted for using the cost method.

*CVP I, LLC* In February 2004, the Company entered into a joint venture agreement with an unrelated third-party for the development of Avalon Chrystie Place, a 361 apartment-home community located in New York, New York, for which construction was completed in late 2005. The Company has contributed \$6,270 to this joint venture and holds a 20% equity interest (with a right to 50% of distributions after achievement of a threshold return, which was not achieved in 2006). The Company is the managing member of CVP I, LLC, however property management services at the community are performed by an unrelated third party. In connection with the construction management services that the Company provided to CVP I, LLC during the development of Avalon Chrystie Place, the Company provided a construction completion guarantee to the construction loan lender in order to fulfill their standard financing requirements related to the construction financing. Upon completion of the construction of Avalon Chrystie Place in 2006, the Company was released from all obligations associated with this guarantee.

As of December 31, 2006, CVP I, LLC has tax-exempt variable rate bonds in the amount of \$117,000 outstanding, which have a permanent credit enhancement and mature in February 2036. The Company has guaranteed, under limited circumstance, the repayment to the credit enhancer of any advance in fulfillment of CVP I, LLC's repayment obligations under the bonds. The Company has also guaranteed the credit enhancer that CVP I, LLC will obtain a final certificate of occupancy for the project overall once tenant improvements

related to a retail tenant are complete, which is expected in 2007. The Company's 80% partner in this venture has agreed that it will reimburse the Company its pro rata share of any amounts paid relative to these guaranteed obligations. The Company does not currently expect to incur any liability under either of these guarantees. The estimated fair value of, and the Company's obligation under these guarantees, both at inception and as of December 31, 2006 were not significant. As a result the Company has not recorded any obligation associated with these guarantees at December 31, 2006. This community is unconsolidated for financial reporting purposes and is accounted for under the equity method.

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*Avalon Del Rey Apartments, LLC* In March 2004, the Company entered into an agreement with an unrelated third party which provided that, upon construction completion, Avalon Del Rey would be owned and operated by a joint venture between the Company and the third-party. Avalon Del Rey is a 309 apartment-home community located in Los Angeles, California. Construction for Avalon Del Rey was completed during the third quarter of 2006. During the fourth quarter of 2006, the third-party venture partner invested \$49,000 and was granted a 70% ownership interest in the venture, with the Company retaining a 30% equity interest (see Note 7, Real Estate Disposition Activities ). The Company will continue to be responsible for the day-to-day operations of the community and will be the management agent subject to the terms of a management agreement. Avalon Del Rey Apartments, LLC has a variable rate \$50,000 secured construction loan, of which \$40,845 is outstanding as of December 31, 2006 and which matures in September 2007. In conjunction with the construction management services that the Company provided to Avalon Del Rey Apartments, LLC, the Company has provided a construction completion guarantee to the construction loan lender in order to fulfill their standard financing requirements related to construction financing. The obligation of the Company under this guarantee will terminate following satisfaction of the lender's standard completion requirements, which the Company expects to occur in 2007.

In conjunction with the admittance of the joint venture partner to the LLC, the Company provided the third-party investor an operating guarantee. This guarantee, which extends for one year, provides that if the one-year return for the initial year of the joint venture partner's investment is less than a threshold return of 7% on its initial equity investment, that the Company will pay the joint venture partner an amount equal to the shortfall, up to the 7% threshold return required. The maximum exposure of this guarantee is approximately \$3,400. As of December 31, 2006, the cash flows and return on investment for Avalon Del Rey are expected to meet and exceed the initial year threshold return required by our joint venture partner. As a result, the Company's obligation under this guarantee is insignificant, and the Company has therefore not recorded any liability associated with this guarantee as of December 31, 2006.

The sale of the 70% ownership interest is being accounted for under the deposit method of accounting pursuant to SFAS 66, with the recognition of the sale deferred until the Company is relieved of its obligation under the operating guarantee. Accordingly, the Company continues to consolidate this community for financial reporting purposes, reporting the joint venture partner's interest in the net assets of the LLC as a component of accrued expenses and other liabilities, and recognizing the joint venture partner's interest in the operating results of the LLC as a component of minority interest in consolidated partnerships.

*Juanita Construction, Inc.* In April 2004, a taxable REIT subsidiary of the Company entered into an agreement to develop Avalon at Juanita Village, a 211 apartment-home community located in Kirkland, Washington, for which construction was completed in late 2005. Avalon at Juanita Village was developed through Juanita Construction, Inc., a wholly-owned taxable REIT subsidiary and was sold to a joint venture in the first quarter of 2006, at which point, the subsidiary was reimbursed for all the costs of construction and retained a promoted residual interest in the profits of the joint venture. The third-party joint venture partner received a 100% equity interest in the joint venture and will control the joint venture. The Company was engaged to manage the community for a property management fee. This community is unconsolidated for financial reporting purposes effective with the sale to the joint venture.

*MVP I, LLC* In December 2004, the Company entered into a joint venture agreement with an unrelated third-party for the development of Avalon at Mission Bay North II. Construction for Avalon at Mission Bay North II, a 313 apartment-home community located in San Francisco, California, was completed in December 2006. The Company has contributed \$5,902 to this venture and holds a 25% equity interest. The Company will be responsible for the day-to-day operations of the community and will be the management agent subject to the terms of a management agreement. MVP I, LLC has a variable rate \$94,400 secured construction loan, of which \$76,739 is outstanding as of December 31, 2006 and which matures in September 2010, assuming exercise of two one-year extensions. In conjunction with the construction management services that the Company provided to MVP I, LLC, the Company has provided a construction completion guarantee to the construction loan lender in order to fulfill their standard financing requirements related to construction financing. Under the terms of the guarantee, in the event of default, the Company would be required to make payment for any excess cost to complete construction over remaining unused loan proceeds. The obligation of the Company under this guarantee will terminate once all of the lender's standard completion requirements have been satisfied, which the Company expects to occur in 2007. The estimated fair value of and the Company's obligation under this guarantee, both at inception and as of December 31, 2006 was not significant and therefore, no liability for this guarantee has been recorded by the Company at December 31, 2006. This community is unconsolidated for financial reporting purposes and is accounted for under the equity method.

*AvalonBay Value Added Fund, L.P. (the Fund)* In March 2005, the Company admitted outside investors into the Fund, a private, discretionary investment vehicle, which will acquire and operate communities in the Company's markets. The Fund will serve, until March 16, 2008 or until 80% of its committed capital is invested, as the principal vehicle through which the Company will acquire apartment communities, subject to certain exceptions. The Fund has nine institutional investors, including the Company, and a combined equity capital commitment of \$330,000. A significant portion of the investments made in the Fund by its investors are being made through AvalonBay Value Added Fund, Inc., a Maryland corporation that qualifies as a REIT under the Internal Revenue Code (the Fund REIT). A wholly-owned subsidiary of the Company is the general partner of the Fund and has committed \$50,000 to the Fund and the Fund REIT, representing a 15.2% combined general partner and limited partner equity interest, with \$22,944 of this commitment funded as of December 31, 2006. Under the Fund documents, the Fund has the ability to employ leverage of up to 65% on a portfolio basis, which, if achieved, would enable the Fund to invest up to approximately \$940,000. Upon the admittance of the outside investors, the Fund held four communities, containing a total of 879 apartment homes with an aggregate gross real estate value of \$112,852, that were acquired in 2004. Prior to the admittance of outside investors, the Fund was directly or indirectly wholly-owned by the Company, and therefore the revenues and expenses, and assets and liabilities of these four communities were consolidated in the Company's results of operations and financial position. However, upon admittance of the outside investors in March 2005, the Company deconsolidated the revenue and expenses, and assets and liabilities of these four communities and accounts for its 15.2% equity interest in the Fund under the equity method of accounting. The Company received net proceeds of \$87,948 as reimbursement for acquiring and warehousing these communities. The Company receives asset management fees, property management fees and redevelopment fees, as well as a promoted interest if certain thresholds are met (which were not achieved in 2006).

As of December 31, 2006, the Fund owns the following 13 communities, subject to certain mortgage debt. In addition, as of December 31, 2006, the Fund has \$57,400 outstanding under its variable rate credit facility, which matures in January 2008. The Company has not guaranteed any of the Fund debt, nor does it have any obligation to fund this debt should the Fund be unable to do so.

Avalon at Redondo Beach, a 105 apartment-home community located in Los Angeles, California. As of December 31, 2006, Avalon at Redondo Beach has \$16,765 in 4.8% fixed rate debt outstanding, which matures in October 2011;

Avalon Lakeside, a 204 apartment-home community located in Chicago, Illinois. As of December 31, 2006, Avalon Lakeside has no debt outstanding;

Avalon Columbia, a 170 apartment-home community located in Baltimore, Maryland. As of December 31, 2006, Avalon Columbia has \$16,575 in 5.3% fixed rate debt outstanding, which matures in April 2012;

Avalon Redmond, a 400 apartment-home community located in Seattle, Washington. As of December 31, 2006, Avalon Redmond has \$31,500 in 5.0% fixed rate debt outstanding, which matures in July 2012;

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Avalon at Poplar Creek, a 196 apartment-home community located in Chicago, Illinois. As of December 31, 2006, Avalon at Poplar Creek has \$16,500 in 4.8% fixed rate debt outstanding, which matures in October 2012;

Fuller Martel, an 82 apartment-home community located in Los Angeles, California. As of December 31, 2006, Fuller Martel has \$11,500 in 5.4% fixed rate debt outstanding, which matures in February 2014;

Civic Center Place, a 192 apartment-home community located in Norwalk, California. As of December 31, 2006, Civic Center Place has \$23,806 in 5.3% fixed rate debt outstanding, which matures in August 2013;

Paseo Park, a 134 apartment-home community located in Fremont, California. As of December 31, 2006, Paseo Park has \$11,800 in 5.7% fixed rate debt outstanding, which matures in November 2013;

Aurora at Yerba Buena, a 160 apartment-home community located in San Francisco, California. As of December 31, 2006, Aurora at Yerba Buena has \$41,500 in 5.9% fixed rate debt outstanding, which matures in March 2014;

Avalon at Aberdeen Station, a 290 apartment-home community located in Aberdeen, New Jersey. As of December 31, 2006, Avalon at Aberdeen Station has \$34,456 in 5.7% fixed rate debt outstanding, which matures in September 2013;

The Springs, a 320 apartment-home community located in Corona, California. As of December 31, 2006, The Springs has \$26,000 in 6.1% fixed rate debt outstanding, which matures in October 2014;

The Covington, a 256 apartment-home community located in Lombard, Illinois. As of December 31, 2006, The Covington has \$17,243 in 5.4% fixed rate debt outstanding, which matures in January 2014; and

Cedar Valley, a 156 apartment-home community located in Columbia, Maryland. As of December 31, 2006, Cedar Valley has \$12,000 in 6.3% variable rate debt outstanding, which matures in February 2007.

In addition, as part of the formation of the Fund, the Company has provided to one of the limited partners a guarantee. The guarantee provides that, if, upon final liquidation of the Fund, the total amount of all distributions to that partner during the life of the Fund (whether from operating cash flow or property sales) does not equal the total capital contributions made by that partner, then the Company will pay the partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the partner (maximum of approximately \$3,400 as of December 31, 2006). As of December 31, 2006, the fair value of the real estate assets owned by the Fund is considered adequate to cover such potential payment under a liquidation scenario. The estimated fair value of and the Company's obligation under this guarantee, both at inception and as of December 31, 2006 was not significant and therefore the Company has not recorded any obligation for this guarantee as of December 31, 2006.

The following is a combined summary of the financial position of the entities accounted for using the equity method, as of the dates presented:

|   | 12-31-06       | 12-31-05       |
|---|----------------|----------------|
| Assets:                                     |                |                |
| Real estate, net                            | \$ 707,227     | \$ 520,556     |
| Other assets                                | 55,716         | 40,485         |
| <br>Total assets                            | <br>\$ 762,943 | <br>\$ 561,041 |
| Liabilities and partners' capital:          |                |                |
| Mortgage notes payable and credit facility  | \$ 510,784     | \$ 332,760     |
| Other liabilities                           | 33,505         | 26,745         |
| Partners' capital                           | 218,654        | 201,536        |
| <br>Total liabilities and partners' capital | <br>\$ 762,943 | <br>\$ 561,041 |

The following is a combined summary of the operating results of the entities accounted for using the equity method, for the years presented:

|                              | For the year ended |            |              |
|------------------------------|--------------------|------------|--------------|
|                              | 12-31-06           | 12-31-05   | 12-31-04     |
| Rental income                | \$ 67,207          | \$ 35,826  | \$ 21,148    |
| Operating and other expenses | (31,281)           | (19,582)   | (8,291)      |
| Gain on sale of communities  | 26,661             |            |              |
| Interest expense, net        | (23,142)           | (7,648)    | (1,786)      |
| Depreciation expense         | (18,054)           | (8,482)    | (4,003)      |
| <br>Net income               | <br>\$ 21,391      | <br>\$ 114 | <br>\$ 7,068 |

In March 2005, the Company purchased its joint venture partner's 75% interest in AvalonBay Redevelopment, LLC, the limited liability company that owns Avalon on the Sound, which was developed through the joint venture in 2001. Prior to December 31, 2004, the Company had a repurchase option for Avalon on the Sound and accounted for its investment as a profit-sharing arrangement as required by SFAS No. 66, Accounting for Sales of Real Estate. The income allocated to the controlling partner is shown as venture partner interest in profit-sharing on the Company's Consolidated Statements of Operations and Other Comprehensive Income for the year ended December 31, 2004. The repurchase option expired in December 2004, and therefore as of December 31, 2004 and for the three months ended March 31, 2005, the Company accounted for its 25% interest in Avalon on the Sound under the equity method of accounting. Due to the purchase of the remaining 75% equity interest, this entity was consolidated as of April 1, 2005. In conjunction with the acquisition and development of the investments in unconsolidated entities, the Company incurred costs in excess of its equity in the underlying net assets of the respective investments. These costs represent \$7,491 at December 31, 2006 and \$8,806 at December 31, 2005 of the respective investment balances.

*Investments in Unconsolidated Non-Real Estate Entities*

In February 2005, the Company sold its interest in a technology venture that was accounted for under the cost method. As a result of this transaction, the Company received net proceeds of approximately \$6,700 and recognized a gain on the sale of this investment of \$6,252, which is reflected in equity in income of unconsolidated entities on the accompanying Consolidated Statement of Operations and Other Comprehensive Income for the year ended December 31, 2005. Under the terms of the sale, certain proceeds were escrowed to secure the purchaser's rights to indemnification. Any amounts not used for this purpose were distributed to the former investors in the venture in 2006. For the year ended December 31, 2006, the Company recognized \$433 for the final installment of the gain on this sale upon release of this escrow.

The following is a summary of the Company's equity in income of unconsolidated entities for the years presented:

|                                  | For the year ended |          |          |
|----------------------------------|--------------------|----------|----------|
|                                  | 12-31-06           | 12-31-05 | 12-31-04 |
| Town Grove, LLC                  | \$ 1,457           | \$ 1,286 | \$ 950   |
| CVPI, LLC                        | (68)               | (339)    |          |
| Town Run Associates              | 298                | 266      | 43       |
| Avalon Terrace, LLC              | 6,736              | 58       | (28)     |
| MVP I, LLC                       | (662)              | (57)     |          |
| AvalonBay Value Added Fund, L.P. | (799)              | (341)    |          |
| AvalonBay Redevelopment LLC      |                    | 73       |          |
| Rent.com                         | 433                | 6,252    | 135      |
| Constellation Real Technologies  | 60                 |          |          |
| Total                            | \$ 7,455           | \$ 7,198 | \$ 1,100 |

7. Real Estate Disposition Activities

During the year ended December 31, 2006, the Company sold four communities, containing a total of 1,036 apartment homes, including one community that was previously held by a joint venture entity (see Note 6, Investments in Unconsolidated Entities). These communities were sold for a gross sales price of approximately \$261,850, resulting in net proceeds of \$218,492 and a GAAP gain of \$104,020. Details regarding the community asset sales are summarized in the following table:

| Community Name                | Location     | Period of sale | Apartment homes | Debt      | Gross sales price | Net proceeds |
|-------------------------------|--------------|----------------|-----------------|-----------|-------------------|--------------|
| Avalon Estates                | Boston, MA   | Q106           | 162             | \$        | \$ 34,550         | \$ 33,563    |
| Avalon Cupertino              | San Jose, CA | Q106           | 311             |           | 88,000            | 86,602       |
| Avalon Corners                | Stamford, CT | Q206           | 195             |           | 60,200            | 58,248       |
| Avalon Bedford <sup>(1)</sup> | Stamford, CT | Q406           | 368             | 37,200    | 79,100            | 40,079       |
| Total of all 2006 asset sales |              |                | 1,036           | \$ 37,200 | \$ 261,850        | \$ 218,492   |

|                               |       |           |            |            |
|-------------------------------|-------|-----------|------------|------------|
| Total of all 2005 asset sales | 1,305 | \$        | \$ 351,450 | \$ 344,185 |
| Total of all 2004 asset sales | 1,360 | \$ 38,735 | \$ 241,050 | \$ 210,001 |

- (1) The Company held a 25% ownership interest and right to 50% of cash flow distributions after achievement of a threshold return for this community

As of December 31, 2006, the Company had one community, Avalon Del Rey, that qualified as held for sale under the provisions of SFAS No. 144. In 2006, the Company admitted a third-party partner into the joint venture entity that owns Avalon Del Rey (see Note 6, Investments in Unconsolidated Entities ). However, due to the operating guarantee provided to the joint venture partner, the Company will account for its investment under the deposit method as required by SFAS No. 66, Accounting for Sales of Real Estate. As a result, the Company has classified the real estate assets (which are net of an impairment charge taken on the land in 2002, as well as accumulated depreciation recorded through December 31, 2006) and the related liabilities for Avalon Del Rey as held for sale, as separate captions in the accompanying Consolidated Balance Sheets. However, due to the continuing involvement of the Company through its 30% ownership interest and its role as the managing member in the venture, Avalon Del Rey has been and will continue to be reported as a component of continuing operations on the accompanying Consolidated Financial Statements.

Also, in accordance with the requirements of SFAS No. 144, the operations for any communities sold from January 1, 2004 through December 31, 2006 have been presented as discontinued operations in the accompanying Consolidated Financial Statements. Accordingly, certain reclassifications have been made in prior periods to reflect discontinued operations consistent with current period presentation.

The following is a summary of income from discontinued operations for the periods presented:

|                                     | For the year ended |           |           |
|-------------------------------------|--------------------|-----------|-----------|
|                                     | 12-31-06           | 12-31-05  | 12-31-04  |
| Rental income                       | \$ 1,787           | \$ 26,867 | \$ 48,018 |
| Operating and other expenses        | (639)              | (8,684)   | (15,646)  |
| Interest expense, net               |                    |           | (525)     |
| Minority interest expense           |                    |           | (37)      |
| Depreciation expense                |                    | (3,241)   | (10,676)  |
| Income from discontinued operations | \$ 1,148           | \$ 14,942 | \$ 21,134 |

The Company's Consolidated Balance Sheets include other assets (excluding net real estate) of \$1,558 and \$1,599, and other liabilities of \$42,985 and \$38,352 as of December 31, 2006 and December 31, 2005, respectively, relating to real estate assets sold or held for sale.

The Company sold three parcels of land, one located in Jersey City, New Jersey, one in Danvers, Massachusetts, and one in Bedford, Massachusetts, for an aggregate gross sales price of \$19,635 and an aggregate GAAP gain of \$13,519. The Company had gains on the sales of land parcels of \$4,479 in 2005, and \$1,138 in 2004.

#### 8. Commitments and Contingencies

##### *Employment Agreements and Arrangements*

As of December 31, 2006, the Company had employment agreements with four executive officers. The employment agreements provide for severance payments and generally provide for accelerated vesting of stock options and restricted stock in the event of a termination of employment (except for a termination by the Company with cause or a voluntary termination by the employee). The current terms of these agreements end on dates that vary between December 2007 and November 2008. The employment agreements provide for one-year automatic renewals (two years in the case of the Chief Executive Officer ( CEO )) after the initial term unless an advance notice of non-renewal is provided by either party. Upon a notice of non-renewal by the Company, each of the officers may terminate his employment and receive a severance payment. Upon a change in control, the agreements provide for an automatic extension of up to three years from the date of the change in control. The employment agreements provide for base salary and incentive compensation in the form of cash awards, stock options and stock grants subject to the discretion of, and attainment of performance goals established by the Compensation Committee of the Board of Directors. The Company's stock incentive plan, as described in Note 10, Stock-Based Compensation Plans, provides that upon an employee's Retirement (as defined in the plan documents) from the Company, all outstanding stock options and restricted shares of stock held by the employee will vest, and the employee will have up to 12 months to exercise any options held upon retirement. Under the plan, Retirement means a termination of employment, 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 his 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) for the benefit of those officers of the Company who do not have employment agreements. Under the Program, in the event an officer who is not otherwise covered by a severance arrangement is terminated (other than for cause) within two years following a change in control (as defined) of the Company, such officer will generally receive a cash lump sum payment equal to the sum of such officer's base salary and cash bonus, as well as accelerated vesting of stock options and restricted stock. Costs related to the Company's employment agreements and the Program are accounted for in accordance with SFAS No. 5, Accounting for Contingencies, and therefore are recognized when considered by management to be probable and estimable.

#### *Construction and Development Contingencies*

In connection with the pursuit of a Development Right in Pleasant Hill, California, \$125,000 in bond financing was issued by the Contra Costa County Redevelopment Agency (the Agency) in connection with the possible future construction of a multifamily rental community by PHVP I, LLC. The bond proceeds were immediately invested in their entirety in a guaranteed investment contract (GIC) administered by a trustee. This Development Right is planned as a mixed-use development, with residential, for-sale, retail and office components. The bond proceeds will remain in the GIC until at least June 1, 2007, but no later than December 5, 2007, at which time a loan will be made to PHVP I, LLC to fund construction of the multifamily portion of the development, or the bonds will be redeemed by the Agency. Although the Company does not have any equity or economic interest in PHVP I, LLC at this time, the Company holds an option to make a capital contribution to PHVP I, LLC in exchange for a 99% general partner interest in the entity. Should the Company decide not to exercise this option, the bonds will be redeemed, and a loan will not be made to PHVP I, LLC. The bonds are payable from the proceeds of the GIC and are non-recourse to both PHVP I, LLC and to the Company. There is no loan payable outstanding by PHVP I, LLC as of December 31, 2006. In addition, as part of providing construction management services to PHVP I, LLC for the construction of a public garage, the Company has provided a construction completion guarantee to the related lender in order to fulfill their standard financing requirements related to the garage construction financing. The Company's obligations under this guarantee will terminate following construction completion of the garage once all of the lender's standard completion requirements have been satisfied, which the Company currently expects to occur in 2008. In the third quarter of 2006, significant modifications were requested by the local transit authority to change the garage structure design. The Company does not believe that the requested design changes will impact the construction schedule. However, it is expected that these changes will increase the original budget by an amount up to \$5,000. The Company believes that substantially all potential additional amounts are reimbursable from unrelated third parties. At this time, the Company does not believe that it is probable that it will incur any additional costs. The estimated fair value of and the Company's obligation under this guarantee, both at inception and as of December 31, 2006 was not significant and therefore the Company has not recorded any obligation for this guarantee as of December 31, 2006.

#### *Legal Contingencies*

The Company is currently involved in litigation alleging that 100 communities currently or formerly owned by us violated the accessibility requirements of the Fair Housing Act and the Americans with Disabilities Act. The lawsuit, Equal Rights Center v. AvalonBay Communities, Inc., was filed on September 23, 2005 in the federal district court in Maryland. The plaintiff seeks compensatory and punitive damages in unspecified amounts as well as injunctive relief (such as modification of existing communities), an award of attorneys' fees, expenses and costs of suit. The Company has filed a motion to dismiss all or parts of the suit, which has not been ruled on yet by the court. The Company cannot predict or determine the outcome of this lawsuit, nor is it reasonably possible to estimate the amount of loss, if any, that would be associated with an adverse decision.

During 2006, the Company determined that contaminated soil from imported fill was delivered to its Avalon Lyndhurst development site by third parties. The contaminants exceeded allowable levels for residential use under New Jersey state and local regulations. The remediation effort is substantially complete. The Company has estimated that the net cost associated with this remediation effort after considering insurance proceeds received to date, including costs associated with construction delays, is expected to be approximately \$7,500. The Company is pursuing the recovery of these additional net costs through its insurance as well as from the third parties involved, but no assurance can be given as to the amount or timing of reimbursements to the Company. The Company is recording

these incremental costs as they are incurred, and potential recoveries as they become certain or are received. Although the estimated costs to complete construction of this community exceed the original construction budget, the Company does not expect that, upon completion, there will be an impairment in value of this asset which would require a write down in the carrying value. The Company will continue to review this assessment based on changes in circumstances or market conditions.

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In addition, the Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are frequently covered by insurance. If it has been determined that a loss is probable to occur, the estimated amount of the loss is expensed in the financial statements. While the resolution of these matters cannot be predicted with certainty, management currently believes the final outcome of such matters will not have a material adverse effect on the financial position or results of operations of the Company. However, if these matters are resolved unfavorably, they may have a material adverse effect on the Company's financial position and results of operations.

#### *Lease Obligations*

The Company owns nine apartment communities which are located on land subject to land leases expiring between November 2028 and March 2142. In addition, the Company leases certain office space. These leases are accounted for as operating leases under SFAS No. 13, Accounting for Leases. These leases have varying escalation terms, and three of these leases have purchase options exercisable between 2006 and 2052. The Company incurred costs of \$4,231, \$4,486 and \$4,399 in the years ended December 31, 2006, 2005 and 2004, respectively, related to these leases.

The following table details the future minimum lease payments under the Company's current leases:

|          |          | Payments due by period |          |          |             |  |
|----------|----------|------------------------|----------|----------|-------------|--|
| 2007     | 2008     | 2009                   | 2010     | 2011     | Thereafter  |  |
| \$ 8,045 | \$ 8,288 | \$ 8,123               | \$ 8,091 | \$ 8,065 | \$1,828,108 |  |

#### 9. Segment Reporting

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

*Established Communities (also known as Same Store Communities)* are communities where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year. For the year ended December 31, 2006, the Established Communities are communities that are consolidated for financial reporting purposes, had stabilized occupancy and operating expenses as of January 1, 2005, are not conducting or planning to conduct substantial redevelopment activities and are not held for sale or planned for disposition within the current 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 communities that have stabilized occupancy, as defined above. Other Stabilized Communities do not include communities that are conducting or planning to conduct substantial redevelopment activities within the current year.

*Development/Redevelopment Communities* consists of communities that are under construction and have not received a final certificate of occupancy, communities where substantial redevelopment is in progress or is planned to begin during the current year and communities under lease-up, that had not reached stabilized occupancy, as defined above, as of January 1, 2006.

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



SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing such segments 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 revenue less direct property operating expenses. 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 the years ended December 31, 2006, 2005 and 2004 is as follows:

|  | For the year ended   |                      |                      |
|--|----------------------|----------------------|----------------------|
|  | 12-31-06<br>Restated | 12-31-05<br>Restated | 12-31-04<br>Restated |
| Net income   | \$ 266,546           | \$ 310,468           | \$ 207,779           |
| Indirect operating expenses, net of corporate income | 28,809               | 26,675               | 26,612               |
| Investments and investment management                | 7,033                | 4,834                | 4,690                |
| Interest expense, net                                | 111,046              | 127,099              | 131,103              |
| General and administrative expense                   | 24,767               | 25,761               | 18,074               |
| Equity in income of unconsolidated entities          | (7,455)              | (7,198)              | (1,100)              |
| Minority interest in consolidated partnerships       | 573                  | 1,481                | 150                  |
| Venture partner interest in profit-sharing           |                      |                      | 1,178                |
| Depreciation expense                                 | 164,129              | 160,055              | 153,224              |
| Cumulative effect of change in accounting principle  |                      |                      | (4,547)              |
| Gain on sale of real estate assets                   | (110,930)            | (199,766)            | (122,425)            |
| Income from discontinued operations                  | (1,148)              | (14,942)             | (21,134)             |
| Net operating income                                 | \$ 483,370           | \$ 434,467           | \$ 393,604           |

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 table on the following page provides details of the Company's segment information as of the dates specified. The segments are classified based on the individual community's status as of the beginning of the given calendar year. Therefore, each year the composition of communities within each business segment is adjusted. Accordingly, the amounts between years are not directly comparable. The accounting policies applicable to the operating segments described above are the same as those described in Note 1, Organization and Significant Accounting Policies. Segment information for the years ended December 31, 2006, 2005 and 2004 has been adjusted for the communities that were sold from January 1, 2004 through December 31, 2006 as described in Note 7, Real Estate Disposition Activities.

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|   | Total<br>revenue | NOI<br>(restated) | % NOI<br>change<br>from prior<br>year<br>(restated) | Gross<br>real<br>estate(1)<br>(restated) |
|---|------------------|-------------------|---|--|
| <u>For the year ended December 31, 2006</u> |                  |                   |   |  |
| Established                                 |                  |                   |   |  |
| Northeast                                   | \$ 204,374       | \$ 137,379        | 5.1%  | \$ 1,263,190                             |
| Mid-Atlantic                                | 100,462          | 61,870            | 14.9%   | 627,789                                  |
| Midwest                                     | 11,478           | 7,121             | 7.4%  | 92,408                                   |
| Pacific Northwest                           | 33,103           | 21,819            | 13.0%   | 316,089                                  |
| Northern California                         | 153,151          | 107,135           | 11.6%   | 1,441,418                                |
| Southern California                         | 57,632           | 41,115            | 9.3%  | 374,606                                  |
| Total Established                           | 560,200          | 376,439           | 9.4%  | 4,115,500                                |
| Other Stabilized                            | 93,878           | 59,432            | n/a   | 865,338                                  |
| Development / Redevelopment                 | 76,356           | 47,499            | n/a   | 1,324,929                                |
| Land Held for Future Development            | n/a              | n/a               | n/a   | 209,568                                  |
| Non-allocated (2)                           | 6,866            | n/a               | n/a   | 35,183                                   |
| Total                                       | \$ 737,300       | \$ 483,370        | 11.3%   | \$ 6,550,518                             |

For the year ended December 31, 2005

|                                  |            |            |       |              |
|----------------------------------|------------|------------|-------|--------------|
| Established                      |            |            |       |              |
| Northeast                        | \$ 167,636 | \$ 111,734 | 3.5%  | \$ 1,062,981 |
| Mid-Atlantic                     | 68,575     | 48,613     | 3.9%  | 387,801      |
| Midwest                          | 11,113     | 6,627      | 7.1%  | 91,755       |
| Pacific Northwest                | 30,080     | 19,312     | 8.0%  | 315,331      |
| Northern California              | 146,432    | 99,769     | 3.5%  | 1,489,363    |
| Southern California              | 48,800     | 35,319     | 6.7%  | 331,315      |
| Total Established                | 472,636    | 321,374    | 4.2%  | 3,678,546    |
| Other Stabilized                 | 77,552     | 39,944     | n/a   | 690,377      |
| Development / Redevelopment      | 116,144    | 73,149     | n/a   | 1,158,482    |
| Land Held for Future Development | n/a        | n/a        | n/a   | 179,739      |
| Non-allocated (2)                | 4,348      | n/a        | n/a   | 30,741       |
| Total                            | \$ 670,680 | \$ 434,467 | 10.1% | \$ 5,737,885 |

For the year ended December 31, 2004

|                                  |            |            |        |              |
|----------------------------------|------------|------------|--------|--------------|
| Established                      |            |            |        |              |
| Northeast                        | \$ 135,059 | \$ 89,547  | (2.5%) | \$ 722,482   |
| Mid-Atlantic                     | 51,390     | 36,316     | (0.2%) | 273,774      |
| Midwest                          | 10,734     | 6,188      | 6.8%   | 91,121       |
| Pacific Northwest                | 28,836     | 17,874     | 1.1%   | 314,717      |
| Northern California              | 126,196    | 87,067     | (5.9%) | 1,270,848    |
| Southern California              | 56,124     | 39,634     | 1.8%   | 401,204      |
| Total Established                | 408,339    | 276,626    | (1.2%) | 3,074,146    |
| Other Stabilized                 | 111,894    | 61,494     | n/a    | 1,104,652    |
| Development / Redevelopment      | 93,096     | 55,484     | n/a    | 1,020,581    |
| Land Held for Future Development | n/a        | n/a        | n/a    | 156,350      |
| Non-allocated (2)                | 515        | n/a        | n/a    | 27,401       |
| Total                            | \$ 613,844 | \$ 393,604 | 9.7%   | \$ 5,383,130 |

(1) Does not include gross real estate assets for discontinued operations of \$65,075, \$202,261 and \$350,992 as of December 31, 2006, 2005 and 2004 respectively.

(2) Revenue represents third-party management, accounting and developer fees and miscellaneous income which are not allocated to a reportable segment.

#### 10. Stock-Based Compensation Plans

The Company has a stock incentive plan (the 1994 Plan ), which was amended and restated on December 8, 2004, and amended on February 9, 2006 and December 6, 2006. Individuals who are eligible to participate in the 1994 Plan include officers, other associates, outside directors and other key persons of the Company and its subsidiaries who are responsible for or contribute to the management, growth or profitability of the Company and its subsidiaries. The 1994 Plan authorizes (i) the grant of stock options that qualify as incentive stock options ( ISOs ) under Section 422 of the Internal Revenue Code, (ii) the grant of stock options that do not so qualify, (iii) grants of shares of restricted and unrestricted common stock, (iv) grants of deferred stock awards, (v) performance share awards entitling the recipient to acquire shares of common stock and (vi) dividend equivalent rights.

Shares of common stock of 1,791,861, 2,066,308 and 2,311,249 were available for future option or restricted stock grant awards under the 1994 Plan as of December 31, 2006, 2005 and 2004, respectively. Annually on January 1<sup>st</sup>, the maximum number available for issuance under the 1994 Plan is increased by between 0.48% and 1.00% of the total number of shares of common stock and DownREIT units actually outstanding on such date. Notwithstanding the foregoing, the maximum number of shares of stock for which ISOs may be issued under the 1994 Plan shall not exceed 2,500,000 and no awards shall be granted under the 1994 Plan after May 11, 2011. Options and restricted stock granted under the 1994 Plan vest and expire over varying periods, as determined by the Compensation Committee of the Board of Directors.

Before the Merger, Avalon had adopted its 1995 Equity Incentive Plan (the Avalon 1995 Incentive Plan ). Under the Avalon 1995 Incentive Plan, a maximum number of 3,315,054 shares (or 2,546,956 shares as adjusted for the Merger) of common stock were issuable, plus any shares of common stock represented by awards under Avalon s 1993 Stock Option and Incentive Plan (the Avalon 1993 Plan ) that were forfeited, canceled, reacquired by Avalon, satisfied without the issuance of common stock or otherwise terminated (other than by exercise). Options granted to officers, non-employee directors and associates under the Avalon 1995 Incentive Plan generally vested over a three-year term, expire ten years from the date of grant and are exercisable at the market price on the date of grant.

In connection with the Merger, the exercise prices and the number of options under the Avalon 1995 Incentive Plan and the Avalon 1993 Plan were adjusted to reflect the equivalent Bay shares and exercise prices based on the 0.7683 share conversion ratio used in the Merger. Officers, non-employee directors and associates with Avalon 1995 Incentive Plan or Avalon 1993 Plan options may exercise their adjusted number of options for the Company s common stock at the adjusted exercise price. As of June 4, 1998, the date of the Merger, options and other awards ceased to be granted under the Avalon 1993 Plan or the Avalon 1995 Incentive Plan. Accordingly, there were no options to purchase shares of common stock available for grant under the Avalon 1995 Incentive Plan or the Avalon 1993 Plan at December 31, 2006, 2005 or 2004.

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Information with respect to stock options granted under the 1994 Plan, the Avalon 1995 Incentive Plan and the Avalon 1993 Plan is as follows:

|  | 1994 Plan<br>shares | Weighted<br>average<br>exercise<br>price<br>per share | Avalon<br>1995<br>and Avalon<br>1993 Plan<br>shares | Weighted<br>average<br>exercise<br>price<br>per share |
|--|---------------------|---|---|---|
| Options Outstanding, December 31, 2003 | 2,979,265           | \$ 39.57  | 473,962   | \$ 37.32  |
| Exercised                              | (1,167,679)         | 39.06   | (287,700)   | 37.05   |
| Granted                                | 545,809             | 50.71   |   |   |
| Forfeited                              | (80,577)            | 43.98   |   |   |
| Options Outstanding, December 31, 2004 | 2,276,818           | \$ 42.39  | 186,262   | \$ 36.23  |
| Exercised                              | (743,524)           | 41.89   | (159,638)   | 37.82   |
| Granted                                | 725,988             | 70.09   |   |   |
| Forfeited                              | (29,504)            | 55.66   |   |   |
| Options Outstanding, December 31, 2005 | 2,229,778           | \$ 51.40  | 26,624  | \$ 37.09  |
| Exercised                              | (592,308)           | 50.09   | (22,384)  | 37.15   |
| Granted                                | 867,113             | 99.28   |   |   |
| Forfeited                              | (17,344)            | 79.72   |   |   |
| Options Outstanding, December 31, 2006 | 2,487,239           | \$ 69.65  | 4,240   | \$ 36.81  |
| Options Exercisable:                   |                     |   |   |   |
| December 31, 2004                      | 1,366,009           | \$ 39.72  | 186,262   | \$ 38.15  |
| December 31, 2005                      | 1,158,591           | \$ 42.45  | 26,624  | \$ 37.09  |
| December 31, 2006                      | 1,041,360           | \$ 47.99  | 4,240   | \$ 36.81  |

For options outstanding at December 31, 2006 under the 1994 Plan, 350,919 options had exercise prices ranging between \$31.50 and \$39.99 and a weighted average remaining contractual life of 3.0 years, 300,697 options had exercise prices ranging between \$40.00 and \$49.99 and a weighted average remaining contractual life of 4.7 years, 336,181 options had exercise prices between \$50.00 and \$59.99 and a weighted average remaining contractual life of 7.1 years, 637,142 options had exercise prices ranging between \$69.93 and \$79.99 and a weighted average remaining contractual life of 8.1 years, 851,800 options had exercise prices ranging between \$81.42 and \$99.99 and a weighted average remaining contractual life of 9.1 years, and 10,500 options had exercise prices between \$103.00 and \$123.03 and a weighted average remaining contractual life of 9.5 years. Options outstanding and exercisable at December 31, 2006 for the Avalon 1993 and Avalon 1995 Plans had exercise prices ranging from \$35.31 to \$37.66 and a weighted average contractual life of approximately one year and an intrinsic value of \$395. Options outstanding under the 1994 Plan at December 31, 2006, had an intrinsic value of \$153,922. Options exercisable at December 31, 2006 under the 1994 plan had a weighted average contractual life of 5.3 years and an intrinsic value of \$85,454. The intrinsic value of options exercised during 2006, 2005 and 2004 was \$49,440, \$80,271 and \$133,003, respectively.

The weighted average fair value of the options granted during 2006 is estimated at \$11.47 per share on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 5.0% over the expected life of the option, volatility of 17.61%, risk-free interest rates of 4.55% and an expected life of approximately 7 years. The weighted average fair value of the options granted during 2005 is estimated at \$6.40 per share on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 5.5% over the expected life of the option, volatility of 17.56%, risk-free interest rates of 3.91% and an expected life of approximately 7 years. The weighted average fair value of the options granted during 2004 is estimated at \$3.87 per share on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 6.05% over the expected life of the option, volatility of 17.28%, risk-free interest rates of 3.58% and an expected life of approximately 7 years. The cost related to stock-based employee compensation for employee stock options included in the determination of net income is based on estimated forfeitures for the given year. Estimated forfeitures are adjusted to reflect actual forfeitures at the end of the vesting period.

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The Company issued restricted stock as part of its stock-based compensation plan during the years ended December 31, 2006, 2005 and 2004. Compensation cost is recognized over the requisite service period, which varies, but does not exceed five years. The fair value of restricted stock is the closing stock price on the date of the grant. Provisions of SFAS 123(R) require the Company to recognize compensation cost taking into consideration retirement eligibility. The cost related to stock-based compensation for restricted stock included in the determination of net income is based on actual forfeitures for the given year. Restricted stock awards typically vest over a five year period with the exception of accelerated vesting provisions, which are infrequent and occur on a case by case basis. Restricted stock vesting during 2006 had fair values ranging from \$36.66 to \$102.88 per share. The total fair value of shares vested was \$7,655, \$8,932, and \$4,859 for the periods ended December 31, 2006, December 31, 2005 and December 31, 2004 respectively.

Total compensation cost recognized in income relating to deferred compensation for the years ended December 31, 2006, 2005 and 2004 was \$10,095, \$4,292 and \$2,593 respectively. Total capitalized compensation cost relating to deferred compensation for the years ended December 31, 2006, 2005 and 2004 was \$4,014, \$4,046 and \$2,339 respectively. At December 31, 2006, there was a total of \$8,490 and \$11,560 in unrecognized compensation cost for unvested stock options and unvested restricted stock, respectively. The unrecognized compensation cost for stock options does not take into account estimated forfeitures. The unrecognized compensation cost for unvested stock options and restricted stock is expected to be recognized over a weighted average period of 1.9 years and 2.5 years, respectively.

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 789,312 shares remaining available for issuance under the plan. Full-time employees of the Company generally are eligible to participate in the ESPP if, as of the last day of the applicable election period, they have been employed by the Company for at least one month. All other employees of the Company are eligible to participate provided that, as of the applicable election period they have been employed by the Company for 12 months. Under the ESPP, eligible employees are permitted to acquire shares of the Company's common stock through payroll deductions, subject to maximum purchase limitations. The purchase period is a period of seven months beginning each April 1 and ending each October 30. 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 10,830 shares, 13,372 shares and 14,476 shares and recognized compensation expense of \$173, \$134 and \$109 under the ESPP for the years ended December 31, 2006, 2005 and 2004, respectively. The Company accounts for transactions under the ESPP using the fair value method prescribed under SFAS No. 123(R), as further discussed in Note 1,

Organization and Significant Accounting Policies.

#### 11. Fair Value of Financial Instruments

Cash and cash equivalent balances are held with various financial institutions and may at times exceed the applicable Federal Deposit Insurance Corporation limit. 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 from the excess of cash and cash equivalent balances over insurance limits is remote. The following estimated fair values of financial instruments were determined by management using available market information and established valuation methodologies, including discounted cash flow. Accordingly, the estimates presented are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Cash equivalents, rents receivable, accounts and construction payable and accrued expenses, and other liabilities are carried at their face amounts, which reasonably approximate their fair values.

Bond indebtedness and notes payable with an aggregate outstanding par amount of approximately \$2,829,000 and \$2,268,000 had an estimated aggregate fair value of \$2,940,000 and \$2,394,000 at December 31, 2006 and

2005, respectively.

The Company reports all derivative instruments at fair value in accordance with SFAS No. 133, as amended. See Note 5, Derivative Instruments and Hedging Activities, for further discussion.

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## 12. 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 received fees of \$6,259, \$4,304 and \$604 in the years ended December 31, 2006, 2005 and 2004, respectively. These fees are included in management, development and other fees on the accompanying Consolidated Statements of Operations and Other Comprehensive Income.

In addition, in connection with the construction management services that the Company provided to MVP I, LLC, the entity that owns and developed Avalon at Mission Bay North II, the Company funds certain construction costs that are expected to be reimbursed through construction financing within 30 to 60 days. Construction was completed in 2005, and depending on the timing of such funding, the accompanying Consolidated Balance Sheets may reflect a corresponding receivable in prepaid expenses and other assets or a corresponding liability in accrued expenses and other liabilities. The Company has recorded receivables in the amounts of \$5,654 as of December 31, 2006 and \$6,653 as of December 31, 2005, from MVP I, LLC. The Company expects to be reimbursed through draws on a construction loan within 30 to 60 days.

### *Director Compensation*

The 1994 Plan provides that directors of the Company who are also employees receive no additional compensation for their services as a director. On May 14, 2003, the Company's Board of Directors approved an amendment to the 1994 Plan pursuant to which each non-employee director would receive, following the 2004 Annual Meeting of Stockholders and each annual meeting thereafter, (i) a number of shares of restricted stock (or deferred stock awards) having a value of \$100 based on the last reported sale price of the common stock on the New York Stock Exchange ( NYSE ) on the fifth business day following the prior year's annual meeting and (ii) \$30 cash, payable in quarterly installments of \$7.5. A non-employee director may elect to receive all or a portion of such cash payment in the form of a deferred stock award. In addition, the Lead Independent Director receives an annual fee of \$30 payable in equal monthly installments of \$2.5. In February 2006, the Company's Board of Directors approved another amendment to the 1994 Plan under which (i) following the 2006 Annual Meeting of Stockholders the cash payment was adjusted to \$40, payable in quarterly installments of \$10 and (ii) following the 2007 Annual Meeting of Stockholders, the number of shares of restricted stock (or deferred stock awards) will be calculated based on the closing price on the day of the award (rather than the closing price on the award date of the prior year). The Company recorded non-employee director compensation expense relating to the restricted stock grants, deferred stock awards and stock options in the amount of \$1,013, \$966 and \$940 in the years ended December 31, 2006, 2005 and 2004, respectively as a component of general and administrative expense. Deferred compensation relating to these restricted stock grants, deferred stock awards and stock options was \$778 and \$579 on December 31, 2006 and December 31, 2005, respectively.

### 13. Quarterly Financial Information (Unaudited)

The following summary represents the quarterly results of operations for the years ended December 31, 2006 and 2005:

|  | For the three months ended |                       |                       |                        |
|--|----------------------------|-----------------------|-----------------------|------------------------|
|  | 3-31-06<br>(restated)      | 6-30-06<br>(restated) | 9-30-06<br>(restated) | 12-31-06<br>(restated) |
| Total revenue  | \$ 175,158                 | \$ 180,675            | \$ 187,667            | \$ 193,800             |
| Income from continuing operations <sup>(1)</sup>           | \$ 44,619                  | \$ 34,943             | \$ 42,112             | \$ 46,313              |
| Income from discontinued operations <sup>(1)</sup>         | \$ 66,495                  | \$ 32,063             |                       |                        |
| Net income available to common stockholders <sup>(2)</sup> | \$ 108,939                 | \$ 64,831             | \$ 39,937             | \$ 44,138              |
| Net income per common share basic <sup>(2)</sup>           | \$ 1.48                    | \$ 0.87               | \$ 0.54               | \$ 0.59                |
| Net income per common share diluted <sup>(2)</sup>         | \$ 1.45                    | \$ 0.86               | \$ 0.53               | \$ 0.58                |

|  | For the three months ended |                       |                       |                        |
|--|----------------------------|-----------------------|-----------------------|------------------------|
|  | 3-31-05<br>(restated)      | 6-30-05<br>(restated) | 9-30-05<br>(restated) | 12-31-05<br>(restated) |
| Total revenue  | \$ 161,245                 | \$ 165,586            | \$ 170,751            | \$ 173,098             |
| Income from continuing operations <sup>(1)(2)</sup>        | \$ 24,883                  | \$ 26,999             | \$ 23,907             | \$ 24,448              |
| Income from discontinued operations <sup>(1)</sup>         | \$ 41,749                  | \$ 26,934             | \$ 72,243             | \$ 69,303              |
| Net income available to common stockholders <sup>(2)</sup> | \$ 64,457                  | \$ 51,758             | \$ 93,975             | \$ 91,576              |
| Net income per common share basic <sup>(2)</sup>           | \$ 0.89                    | \$ 0.71               | \$ 1.28               | \$ 1.25                |
| Net income per common share diluted <sup>(2)</sup>         | \$ 0.87                    | \$ 0.70               | \$ 1.26               | \$ 1.22                |

(1) Amounts may not equal previously reported results due to reclassification between income from continuing operations and income from discontinued operations.

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

### 14. Subsequent Events

In January 2007, the Company filed a new shelf registration statement with the Securities and Exchange Commission, allowing the Company to sell an undetermined number or amount of certain debt and equity securities as defined in the prospectus. In addition, in conjunction with its inclusion in the S&P 500 Index in January 2007, the Company issued 4,600,000 shares of its common stock at \$129.30 per share. Net proceeds in the amount of approximately \$594,000 will be used for general corporate purposes.

In January 2007, the Company purchased a parcel of land located in New York, NY for \$70,000. The Company expects to begin construction on this parcel of a 628 apartment-home community in the fourth quarter of 2007.

In January 2007, the Fund acquired Centerpoint, a newly constructed high-rise tower and separate, recently renovated historic mid-rise buildings located within a single downtown city block of Baltimore, MD. Centerpoint was acquired for a purchase price of \$78,500. The community contains a total of 392 apartment homes and approximately 33,000 square feet of retail space.

15. Restatement

In April 2007, the Company reviewed its accounting for long-term land leases. The Company decided to change its accounting for such long-term land leases to recognize rental expense on a straight-line basis for leases with fixed or minimum escalations over a period equal to the term of the non-cancelable portion of the lease agreement, as opposed to the Company's expected holding period for its interest in the asset. This change primarily impacts the land lease accounting related to one consolidated asset with a 90 year lease in which the land lessor is also the partner in the venture holding the asset. In aggregate, the change results in an additional non-cash increase to operating expenses of approximately \$10,500 per year in excess of the current annual cash payments, as well as additional depreciation expense. While this change did not have any impact on the Company's cash flows, the change results in a reduction in net income of approximately \$11,900 in both 2006 and 2005, and \$12,000 in 2004 related to the increased lease expense and depreciation expense. In addition, the revision to the lease accounting resulted in an increase of real estate assets of \$36,978 as of December 31, 2006 and 2005, and a corresponding increase in accrued expenses and other liabilities of \$77,548 as of December 31, 2006, and \$66,929 as of December 31, 2005, and a decrease in accumulated earnings less dividends of \$45,243 as of December 31, 2006, and \$33,391 as of December 31, 2005. The effects of the restatement did not affect the total operating, investing or financing cash flows.

In addition, the third-party partner in the venture holding the 90 year land lease has the option to put its interest in the venture to the Company at a value determined based on the value of the underlying real estate asset. As a result, the Company has increased minority interest of unitholders by \$13,041 as of December 31, 2006 and \$10,447 as of December 31, 2005, with a corresponding decrease in accumulated earnings less dividends as of each date to reflect the venture partner's interest in the venture.

The following tables summarize the effects of the restatement on the Company's Consolidated Balance Sheets as of December 31, 2006, and 2005, as well as the effects of this change on the Company's Consolidated Statements of Operations and Other Comprehensive Income and Consolidated Statements of Stockholder's Equity for the years ended December 31, 2006, 2005 and 2004.

**CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except per share data)

|   | 12-31-06     |             | 12-31-06     |              | 12-31-05    |              |
|---|--------------|-------------|--------------|--------------|-------------|--------------|
|   | As           |             | As           | As           |             | As           |
|   | Reported     | Adjustments | Restated     | Reported     | Adjustments | Restated     |
| <b>ASSETS</b>   |              |             |              |              |             |              |
| Total real estate, net  | \$ 5,478,057 | \$ 32,305   | \$ 5,510,362 | \$ 4,945,788 | \$ 33,538   | \$ 4,979,326 |
| Other Assets  | 335,129      |             | 335,129      | 219,272      |             | 219,272      |
| Total assets  | \$ 5,813,186 | \$ 32,305   | \$ 5,845,491 | \$ 5,165,060 | \$ 33,538   | \$ 5,198,598 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                    |              |             |              |              |             |              |
| Total liabilities   | \$ 3,176,478 | \$ 77,548   | \$ 3,254,026 | \$ 2,603,933 | \$ 66,929   | \$ 2,670,862 |
| Minority interest of unitholders in consolidated partnerships | 5,270        | 13,041      | 18,311       | 19,464       | 10,447      | 29,911       |
| Total stockholders' equity                                    | 2,631,438    | (58,284)    | 2,573,154    | 2,541,663    | (43,838)    | 2,497,825    |
| Total liabilities and stockholders' equity                    | \$ 5,813,186 | \$ 32,305   | \$ 5,845,491 | \$ 5,165,060 | \$ 33,538   | \$ 5,198,598 |

CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME  
(Dollars in thousands, except per share data)

|  | For the year ended |             |                |                |             |                |                |             |                |  |
|--|--------------------|-------------|----------------|----------------|-------------|----------------|----------------|-------------|----------------|--|
|  | 12-31-2006         |             | 12-31-2006     |                | 12-31-2005  |                | 12-31-2005     |             | 12-31-2004     |  |
|  | As<br>Reported     | Adjustments | As<br>Restated | As<br>Reported | Adjustments | As<br>Restated | As<br>Reported | Adjustments | As<br>Restated |  |
| Total revenue                                  | 737,300            |             | 737,300        | 670,680        |             | 670,680        | 613,844        |             | 613,844        |  |
| Expenses:                                      |                    |             |                |                |             |                |                |             |                |  |
| Operating expenses, excluding property taxes   | 210,895            | 10,620      | 221,515        | 191,558        | 10,677      | 202,235        | 181,351        | 10,733      | 192,084        |  |
| Depreciation expense                           | 162,896            | 1,233       | 164,129        | 158,822        | 1,233       | 160,055        | 151,991        | 1,233       | 153,224        |  |
| Other Expenses                                 | 204,070            |             | 204,070        | 218,347        |             | 218,347        | 208,635        |             | 208,635        |  |
| Total expenses                                 | 577,861            | 11,853      | 589,714        | 568,727        | 11,910      | 580,637        | 541,977        | 11,966      | 553,943        |  |
| Equity in income of unconsolidated entities    | 7,455              |             | 7,455          | 7,198          |             | 7,198          | 1,100          |             | 1,100          |  |
| Venture partner interest in profit-sharing     |                    |             |                |                |             |                | (1,178)        |             | (1,178)        |  |
| Minority interest in consolidated partnerships | (573)              |             | (573)          | (1,481)        |             | (1,481)        | (150)          |             | (150)          |  |
| Gain on sale of land                           | 13,519             |             | 13,519         | 4,479          |             | 4,479          | 1,138          |             | 1,138          |  |
| Discontinued operations:                       |                    |             |                |                |             |                |                |             |                |  |
| Income from discontinued operations            | 1,148              |             | 1,148          | 14,942         |             | 14,942         | 21,134         |             | 21,134         |  |
| Gain on sale of communities                    | 97,411             |             | 97,411         | 195,287        |             | 195,287        | 121,287        |             | 121,287        |  |
| Total discontinued operations                  | 98,559             |             | 98,559         | 210,229        |             | 210,229        | 142,421        |             | 142,421        |  |

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|  |            |             |            |            |             |            |            |             |            |
|--|------------|-------------|------------|------------|-------------|------------|------------|-------------|------------|
| Income before cumulative effect of change in accounting principle                    | 278,399    | (11,853)    | 266,546    | 322,378    | (11,910)    | 310,468    | 215,198    | (11,966)    | 203,232    |
| Cumulative effect of change in accounting principle                                  |            |             |            |            |             |            | 4,547      |             | 4,547      |
| Net income   | 278,399    | (11,853)    | 266,546    | 322,378    | (11,910)    | 310,468    | 219,745    | (11,966)    | 207,779    |
| Dividends attributable to preferred stock  | (8,700)    |             | (8,700)    | (8,700)    |             | (8,700)    | (8,700)    |             | (8,700)    |
| Net income available to common stockholders  | \$ 269,699 | \$ (11,853) | \$ 257,846 | \$ 313,678 | \$ (11,910) | \$ 301,768 | \$ 211,045 | \$ (11,966) | \$ 199,079 |
| Other comprehensive income:  |            |             |            |            |             |            |            |             |            |
| Unrealized gain on cash flow hedges  | 891        |             | 891        | 2,626      |             | 2,626      | 1,116      |             | 1,116      |
| Comprehensive income   | \$ 270,590 | \$ (11,853) | \$ 258,737 | \$ 316,304 | \$ (11,910) | \$ 304,394 | \$ 212,161 | \$ (11,966) | \$ 200,195 |
| Earnings per common share basic:   |            |             |            |            |             |            |            |             |            |
| Income from continuing operations (net of dividends attributable to preferred stock) | \$ 2.31    |             | \$ 2.15    | \$ 1.42    |             | \$ 1.26    | \$ 0.96    |             | \$ 0.79    |
| Discontinued operations  | 1.33       |             | 1.33       | 2.88       |             | 2.88       | 1.99       |             | 1.99       |
|  | \$ 3.64    |             | \$ 3.48    | \$ 4.30    |             | \$ 4.14    | \$ 2.95    |             | \$ 2.78    |

Net income  
available to  
common  
stockholders

Earnings per  
common share  
diluted:

Income from  
continuing  
operations (net  
of dividends  
attributable to  
preferred stock) \$

2.27

\$ 2.12

\$ 1.40

\$ 1.24 \$ 0.96

\$ 0.79

Discontinued  
operations

1.30

1.30

2.81

2.81 1.96

1.96

Net income  
available to  
common  
stockholders \$

3.57

\$ 3.42

\$ 4.21

\$ 4.05 \$ 2.92

\$ 2.75

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY  
(Dollars in thousands)

|  | Preferred<br>stock | Common<br>stock | Additional<br>paid-in<br>capital | Accumulated<br>earnings<br>less<br>dividends | Accumulated<br>other<br>comprehensive<br>loss | Total<br>stockholders<br>equity |
|--|--------------------|-----------------|----------------------------------|--|---|---------------------------------|
| Balance at December 31,<br>2003 As Reported        | \$ 40              | \$ 709          | \$ 2,316,773                     | \$ 2,024                                     | \$ (8,212)                                    | \$ 2,311,334                    |
| Accumulated Effect of<br>prior period adjustment   |                    |                 |                                  | (18,549)                                     |   | (18,549)                        |
| Balance at December 31,<br>2003 As Restated        | 40                 | 709             | 2,316,773                        | (16,525)                                     | (8,212)                                       | 2,292,785                       |
| Net income, As Restated                            |                    |                 |                                  | 207,779                                      |   | 207,779                         |
| Change in redemption<br>value of minority interest |                    |                 |                                  | (1,413)                                      |   | (1,413)                         |
| Total other activity                               |                    | 17              | 64,079                           | (211,000)                                    | 1,116   | (145,788)                       |
| Balance at December 31,<br>2004, As Restated       | 40                 | 726             | 2,380,852                        | (21,159)                                     | (7,096)                                       | 2,353,363                       |
| Net income, As Restated                            |                    |                 |                                  | 310,468                                      |   | 310,468                         |
| Change in redemption<br>value of minority interest |                    |                 |                                  |  |   |                                 |
| Total other activity                               |                    | 11              | 48,716                           | (217,359)                                    | 2,626   | (166,006)                       |
| Balance at December 31,<br>2005, As Restated       | 40                 | 737             | 2,429,568                        | 71,950                                       | (4,470)                                       | 2,497,825                       |
| Net income, As Restated                            |                    |                 |                                  | 266,546                                      |   | 266,546                         |
| Change in redemption<br>value of minority interest |                    |                 |                                  | (2,593)                                      |   | (2,593)                         |
| Total other activity                               |                    | 10              | 52,948                           | (242,473)                                    | 891   | (188,624)                       |
| Balance at December 31,<br>2006, As Restated       | \$ 40              | \$ 747          | \$ 2,482,516                     | \$ 93,430                                    | \$ (3,579)                                    | \$ 2,573,154                    |



AVALONBAY COMMUNITIES, INC.  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2006  
(Dollars in thousands)

|        | Initial Cost    |                              |        | Total Cost      |          |              | Total Cost, Net of |              |         | Year of |
|--------|-----------------|------------------------------|--------|-----------------|----------|--------------|--------------------|--------------|---------|---------|
|        | Building /      |                              |        | Building /      |          |              | Accumulated        |              |         | Year of |
|        | Construction in |                              |        | Construction in |          |              | Accumulated        |              |         | Year of |
|        | Progress &      |                              |        | Progress &      |          |              | Depreciation       |              |         | Year of |
|        | Improvements    |                              |        | Improvements    |          |              | Depreciation       |              |         | Year of |
|        | restated        |                              |        | restated        |          |              | restated           |              |         | Year of |
| Land   |                 | Costs                        | Land   |                 | Total    | Accumulated  | Total Cost, Net of | Encumbrances | Year of |         |
|        |                 | Subsequent to                |        |                 | restated | Depreciation | Accumulated        |              | / Ac    |         |
|        |                 | Acquisition/<br>Construction |        |                 |          | restated     | Depreciation       |              |         |         |
|        |                 |                              |        |                 |          |              | restated           |              |         |         |
| 4,238  | 20,477          | 1                            | 4,238  | 20,478          | 24,716   | 763          | 23,953             |              |         |         |
|        | 26,816          | 1,928                        |        | 28,744          | 28,744   | 9,561        | 19,183             |              |         |         |
| 12,381 | 42,298          | 102                          | 12,381 | 42,400          | 54,781   | 3,569        | 51,212             | 33,535       |         |         |
| 1,136  | 14,001          | 520                          | 1,136  | 14,521          | 15,657   | 4,540        | 11,117             |              |         |         |
| 3,572  | 33,504          | 126                          | 3,572  | 33,630          | 37,202   | 5,198        | 32,004             | 21,245       |         |         |
| 2,124  | 12,599          | 1,311                        | 2,124  | 13,910          | 16,034   | 5,898        | 10,136             | 12,467       |         |         |
| 11,038 | 45,527          | 99                           | 11,038 | 45,626          | 56,664   | 5,385        | 51,279             | 37,650       |         |         |
| 25,811 | 104,399         | 26,443                       | 25,811 | 130,842         | 156,653  | 34,972       | 121,681            |              |         |         |
| 10,704 | 43,506          | 75                           | 10,704 | 43,581          | 54,285   | 5,005        | 49,280             |              |         |         |
| 3,623  | 16,292          | 28                           | 3,623  | 16,320          | 19,943   | 1,361        | 18,582             |              |         |         |
| 5,230  | 16,303          | 284                          | 5,230  | 16,587          | 21,817   | 4,105        | 17,712             |              |         |         |
| 2,627  | 33,443          | 297                          | 2,627  | 33,740          | 36,367   | 5,515        | 30,852             | 18,635       |         |         |
| 2,129  | 18,656          | 472                          | 2,129  | 19,128          | 21,257   | 5,357        | 15,900             | 17,205       |         |         |
| 3,303  | 13,467          | 74                           | 3,303  | 13,541          | 16,844   | 2,430        | 14,414             | 17,036       |         |         |
| 2,975  | 18,037          | 138                          | 2,975  | 18,175          | 21,150   | 3,134        | 18,016             | 19,883       |         |         |
| 1,743  | 14,670          | 932                          | 1,743  | 15,602          | 17,345   | 5,747        | 11,598             |              |         |         |
| 943    | 9,881           | 508                          | 943    | 10,389          | 11,332   | 3,702        | 7,630              | 8,179        |         |         |
| 4,643  | 19,007          | 77                           | 4,643  | 19,084          | 23,727   | 1,571        | 22,156             |              |         |         |

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|        |        |       |        |        |        |        |        |
|--------|--------|-------|--------|--------|--------|--------|--------|
| 13,819 | 56,499 | 75    | 13,819 | 56,574 | 70,393 | 8,883  | 61,510 |
| 4,905  | 30,520 | 29    | 4,905  | 30,549 | 35,454 | 1,573  | 33,881 |
| 6,922  | 34,594 | 3     | 6,922  | 34,597 | 41,519 | 3,857  | 37,662 |
| 4,414  | 31,268 | 1,423 | 4,414  | 32,691 | 37,105 | 10,820 | 26,285 |
| 5,956  | 23,993 | 2,194 | 5,956  | 26,187 | 32,143 | 11,465 | 20,678 |
| 1,264  | 12,491 | 232   | 1,264  | 12,723 | 13,987 | 3,066  | 10,921 |
| 8,746  | 22,695 | (0)   | 8,746  | 22,695 | 31,441 | 1,931  | 29,510 |
| 4,835  | 19,485 | 44    | 4,835  | 19,529 | 24,364 | 3,172  | 21,192 |
| 10,836 | 51,989 | 61    | 10,836 | 52,050 | 62,886 | 8,328  | 54,558 |
| 2,108  | 19,983 | 5     | 2,108  | 19,988 | 22,096 | 1,282  | 20,814 |
| 2,116  | 14,664 | 414   | 2,116  | 15,078 | 17,194 | 5,105  | 12,089 |
| 2,277  | 23,781 | 252   | 2,277  | 24,033 | 26,310 | 6,525  | 19,785 |
| 9,102  | 48,796 | 7,563 | 9,102  | 56,359 | 65,461 | 21,389 | 44,072 |
| 7,871  | 59,969 | 62    | 7,871  | 60,031 | 67,902 | 5,150  | 62,752 |
| 4,679  | 28,509 | 527   | 4,679  | 29,036 | 33,715 | 9,454  | 24,261 |
| 9,228  | 50,021 | 573   | 9,228  | 50,594 | 59,822 | 14,172 | 45,650 |
| 6,178  | 40,564 | (205) | 6,178  | 40,359 | 46,537 | 2,625  | 43,912 |
| 2,943  | 20,923 | 0     | 2,943  | 20,923 | 23,866 | 556    | 23,310 |
| 3,118  | 12,709 | 5,451 | 3,118  | 18,160 | 21,278 | 6,102  | 15,176 |
| 14,529 | 60,240 | 445   | 14,529 | 60,685 | 75,214 | 11,184 | 64,030 |
| 6,647  | 34,909 | 260   | 6,647  | 35,169 | 41,816 | 7,842  | 33,974 |
| 8,760  | 82,442 | 1,670 | 8,760  | 84,112 | 92,872 | 28,326 | 64,546 |
| 4,116  | 30,514 | 118   | 4,116  | 30,632 | 34,748 | 5,527  | 29,221 |
| 13,060 | 45,855 | 1,130 | 13,060 | 46,985 | 60,045 | 145    | 59,900 |

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AVALONBAY COMMUNITIES, INC.  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2006  
(Dollars in thousands)

|  | Initial Cost  |  |       | Total Cost  |          |                             | Total Cost, Net of          |              | Year of |
|--|---|--|-------|---|----------|-----------------------------|-----------------------------|--------------|---------|
|  | Building /<br>Construction in<br>Progress &<br>Improvements | Costs<br>Subsequent to<br>Acquisition/<br>Construction | Land  | Building /<br>Construction in<br>Progress &<br>Improvements | Total    | Accumulated<br>Depreciation | Accumulated<br>Depreciation | Encumbrances | / Ac    |
|  | restated  |  |       | restated  | restated | restated                    | restated                    |              |         |
|  | 1,579   | 14,668   | 111   | 1,579   | 14,779   | 16,358                      | 5,232                       | 11,126       |         |
|  | 6,765   | 45,377   | 2     | 6,765   | 45,379   | 52,144                      | 3,409                       | 48,735       |         |
|  | 5,585   | 22,394   | 2,159 | 5,585   | 24,553   | 30,138                      | 11,357                      | 18,781       |         |
|  | 18,668  | 70,739   | 170   | 18,668  | 70,909   | 89,577                      | 433                         | 89,144       | 93,800  |
|  | 8,428   | 45,660   | 1,024 | 8,428   | 46,684   | 55,112                      | 14,590                      | 40,522       |         |
|  | 1,820   | 10,525   | 898   | 1,820   | 11,423   | 13,243                      | 4,361                       | 8,882        |         |
|  |   | 116,231  | 867   |   | 117,098  | 117,098                     | 18,931                      | 98,167       |         |
|  |   | 94,166   | 395   |   | 94,561   | 94,561                      | 14,611                      | 79,950       |         |
|  | 3,529   | 14,140   | 1,598 | 3,529   | 15,738   | 19,267                      | 6,871                       | 12,396       | 15,980  |
|  | 6,207   | 40,791   | 516   | 6,207   | 41,307   | 47,514                      | 10,373                      | 37,141       |         |
|  | 2,889   | 28,324   | 143   | 2,889   | 28,467   | 31,356                      | 7,457                       | 23,899       |         |
|  | 4,147   | 16,599   | 2,025 | 4,147   | 18,624   | 22,771                      | 7,546                       | 15,225       | 11,500  |
|  | 4,465   | 17,864   | 7,024 | 4,465   | 24,888   | 29,353                      | 7,301                       | 22,052       |         |
|  | 1,594   | 6,384  | 1,377 | 1,594   | 7,761    | 9,355                       | 3,875                       | 5,480        | 9,780   |
|  | 1,849   | 7,409  | 930   | 1,849   | 8,339    | 10,188                      | 3,460                       | 6,728        | 5,903   |
|  | 7,207   | 29,151   | 0     | 7,207   | 29,151   | 36,358                      | 203                         | 36,155       |         |
|  | 6,096   | 24,400   | 2,705 | 6,096   | 27,105   | 33,201                      | 8,858                       | 24,343       |         |
|  | 22,041  | 90,296   | 272   | 22,041  | 90,568   | 112,609                     | 17,183                      | 95,426       |         |
|  | 7,291   | 29,177   | 1,642 | 7,291   | 30,819   | 38,110                      | 13,310                      | 24,800       |         |
|  | 10,292  | 32,930   | 311   | 10,292  | 33,241   | 43,533                      | 10,421                      | 33,112       |         |

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|     |        |        |       |        |        |        |        |        |        |
|-----|--------|--------|-------|--------|--------|--------|--------|--------|--------|
| urt | 6,157  | 24,800 | 1,341 | 6,157  | 26,141 | 32,298 | 10,160 | 22,138 |        |
|     | 6,848  | 27,614 | 9,926 | 6,848  | 37,540 | 44,388 | 13,727 | 30,661 |        |
|     | 9,084  | 39,731 | 58    | 9,084  | 39,789 | 48,873 | 5,138  | 43,735 |        |
| e I | 24,751 | 57,331 | 75    | 24,751 | 57,406 | 82,157 | 5,649  | 76,508 |        |
|     | 2,152  | 8,907  | 621   | 2,152  | 9,528  | 11,680 | 3,207  | 8,473  |        |
|     |        | 81,796 | 257   |        | 82,053 | 82,053 | 11,068 | 70,985 |        |
|     | 14,360 | 55,382 | 5     | 14,360 | 55,387 | 69,747 | 5,504  | 64,243 |        |
|     | 13,851 | 43,397 | 353   | 13,851 | 43,750 | 57,601 | 14,666 | 42,935 |        |
| s   | 4,047  | 18,553 | 178   | 4,047  | 18,731 | 22,778 | 6,712  | 16,066 | 10,483 |
| l   | 1,528  | 6,136  | 1,731 | 1,528  | 7,867  | 9,395  | 3,795  | 5,600  | 11,957 |
|     | 9,728  | 39,661 | 6,468 | 9,728  | 46,129 | 55,857 | 8,787  | 47,070 |        |
|     | 7,535  | 30,623 | 814   | 7,535  | 31,437 | 38,972 | 9,721  | 29,251 |        |
| as  | 4,326  | 17,569 | 269   | 4,326  | 17,838 | 22,164 | 5,520  | 16,644 |        |
|     | 5,149  | 20,656 | 5,467 | 5,149  | 26,123 | 31,272 | 8,324  | 22,948 |        |
| ar  | 6,786  | 27,154 | 917   | 6,786  | 28,071 | 34,857 | 8,297  | 26,560 |        |
|     | 6,664  | 24,119 | 79    | 6,664  | 24,198 | 30,862 | 5,264  | 25,598 |        |
|     | 5,644  | 12,733 | 67    | 5,644  | 12,800 | 18,444 | 2,555  | 15,889 |        |
|     | 8,630  | 36,679 | 337   | 8,630  | 37,016 | 45,646 | 7,565  | 38,081 |        |
|     | 7,569  | 32,041 | 269   | 7,569  | 32,310 | 39,879 | 6,991  | 32,888 |        |
|     | 3,789  | 15,143 | 313   | 3,789  | 15,456 | 19,245 | 3,631  | 15,614 |        |
|     | 4,558  | 17,568 | 4,283 | 4,558  | 21,851 | 26,409 | 7,181  | 19,228 |        |
|     | 4,777  | 19,726 | 303   | 4,777  | 20,029 | 24,806 | 4,656  | 20,150 |        |
| w   | 4,253  | 18,676 | 166   | 4,253  | 18,842 | 23,095 | 4,343  | 18,752 |        |

|        |        |     |        |        |        |       |        |
|--------|--------|-----|--------|--------|--------|-------|--------|
| 11,412 | 41,142 | 290 | 11,412 | 41,432 | 52,844 | 8,424 | 44,420 |
|--------|--------|-----|--------|--------|--------|-------|--------|

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AVALONBAY COMMUNITIES, INC.  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2006  
(Dollars in thousands)

| Land   | Initial Cost  |  | Land   | Total Cost  |                   | Accumulated<br>Depreciation<br>restated | Total Cost, Net of                      |   | Encumbrances | Year of<br>/ Ac |
|--------|---|--|--------|---|-------------------|---|---|---|--------------|-----------------|
|        | Building /<br>Construction in<br>Progress &<br>Improvements<br>restated | Costs<br>Subsequent to<br>Acquisition/<br>Construction |        | Building /<br>Construction in<br>Progress &<br>Improvements<br>restated | Total<br>restated |   | Accumulated<br>Depreciation<br>restated | Accumulated<br>Depreciation<br>restated |              |                 |
| 4,249  | 16,820  | 1,512  | 4,249  | 18,332  | 22,581            | 5,654                                   | 16,927                                  |   |              |                 |
| 6,581  | 26,583  | 3,048  | 6,581  | 29,631  | 36,212            | 8,958                                   | 27,254                                  |   |              |                 |
| 5,276  | 19,642  | 2,948  | 5,276  | 22,590  | 27,866            | 6,574                                   | 21,292                                  |   |              |                 |
| 10,746 | 43,399  | 2,467  | 10,746 | 45,866  | 56,612            | 13,721                                  | 42,891                                  |   |              |                 |
| 11,610 | 46,552  | 4,188  | 11,610 | 50,740  | 62,350            | 15,564                                  | 46,786                                  |   |              |                 |
| 11,324 | 45,717  | 4,645  | 11,324 | 50,362  | 61,686            | 15,675                                  | 46,011                                  | 33,100                                  |              |                 |
| 4,230  | 9,659   | 12,657   | 4,230  | 22,316  | 26,546            | 6,810                                   | 19,736                                  |   |              |                 |
| 4,726  | 19,130  | 1,471  | 4,726  | 20,601  | 25,327            | 6,290                                   | 19,037                                  |   |              |                 |
| 13,814 | 78,452  | 546  | 13,814 | 78,998  | 92,812            | 10,517                                  | 82,295                                  |   |              |                 |
| 5,403  | 21,567  | 1,101  | 5,403  | 22,668  | 28,071            | 6,750                                   | 21,321                                  | 20,800                                  |              |                 |
| 7,852  | 31,445  | 4,291  | 7,852  | 35,736  | 43,588            | 10,340                                  | 33,248                                  |   |              |                 |
| 6,125  | 24,796  | 1,244  | 6,125  | 26,040  | 32,165            | 7,775                                   | 24,390                                  | 17,600                                  |              |                 |
| 3,561  | 21,321  | 3,896  | 3,561  | 25,217  | 28,778            | 8,140                                   | 20,638                                  |   |              |                 |
| 9,155  | 57,624  | 227  | 9,155  | 57,851  | 67,006            | 14,606                                  | 52,400                                  |   |              |                 |
| 5,982  | 16,885  | 10,196   | 5,982  | 27,081  | 33,063            | 8,283                                   | 24,780                                  |   |              |                 |
| 11,933 | 48,247  | 1,880  | 11,933 | 50,127  | 62,060            | 14,967                                  | 47,093                                  |   |              |                 |
| 4,760  | 47,600  | 210  | 4,760  | 47,810  | 52,570            | 7,528                                   | 45,042                                  |   |              |                 |
| 6,546  | 26,301  | 10,576   | 6,546  | 36,877  | 43,423            | 10,485                                  | 32,938                                  |   |              |                 |

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|        |        |        |        |         |         |        |        |        |
|--------|--------|--------|--------|---------|---------|--------|--------|--------|
| 11,340 | 45,532 | 3,798  | 11,340 | 49,330  | 60,670  | 15,288 | 45,382 | 26,400 |
| 7,406  | 29,823 | 989    | 7,406  | 30,812  | 38,218  | 9,257  | 28,961 |        |
| 3,414  | 15,469 | 13,258 | 3,414  | 28,727  | 32,141  | 9,002  | 23,139 |        |
| 8,904  | 35,121 | 984    | 8,904  | 36,105  | 45,009  | 10,635 | 34,374 |        |
| 11,830 | 47,828 | 456    | 11,830 | 48,284  | 60,114  | 14,365 | 45,749 | 38,800 |
| 9,755  | 39,393 | 2,461  | 9,755  | 41,854  | 51,609  | 12,634 | 38,975 | 18,300 |
| 6,119  | 50,230 | 157    | 6,119  | 50,387  | 56,506  | 13,929 | 42,577 |        |
| 15,814 | 62,028 | 1,522  | 15,814 | 63,550  | 79,364  | 18,233 | 61,131 |        |
| 20,713 | 99,573 | 1,837  | 20,713 | 101,410 | 122,123 | 29,967 | 92,156 |        |
| 9,560  | 56,136 | 56     | 9,560  | 56,192  | 65,752  | 9,588  | 56,164 |        |
| 9,384  | 34,958 | 4,448  | 9,384  | 39,406  | 48,790  | 11,872 | 36,918 | 15,990 |
| 6,607  | 26,673 | 1,737  | 6,607  | 28,410  | 35,017  | 8,616  | 26,401 |        |
| 22,483 | 28,104 | 25,874 | 22,483 | 53,978  | 76,461  | 15,382 | 61,079 |        |
| 7,045  | 12,986 | 6,912  | 7,045  | 19,898  | 26,943  | 6,935  | 20,008 |        |
| 8,454  | 38,720 |        | 8,454  | 38,720  | 47,174  | 866    | 46,308 |        |
|        | 41,433 |        |        | 41,433  | 41,433  | 4,886  | 36,547 |        |
| 23,828 | 40,372 | 7,873  | 23,828 | 48,245  | 72,073  | 16,163 | 55,910 |        |
| 14,052 | 56,827 | 124    | 14,052 | 56,951  | 71,003  | 8,957  | 62,046 | 31,495 |
| 6,541  | 58,535 | (1)    | 6,541  | 58,534  | 65,075  | 724    | 64,351 | 40,845 |
| 4,871  | 19,745 | 7,680  | 4,871  | 27,425  | 32,296  | 8,256  | 24,040 |        |
| 4,709  | 16,063 | 4,718  | 4,709  | 20,781  | 25,490  | 6,554  | 18,936 |        |
| 2,517  | 9,257  | 2,238  | 2,517  | 11,495  | 14,012  | 3,521  | 10,491 | 7,635  |
| 1,975  | 3,814  | 4,563  | 1,975  | 8,377   | 10,352  | 2,537  | 7,815  |        |

|   |       |        |        |       |        |        |        |        |
|---|-------|--------|--------|-------|--------|--------|--------|--------|
| a | 4,607 | 16,911 | 2,843  | 4,607 | 19,754 | 24,361 | 6,055  | 18,306 |
|   | 2,768 | 20,134 | 11,654 | 2,768 | 31,788 | 34,556 | 9,344  | 25,212 |
|   | 9,922 | 40,633 | 15,726 | 9,922 | 56,359 | 66,281 | 16,313 | 49,968 |

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AVALONBAY COMMUNITIES, INC.  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2006  
(Dollars in thousands)

| and                             | Initial Cost  | Costs   |           | Total Cost  |                   | Accumulated | Total Cost, Net of       |   | Year of       |
|---------------------------------|---|---|-----------|---|-------------------|-------------|--------------------------|---|---------------|
|                                 | Building /<br>Construction in<br>Progress &<br>Improvements<br>restated | Subsequent to<br>Acquisition/<br>Construction | Land      | Building /<br>Construction in<br>Progress &<br>Improvements<br>restated | Total<br>restated |             | Depreciation<br>restated | Accumulated<br>Depreciation<br>restated |               |
| 710                             | 10,924  | 8,787   | 2,710     | 19,711  | 22,421            | 6,021       | 16,400                   |   | 19            |
| 1,900                           | \$4,356,642   | \$312,294                                     | \$921,900 | \$4,668,936   | \$5,590,836       | \$1,076,823 | \$4,514,013              | \$596,203                               |               |
| <u>Development Communities</u>  |   |   |           |   |                   |             |                          |   |               |
| Avalon<br>Discoverly II         |   | 3,364   | 14,864    | 11,195  | 3,364             | 26,059      | 29,423                   | 132                                     | 29,291        |
| Avalon at<br>Dublin<br>Station  |   |   | 17        | 42,334  |                   | 42,351      | 42,351                   |   | 42,351        |
| Avalon at<br>Glen Cove<br>North |   |   | 107       | 27,030  |                   | 27,137      | 27,137                   |   | 27,137        |
| Avalon at<br>Lexington<br>Hills |   |   | 52        | 22,559  |                   | 22,611      | 22,611                   |   | 22,611        |
| Avalon Acton                    |   |   |           | 16,672  |                   | 16,672      | 16,672                   |   | 16,672 45,000 |
| Avalon<br>Bowery Place<br>II    |   |   | 41        | 14,966  |                   | 15,007      | 15,007                   |   | 15,007 48,500 |
| Avalon<br>Chestnut Hill         | 10,626  | 34,527  | 14,773    | 10,626  | 49,300            | 59,926      | 223                      | 59,703                                  |               |
| Avalon<br>Danvers               |   |   | 127       | 46,306  |                   | 46,433      | 46,433                   |   | 46,433        |
| Avalon<br>Encino                |   |   | 38        | 22,833  |                   | 22,871      | 22,871                   |   | 22,871        |
| Avalon<br>Lyndhurst             |   |   | 285       | 63,941  |                   | 64,226      | 64,226                   |   | 64,226        |
| Avalon<br>Meydenbauer           |   |   | 147       | 35,942  |                   | 36,089      | 36,089                   |   | 36,089        |
| Avalon on the<br>Sound II       |   |   | 71        | 102,002   |                   | 102,073     | 102,073                  |   | 102,073       |
|                                 |   |   | 49        | 85,765  |                   | 85,814      | 85,814                   |   | 85,814        |

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|                              |             |             |           |             |             |             |             |             |             |
|------------------------------|-------------|-------------|-----------|-------------|-------------|-------------|-------------|-------------|-------------|
| Avalon<br>Riverview<br>North |             |             |           |             |             |             |             |             |             |
| Avalon<br>Shrewsbury         | 3,258       | 19,798      | 10,487    | 3,258       | 30,285      | 33,543      | 223         | 33,320      |             |
| Avalon<br>Wilshire           |             | 222         | 38,116    |             | 38,338      | 38,338      |             | 38,338      |             |
| Avalon<br>Woburn             | 3,320       | 10,125      | 47,832    | 3,320       | 57,957      | 61,277      | 84          | 61,193      |             |
| Avalon<br>Canoga Park        |             | 19          | 14,012    |             | 14,031      | 14,031      |             | 14,031      |             |
|                              | \$ 20,568   | \$ 80,490   | \$616,764 | \$ 20,568   | \$ 697,254  | \$ 717,822  | \$ 662      | \$ 717,160  | \$ 93,500   |
| Land held for<br>development | 209,568     |             |           | 209,568     |             | 209,568     |             | 209,568     | 23,650      |
| Corporate<br>Overhead        | 22,327      | 13,370      | 24,692    | 22,327      | 38,062      | 60,389      | 23,073      | 37,316      | 2,153,078   |
|                              | \$1,174,363 | \$4,487,480 | \$953,750 | \$1,174,363 | \$5,364,551 | \$6,599,521 | \$1,105,231 | \$5,494,290 | \$2,866,431 |

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