AVALONBAY COMMUNITIES INC
Form 10-Q
May 05, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2010
Commission file number 1-12672
AVALONBAY COMMUNITIES, INC.
(Exact name of registrant as specified in its charter)

Maryland	77-0404318
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

Ballston Tower
671 N. Glebe Rd, Suite 800
Arlington, Virginia 22203
(Address of principal executive offices, including zip code)
(703) 329-6300
(Registrant s telephone number, including area code)
(Former name, if changed since last report)

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 ninety (90) days.

Yes þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes þ No o

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

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

Yes o No þ

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer s classes of common stock as of the latest practicable date:

82,984,697 shares of common stock, par value $0.01 per share, were outstanding as of April 30, 2010

AVALONBAY COMMUNITIES, INC.
FORM 10-Q
INDEX

	Page
PART I FINANCIAL INFORMATION	
Item 1. Condensed Consolidated Financial Statements	
Condensed Consolidated Balance Sheets as of March 31, 2010 (unaudited) and December 31, 2009	1
Condensed Consolidated Statements of Operations and Other Comprehensive Income (unaudited) for the three months ended March 31, 2010 and 2009	2
Condensed Consolidated Statements of Cash Flows (unaudited) for the three months ended March 31, 2010 and 2009	3-4
Notes to Condensed Consolidated Financial Statements (unaudited)	5-18
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operation	19-40
Item 3. Quantitative and Qualitative Disclosures About Market Risk	41
Item 4. Controls and Procedures	41
PART II OTHER INFORMATION	
Item 1. Legal Proceedings	41-42
Item 1a. Risk Factors	42
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	42-43
Item 3. Defaults Upon Senior Securities	43
Item 4. (Removed and Reserved)	43
Item 5. Other Information	43
Item 6. Exhibits	43-45
Signatures	46

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

	3-31-10 (unaudited)	12-31-09
ASSETS		
Real estate:		
Land	$ 1,273,615	$ 1,250,679
Buildings and improvements	6,066,355	5,988,330
Furniture, fixtures and equipment	189,490	186,301
	7,529,460	7,425,310
Less accumulated depreciation	(1,533,579)	(1,477,772)
Net operating real estate	5,995,881	5,947,538
Construction in progress, including land	580,814	531,299
Land held for development	206,713	237,095
Operating real estate assets held for sale, net	86,610	117,555
Total real estate, net	6,870,018	6,833,487
Cash and cash equivalents	123,297	105,691
Cash in escrow	207,336	210,676
Resident security deposits	22,456	23,646
Investments in unconsolidated real estate entities	72,999	74,570
Deferred financing costs, net	32,375	34,531
Deferred development costs	85,302	87,763
Prepaid expenses and other assets	94,351	87,241
Total assets	$ 7,508,134	$ 7,457,605
LIABILITIES AND STOCKHOLDERS EQUITY		
Unsecured notes, net	$ 1,659,529	$ 1,658,029
Mortgage notes payable	2,290,378	2,316,843
Dividends payable	73,804	72,773
Payables for construction	48,368	49,623
Accrued expenses and other liabilities	235,951	233,029
Accrued interest payable	22,520	35,069
Resident security deposits	33,532	33,646
Liabilities related to real estate assets held for sale	1,679	2,669
Total liabilities	4,365,761	4,401,681
Redeemable noncontrolling interests	6,724	5,797
Stockholders equity:		

Preferred stock, $0.01 par value; $25 liquidation preference; 50,000,000 shares authorized at both March 31, 2010 and December 31, 2009; zero shares issued and outstanding at March 31, 2010 and December 31, 2009		
Common stock, $0.01 par value; 140,000,000 shares authorized at both March 31, 2010 and December 31, 2009; 82,693,377 and 81,528,957 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively	827	815
Additional paid-in capital	3,287,671	3,200,367
Accumulated earnings less dividends	(152,324)	(149,988)
Accumulated other comprehensive loss	(525)	(1,067)
Total stockholders equity	3,135,649	3,050,127
Total liabilities and stockholders equity	$ 7,508,134	$ 7,457,605

See accompanying notes to Condensed Consolidated Financial Statements.

1

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

	For the three months ended	
	3-31-10	3-31-09
Revenue:		
Rental and other income	$ 213,738	$ 208,265
Management, development and other fees	1,849	1,468
Total revenue	215,587	209,733
Expenses:		
Operating expenses, excluding property taxes	65,031	62,780
Property taxes	23,172	20,886
Interest expense, net	42,541	30,130
Gain on extinguishment of debt, net		(1,062)
Depreciation expense	56,095	50,073
General and administrative expense	8,895	7,247
Total expenses	195,734	170,054
Equity in income of unconsolidated entities	227	3,457
Income from continuing operations	20,080	43,136
Discontinued operations:		
Income from discontinued operations	1,995	3,965
Gain on sale of communities	50,291	
Total discontinued operations	52,286	3,965
Net income	72,366	47,101
Net loss attributable to redeemable noncontrolling interests	157	324
Net income attributable to common stockholders	$ 72,523	$ 47,425
Other comprehensive income:		
Unrealized gain on cash flow hedges	542	376
Comprehensive income	$ 73,065	$ 47,801

Earnings per common share basic:				
Income from continuing operations attributable to common stockholders	$	0.25	$	0.55
Discontinued operations attributable to common stockholders		0.64		0.05
Net income attributable to common stockholders	$	0.89	$	0.60
Earnings per common share diluted:				
Income from continuing operations attributable to common stockholders	$	0.25	$	0.54
Discontinued operations attributable to common stockholders		0.63		0.05
Net income attributable to common stockholders	$	0.88	$	0.59
Dividends per common share:	$	0.8925	$	0.8925

See accompanying notes to Condensed Consolidated Financial Statements.

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

	For the three months ended	
	3-31-10	3-31-09
Cash flows from operating activities:		
Net income	$ 72,366	$ 47,101
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation expense	56,095	50,073
Depreciation expense from discontinued operations		2,567
Amortization of deferred financing costs and debt premium/discount	2,246	2,223
Amortization of stock-based compensation	2,226	2,368
Equity in loss (income) of unconsolidated entities, net of eliminations	226	(4,281)
Gain on sale of real estate assets	(50,291)	
Gain on extinguishment of debt, net		(1,062)
Decrease (increase) in cash in operating escrows	269	(166)
Increase in resident security deposits, prepaid expenses and other assets	(4,813)	(2,669)
Decrease in accrued expenses, other liabilities and accrued interest payable	(9,441)	(5,333)
Net cash provided by operating activities	68,883	90,821
Cash flows from investing activities:		
Development/redevelopment of real estate assets including land acquisitions and deferred development costs	(118,604)	(148,333)
Capital expenditures existing real estate assets	(1,475)	(839)
Capital expenditures non-real estate assets	(359)	(294)
Proceeds from sale of real estate, net of selling costs	81,335	
Decrease in payables for construction	(1,255)	(7,128)
Decrease in cash in construction escrows	3,071	23,884
Decrease in investments in unconsolidated real estate entities	1,244	3,029
Net cash used in investing activities	(36,043)	(129,681)
Cash flows from financing activities:		
Issuance of common stock	83,896	35
Dividends paid	(72,603)	(68,841)
Net borrowings under unsecured credit facility		235,000
Repayments of mortgage notes payable	(26,465)	(2,107)
Repayment of unsecured notes		(100,573)
Distributions to DownREIT partnership unitholders	(14)	(25)
Distributions to joint venture and profit-sharing partners	(48)	
Net cash (used in) provided by financing activities	(15,234)	63,489

Net increase in cash and cash equivalents	17,606	24,629
Cash and cash equivalents, beginning of period	105,691	65,706
Cash and cash equivalents, end of period	$ 123,297	$ 90,335
Cash paid during the period for interest, net of amount capitalized	$ 49,552	$ 33,717

See accompanying notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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

During the three months ended March 31, 2010:

96,394 shares of common stock valued at $7,152 were issued in connection with stock grants, 1,998 shares valued at $159 were issued through the Company s dividend reinvestment plan, 38,960 shares valued at $3,167 were withheld to satisfy employees tax withholding and other liabilities, 1,300 shares valued at $38 were forfeited, and 3,283 shares valued at $161 were issued to members of the board of directors in fulfillment of deferred stock awards, for a net value of $4,267. In addition, the Company granted 126,484 options for common stock at a value of $2,460.

The Company recorded a decrease to other liabilities and a corresponding increase to other comprehensive income of $542 and recorded an increase to prepaid expenses and other assets of $1,410, with a corresponding offset to the basis of unsecured notes, net to record the impact of the Company s hedge accounting activity (as described in Note 5, Derivative Instruments and Hedging Activities).

Common dividends declared but not paid totaled $73,804.

The Company recorded an increase of $1,145 in redeemable noncontrolling interests with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units. For further discussion of the nature and valuation of these items, see Note 11, Fair Value.

During the three months ended March 31, 2009:

2,624,641 shares of common stock valued at $139,058 were issued as part of the special dividend declared in the fourth quarter of 2008, 161,719 shares of common stock valued at $7,860 were issued in connection with stock grants, 2,257 shares valued at $120 were issued through the Company s dividend reinvestment plan, 29,243 shares valued at $1,265 were withheld to satisfy employees tax withholding and other liabilities and 1,031 shares valued at $101 were forfeited, for a net value of $145,672. In addition, the Company granted 344,801 options for common stock at a value of $2,252.

The Company recorded a decrease to other liabilities and a corresponding increase to other comprehensive income of $376 to record the impact of the Company s hedge accounting activity.

Common dividends declared but not paid totaled $71,330.

The Company recorded a decrease of $3,953 in redeemable noncontrolling interests with a corresponding increase to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units.

AVALONBAY COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(Dollars in thousands, except per share data)

1. Organization, Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

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

At March 31, 2010, the Company owned or held a direct or indirect ownership interest in 165 operating apartment communities containing 47,813 apartment homes in ten states and the District of Columbia, of which seven communities containing 2,615 apartment homes were under reconstruction. In addition, the Company owned or held a direct or indirect ownership interest in seven communities under construction that are expected to contain an aggregate of 2,509 apartment homes when completed. The Company also owned or held a direct or indirect ownership interest in rights to develop an additional 29 communities that, if developed as expected, will contain an estimated 7,361 apartment homes.

The interim unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements required by GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited financial statements should be read in conjunction with the financial statements and notes included in the Company s 2009 Annual Report on Form 10-K. The results of operations for the three months ended March 31, 2010 are not necessarily indicative of the operating results for the full year. Management believes the disclosures are adequate to ensure the information presented is not misleading. In the opinion of management, all adjustments and eliminations, consisting only of normal, recurring adjustments necessary for a fair presentation of the financial statements for the interim periods, have been included.

All capitalized terms have the meaning as provided elsewhere in this Form 10-Q.

Earnings per Common Share

Basic earnings per share is computed by dividing net income attributable to common stockholders by the weighted average number of shares outstanding during the period. All outstanding unvested restricted share awards contain rights to non-forfeitable dividends and participate in undistributed earnings with common shareholders and, accordingly, are considered participating securities that are included in the two-class method of computing basic earnings per share (EPS). Both the unvested restricted shares and other potentially dilutive common shares, and the related impact to earnings, are considered when calculating earnings per share on a diluted basis. The Company s earnings per common share are determined as follows:

	For the three months ended 3-31-10	3-31-09
Basic and diluted shares outstanding		
Weighted average common shares basic	81,637,686	78,752,744
Weighted average DownREIT units outstanding	15,351	19,427
Effect of dilutive securities	657,633	1,020,110
Weighted average common shares diluted	82,310,670	79,792,281
Calculation of Earnings per Share basic		
Net income attributable to common stockholders	$ 72,523	$ 47,425
Net income allocated to unvested restricted shares	(230)	(152)
Net income attributable to common stockholders, adjusted	$ 72,293	$ 47,273
Weighted average common shares basic	81,637,686	78,752,744
Earnings per common share basic	$ 0.89	$ 0.60
Calculation of Earnings per Share diluted		
Net income attributable to common stockholders	$ 72,523	$ 47,425
Add: noncontrolling interests of DownREIT unitholders in consolidated partnerships, including discontinued operations	14	25
Adjusted net income available to common stockholders	$ 72,537	$ 47,450
Weighted average common shares diluted	82,310,670	79,792,281
Earnings per common share diluted	$ 0.88	$ 0.59

Certain options to purchase shares of common stock in the amounts of 1,641,986 and 2,379,353 were outstanding at March 31, 2010 and 2009, respectively, but were not included in the computation of diluted earnings per share because such options were anti-dilutive.

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. The forfeiture rate at March 31, 2010 is based on the average forfeiture activity over a period equal to the estimated life of the stock options, and was 1.4%. The application of estimated forfeitures did not materially impact compensation expense for the three months ended March 31, 2010 or 2009.

Abandoned Pursuit Costs and Impairment of Long-Lived Assets

The Company capitalizes pre-development costs incurred in pursuit of new development opportunities for which the Company currently believes future development is probable (Development Rights). Future development of these Development Rights is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and the availability of capital. Initial pre-development costs incurred for pursuits for which future development is not yet considered probable are expensed as incurred. In addition, if the status of a Development Right changes, making future development by the Company no longer probable, any capitalized pre-development costs are written off with a charge to expense. The Company expensed costs related to abandoned pursuits, which includes the abandonment of Development Rights as well as costs incurred in pursuing the disposition of assets, in the amounts of $505 and $1,093 for the three months ended March 31, 2010 and 2009. These costs are included in operating expenses, excluding property taxes on the accompanying Condensed 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 evaluates its real estate and other long-lived assets for impairment when potential indicators of impairment exist. Such assets are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the Company assesses its recoverability by comparing the carrying amount of the long-lived asset to its estimated undiscounted future cash flows. If the carrying amount exceeds the aggregate undiscounted future cash flows, the Company recognizes an impairment loss to the extent the carrying amount

exceeds the estimated fair value of the long-lived asset. Based on periodic tests of recoverability of long-lived assets, for the three months ended March 31, 2010 and 2009, the Company did not record any impairment losses.

Legal and Other Contingencies

As previously reported, on August 13, 2008 the U.S. Attorney s Office for the Southern District of New York filed a civil lawsuit against the Company and the joint venture in which it has an interest that owns Avalon Chrystie Place. The lawsuit alleges that Avalon Chrystie Place was not designed and constructed in accordance with the accessibility requirements of the Fair Housing Act (FHA). The Company designed and constructed Avalon Chrystie Place with a view to compliance with New York City s Local Law 58, which for more than 20 years has been New York City s code regulating the accessible design and construction of apartments. After the filing of its answer and affirmative defenses, during the fourth quarter of 2009 the plaintiff served the Company with discovery requests relating to communities owned by the Company nationwide. The Company objected to these discovery requests as being overly broad, as the plaintiff s complaint made factual allegations with regard to Avalon Chrystie Place only. A magistrate judge agreed with the Company and limited discovery to Avalon Chrystie Place. The plaintiff is appealing the magistrate judge s ruling. Due to the preliminary nature of this matter, including whether the scope of the suit will be extended to other properties, the Company cannot predict or determine the outcome of this matter, nor is it reasonably possible to estimate the amount of loss, if any, that would be associated with an adverse decision or settlement.

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

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to amounts in prior period financial statements to conform to current period presentations.

Recently Adopted Accounting Standards

In January 2010, the Financial Accounting Standards Board (FASB) issued guidance on accounting for distributions to shareholders with components of stock and cash. This guidance clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate, is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend. The Company already follows the practices required by this guidance, so required adoption of this guidance did not impact the Company s financial position or results of operations.

In January 2010, the FASB issued guidance on fair value measurements and disclosures. This guidance specifies that a reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. In addition**,** a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number) related to Level 3 fair value measurements as part of a reconciliation of the beginning and ending balances. It also clarifies the disclosure requirements related to the level of disaggregation, significant inputs and valuation techniques. The adoption of this guidance did not impact the Company s financial position or results of operations.

In February 2010, the FASB issued guidance on subsequent events. This guidance provides a definition for SEC filer and eliminates the requirement to disclose the date through which subsequent events have been evaluated. The adoption of this guidance did not impact the Company s financial position or results of operations.
In June 2009, the FASB issued guidance to significantly amend the consolidation guidance applicable to variable interest entities (VIEs). The consolidation model was modified to one based on control and economics, and replaces the current quantitative primary beneficiary analysis with a qualitative analysis. The primary beneficiary of a VIE will be the entity that has (i) the power to direct the activities of the VIE that most significantly impact the VIE s economic performance and (ii) the obligation to absorb losses or receive benefits that could potentially be significant to the VIE. If multiple unrelated parties share such power, as defined, no party will be required to consolidate the VIE. Further, the guidance requires continual reconsideration of the primary beneficiary of a VIE and adds an additional reconsideration event for determination of whether an entity is a VIE. The amendments also require expanded disclosures related to VIEs which are largely consistent with the disclosure framework currently applied by the Company. The new guidance was effective January 1, 2010 for the Company. The adoption of this guidance did not impact the Company s financial position or results of operations.
2. Interest Capitalized
The Company capitalizes interest during the development and redevelopment of real estate assets. Capitalized interest associated with the Company s development or redevelopment activities totaled $9,836 and $12,368 for the three months ended March, 31, 2010 and 2009, respectively.
3. Notes Payable, Unsecured Notes and Credit Facility
The Company s mortgage notes payable, unsecured notes and Credit Facility, as defined below, as of March 31, 2010 and December 31, 2009, are summarized below. The following amounts and discussion do not include the mortgage notes related to the communities classified as held for sale, if any, as of March 31, 2010 and December 31, 2009, as shown in the Condensed Consolidated Balance Sheets (see Note 7, Real Estate Disposition Activities).

	3-31-10	12-31-09
Fixed rate unsecured notes [1]	$ 1,358,347	$ 1,358,257
Variable rate unsecured notes [2]	301,182	299,772
Fixed rate mortgage notes payable conventional and tax-exempt	1,606,254	1,632,605
Variable rate mortgage notes payable conventional and tax-exempt	684,124	684,238
Total notes payable and unsecured notes	3,949,907	3,974,872
Variable rate unsecured credit facility		
Total mortgage notes payable, unsecured notes and Credit Facility	$ 3,949,907	$ 3,974,872

(1) Balances at March 31, 2010 and December 31, 2009 include $2,130 and $2,220 of debt discount.

(2) Balances at March 31, 2010 and December 31,

2009 include $1,182 and ($228) for basis adjustments resulting from qualifying fair value hedging relationships.

The following debt activity occurred during the three months ended March 31, 2010:

In February 2010, the Company repaid a 6.47% fixed rate secured mortgage note in the amount of $13,961 in advance of its March 2012 scheduled maturity date.

In March 2010, the Company repaid a 6.95% fixed rate secured mortgage note in the amount of $11,226 in advance of its February 2025 scheduled maturity date.

In the aggregate, secured notes payable mature at various dates from October 2010 through July 2066, and are secured by certain apartment communities and improved land parcels (with a net carrying value of $1,829,247 as of March 31, 2010). As of March 31, 2010, the Company has guaranteed approximately $437,729 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 5.1% at March 31, 2010 and December 31, 2009. The weighted average interest rate of the Company s variable rate mortgage notes payable and its Credit Facility, including the effect of certain financing related fees, was 3.4% at March 31, 2010 and 2.9% at December 31, 2009.

Scheduled payments and maturities of mortgage notes payable and unsecured notes outstanding at March 31, 2010 are as follows:

Year	Secured notes payments [1]	Secured notes maturities	Unsecured notes maturities	Stated interest rate of unsecured notes
2010	$ 3,589	$ 29,387	$ 14,576	7.500%
			75,000	7.038%(2)
2011	10,776	36,610	39,900	6.625%
			150,000	5.667%(2)
2012	14,034	108,224	201,601	6.125%
			104,400	5.500%
			75,000	4.325%(2)
2013	14,876	264,697	100,000	4.950%
2014	15,769	33,100	150,000	5.375%
2015	14,725	365,130		
2016	15,600		250,000	5.750%
2017	16,533	18,300	250,000	5.700%
2018	17,522			
2019	2,588	699,529		
Thereafter	110,705	498,684	250,000	6.100%
	$ 236,717	$ 2,053,661	$ 1,660,477	

(1) Secured note payments are comprised of the principal pay downs for amortizing mortgage notes.

(2) The weighted average interest rate for the swapped

unsecured notes
as of March 31,
2010.

The Company has a variable rate unsecured credit facility (the Credit Facility) in the amount of $1,000,000 with a syndicate of commercial banks, to whom the Company pays an annual facility fee of approximately $1,250. The Company did not have any amounts outstanding under the Credit Facility and had $46,055 outstanding in letters of credit as of March 31, 2010. At December 31, 2009, there were no amounts outstanding under the Credit Facility and $44,105 outstanding in letters of credit. The 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 (0.67% at March 31, 2010). The stated spread over LIBOR can vary from LIBOR plus 0.325% to LIBOR plus 1.00% based on the Company s credit ratings. In addition, the 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 Credit Facility for up to $650,000. The competitive bid option may result in lower pricing than the stated rate if market conditions allow. The Company did not have any amounts outstanding under this competitive bid option as of March 31, 2010. The Credit Facility matures in November 2011, assuming exercise of a one-year renewal option by the Company.

The Company was in compliance at March 31, 2010 with certain customary financial and other covenants under the Credit Facility and the Company s unsecured notes.

4. Stockholders Equity

The following summarizes the changes in stockholders equity for the three months ended March 31, 2010:

	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total stockholders equity
Balance at December 31, 2009	$ 815	$ 3,200,367	$ (149,988)	$ (1,067)	$ 3,050,127
Net income attributable to common stockholders			72,523		72,523
Unrealized gain on cash flow hedges				542	542
Change in redemption value of redeemable noncontrolling interest			(1,145)		(1,145)
Dividends declared to common stockholders			(73,804)		(73,804)
Issuance of common stock	12	80,909	90		81,011
Amortization of deferred compensation		6,395			6,395
Balance at March 31, 2010	$ 827	$ 3,287,671	$ (152,324)	$ (525)	$ 3,135,649

During the three months ended March 31, 2010, the Company:

(i) issued 891,685 shares of common stock through public offerings;

(ii) issued 211,320 shares of common stock in connection with stock options exercised;

(iii) issued 1,998 common shares through the Company s dividend reinvestment plan;

(iv) issued 96,394 common shares in connection with stock grants;

(v) issued 3,283 shares to members of the Board of Directors in fulfillment of deferred stock awards;

(vi) withheld 38,960 common shares to satisfy employees tax withholding and other liabilities; and

(vii) had 1,300 shares of restricted common stock forfeited.

In addition, the Company granted 126,484 options for common stock to employees. Any deferred compensation related to the Company s stock option and restricted stock grants during the three months ended March 31, 2010 is not reflected on the Company s Condensed Consolidated Balance Sheet as of March 31, 2010, and will not be reflected until earned as compensation cost.

In August 2009, the Company commenced a continuous equity program (the CEP), under which the Company may sell up to $400,000 of its common stock until August 2012. During the three months ended March 31, 2010, the Company sold 891,685 shares under this program at an average sales price of $84.10 per share, for net proceeds of $73,870.

5. Derivative Instruments and Hedging Activities

The Company enters into interest rate swap and interest rate cap agreements (collectively, the Hedging Derivatives) for interest rate risk management purposes and in conjunction with certain variable rate secured debt to satisfy lender requirements. The Company does not enter into derivative transactions for trading or other speculative purposes. The

following table summarizes the consolidated Hedging Derivatives at March 31, 2010, excluding derivatives executed to hedge debt on communities classified as held for sale (dollars in thousands):

	Non-designated Hedges	Cash Flow Hedges		Fair Value Hedges
	Interest Rate Caps	Interest Rate Caps	Interest Rate Swaps	Interest Rate Swaps
Notional balance	$ 109,847	$ 15,615	$ 43,044	$ 300,000
Weighted average interest rate [1]	1.5%	1.7%	6.5%	5.7%
Weighted average capped interest rate	6.9%	6.0%	n/a	n/a
Earliest maturity date	Apr-11	Jun-12	Jun-10	Dec-10
Latest maturity date	Mar-14	Jun-12	Jun-10	Jan-12
Estimated fair value, asset/(liability)	$ 33	$ 6	$ (365)	$ 1,182

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

Excluding derivatives executed to hedge debt on communities classified as held for sale, the Company had three derivatives designated as cash flow hedges, five derivatives designated as fair value hedges and five derivatives not designated as hedges at March 31, 2010. Fair value changes for derivatives that are not in qualifying hedge relationships are reported as a component of general and administrative expenses on the accompanying Condensed Consolidated Statements of Operations and Other Comprehensive Income. Fair value changes for derivatives not in qualifying hedge relationships for the three months ended March 31, 2010, were not material. For the derivative positions that the Company has determined qualify as effective cash flow hedges, the Company has recorded 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 in qualifying cash flow hedges to their fair value and recognize the impact of hedge accounting, the Company recorded an increase in other comprehensive income of $542 and $376 during the three months ended March 31, 2010 and 2009, respectively. The amount reclassified into earnings for the three months ended March 31, 2010, as well as the estimated amount included in accumulated other comprehensive income as of March 31, 2010, 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. For the derivative positions that the Company has determined qualify as effective fair value hedges, the Company has recorded an increase in the fair value of $1,410 with the derivatives fair value reported as a component of prepaid expenses and other assets, with the associated gain as an adjustment to the carrying amount of the corresponding debt being hedged on the accompanying Condensed Consolidated Balance Sheets as of March 31, 2010.

The Company assesses, both at inception and on an on-going basis, the effectiveness of qualifying cash flow and fair value 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 and non-designated derivatives that are in an asset position are recorded in prepaid expenses and other assets. The fair value of derivatives that are in a liability position are included in accrued expenses and other liabilities on the accompanying Condensed Consolidated Balance Sheets.

Derivative financial instruments expose the Company to credit risk in the event of nonperformance 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. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements of its derivative financial instruments. Refer to Note 11, Fair Value, for further discussion.

6. Investments in Real Estate Entities

As of March 31, 2010, the Company had investments in six unconsolidated real estate entities with ownership interest percentages ranging from 15.2% to 50%. There were no changes in the Company s ownership interest in, or

presentation of, its investments in unconsolidated real estate entities during the three months ended March 31, 2010. Detail of the real estate and associated funding underlying the Company s unconsolidated investments is presented in the following table (unaudited).

Unconsolidated Real Estate Investments	Company Ownership Percentage	# of Apartment Homes	Total Capitalized Cost (1)	Debt Amount	Type	Interest Rate (2)	Maturity Date
Fund I							
1. Avalon at Redondo Beach Los Angeles, CA		105	$ 24,622	$ 21,033	Fixed	4.87%	Oct 2011
2. Avalon Lakeside Chicago, IL		204	18,231	12,056	Fixed	5.74%	Mar 2012
3. Avalon Columbia Baltimore, MD		170	29,346	22,275	Fixed	5.48%	Apr 2012
4. Avalon Sunset Los Angeles, CA		82	20,903	12,750	Fixed	5.41%	Mar 2014
5. Avalon at Poplar Creek Chicago, IL		196	28,014	16,500	Fixed	4.83%	Oct 2012
6. Avalon at Civic Center Norwalk, CA		192	42,756	27,001	Fixed	5.38%	Aug 2013
7. Avalon Paseo Place Fremont, CA		134	24,825	11,800	Fixed	5.74%	Nov 2013
8. Avalon at Yerba Buena San Francisco, CA		160	66,791	41,500	Fixed	5.88%	Mar 2014
9. Avalon at Aberdeen Station Aberdeen, NJ		290	58,219	39,842	Fixed	5.64%	Sep 2013
10. The Springs Corona, CA		320	48,392	26,000	Fixed	6.06%	Oct 2014
11. Avalon Lombard Lombard, IL		256	35,319	17,243	Fixed	5.43%	Jan 2014
12. Avalon Cedar Place Columbia, MD		156	24,399	12,000	Fixed	5.68%	Feb 2014
13. Avalon Centerpoint Baltimore, MD		392	79,557	45,000	Fixed	5.74%	Dec 2013
14. Middlesex Crossing Billerica, MA		252	38,043	24,100	Fixed	5.49%	Dec 2013
15. Avalon Crystal Hill Ponoma, NY		168	38,603	24,500	Fixed	5.43%	Dec 2013
16. Avalon Skyway San Jose, CA		348	78,218	37,500	Fixed	6.11%	Mar 2014
17. Avalon Rutherford Station East Rutherford, NJ		108	36,771	20,019	Fixed	6.13%	Sep 2016
18. South Hills Apartments West Covina, CA		85	24,756	11,761	Fixed	5.92%	Oct 2013
19. Weymouth Place Weymouth, MA		211	25,298	13,455	Fixed	5.12%	Mar 2015
Total Fund I	15.2%	3,829	$ 743,063	$ 436,335		5.6%	
Fund II							
1. Avalon Bellevue Park Bellevue, WA		220	$ 33,581	$ 21,515	Fixed	5.52%	Jun 2019
2. The Hermitage Fairfax, VA		491	71,084		N/A		N/A
3. Avalon Rothbury Gaithersburg, MD		203	31,250		N/A		N/A
Fund II corporate debt		N/A	N/A	61,500	Variable	2.74%	2010(3)
Total Fund II	31.3%	914	$ 135,915	$ 83,015		3.5%	
Other Operating Joint Ventures							
1. Avalon Chrystie Place I New York, NY (4)	20.0%	361	$ 135,270	$ 117,000	Variable	0.92%	Nov 2036
2. Avalon at Mission Bay North II San Francisco, CA (5)	25.0%	313	124,009	105,000	Fixed	6.02%	Dec 2015

3. Avalon Del Rey	Los Angeles, CA	30.0%	309	70,037	45,720	Variable	3.57%	Apr 2016
Other Development Joint Ventures								
1. Aria at Hathorne	Danvers, MA (5) (6)	50.0%	64	N/A	2,420	Variable	4.19%	Jun 2010
Total Other Joint Ventures			1,047	$ 329,316	$ 270,140		3.4%	
Total Unconsolidated Investments			5,790	$ 1,208,294	$ 789,490		4.6%	

(1) Represents total capitalized cost as of March 31, 2010.

(2) Represents weighted average rate on outstanding debt.

(3) As of March 31, 2010, these borrowings are drawn under an unsecured credit facility maturing in December 2010.

(4) After the venture makes certain threshold distributions to the third-party partner, the Company generally receives 50% of all further distributions.

(5) The Company has contributed land at a stepped up basis as its only capital contribution to this development. The Company is not guaranteeing the construction

or acquisition loans, nor is it responsible for any costs over runs until certain thresholds are satisfied.

(6) After the venture makes certain threshold distributions to the Company, the Company receives 50% of all further distributions.

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

	3-31-10 (unaudited)	12-31-09 (unaudited)
Assets:		
Real estate, net	$ 1,105,589	$ 1,065,328
Other assets	44,279	39,502
Total assets	$ 1,149,868	$ 1,104,830
Liabilities and partners capital:		
Mortgage notes payable and credit facility	$ 789,490	$ 758,487
Other liabilities	24,266	19,669
Partners capital	336,112	326,674
Total liabilities and partners capital	$ 1,149,868	$ 1,104,830

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

	For the three months ended (unaudited)	
	3-31-10	3-31-09
Rental and other income	$ 27,033	$ 25,156
Operating and other expenses	(13,428)	(11,021)
Interest expense, net	(9,489)	(8,778)
Depreciation expense	(8,981)	(7,806)
Net loss	$ (4,865)	$ (2,449)

In conjunction with the acquisition and development of 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 $10,946 at March 31, 2010 and $11,047 at December 31, 2009 of the respective investment balances.

As part of the formation of the AvalonBay Value Added Fund, LP (Fund I) and the AvalonBay Value Added Fund II, LP (Fund II), the Company provided separate and distinct guarantees to one of the limited partners in each of the ventures. These guarantees are specific to the respective fund and any impacts or obligation of the Company to perform under one of the guarantees has no impact on the Company s obligations with respect to the other guarantee. The guarantees provide that, if, upon final liquidation of Fund I or Fund II, the total amount of all distributions to the guaranteed partner during the life of the respective 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 guaranteed partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the guaranteed partner (maximum of approximately $7,500 for Fund I and approximately $1,470 for Fund II as of March 31, 2010).

As of March 31, 2010, the expected realizable values of the real estate assets owned by Fund I and Fund II are considered adequate to cover such potential payments under a liquidation scenario. The estimated fair value of and the Company s obligation under these guarantees, both at inception and as of March 31, 2010, was not significant and

therefore the Company has not recorded any obligation for either of these guarantees as of March 31, 2010.

In February 2010, Fund II purchased its third community, located in Gaithersburg, Maryland. The garden-style community, renamed Avalon Rothbury, contains 203 homes and was acquired for a purchase price of $31,250 or approximately $154 per apartment home.

7. Real Estate Disposition Activities

During the three months ended March 31, 2010, the Company sold two wholly owned communities, Avalon at Danada Farms, located in Wheaton, Illinois and Avalon Knoll, located in Germantown, Maryland. In the aggregate, these two communities contain 595 apartment homes and were sold for a gross sales price of $82,950. These dispositions resulted

in a gain in accordance with GAAP of approximately $50,291. As of March 31, 2010, the Company had one community that qualified as discontinued operations and held for sale.
The operations for any real estate assets sold from January 1, 2009 through March 31, 2010 and the real estate assets that qualified as discontinued operations and held for sale as of March 31, 2010 have been presented as such in the accompanying Condensed Consolidated Financial Statements. Accordingly, certain reclassifications have been made to prior years to reflect discontinued operations consistent with current year presentation.
The following is a summary of income from discontinued operations for the periods presented:

	For the three months ended	
	3-31-10	3-31-09
Rental income	$ 3,202	$ 9,946
Operating and other expenses	(1,207)	(3,237)
Interest expense, net		(177)
Depreciation expense		(2,567)
Income from discontinued operations	$ 1,995	$ 3,965

8. Segment Reporting
The Company s reportable operating segments include Established Communities, Other Stabilized Communities, and Development/Redevelopment Communities. Annually as of January 1st, 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.
In addition, the Company owns land for future development and has other corporate assets that are not allocated to an operating segment.
The Company s segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing 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 three months ended March 31, 2010 and 2009 is as follows:

	For the three months ended	
	3-31-10	3-31-09
Net income	$ 72,366	$ 47,101
Indirect operating expenses, net of corporate income	7,232	8,575
Investments and investment management expense	1,039	916
Expensed development and other pursuit costs	505	1,093
Interest expense, net	42,541	30,130
Gain on extinguishment of debt, net		(1,062)
General and administrative expense	8,895	7,247
Equity in income of unconsolidated entities	(227)	(3,457)
Depreciation expense	56,095	50,073
Gain on sale of real estate assets	(50,291)	
Income from discontinued operations	(1,995)	(3,965)

Net operating income	$ 136,160	$ 136,651

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

The following table provides details of the Company s segment information as of the dates specified. 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. Segment information for the three months ended March 31, 2010 and 2009 have been adjusted for the communities that were sold from January 1, 2009 through March 31, 2010, or otherwise qualify as discontinued operations as of March 31, 2010, as described in Note 7, Real Estate Disposition Activities.

	For the three months ended			
	Total revenue	NOI	% NOI change from prior year	Gross real estate (1)
For the period ended March 31, 2010				
Established				
New England	$ 35,193	$ 21,643	(4.6%)	$ 1,086,197
Metro NY/NJ	44,390	29,507	(3.5%)	1,385,405
Mid-Atlantic/Midwest	29,391	17,546	(5.6%)	750,566
Pacific Northwest	6,617	4,426	(15.0%)	239,683
Northern California	29,416	20,158	(14.5%)	1,108,224
Southern California	14,773	9,707	(9.9%)	467,275
Total Established	159,780	102,987	(7.6%)	5,037,350
Other Stabilized	28,917	16,869	n/a	1,556,920
Development / Redevelopment	25,041	16,304	n/a	1,429,601
Land Held for Future Development	n/a	n/a	n/a	206,713
Non-allocated (2)	1,849	n/a	n/a	86,403
Total	$ 215,587	$ 136,160	(0.4%)	$ 8,316,987
For the period ended March 31, 2009				
Established				
New England	$ 30,641	$ 19,262	(3.0%)	$ 857,240
Metro NY/NJ	39,540	26,280	(3.9%)	1,047,109
Mid-Atlantic/Midwest	30,529	19,155	(1.2%)	773,828
Pacific Northwest	7,381	5,214	0.4%	238,474
Northern California	25,857	19,429	1.5%	855,263
Southern California	16,116	11,346	(5.6%)	426,467

Total Established	150,064	100,686	(2.2%)	4,198,381
Other Stabilized	30,995	19,811	n/a	1,420,710
Development / Re				