AVALONBAY COMMUNITIES INC
Form 10-Q
August 06, 2015

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 June 30, 2015

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 ý 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 ý No o

Indicate by check mark whether the 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 x	Accelerated filer o
Non-accelerated filer (Do not check if a smaller reporting company) o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes o No ý

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:

132,902,193 shares of common stock, par value $0.01 per share, were outstanding as of July 31, 2015.

Table of Contents

AVALONBAY COMMUNITIES, INC.
FORM 10-Q
INDEX

Table of Contents

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

	6/30/2015 (unaudited)	12/31/2014
ASSETS		
Real estate:		
Land and improvements	$3,524,350	$3,432,769
Buildings and improvements	12,634,057	12,258,009
Furniture, fixtures and equipment	429,308	402,940
	16,587,715	16,093,718
Less accumulated depreciation	(3,092,205)	(2,874,578)
Net operating real estate	13,495,510	13,219,140
Construction in progress, including land	1,536,368	1,417,246
Land held for development	487,205	180,516
Operating real estate assets held for sale, net	61,939	118,838
Total real estate, net	15,581,022	14,935,740
Cash and cash equivalents	65,126	509,460
Cash in escrow	103,679	95,625
Resident security deposits	31,290	29,617
Investments in unconsolidated real estate entities	264,616	298,315
Deferred financing costs, net	40,108	39,728
Deferred development costs	28,103	67,029
Prepaid expenses and other assets	206,532	201,209
Total assets	$16,320,476	$16,176,723
LIABILITIES AND EQUITY		
Unsecured notes, net	$3,567,831	$2,993,265
Variable rate unsecured credit facility	—	—
Mortgage notes payable	2,919,299	3,532,587
Dividends payable	166,113	153,207
Payables for construction	109,158	101,946
Accrued expenses and other liabilities	242,133	244,549
Accrued interest payable	40,809	41,318
Resident security deposits	53,403	49,189
Liabilities related to real estate assets held for sale	657	1,492
Total liabilities	7,099,403	7,117,553
Redeemable noncontrolling interests	10,588	12,765
Equity:		
Preferred stock, $0.01 par value; $25 liquidation preference; 50,000,000 shares authorized at June 30, 2015 and December 31, 2014; zero shares issued and outstanding at June 30, 2015 and December 31, 2014	—	—
Common stock, $0.01 par value; 280,000,000 shares authorized at June 30, 2015 and December 31, 2014; 132,888,167 and 132,050,382 shares issued and outstanding at	1,329	1,320

June 30, 2015 and December 31, 2014, respectively		
Additional paid-in capital	9,466,120	9,354,685
Accumulated earnings less dividends	(217,441)	(267,085)
Accumulated other comprehensive loss	(39,523)	(42,515)
Total equity	9,210,485	9,046,405
Total liabilities and equity	$16,320,476	$16,176,723

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	For the three months ended		For the six months ended	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Revenue:				
Rental and other income	$454,517	$411,134	$894,273	$808,131
Management, development and other fees	2,942	2,672	5,553	5,750
Total revenue	457,459	413,806	899,826	813,881
Expenses:				
Operating expenses, excluding property taxes	112,069	101,059	224,845	199,601
Property taxes	45,913	42,439	93,089	86,924
Interest expense, net	44,590	43,722	90,164	86,255
(Gain) loss on extinguishment of debt, net	(7,749)	412	(7,749)	412
Depreciation expense	118,627	110,395	235,480	216,762
General and administrative expense	11,628	10,220	22,111	19,456
Expensed acquisition, development and other pursuit costs, net of recoveries	673	2,017	1,860	2,732
Casualty and impairment gain, net	(17,114)	—	(11,326)	—
Total expenses	308,637	310,264	648,474	612,142
Equity in income of unconsolidated real estate entities	13,806	7,710	48,371	12,933
Gain on sale of real estate	9,625	—	9,647	—
Gain on sale of communities	—	60,945	70,936	60,945
Income from continuing operations	172,253	172,197	380,306	275,617
Discontinued operations:				
Income from discontinued operations	—	—	—	310
Gain on sale of discontinued operations	—	—	—	37,869
Total discontinued operations	—	—	—	38,179
Net income	172,253	172,197	380,306	313,796
Net loss (income) attributable to noncontrolling interests	71	(14,111)	163	(13,971)
Net income attributable to common stockholders	$172,324	$158,086	$380,469	$299,825
Other comprehensive income:				
Cash flow hedge losses reclassified to earnings	1,427	1,438	2,992	3,011
Comprehensive income	$173,751	$159,524	$383,461	$302,836

Earnings per common share - basic:				
Income from continuing operations attributable to common stockholders	$1.30	$1.22	$2.88	$2.02
Discontinued operations attributable to common stockholders	—	—	—	0.29
Net income attributable to common stockholders	$1.30	$1.22	$2.88	$2.31
Earnings per common share - diluted:				
Income from continuing operations attributable to common stockholders	$1.29	$1.21	$2.86	$2.02
Discontinued operations attributable to common stockholders	—	—	—	0.29
Net income attributable to common stockholders	$1.29	$1.21	$2.86	$2.31
Dividends per common share	$1.25	$1.16	$2.50	$2.32

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

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

	For the six months ended	
	6/30/2015	6/30/2014
Cash flows from operating activities:		
Net income	$380,306	$313,796
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation expense	235,480	216,762
Amortization of deferred financing costs	3,379	3,164
Amortization of debt premium	(14,815)	(17,554)
(Gain) loss on extinguishment of debt, net	(7,749)	412
Amortization of stock-based compensation	8,255	6,190
Equity in loss (income) of, and return on, unconsolidated entities and noncontrolling interests, net of eliminations	8,432	(1,363)
Casualty and impairment gain, net	(17,303)	—
Abandonment of development pursuits	—	1,455
Cash flow hedge losses reclassified to earnings	2,992	3,011
Gain on sale of real estate assets	(91,456)	(98,814)
(Increase) decrease in cash in operating escrows	(9,357)	3,489
Increase in resident security deposits, prepaid expenses and other assets	(3,439)	(8,094)
Decrease in accrued expenses, other liabilities and accrued interest payable	(2,823)	(12,743)
Net cash provided by operating activities	491,902	409,711
Cash flows from investing activities:		
Development/redevelopment of real estate assets including land acquisitions and deferred development costs	(865,497)	(547,800)
Capital expenditures - existing real estate assets	(50,584)	(20,617)
Capital expenditures - non-real estate assets	(1,432)	(5,187)
Proceeds from sale of real estate, net of selling costs	135,841	186,651
Insurance recoveries for property damage claims	44,142	—
Mortgage note receivable payment	—	21,748
Increase in payables for construction	7,126	1,389
Distributions from unconsolidated real estate entities	36,858	55,096
Investments in unconsolidated real estate entities	(803)	(2,796)
Net cash used in investing activities	(694,349)	(311,516)
Cash flows from financing activities:		
Issuance of common stock	97,326	214,970
Dividends paid	(318,240)	(288,610)
Issuance of mortgage notes payable	—	53,000
Repayments of mortgage notes payable, including prepayment penalties	(588,226)	(24,768)
Issuance of unsecured notes	574,066	250,000
Repayment of unsecured notes	—	(150,000)
Payment of deferred financing costs	(4,277)	(3,414)
Distributions to DownREIT partnership unitholders	(19)	(17)
Distributions to joint venture and profit-sharing partners	(187)	(170)
Redemption of preferred interest obligation	(2,330)	(4,800)

Net cash (used in) provided by financing activities	(241,887)	46,191
Net (decrease) increase in cash and cash equivalents	(444,334)	144,386
Cash and cash equivalents, beginning of period	509,460	281,355
Cash and cash equivalents, end of period	$65,126	$425,741
Cash paid during the period for interest, net of amount capitalized	$91,572	$94,343

See accompanying notes to Condensed Consolidated Financial Statements.

Table of Contents

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Supplemental disclosures of non-cash investing and financing activities:

During the six months ended June 30, 2015:

- As described in Note 4, “Equity,” 157,779 shares of common stock were issued as part of the Company's stock based compensation plans, of which 95,826 shares related to the conversion of restricted stock units to restricted shares, and the remaining 61,953 shares valued at $10,721,000 were issued in connection with new stock grants; 46,589 shares valued at $3,552,000 were issued in conjunction with the conversion of deferred stock awards; 1,028 shares valued at $177,000 were issued through the Company’s dividend reinvestment plan; 36,104 shares valued at $5,793,000 were withheld to satisfy employees’ tax withholding and other liabilities; and 2,011restricted stock units with a value of $226,000 previously issued in connection with employee compensation were canceled upon forfeiture.

- Common stock dividends declared but not paid totaled $166,113,000.

- The Company recorded a decrease of $1,807,000 in redeemable noncontrolling interest with a corresponding increase to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units. For further discussion of the nature and valuation of these items, see Note 10, “Fair Value.”

- The Company reclassified $2,992,000 of cash flow hedge losses from other comprehensive income to interest expense, net, to record the impact of the Company’s derivative and hedge accounting activity.

- As discussed in Note 5, "Investments in Real Estate Entities," the Company recognized a charge of $21,844,000 to write off the net book value of the fixed assets destroyed by the Edgewater fire.

During the six months ended June 30, 2014:

- The Company issued 113,822 shares of common stock as part of the Company's stock based compensation plan, of which 16,193 shares related to the conversion of restricted units to restricted shares, and the remaining 97,629 shares valued at $12,607,000 were issued in connection with new stock grants; 1,286 shares valued at $165,000 were issued through the Company’s dividend reinvestment plan; 50,105 shares valued at $4,689,000 were withheld to satisfy employees’ tax withholding and other liabilities; and restricted units valued at $1,284,000 previously issued in connection with employee compensation were canceled upon forfeiture.

- Common stock dividends declared but not paid totaled $152,113,000.

- The Company recorded a decrease of $626,000 in redeemable noncontrolling interest with a corresponding increase to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units.

- The Company reclassified $3,011,000 of cash flow hedge losses from other comprehensive income to interest expense, net, to record the impact of the Company’s derivative and hedge accounting activity.

- The Company derecognized $17,816,000 in noncontrolling interest in conjunction with the deconsolidation of an AvalonBay Value Added Fund I, L.P. ("Fund I") subsidiary.

4

Table of Contents

AVALONBAY COMMUNITIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
1. Organization, Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

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

At June 30, 2015, the Company owned or held a direct or indirect ownership interest in 257 operating apartment communities containing 74,857 apartment homes in 11 states and the District of Columbia, of which seven communities containing 2,787 apartment homes were under reconstruction. In addition, the Company has 26 communities under construction that are expected to contain an aggregate of 8,117 apartment homes when completed. The Company also owned or held a direct or indirect ownership interest in land or rights to land on which the Company expects to develop an additional 34 communities that, if developed as expected, will contain an estimated 10,080 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 2014 Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2015 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.

Capitalized terms used without definition have meanings 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 (dollars in thousands, except per share data):

Table of Contents

	For the three months ended		For the six months ended	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Basic and diluted shares outstanding				
Weighted average common shares - basic	131,977,578	129,856,335	131,930,916	129,574,118
Weighted average DownREIT units outstanding	7,500	7,500	7,500	7,500
Effect of dilutive securities	1,101,361	384,486	1,192,947	356,614
Weighted average common shares - diluted	133,086,439	130,248,321	133,131,363	129,938,232
Calculation of Earnings per Share - basic				
Net income attributable to common stockholders	$172,324	$158,086	$380,469	$299,825
Net income allocated to unvested restricted shares	(445)	(254)	(975)	(487)
Net income attributable to common stockholders, adjusted	$171,879	$157,832	$379,494	$299,338
Weighted average common shares - basic	131,977,578	129,856,335	131,930,916	129,574,118
Earnings per common share - basic	$1.30	$1.22	$2.88	$2.31
Calculation of Earnings per Share - diluted				
Net income attributable to common stockholders	$172,324	$158,086	$380,469	$299,825
Add: noncontrolling interests of DownREIT unitholders in consolidated partnerships, including discontinued operations	9	9	19	17
Adjusted net income available to common stockholders	$172,333	$158,095	$380,488	$299,842
Weighted average common shares - diluted	133,086,439	130,248,321	133,131,363	129,938,232
Earnings per common share - diluted	$1.29	$1.21	$2.86	$2.31

All options to purchase shares of common stock outstanding as of June 30, 2015 are included in the computation of diluted earnings per share. Certain options to purchase shares of common stock in the amount of 243,326 were outstanding at June 30, 2014, but were not included in the computation of diluted earnings per share because such options were anti-dilutive for the quarter.

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 June 30, 2015 was 1.0% and is based on the average forfeiture activity over a period equal to the estimated life of the stock options. The application of estimated forfeitures did not materially impact compensation expense for the three and six months ended June 30, 2015 or 2014.

Derivative Instruments and Hedging Activities

The Company enters into interest rate swap and interest rate cap agreements (collectively, “Hedging Derivatives”) for interest rate risk management purposes and in conjunction with certain variable rate secured debt to satisfy lender requirements. The Company does not enter into Hedging Derivatives transactions for trading or other speculative purposes. The Company assesses the effectiveness of qualifying cash flow and fair value hedges, both at inception and on an on-going basis. Hedge ineffectiveness is reported as a component of general and administrative expenses. The fair values of Hedging Derivatives that are in an asset position are recorded in prepaid expenses and other assets. The fair value of Hedging Derivatives that are in a liability position are included in accrued expenses and other liabilities. Fair value changes for derivatives that are not in qualifying hedge relationships are reported as a component of interest expense, net. For the Hedging Derivatives 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 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. The effective portion of the change in fair value of Hedging Derivatives that the Company has determined qualified as effective fair value hedges is reported as an adjustment to the carrying amount of the corresponding debt being hedged. See Note 10, "Fair Value," for further discussion of derivative financial instruments.

Legal and Other Contingencies

In January 2015, a fire occurred at the Company’s Avalon at Edgewater apartment community located in Edgewater, New Jersey ("Edgewater"). Edgewater consisted of two residential buildings. One building, containing 240 apartment homes, was destroyed. The second building, containing 168 apartment homes, suffered minimal damage and has been repaired. The Company is still assessing the direct losses resulting from the fire as well as its potential liability to third parties who incurred damages as a result of the fire. The Company is also evaluating whether to rebuild and replace the building that was destroyed and does not believe that the outcome of this decision will have a material impact on the Company’s financial condition or results of operations.

The Company believes that the fire was caused by sparks from a torch used during repairs being performed by a Company employee who was not a licensed plumber. The Company’s insurers have begun to negotiate and settle claims made by third parties who incurred property damage and other losses. Four putative class action lawsuits have been filed on behalf of Edgewater residents and others who may have been harmed by the fire. In addition, 15 lawsuits representing over 120 individual plaintiffs have been filed against the Company. The Company believes that it has meritorious defenses to the extent of damages claimed. Additional lawsuits arising from the fire may be filed.

Following the fire, the Company received a civil citation for “failure to notify Fire Department of an active fire” from Bergen County, New Jersey. The Company has decided not to appeal this citation. The Company has also received two citations that were deemed serious by the Occupational Safety and Health Administration ("OSHA"); the Company has informed OSHA that it plans to appeal these citations. It is possible that additional governmental investigations are or may be ongoing. The Company is unable to evaluate the nature and potential materiality of any such investigations or actions.

Having incurred applicable deductibles and a self-insured amount equal to 12% of the first $50,000,000 of property damage, the Company currently believes that all of its remaining liability to third parties and all of the Company's additional cost for replacement cost coverage for property damage resulting from the fire will be substantially covered by its insurance policies. However, the Company can give no assurances in this regard and continues to evaluate this matter. See Note 5, "Investments in Real Estate Entities," and Part II, Item 1, "Legal Proceedings," for further discussion of the casualty gains and losses and lawsuits associated with the Edgewater fire.

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

Acquisitions of Investments in Real Estate

The Company accounts for acquisitions of investments in real estate in accordance with the authoritative guidance for the initial measurement, which requires the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree to be recognized at fair value. Typical assets and liabilities acquired include land, building, furniture, fixtures, and equipment, and identified intangible assets and liabilities, consisting of the value of above or below market leases and in-place leases. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes various sources, including its own analysis of recently acquired and existing comparable properties in its portfolio and other market data.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to amounts in prior years' financial statements to conform to current year presentations as a result of changes in held for sale classification as described in Note 6, "Real Estate Disposition Activities."

Table of Contents

Recently Issued Accounting Standards

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers, a revenue recognition standard that will result in companies recognizing revenue from contracts when control for the service or product that is the subject of the contract is transferred from the seller to the buyer. The guidance is effective in the first quarter of 2018, and the Company is assessing whether the new standard will have a material effect on its financial position or results of operations.

In February 2015, the FASB issued ASU 2015-02, Consolidation: Amendments to the Consolidation Analysis, which amends the criteria for determining variable interest entities (“VIEs”), amends the criteria for determining if a service provider possesses a variable interest in a VIE, and eliminates the presumption that a general partner should consolidate a limited partnership. The guidance is effective in the first quarter of 2016 and allows for early adoption. The Company is currently assessing the effect of adoption on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs. The guidance requires debt issuance costs related to a recognized debt liability to be presented as a direct deduction from the carrying amount of that debt liability. The new guidance will only impact financial statement presentation. The guidance is effective in the first quarter of 2016 and allows for early adoption. The Company does not expect the adoption of this standard to materially impact its consolidated financial statements.

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 $19,800,000 and $18,626,000 for the three months ended June 30, 2015 and 2014, respectively, and $38,830,000 and $38,305,000 for the six months ended June 30, 2015 and 2014, respectively.

3. Notes Payable, Unsecured Notes and Credit Facility

The Company’s mortgage notes payable, unsecured notes, Term Loan and Credit Facility, both as defined below, as of June 30, 2015 and December 31, 2014, are summarized below (dollars in thousands). The following amounts and discussion do not include the mortgage notes related to the communities classified as held for sale, if any, as of June 30, 2015 and December 31, 2014, as shown in the Condensed Consolidated Balance Sheets (dollars in thousands) (see Note 6, “Real Estate Disposition Activities”).

	6/30/2015	12/31/2014
Fixed rate unsecured notes (1)	$3,275,000	$2,750,000
Term Loan	300,000	250,000
Fixed rate mortgage notes payable - conventional and tax-exempt (2)	1,812,557	2,400,677
Variable rate mortgage notes payable - conventional and tax-exempt (2)	1,046,332	1,047,461
Total mortgage notes payable and unsecured notes	6,433,889	6,448,138
Credit Facility	—	—
Total mortgage notes payable, unsecured notes and Credit Facility	$6,433,889	$6,448,138

(1) Balances at June 30, 2015 and December 31, 2014 exclude $7,169 and $6,735 of debt discount, respectively, as reflected in unsecured notes, net on the Company’s Condensed Consolidated Balance Sheets.

(2) Balances at June 30, 2015 and December 31, 2014 exclude $60,410 and $84,449 of debt premium, respectively, as reflected in mortgage notes payable on the Company’s Condensed Consolidated Balance Sheets.

The following debt activity occurred during the six months ended June 30, 2015:

- In January 2015, in conjunction with the disposition of Avalon on Stamford Harbor, another operating community, AVA Belltown, was substituted as collateral for the disposed community's outstanding fixed rate secured mortgage loan.

- In March 2015, the Company borrowed the final $50,000,000 available under the $300,000,000 variable rate unsecured term loan (the “Term Loan”), maturing in March 2021.

Table of Contents

- In April 2015, the Company repaid an aggregate of $481,582,000 principal amount of secured indebtedness, which includes eight fixed rate mortgage loans secured by eight wholly-owned operating communities, at par. The indebtedness had an aggregate effective interest rate of 3.12%, and a stated maturity date of November 2015. The Company incurred a gain on the early debt extinguishment of $8,724,000, representing the excess of the write-off of unamortized premium resulting from the debt assumed in the Archstone Acquisition, as defined in our Form 10-K for the year ended December 31, 2014.

- In May 2015, the Company issued $525,000,000 principal amount of unsecured notes in a public offering under its existing shelf registration statement for net proceeds of approximately $520,653,000. The notes mature in June 2025 and were issued at a 3.45% coupon interest rate.

- In June 2015, the Company repaid a $15,778,000 fixed rate secured mortgage note with an effective interest rate of 7.50% at par in advance of its February 2041 maturity date, recognizing a charge of $455,000 for a prepayment penalty and write-off of deferred financing costs.

- In June 2015, the Company repaid a $7,805,000 fixed rate secured mortgage note with an effective interest rate of 7.84% at par and without penalty in advance of its May 2027 maturity date, recognizing a charge of $263,000 for the write-off of deferred financing costs.

- In June 2015, the Company repaid the $74,531,000 fixed rate secured mortgage note secured by Edgewater with an effective interest rate of 5.95% at par and without penalty in advance of its May 2019 maturity date, recognizing a charge of $259,000 for the write-off of deferred financing costs.

The Company has a $1,300,000,000 revolving variable rate unsecured credit facility with a syndicate of banks (the “Credit Facility”) which matures in April 2017. The Company has the option to extend the maturity by up to one year under two, six month extension options for an aggregate fee of $1,950,000. The Credit Facility bears interest at varying levels based on the LIBOR rating levels achieved on the unsecured notes and on a maturity schedule selected by the Company. The current stated pricing is LIBOR plus 0.95% (1.14% at June 30, 2015), assuming a one month borrowing rate. The annual facility fee is approximately $1,950,000 based on the $1,300,000,000 facility size and based on the Company’s current credit rating.

The Company had no borrowings outstanding under the Credit Facility and had $46,119,000 and $49,407,000 outstanding in letters of credit that reduced the borrowing capacity as of June 30, 2015 and December 31, 2014, respectively.

In the aggregate, secured notes payable mature at various dates from December 2015 through July 2066, and are secured by certain apartment communities (with a net carrying value of $3,549,533,000, excluding communities classified as held for sale, as of June 30, 2015).

As of June 30, 2015, the Company has guaranteed approximately $234,500,000 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 4.7% and 4.5% at June 30, 2015 and December 31, 2014, respectively. The weighted average interest rate of the Company’s variable rate mortgage notes payable (conventional and tax exempt), the Term Loan and its Credit Facility, including the effect of certain financing related fees, was 1.8% at both June 30, 2015 and December 31, 2014.

Scheduled payments and maturities of mortgage notes payable and unsecured notes outstanding at June 30, 2015 are as follows (dollars in thousands):

9

Table of Contents

Year	Secured notes payments	Secured notes maturities	Unsecured notes maturities	Stated interest rate of unsecured notes	
2015	$8,443	$104,198	$—	—	%
2016	17,298	16,256	250,000	5.750	%
2017	18,365	710,091	250,000	5.700	%
2018	17,632	76,940	—	—	%
2019	6,440	588,428	—	—	%
2020	5,475	50,825	250,000	6.100	%
			400,000	3.625	%
2021	5,516	27,844	250,000	3.950	%
			300,000	LIBOR + 1.450%	
2022	5,881	—	450,000	2.950	%
2023	6,255	—	350,000	4.200	%
			250,000	2.850	%
2024	5,567	—	300,000	3.500	%
Thereafter	—	1,187,435	525,000	3.450	%
	$96,872	$2,762,017	$3,575,000		

The Company was in compliance at June 30, 2015 with customary financial and other covenants under the Credit Facility, the Term Loan, and the Company’s fixed rate unsecured notes.

4. Equity

The following summarizes the changes in equity for the six months ended June 30, 2015 (dollars in thousands):

	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total equity
Balance at December 31, 2014	$1,320	$9,354,685	$(267,085)	$ (42,515)	$9,046,405
Net income attributable to common stockholders	—	—	380,469	—	380,469
	—	—	—	2,992	2,992

Cash flow hedge loss reclassified to earnings					
Change in redemption value of redeemable noncontrolling interest	—	—	1,807	—	1,807
Dividends declared to common stockholders	—	—	(331,323)	—	(331,323)
Issuance of common stock, net of withholdings	9	96,337	(1,309)	—	95,037
Amortization of deferred compensation	—	15,098	—	—	15,098
Balance at June 30, 2015	$1,329	$9,466,120	$(217,441)	$(39,523)	$9,210,485

As of June 30, 2015 and December 31, 2014, the Company's charter had authorized for issuance a total of 280,000,000 shares of common stock and 50,000,000 shares of preferred stock.

Table of Contents

During the six months ended June 30, 2015, the Company:

i. issued 54,196 shares of common stock in connection with stock options exercised;
ii. issued 1,028 common shares through the Company’s dividend reinvestment plan;
iii. issued 157,779 common shares in connection with stock grants and the conversion of restricted stock units to restricted shares;
iv. issued 46,589 common shares in conjunction with the conversion of deferred stock awards;
v. withheld 36,104 common shares to satisfy employees’ tax withholding and other liabilities;
vi. issued 5,022 common shares through the Employee Stock Purchase Program; and
vii. issued 609,275 shares of common stock in partial settlement of the Forward.

Any deferred compensation related to the Company’s stock option, restricted stock and restricted stock unit grants during the six months ended June 30, 2015 is not reflected on the Company’s Condensed Consolidated Balance Sheet as of June 30, 2015, and will not be reflected until earned as compensation cost.

In August 2012, the Company commenced a third continuous equity program (“CEP III”), under which the Company was authorized by its Board of Directors to sell up to $750,000,000 of shares of its common stock from time to time during a 36-month period, which expired on August 3, 2015. Actual sales depended on a variety of factors determined by the Company, including market conditions, the trading price of the Company’s common stock and determinations by the Company of the appropriate sources of funding for the Company. In conjunction with CEP III, the Company engaged sales agents who receive compensation of approximately 1.5% of the gross sales price for shares sold. During the three and six months ended June 30, 2015, the Company had no sales under CEP III and had $346,304,000 authorized for common stock issuance remaining under this program as of June 30, 2015.

On September 9, 2014, based on a market closing price of $155.83 per share on that date, the Company entered into a forward contract to sell 4,500,000 shares of common stock for an initial forward price of $151.74 per share, net of offering fees and discounts (the "Forward"). The sales price and proceeds achieved by the Company are determined on the date or dates of settlement, with adjustments during the term of the contract for the Company’s dividends as well as for a daily interest factor that varies with changes in the Fed Funds rate. The Company generally has the ability to determine the date(s) and method of settlement, subject to certain conditions and the right of the Forward counterparty to accelerate settlement under certain circumstances. Settlement may be (i) physical sale of shares of our common stock for cash, (ii) net cash settlement, whereby the Company will either pay or receive the difference between the forward contract price and the weighted average market price for its common stock at the time of settlement, or (iii) net share settlement, whereby the Company will either receive or issue shares of its common stock, with the number of shares issued or received determined by the difference between the Forward price and the weighted average market price for its common stock at the time of settlement. The Forward price and the weighted average market price would in both cases be determined under the applicable terms of the Forward. Under either of the net settlement provisions, the Company will pay to the counterparty either cash or shares of its common stock when the weighted average market price of its common stock at the time of settlement exceeds the Forward price, and will receive either cash or shares of its common stock to the extent that the weighted average market price of its common stock at the time of settlement is less than the price under the Forward. Settlement of the Forward will occur on one or more dates not later than September 8, 2015. The Company accounts for the Forward as equity. Before the issuance of shares of the Company’s common stock, if any, upon physical or net share settlement of the Forward, the Company expects that the shares issuable upon settlement of the Forward will be reflected in its diluted earnings per share calculations using the treasury stock method. Under this method, the number of shares of the Company’s common stock used in calculating diluted earnings per share is deemed to be increased by the excess, if any, of the number of shares of common stock that would be issued upon full physical settlement of the Forward over the number of shares of common stock that could be purchased by the Company in the market (based on the average market price during the period) using the proceeds receivable upon full physical settlement (based on the adjusted forward sale price at the end of the reporting period). If and when the Company physically or net share settles the Forward, the delivery of shares of our common stock would result in an increase in the number of shares outstanding and dilution to our earnings per share. During the three months ended June 30, 2015, the Company issued 609,275 shares of common stock at a sales price of $147.72 per share, for net proceeds of $90,000,000, in partial settlement of the Forward.

Table of Contents

5. Investments in Real Estate Entities

Investment in Unconsolidated Real Estate Entities

As of June 30, 2015, the Company had investments in five unconsolidated real estate entities, excluding an interest in the Residual JV (as defined in this Form 10-Q), with ownership interest percentages ranging from 20.0% to 31.3%. The Company accounts for its investments in unconsolidated real estate entities under the equity method of accounting. The significant accounting policies of the Company's unconsolidated real estate entities are consistent with those of the Company in all material respects.

During the six months ended June 30, 2015, AvalonBay Value Added Fund II, L.P. ("Fund II") sold Eaves Plainsboro, located in Plainsboro, NJ, containing 776 apartment homes. Eaves Plainsboro was sold for $117,000,000, and the Company's share of the gain for the disposition was $9,660,000. In conjunction with the disposition, during the six months ended June 30, 2015, Fund II repaid $9,395,000 of related secured indebtedness in advance of the scheduled maturity date.

During the six months ended June 30, 2015, the Company received $20,680,000 from the joint venture partner associated with MVP I, LLC, the entity that owns Avalon at Mission Bay North II, upon agreement with the partner to modify the joint venture agreement to eliminate the Company's promoted interest for future return calculations and associated distributions. Prospectively, earnings and distributions will be based on the Company's 25.0% equity interest in the venture. In addition, MVP I, LLC obtained a $103,000,000, 3.24% fixed rate loan, with a maturity date of July 2025, and used the proceeds and cash on hand to repay its existing $105,000,000, variable rate loan which was scheduled to mature in December 2015, at par.

The following is a combined summary of the financial position of the entities accounted for using the equity method as of the dates presented, excluding amounts associated with the Residual JV (dollars in thousands):

	6/30/2015 (unaudited)	12/31/2014 (unaudited)
Assets:		
Real estate, net	$1,513,850	$1,617,627
Other assets	60,793	72,290
Total assets	$1,574,643	$1,689,917
Liabilities and partners' capital:		
Mortgage notes payable and credit facility	$964,246	$980,128
Other liabilities	21,232	24,884
Partners' capital	589,165	684,905
Total liabilities and partners' capital	$1,574,643	$1,689,917

The following is a combined summary of the operating results of the entities accounted for using the equity method for the periods presented, excluding amounts associated with the Residual JV (dollars in thousands):

	For the three months ended		For the six months ended	
	6/30/2015 (unaudited)	6/30/2014	6/30/2015 (unaudited)	6/30/2014
Rental and other income	$43,395	$52,270	$88,650	$104,646
Operating and other expenses	(17,375)	(20,483)	(34,712)	(41,691)
Gain on sale of communities	—	5,682	32,490	5,682
Interest expense, net	(10,334)	(13,523)	(20,811)	(27,413)

Depreciation expense	(11,942)	(13,863)	(23,845)	(28,280)
Net income	$3,744	$10,083	$41,772	$12,944

In conjunction with the formation of Fund II, the Company incurred costs in excess of its equity in the underlying net assets of the respective investments. These costs represent $3,312,000 at June 30, 2015 and $3,880,000 at December 31, 2014 of the respective investment balances.

Table of Contents

As part of the formation of Fund II, the Company provided a guarantee to one of the limited partners that provides if, upon final liquidation of Fund II, the total amount of all distributions to the guaranteed partner during the life of Fund II (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 $8,910,000 for Fund II as of June 30, 2015). As of June 30, 2015, the expected realizable value of the real estate assets owned by Fund II is considered adequate to cover the guaranteed distribution amount under a liquidation scenario. The estimated fair value of, and the Company’s obligation under, this guarantee, both at inception and as of June 30, 2015, was not significant and therefore the Company has not recorded any obligation for this guarantee as of June 30, 2015.

In addition, through subsidiaries, the Company and Equity Residential are members in three limited liability company agreements (collectively, the “Residual JV”). The Company and Equity Residential jointly control the Residual JV and the Company holds a 40.0% economic interest in the assets and liabilities of the Residual JV. During the three and six months ended June 30, 2015, the Company recognized equity in income of unconsolidated real estate entities of $9,549,000 and $11,464,000, respectively, associated with the settlement of outstanding legal claims against third parties and planned and executed disposition activity in the Residual JV.

Expensed Acquisition, Development and Other 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 the abandonment of Development Rights as well as costs incurred in pursuing the acquisition of assets or costs incurred pursuing the disposition of assets for which such disposition activity did not occur, in the amounts of $673,000 and $2,017,000 for the three months ended June 30, 2015 and 2014, respectively, and $1,860,000 and $2,732,000 for the six months ended June 30, 2015 and 2014, respectively. These costs are included in expensed acquisition, development, and other pursuit costs, net of recoveries on the accompanying Condensed Consolidated Statements of Comprehensive Income. These costs can vary greatly, and the costs incurred in any given period may be significantly different in future periods.

The Company evaluates its real estate and other long-lived assets for impairment when potential indicators of impairment exist. Such assets are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a 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, the Company did not record any impairment losses for the three and six months ended June 30, 2015 and 2014, other than related to the casualty gains and losses from property damage discussed below.

The Company assesses its portfolio of land held for both development and investment for impairment if the intent of the Company changes with respect to either the development of, or the expected holding period for, the land. The Company did not recognize any impairment charges on its investment in land during the three months ended June 30, 2015. During the six months ended June 30, 2015, the Company recognized an impairment charge of $800,000 relating to a parcel of land to reduce the Company's basis to the contracted sales price less expected costs to sell. This charge is included in casualty and impairment gain, net on the accompanying Condensed Consolidated Statements of Comprehensive Income. The Company did not recognize any impairment charges on its investment in land for the three and six months ended June 30, 2014.

The Company also evaluates its unconsolidated investments for other than temporary impairment, considering both the extent and amount by which the carrying value of the investment exceeds the fair value, and the Company’s intent and ability to hold the investment to recover its carrying value. The Company also evaluates its proportionate share of any impairment of assets held by unconsolidated investments. Excluding amounts associated with the Residual JV, there was no impairment loss recognized by any of the Company’s investments in unconsolidated entities during the three and six months ended June 30, 2015 and 2014.

Table of Contents

Casualty Gains and Losses

The Company recorded net casualty gains related to Edgewater of $17,114,000 and $16,321,000 for the three and six months ended June 30, 2015, respectively, which are included in casualty and impairment gain, net on the accompanying Condensed Consolidated Statements of Comprehensive Income. During the three months ended June 30, 2015, the Company received $22,000,000 in insurance proceeds, which were partially offset by casualty charges of $4,886,000 relating to demolition and additional incident expenses. During the six months ended June 30, 2015, the Company received $44,142,000 in insurance proceeds, which were partially offset by casualty charges of $21,844,000 to write off the net book value of the building destroyed by the fire at Edgewater, and $5,977,000 to record demolition and additional incident expenses. See discussion in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies, Legal and Other Contingencies," and Part II, Item 1, "Legal Proceedings," for further discussion of the Edgewater fire.

During the six months ended June 30, 2015, several of the Company's communities in its Northeast markets incurred property and casualty damages from severe winter storms experienced during this time. The Company has recorded an impairment due to a casualty loss of $4,195,000 to recognize the damages from the storms, included in casualty and impairment gain, net on the accompanying Condensed Consolidated Statements of Comprehensive Income.

6. Real Estate Disposition Activities

During the six months ended June 30, 2015, the Company sold one wholly-owned operating community, two land parcels and air rights.

- Avalon on Stamford Harbor, located in Stamford, CT, containing 323 homes and a marina with 74 boat slips, was sold for $115,500,000. The Company’s gain on the disposition was $70,936,000, reported in gain on sale of communities on the accompanying Condensed Consolidated Statements of Comprehensive Income.

- Two undeveloped land parcels and air rights, representing the right to increase density for future residential development, in the New York Metro region were sold for an aggregate sales price of $23,820,000, resulting in an aggregate gain of $9,626,000, reported in gain on sale of real estate on the accompanying Condensed Consolidated Statements of Comprehensive Income. The Company had previously recognized impairment charges of $800,000 during the three months ended March 31, 2015, and $5,933,000 in 2008 for the land parcels.

The results of operations for Avalon on Stamford Harbor are included in income from continuing operations on the accompanying Condensed Consolidated Statements of Comprehensive Income.

The operations for any real estate assets sold from January 1, 2014 through June 30, 2015 and which were classified as held for sale and discontinued operations as of and for the period ended December 31, 2013, have been presented as income from discontinued operations in the accompanying Condensed Consolidated Statements of Comprehensive Income.

The following is a summary of income from discontinued operations for the periods presented (dollars in thousands):

	For the three months ended		For the six months ended	
	6/30/2015 (unaudited)	6/30/2014	6/30/2015 (unaudited)	6/30/2014
Rental income	$—	$—	$—	$579
Operating and other expenses	—	—	—	(269)
Depreciation expense	—	—	—	—
Income from discontinued operations	$—	$—	$—	$310

At June 30, 2015, the Company had one operating community that qualified as held for sale.

Table of Contents

7. 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 generally maintains that classification throughout the year for the purpose of reporting segment operations, unless disposition or redevelopment plans regarding a community change.

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

The Company's segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing each segment's performance. The Company's chief operating decision maker is comprised of several members of its executive management team who use net operating income ("NOI") as the primary financial measure for Established Communities and Other Stabilized Communities. NOI is defined by the Company as total property revenue less direct property operating expenses, including property taxes, and excluding corporate-level income (including management, development and other fees), corporate-level property management and other indirect operating expenses, investments and investment management expenses, expensed acquisition, development and other pursuit costs, net interest expense, gain (loss) on extinguishment of debt, general and administrative expense, joint venture income (loss), depreciation expense, casualty and impairment gain, net, gain on sale of real estate assets, income from discontinued operations and net operating income from real estate assets sold or held for sale, not classified as discontinued operations. 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 three and six months ended June 30, 2015 and 2014 is as follows (dollars in thousands):

	For the three months ended		For the six months ended	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Net income	$172,253	$172,197	$380,306	$313,796
Indirect operating expenses, net of corporate income	14,817	12,343	30,215	23,161
Investments and investment management expense	1,073	1,137	2,107	2,116
Expensed acquisition, development and other pursuit costs, net of recoveries	673	2,017	1,860	2,732
Interest expense, net (1)	44,590	43,722	90,164	86,255
(Gain) loss on extinguishment of debt, net	(7,749)	412	(7,749)	412
General and administrative expense	11,628	10,220	22,111	19,456
Equity in income of unconsolidated real estate entities	(13,806)	(7,710)	(48,371)	(12,933)
Depreciation expense (1)	118,627	110,395	235,480	216,762
Casualty and impairment gain, net	(17,114)	—	(11,326)	—
Gain on sale of real estate assets	(9,625)	(60,945)	(80,583)	(60,945)
Gain on sale of discontinued operations	—	—	—	(37,869)
Income from discontinued operations	—	—	—	(310)
Net operating income from real estate assets sold or held for sale, not classified as discontinued operations	(1,353)	(6,240)	(2,791)	(12,522)
Net operating income	$314,014	$277,548	$611,423	$540,111

(1) Includes amounts associated with assets sold or held for sale, not classified as discontinued operations.

The following is a summary of NOI from real estate assets sold or held for sale, not classified as discontinued operations, for the periods presented (dollars in thousands):

Table of Contents

	For the three months ended		For the six months ended	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Rental income from real estate assets sold or held for sale, not classified as discontinued operations	$2,285	$10,226	$4,809	$20,595
Operating expenses from real estate assets sold or held for sale, not classified as discontinued operations	(932)	(3,986)	(2,018)	(8,073)
Net operating income from real estate assets sold or held for sale, not classified as discontinued operations	$1,353	$6,240	$2,791	$12,522

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

The following table provides details of the Company's segment information as of the dates specified (dollars in thousands). The segments are classified based on the individual community's status at the beginning of the given calendar year, or April 1, 2014, when the Company updated its operating segments, primarily to include communities acquired as part of the Archstone Acquisition in its Established Community portfolio. 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 and six months ended June 30, 2015 and 2014 has been adjusted for the real estate assets that were sold from January 1, 2014 through June 30, 2015, or otherwise qualify as held for sale and/or discontinued operations as of June 30, 2015, as described in Note 6, "Real Estate Disposition Activities."

Table of Contents

	For the three months ended			For the six months ended			
	Total revenue	NOI	% NOI change from prior year	Total revenue	NOI	% NOI change from prior year	Gross real estate (1)
For the period ended June 30, 2015							
Established							
New England	$49,000	$30,985	2.3 %	$96,760	$58,823	(0.7)%	$1,477,145
Metro NY/NJ	96,372	67,880	2.9 %	190,704	132,989	2.9 %	3,191,141
Mid-Atlantic	52,263	35,938	(0.9)%	103,967	71,969	(0.8)%	2,170,822
Pacific Northwest	19,047	13,657	7.9 %	37,536	27,030	8.4 %	719,366
Northern California	67,144	52,635	11.7 %	132,658	102,369	11.6 %	2,409,781
Southern California	63,169	43,046	6.7 %	125,493	86,564	9.8 %	2,503,327
Total Established	346,995	244,141	5.0 %	687,118	479,744	5.1 %	12,471,582
Other Stabilized	54,681	36,536	N/A	108,764	71,353	N/A	2,028,096
Development / Redevelopment	50,556	33,337	N/A	93,582	60,326	N/A	3,581,408
Land Held for Future Development	N/A	N/A	N/A	N/A	N/A	N/A	487,205
Non-allocated (2)	2,942	N/A	N/A	5,553	N/A	N/A	42,997
Total	$455,174	$314,014	13.1 %	$895,017	$611,423	13.2 %	$18,611,288
For the period ended June 30, 2014 (3)							
Established							
New England	$45,523	$29,179	(0.9)%	$88,125	$55,620	(1.0)%	$1,356,000
Metro NY/NJ	92,325	64,724	0.9 %	152,906	106,780	1.7 %	2,294,169
Mid-Atlantic	46,990	32,531	(6.7)%	49,260	34,784	(3.9)%	645,172
Pacific Northwest	16,458	11,554	5.9 %	26,683	18,591	4.8 %	499,383
Northern California	62,319	47,498	13.7 %	85,305	65,364	9.6 %	1,400,573
Southern California	61,852	41,607	5.0 %	68,658	47,198	4.5 %	1,218,170
Total Established	325,467	227,093	2.9 %	470,937	328,337	2.6 %	7,413,467
Other Stabilized	43,701	31,289	N/A	244,289	167,494	N/A	5,998,737
Development / Redevelopment	31,740	19,166	N/A	72,310	44,280	N/A	3,318,362
Land Held for Future Development	N/A	N/A	N/A	N/A	N/A	N/A	195,673
Non-allocated (2)	2,672	N/A	N/A	5,750	N/A	N/A	34,187
Total	$403,580	$277,548	8.9 %	$793,286	$540,111	18.1 %	$16,960,426

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(1) Does not include gross real estate assets held for sale of $79,128 and $244,805 as of June 30, 2015 and 2014, respectively.

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

(3) Results for the three months ended June 30, 2014 reflect the operating segments updated as of April 1, 2014, which include most stabilized communities acquired as part of the Archstone Acquisition in the Established Communities segment. Results for the six months ended June 30, 2014 reflect the operating segments determined as of January 1, 2014, which include stabilized communities acquired as part of the Archstone Acquisition in the Other Stabilized segment.

Table of Contents

8. Stock-Based Compensation Plans

Information with respect to stock options granted under the Company's 1994 Stock Option and Incentive Plan (the "1994 Plan") and its 2009 Stock Option and Incentive Plan (the "2009 Plan") is as follows (dollars in thousands, other than per share amounts):

	2009 Plan shares	Weighted average exercise price per share	1994 Plan shares	Weighted average exercise price per share
Options Outstanding, December 31, 2014	340,062	$122.67	272,402	$104.96
Exercised	(42,268)	124.52	(11,928)	138.82
Forfeited	—	—	—	—
Options Outstanding, June 30, 2015	297,794	$122.40	260,474	$103.41
Options Exercisable June 30, 2015	236,380	$120.70	260,474	$103.41

The Company granted 82,812 restricted stock units with an estimated aggregate compensation cost of $12,340,000, as part of its stock-based compensation plan, during the six months ended June 30, 2015. The amount of restricted stock ultimately earned is based on the total shareholder return metrics related to the Company's common stock for 53,164 restricted stock units and financial metrics related to operating performance and leverage metrics of the Company for 29,648 restricted stock units. For the portion of the grant for which the award is determined by the total shareholder return of the Company's common stock, the Company used a Monte Carlo model to assess the compensation cost associated with the restricted stock units. The estimated compensation cost was derived using the following assumptions: baseline share value of $166.23; dividend yield of approximately 3.0%; estimated volatility figures ranging from 14.7% to 17.4% over the life of the plan for the Company using 50% historical volatility and 50% implied volatility; and risk free rates over the life of the plan ranging from 0.07% to 1.09%, resulting in an average estimated fair value per restricted stock unit of $139.18. For the portion of the grant for which the award is determined by financial metrics, the estimated compensation cost was based on the baseline share value of $166.23 and the Company's estimate of corporate achievement for the financial metrics.

During the six months ended June 30, 2015, the Company also issued 157,779 shares of restricted stock, of which 95,826 shares related to the conversion of restricted stock units to restricted shares, and the remaining 61,953 shares were new grants with a fair value of $10,721,000. The compensation cost was based on the share price at the grant date.

At June 30, 2015, the Company had 251,231 outstanding unvested restricted shares granted under the Company's restricted stock awards. Restricted stock vesting during the six months ended June 30, 2015 totaled 95,573 shares, of which 7,389 shares related to the conversion of restricted stock units and 88,184 shares related to restricted stock awards, which had fair values at the grant date ranging from $115.83 to $173.39 per share. The total grant date fair value of shares vested under restricted stock awards was $11,431,000 and $10,712,000 for the six months ended June 30, 2015 and 2014, respectively.

Total employee stock-based compensation cost recognized in income was $7,777,000 and $5,890,000 for the six months ended June 30, 2015 and 2014, respectively, and total capitalized stock-based compensation cost was $6,071,000 and $3,247,000 for the six months ended June 30, 2015 and 2014, respectively. At June 30, 2015, there was a total unrecognized compensation cost of $558,000 for unvested stock options and $29,554,000 for unvested restricted stock and restricted stock units, which does not include estimated forfeitures. The unrecognized compensation cost for unvested stock options and restricted stock and restricted stock units is expected to be recognized over a weighted average period of 0.6 years and 3.8 years, respectively.

9. Related Party Arrangements

Unconsolidated Entities

The Company manages unconsolidated real estate entities for which it receives asset management, property management, development and redevelopment fee revenue. From these entities, the Company earned fees of $2,942,000 and $2,672,000 during the three months ended June 30, 2015 and 2014, respectively and $5,553,000 and $5,750,000 during the six months ended June 30, 2015 and 2014, respectively. These fees are included in management, development and other fees on the accompanying Condensed Consolidated Statements of Comprehensive Income. In addition, the Company has outstanding receivables associated with its management role of $5,088,000 and $6,868,000 as of June 30, 2015 and December 31, 2014, respectively.

Table of Contents

Director Compensation

The Company recorded non-employee director compensation expense relating to restricted stock grants and deferred stock awards in the amount of $278,000 and $250,000 in the three months ended June 30, 2015 and 2014, respectively, and $550,000 and $500,000 in the six months ended June 30, 2015 and 2014, respectively, as a component of general and administrative expense. Deferred compensation relating to these restricted stock grants and deferred stock awards to non-employee directors was $1,073,000 and $452,000 on June 30, 2015 and December 31, 2014, respectively. During the six months ended June 30, 2015, the Company issued 46,589 shares in conjunction with the conversion of deferred stock awards.

10. Fair Value

Financial Instruments Carried at Fair Value

Derivative Financial Instruments

Currently, the Company uses interest rate cap agreements to manage its interest rate risk. These instruments are carried at fair value in the Company's financial statements. In adjusting the fair value of its derivative contracts for the effect of counterparty nonperformance risk, the Company has considered the impact of its net position with a given counterparty, as well as any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. The Company minimizes its credit risk on these transactions by dealing with major, creditworthy financial institutions which have an A or better credit rating by the Standard & Poor's Ratings Group. As part of its on-going control procedures, the Company monitors the credit ratings of counterparties and the exposure of the Company to any single entity, thus reducing credit risk concentration. The Company believes the likelihood of realizing losses from counterparty nonperformance is remote. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, such as interest rate, term to maturity and volatility, the credit valuation adjustments associated with its derivatives use Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. As of June 30, 2015, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined it is not significant. As a result, the Company has determined that its derivative valuations are classified in Level 2 of the fair value hierarchy.

Hedge ineffectiveness did not have a material impact on earnings of the Company for the three and six months ended June 30, 2015, or any prior period, and the Company does not anticipate that it will have a material effect in the future.

The following table summarizes the consolidated Hedging Derivatives at June 30, 2015 (dollars in thousands):

	Non-designated Hedges		Cash Flow Hedges	
Notional balance	$727,474		$37,138	
Weighted average interest rate (1)	1.9	%	2.3	%
Weighted average capped interest rate	5.8	%	5.9	%
Earliest maturity date	Feb 2016		Apr 2019	
Latest maturity date	Jun 2020		Apr 2019	

(1) Represents the weighted average interest rate on the hedged debt.

Excluding derivatives executed to hedge secured debt on communities classified as held for sale, the Company had one derivative designated as a cash flow hedge and 15 derivatives not designated as hedges at June 30, 2015. Fair value changes for derivatives not in qualifying hedge relationships for the three and six months ended June 30, 2015 and 2014 were not material. The Company reclassified $1,427,000 and $2,992,000 of deferred losses from accumulated other comprehensive income as a component of interest expense, net, for the three and six months ended June 30, 2015, respectively. The Company reclassified $1,438,000 and $3,011,000 of deferred losses from accumulated other comprehensive income as a component of interest expense, net, for the three and six months ended June 30, 2014, respectively. The Company anticipates reclassifying approximately $5,493,000 of hedging losses from accumulated other comprehensive loss into earnings within the next 12 months to offset the variability of cash flows of the hedged item during this period.

Table of Contents

Redeemable Noncontrolling Interests

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

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

Financial Instruments Not Carried at Fair Value

Cash and Cash Equivalents

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

Other Financial Instruments

Rents receivable, accounts and construction payable and accrued expenses and other liabilities are carried at their face amounts. Due to their short-term nature, this reasonably approximates their fair values.

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

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

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

Table of Contents

Description	Total Fair Value 6/30/2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-Designated Hedges				
Interest Rate Caps	$ 25	$—	$25	$—
Cash Flow Hedges				
Interest Rate Caps	17	—	17	—
Puts	(8,954)	—	—	(8,954)
DownREIT units	(1,199)	(1,199)	—	—
Indebtedness				
Unsecured notes	(3,353,009)	(3,353,009)	—	—
Mortgage notes payable and unsecured term loan	(3,022,147)	—	(3,022,147)	—
Total	$ (6,385,267)	$ (3,354,208)	$ (3,022,105)	$ (8,954)

11. Subsequent Events

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

In July 2015:

The Company acquired one land parcel for development located in Los Angeles, CA for $99,000,000. If developed as expected, the development right related to this land will contain 695 apartment homes for a projected total capital cost of $374,727,000.

Using available capacity on its Credit Facility, the Company repaid a $140,346,000 fixed rate secured mortgage note with an effective interest rate of 5.56% in advance of its May 2053 maturity date, resulting in a recognized gain of $18,987,000, consisting of the write off of unamortized premium net of deferred financing costs of $30,215,000, partially offset by a prepayment penalty of $11,228,000.

21

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help provide an understanding of our business, financial condition and results of operations. This MD&A should be read in conjunction with our Condensed Consolidated Financial Statements and the accompanying Notes to Condensed Consolidated Financial Statements included elsewhere in this report. This report, including the following MD&A, contains forward-looking statements regarding future events or trends that should be read in conjunction with the factors described under "Forward-Looking Statements" included in this report. Actual results or developments could differ materially from those projected in such statements as a result of the factors described under "Forward-Looking Statements" as well as the risk factors described in Item 1A. "Risk Factors" of our Form 10-K for the year ended December 31, 2014 (the "Form 10-K").

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

Executive Overview

Business Description

We develop, redevelop, acquire, own and operate multifamily apartment communities primarily in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Pacific Northwest, and Northern and Southern California. We believe that apartment communities are 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, and shorter lease terms allow for a better ability to take advantage of inflationary environments. We focus on leading metropolitan areas that we believe are characterized by growing employment in high wage sectors of the economy, lower housing affordability and a diverse and vibrant quality of life. We believe these market characteristics offer the opportunity for superior risk-adjusted returns on apartment community investment relative to other markets. We seek to create long-term shareholder value by accessing capital on cost effective terms; deploying that capital to develop, redevelop and acquire apartment communities in our selected markets; operating apartment communities; and selling communities when they no longer meet our long-term investment strategy or when pricing is attractive.

Our strategy is to be leaders in market research and capital allocation, delivering a range of multifamily offerings tailored to serve the needs of the most attractive customer segments in the best-performing submarkets of the United States. Our communities are predominately upscale and generally command among the highest rents in their markets. However, we also pursue the ownership and operation of apartment communities that target a variety of customer segments and price points, consistent with our goal of offering a broad range of products and services. We regularly evaluate the allocation of our investments by the amount of invested capital and by product type within our individual markets.

Second Quarter 2015 Highlights

We experienced favorable operating performance in the second quarter of 2015:

- Net income attributable to common stockholders for the three months ended June 30, 2015 was $172,324,000, an increase of $14,238,000, or 9.0%, over the prior year period. The increase is primarily attributable to an increase in NOI from newly developed and existing operating communities, gains from net insurance recoveries and the extinguishment of debt, as well as an increase in equity in income of unconsolidated real estate entities, partially offset by a decrease in real estate sales and related gains.

- Established Communities NOI for the three months ended June 30, 2015 increased by $11,520,000, or 5.0%, over the prior year period. This increase was primarily driven by an increase in rental revenue of 4.7%, partially offset by an increase in operating expenses of 3.9% compared to the prior year period.

The Company's overall increase in revenues was driven by both favorable operating performance from our stabilized operating communities and strong leasing activity for new development, which we expect to continue for the balance of 2015.

Table of Contents

During the three months ended June 30, 2015, we completed the construction of three communities with an aggregate of 874 apartment homes for a total capitalized cost of $275,500,000. We also started construction of four communities expected to contain 1,368 apartment homes with an expected aggregate total capitalized cost of $394,900,000. At June 30, 2015, 26 communities expected to contain 8,117 apartment homes were under construction with a projected total capitalized cost of approximately $2,788,800,000. In addition, as of June 30, 2015, we held a direct or indirect ownership interest in land or rights to land on which we expect to develop an additional 34 apartment communities that, if developed as expected, will contain an estimated 10,080 apartment homes, and will be developed for an aggregate total capitalized cost of $3,668,000,000, an increase of $359,000,000 from our position as of March 31, 2015.

During the three months ended June 30, 2015, we sold two undeveloped land parcels and air rights, representing the right to increase density for future residential development, in the New York Metro region, for an aggregate sales price $23,820,000, resulting in an aggregate gain of $9,626,000. We had previously recognized impairment charges of $800,000 during the three months ended March 31, 2015, and $5,933,000 in 2008 for the land parcels.

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

Edgewater Fire

In January 2015, a fire occurred at Edgewater. See Note 1 under Legal and Other Contingencies and Note 5 under Casualty Gains and Losses in the accompanying Condensed Consolidated Financial Statements, as well as Part II, Item 1, Legal Proceedings, of this report for additional discussions related to the Edgewater fire, including claims against the Company, insurance coverage, and existing and potential future civil and governmental lawsuits and investigations.

Communities Overview

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, and exclude communities owned by the Residual JV. While we generally establish the classification of communities on an annual basis, we intend to update the classification of communities during the calendar year to the extent that our plans with regard to the disposition or redevelopment of a community change during the year. The following is a description of each category:

Current Communities are categorized as Established, Other Stabilized, Lease-Up, 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 as of the beginning of the respective prior year period. For the six month periods ended June 30, 2015 and 2014, the Established Communities are communities that are consolidated for financial reporting purposes, had stabilized occupancy as of January 1, 2014, 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 are 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. Redevelopment is considered substantial when capital invested during the reconstruction

Table of Contents

effort is expected to exceed the lesser of $5,000,000 or 10% of the community's pre-redevelopment basis and is expected to have a material impact on the operations of the community, including occupancy levels and future rental rates.

Development Communities are communities that are under construction and for which a certificate or certificates of occupancy for the entire community have not been received. These communities may be partially complete and operating.

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

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

As of June 30, 2015, communities that we owned or held a direct or indirect interest in were classified as follows:

	Number of communities	Number of apartment homes
Current Communities		
Established Communities:		
New England	34	7,617
Metro NY/NJ	35	11,555
Mid-Atlantic	26	8,789
Pacific Northwest	14	3,444
Northern California	30	9,201
Southern California	41	11,188
Total Established	180	51,794
Other Stabilized Communities:		
New England	13	3,213
Metro NY/NJ	8	2,170
Mid-Atlantic	9	3,146
Pacific Northwest	2	414
Northern California	9	1,812
Southern California	14	5,247
Non Core	4	1,266
Total Other Stabilized	59	17,268
Lease-Up Communities	11	3,008
Redevelopment Communities	7	2,787
Total Current Communities	257	74,857
Development Communities	26	8,117

Development Rights	34	10,080

Table of Contents

Results of Operations

Our year-over-year operating performance is primarily affected by both overall and individual geographic market conditions and apartment fundamentals and is reflected in changes in NOI of our Established Communities; NOI derived from acquisitions and development completions; the loss of NOI related to disposed communities; and capital market and financing activity. A comparison of our operating results for the three and six months ended June 30, 2015 and 2014 follows (unaudited, dollars in thousands):

	For the three months ended				For the six months ended			
	6/30/2015	6/30/2014	$ Change	% Change	6/30/2015	6/30/2014	$ Change	% Change
Revenue:								
Rental and other income	$454,517	$411,134	$43,383	10.6 %	$894,273	$808,131	$86,142	10.7 %
Management, development and other fees	2,942	2,672	270	10.1 %	5,553	5,750	(197)	(3.4)%
Total revenue	457,459	413,806	43,653	10.5 %	899,826	813,881	85,945	10.6 %
Expenses:								
Direct property operating expenses, excluding property taxes	93,214	84,875	8,339	9.8 %	186,936	168,509	18,427	10.9 %
Property taxes	45,913	42,439	3,474	8.2 %	93,089	86,924	6,165	7.1 %
Total community operating expenses	139,127	127,314	11,813	9.3 %	280,025	255,433	24,592	9.6 %
Corporate-level property management and other indirect operating expenses	17,782	15,047	2,735	18.2 %	35,802	28,976	6,826	23.6 %
Investments and investment management expense	1,073	1,137	(64)	(5.6)%	2,107	2,116	(9)	(0.4)%
Expensed acquisition, development and other pursuit costs, net of recoveries	673	2,017	(1,344)	(66.6)%	1,860	2,732	(872)	(31.9)%
Interest expense, net	44,590	43,722	868	2.0 %	90,164	86,255	3,909	4.5 %
(Gain) loss on extinguishment of debt, net	(7,749)	412	(8,161)	N/A (1)	(7,749)	412	(8,161)	N/A (1)
Depreciation expense	118,627	110,395	8,232	7.5 %	235,480	216,762	18,718	8.6 %
General and administrative expense	11,628	10,220	1,408	13.8 %	22,111	19,456	2,655	13.6 %
Casualty and impairment gain, net	(17,114)	—	(17,114)	100.0 %	(11,326)	—	(11,326)	100.0 %
Total other expenses	169,510	182,950	(13,440)	(7.3)%	368,449	356,709	11,740	3.3 %
Equity in income of unconsolidated real estate	13,806	7,710	6,096	79.1 %	48,371	12,933	35,438	274.0 %

entities										
Gain on sale of real estate	9,625	—	9,625	100.0	%	9,647	—	9,647	100.0	%
Gain on sale of communities	—	60,945	(60,945)	(100.0	)%	70,936	60,945	9,991	16.4	%
Income from continuing operations	172,253	172,197	56	—	%	380,306	275,617	104,689	38.0	%
Discontinued operations:										
Income from discontinued operations	—	—	—	—	%	—	310	(310)	(100.0	)%
Gain on sale of discontinued operations	—	—	—	—	%	—	37,869	(37,869)	(100.0	)%
Total discontinued operations	—	—	—	—	%	—	38,179	(38,179)	(100.0	)%
Net income	172,253	172,197	56	—	%	380,306	313,796	66,510	21.2	%
Net loss (income) attributable to noncontrolling interests	71	(14,111)	14,182	N/A (1)		163	(13,971)	14,134	N/A (1)	
Net income attributable to common stockholders	$172,324	$158,086	$14,238	9.0	%	$380,469	$299,825	$80,644	26.9	%

(1) Percent change is not meaningful.

25

Table of Contents

Net income attributable to common stockholders increased $14,238,000, or 9.0%, to $172,324,000 for the three months ended June 30, 2015 and $80,644,000, or 26.9%, to $380,469,000 for the six months ended June 30, 2015 from the respective prior year periods. The increase for the three and six months ended June 30, 2015 is primarily attributable to an increase in NOI from newly developed and existing operating communities, gains from net insurance recoveries and the extinguishment of debt, as well as an increase in equity in income of unconsolidated real estate entities, partially offset by a decrease in real estate sales and related gains.

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 as a result of acquiring real estate, NOI is considered by many in the real estate industry to be a useful measure for determining the value of a real estate asset or group of assets. We define NOI as total property revenue less direct property operating expenses, including property taxes, and excluding corporate-level income (including management, development and other fees), corporate-level property management and other indirect operating expenses, investments and investment management expenses, expensed acquisition, development and other pursuit costs, net interest expense, gain (loss) on extinguishment of debt, general and administrative expense, joint venture income (loss), depreciation expense, casualty and impairment gain, net, gain on sale of real estate assets, income from discontinued operations and net operating income from real estate assets sold or held for sale, not classified as discontinued operations.

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 indicative of cash available to fund cash needs. Reconciliations of NOI for the three and six months ended June 30, 2015 and 2014 to net income for each period are as follows (unaudited, dollars in thousands):

	For the three months ended		For the six months ended	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Net income	$172,253	$172,197	$380,306	$313,796
Indirect operating expenses, net of corporate income	14,817	12,343	30,215	23,161
Investments and investment management expense	1,073	1,137	2,107	2,116
Expensed acquisition, development and other pursuit costs, net of recoveries	673	2,017	1,860	2,732
Interest expense, net (1)	44,590	43,722	90,164	86,255
(Gain) loss on extinguishment of debt, net	(7,749)	412	(7,749)	412
General and administrative expense	11,628	10,220	22,111	19,456
Equity in income loss of unconsolidated real estate entities	(13,806)	(7,710)	(48,371)	(12,933)
Depreciation expense (1)	118,627	110,395	235,480	216,762
Casualty and impairment gain, net	(17,114)	—	(11,326)	—
Gain on sale of real estate assets	(9,625)	(60,945)	(80,583)	(60,945)
Gain on sale of discontinued operations	—	—	—	(37,869)
Income from discontinued operations	—	—	—	(310)
Net operating income from real estate assets sold or held for sale, not classified as	(1,353)	(6,240)	(2,791)	(12,522)

discontinued operations				
Net operating income	$314,014	$277,548	$611,423	$540,111

(1) Includes amounts associated with assets sold or held for sale, not classified as discontinued operations.

Table of Contents

The NOI changes for the three and six months ended June 30, 2015, compared to the prior year period, consist of changes in the following categories (unaudited, dollars in thousands):

	For the three months ended 6/30/2015	For the six months ended 6/30/2015
Established Communities	$11,520	$23,193
Other Stabilized Communities	10,936	24,283
Development and Redevelopment Communities	14,010	23,836
Total	$36,466	$71,312

The increase in our Established Communities' NOI for the three and six months ended June 30, 2015 is due to increased rental rates, partially offset by increased operating expenses. For the balance of 2015, we expect continued rental revenue growth over the prior year, offset partially by an expected increase in operating expenses. We expect our operating expenses will continue at a level above the prior year period for the remainder of the year.

Rental and other income increased in the three and six months ended June 30, 2015 compared to the prior year periods due to additional rental income generated from newly developed and existing operating communities and an increase in rental rates at our Established Communities.

Overall Portfolio — The weighted average number of occupied apartment homes for consolidated communities increased to 63,633 apartment homes for the six months ended June 30, 2015, compared to 60,676 homes for the prior year period. The weighted average monthly revenue per occupied apartment home increased to $2,337 for the six months ended June 30, 2015 compared to $2,217 in the prior year period.

Established Communities — Rental revenue increased $15,698,000, or 4.7%, for the three months ended June 30, 2015 compared to the prior year period due to an increase in average rental rates of 5.0% to $2,332 per apartment home, partially offset by a 0.3% decrease in economic occupancy to 95.6%. Rental revenue increased $29,843,000, or 4.5%, for the six months ended June 30, 2015 compared to the prior year period due to an increase in average rental rates of 4.6% to $2,305 per apartment home, and was partially offset by a 0.1% decrease in economic occupancy to 95.8%. 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.

The Metro New York/New Jersey region accounted for approximately 27.7% of Established Community rental revenue for the six months ended June 30, 2015, and experienced an increase in rental revenue of 2.9% compared to the prior year period. Average rental rates increased 3.5% to $2,865 per apartment home, and were partially offset by a 0.6% decrease in economic occupancy to 95.7% for the six months ended June 30, 2015, compared to the prior year period. Sequential revenue increased from the prior quarter by 2.2% during the three months ended June 30, 2015. We expect to see continued growth over the prior year period in the Metro New York/New Jersey region in 2015. New York City is beginning to see a larger pipeline of new apartment deliveries, but suburban markets surrounding the city are more insulated from this new competition.

The Northern California region accounted for approximately 19.3% of Established Community rental revenue for the six months ended June 30, 2015, and experienced an increase in rental revenue of 8.9% compared to the prior year period. Average rental rates increased 9.6% to $2,503 per apartment home, and were partially offset by a 0.7% decrease in economic occupancy to 95.9% for the six months ended June 30, 2015, compared to the prior year period. Sequential revenue increased from the prior quarter by 2.5% during the three months ended June 30, 2015. While new apartment supply may slow revenue growth in future periods, we expect the strength in the technology industry to continue to fuel demand for apartment homes during 2015.

The Southern California region accounted for approximately 18.3% of Established Community rental revenue for the six months ended June 30, 2015, and experienced an increase in rental revenue of 6.1% compared to the prior year period. Average rental rates increased 5.9% to $1,947 per apartment home, and economic occupancy increased 0.2% to 96.0% for the six months ended June 30, 2015, compared to the prior year period. Sequential revenue increased over the prior quarter by 1.4% during the three months ended June 30, 2015. Southern California has seen steady job growth and limited new apartment supply, which we expect will continue to support favorable operating results during 2015.

Table of Contents

The Mid-Atlantic region accounted for approximately 15.1% of Established Community rental revenue for the six months ended June 30, 2015, and experienced an increase in rental revenue of 0.5%, compared to the prior year period. Average rental rates increased 0.2% to $2,061 per apartment home, and economic occupancy increased 0.3% to 95.6% for the six months ended June 30, 2015, compared to the prior year period. Sequential revenue increased over the prior quarter by 1.1% for the three months ended June 30, 2015. Although new apartment supply will remain elevated, accelerating job growth is expected to support modest growth in 2015.

The New England region accounted for approximately 14.1% of Established Community rental revenue for the six months ended June 30, 2015, and experienced an increase in rental revenue of 3.7% compared to the prior year period. Average rental rates increased 3.1% to $2,211 per apartment home, and economic occupancy increased 0.6% to 95.7% for the six months ended June 30, 2015, compared to the prior year period. Sequential revenue increased from the prior quarter by 2.6% during the three months ended June 30, 2015. Accelerating employment growth in the medical, education and technology fields is supporting apartment demand in the greater Boston metro area. The Fairfield market continues to experience moderate economic growth due to the area’s greater exposure to the financial services sector, which has experienced slower job growth during this recovery than other industries.

The Pacific Northwest region accounted for approximately 5.5% of Established Community rental revenue for the six months ended June 30, 2015, and experienced an increase in rental revenue of 7.0% compared to the prior year period. Average rental rates increased 6.8% to $1,893 per apartment home, and economic occupancy increased 0.2% to 95.8% for the six months ended June 30, 2015, compared to the prior year period. The Pacific Northwest region also saw the strongest sequential rental revenue growth in our markets, increasing 3.0% during the three months ended June 30, 2015. We believe that rental revenue growth will continue during the remainder of 2015 although it may be tempered by the delivery of new apartment homes, particularly in the urban core of Seattle.

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 three and six months ended June 30, 2015 and 2014 (unaudited, dollars in thousands):

	For the three months ended		For the six months ended	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Rental revenue (GAAP basis)	$346,559	$330,861	$686,255	$656,412
Concessions amortized	268	1,452	649	3,021
Concessions granted	(34)	(993)	(343)	(2,444)
Rental revenue adjusted to state concessions on a cash basis	$346,793	$331,320	$686,561	$656,989
Year-over-year % change — GAAP revenue		4.7%		4.5%
Year-over-year % change — cash concession based revenue		4.7%		4.5%

Management, development and other fees increased $270,000, or 10.1%, and decreased $197,000, or 3.4%, for the three and six months ended June 30, 2015, respectively, as compared to the prior year periods. The increase for the three months ended June 30, 2015 is primarily due to an increase in disposition fees related to the sale of a community owned within the Residual JV. The decrease for the six months ended June 30, 2015 is primarily due to lower property and asset management fees earned as a result of dispositions from Fund I and Fund II, partially offset by an increase in disposition fees related to the sale of a community owned within the Residual JV.

Direct property operating expenses, excluding property taxes increased $8,339,000, or 9.8%, and $18,427,000, or 10.9%, for the three and six months ended June 30, 2015 compared to the prior year periods. The increases for the three and six months ended June 30, 2015 are primarily due to the addition of newly developed apartment communities. The increase for the six months ended June 30, 2015 is also due to snow removal and other costs related to the severe winter storms in our Northeast markets during the first quarter of 2015.

Table of Contents

For Established Communities, direct property operating expenses, excluding property taxes, increased $3,107,000, or 4.7%, and $5,567,000, or 4.2%, for the three and six months ended June 30, 2015 compared to the prior year periods. The increases for the three and six months ended June 30, 2015 are primarily due to increased repairs and maintenance costs, coupled with increased payroll and benefit costs. The increase for the six months ended June 30, 2015 is also due to snow removal and other costs related to the severe winter storms in our Northeast markets during the first quarter of 2015.

Property taxes increased $3,474,000, or 8.2%, and $6,165,000, or 7.1% for the three and six months ended June 30, 2015 compared to the prior year periods. The increases for the three and six months ended June 30, 2015 are primarily due to the addition of newly developed apartment communities, coupled with increased tax rates and assessments across our portfolio.

For Established Communities, property taxes increased $734,000, or 2.2%, and $910,000, or 1.3%, for the three and six months ended June 30, 2015 compared to the prior year periods. The increases for the three and six months ended June 30, 2015 are primarily due to higher rates and assessments, partially offset by reductions and successful appeals. We expect property taxes to continue to increase for the balance of 2015 over 2014. For communities in California, property tax changes are determined by the change in the California Consumer Price Index, with increases limited by law (Proposition 13). Massachusetts also has laws in place to limit property tax increases. We evaluate property tax increases internally and also engage third-party consultants to assist in our evaluations. We appeal property tax increases when appropriate.

Corporate-level property management and other indirect operating expenses increased $2,735,000, or 18.2%, and $6,826,000, or 23.6%, for the three and six months ended June 30, 2015 compared to the prior year periods, primarily due to an increase in compensation related costs including certain employee separation costs, coupled with increased activities related to re-branding and corporate initiatives.

Expensed acquisition, development and other pursuit costs primarily reflect the costs incurred related to our asset investment activity, as well as abandoned pursuit costs. Abandoned pursuit costs include costs incurred for development pursuits not yet considered probable for development, as well as the abandonment of Development Rights and disposition pursuits, and also includes costs related to acquisition pursuits. These costs can be volatile, particularly in periods of increased acquisition activity, periods of economic downturn or when there is limited access to capital, and the costs may vary significantly from period to period. These costs decreased $1,344,000, or 66.6%, and $872,000, or 31.9%, for the three and six months ended June 30, 2015 compared to the prior year periods, primarily as a result of increased abandoned pursuit costs in the prior year periods.

Interest expense, net increased $868,000, or 2.0%, and $3,909,000, or 4.5%, for the three and six months ended June 30, 2015 compared to the prior year periods. This category includes interest costs offset by capitalized interest pertaining to development activity, amortization of the premium on debt, and interest income. The increases for the three and six months ended June 30, 2015 are primarily due to an increase in unsecured debt outstanding resulting from the issuance of $525,000,000 principal amount of unsecured notes during the period.

Depreciation expense increased $8,232,000, or 7.5%, and $18,718,000, or 8.6%, for the three and six months ended June 30, 2015 compared to the prior year periods, primarily due to the addition of newly developed and acquired apartment communities.

General and administrative expense ("G&A") increased $1,408,000, or 13.8%, and $2,655,000, or 13.6%, for the three and six months ended June 30, 2015 compared to the prior year periods. The increases for the three and six months ended June 30, 2015 from the prior year periods are primarily due to legal settlement proceeds received in 2014 not present in the current year periods, as well as increased income taxes and compensation expense in the three and six months ended June 30, 2015 over the prior year periods.

Casualty and impairment gain, net for the three months ended June 30, 2015 consists of Edgewater insurance proceeds received, partially offset by additional incident expenses from the fire at Edgewater. For the six months ended June 30, 2015, casualty and impairment gain, net consists of Edgewater insurance proceeds received, partially offset by additional incident expenses and the write-off of the net book value of the fixed assets destroyed in fire at Edgewater, property and casualty damages incurred across several communities in our Northeast markets related to severe winter storms, and an impairment charge recognized for a parcel of land sold during 2015.

Equity in income of unconsolidated real estate entities increased $6,096,000, or 79.1%, and $35,438,000, or 274.0%, for the three and six months ended June 30, 2015 compared to the prior year periods. The increase for the three months ended June 30, 2015 is primarily due to the settlement of outstanding legal claims against third parties and the gain on the sale of a community through an unconsolidated joint venture. The increase for the six months ended June 30, 2015 is primarily due to amounts received related to the modification of a joint venture agreement to eliminate our promoted interest in future distributions, as well as the settlement of outstanding legal claims and net gains on the sales of communities in various ventures.

Table of Contents

Gain on sale of real estate increased for the three and six months ended June 30, 2015 compared to the prior year periods, as a result of the gain on sale of air rights, representing the right to increase density for future residential development, and two undeveloped land parcels.

Gain on sale of communities decreased for the three months ended June 30, 2015, and increased for the six months ended June 30, 2015. The amount of gain realized in a given period depends on many factors, including the number of communities sold, the size and carrying value of the communities sold and the market conditions in the local area. Prior to our adoption of ASU 2014-08 as of January 1, 2014, gain on sale of communities was presented in gain on sale of discontinued operations.

Income from discontinued operations represents the net income generated by real estate sold and qualifying as discontinued operations during the period from January 1, 2014 through June 30, 2015. The decrease in the six months ended June 30, 2015, compared to the prior year period, is due to the change in accounting guidance for discontinued operations as discussed above.

Gain on sale of discontinued operations decreased for the six months ended June 30, 2015 compared to the prior year period. After our adoption of ASU 2014-08 as of January 1, 2014, gain on sale of communities is presented separately from gain on sale of discontinued operations.

Funds from Operations Attributable to Common Stockholders (“FFO”)

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

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

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, 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 our Condensed Consolidated Financial Statements included elsewhere in this report.

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

Table of Contents

The following is a reconciliation of net income attributable to common stockholders to FFO (unaudited, dollars in thousands, except per share amounts):

	For the three months ended		For the six months ended	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Net income attributable to common stockholders	$172,324	$158,086	$380,469	$299,825
Depreciation - real estate assets, including discontinued operations and joint venture adjustments	119,856	111,653	238,177	220,619
Distributions to noncontrolling interests, including discontinued operations	9	9	19	17
Gain on sale of unconsolidated entities holding previously depreciated real estate assets	(1,718)	(449)	(10,873)	(449)
Gain on sale of previously depreciated real estate assets (1)	—	(46,813)	(70,936)	(84,682)
Impairment due to casualty loss	—	—	4,195	—
FFO attributable to common stockholders	$290,471	$222,486	$541,051	$435,330
Weighted average common shares outstanding - diluted	133,086,439	130,248,321	133,131,363	129,938,232
EPS per common share - diluted	$1.29	$1.21	$2.86	$2.31
FFO per common share - diluted	$2.18	$1.71	$4.06	$3.35

(1) Amount for the three and six months ended June 30, 2014 excludes a gain of $14,132, representing our joint venture partners' portion of the gain on sale from a Fund I community which is consolidated for financial reporting purposes.

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 as follows (unaudited, dollars in thousands) and a discussion of “Liquidity and Capital Resources” can be found later in this report:

	For the three months ended		For the six months ended	
	6/30/2015	6/30/2014	6/30/2015	6/30/2014
Net cash provided by operating activities	$255,522	$189,394	$491,902	$409,711
Net cash used in investing activities	$(252,150)	$(87,152)	$(694,349)	$(311,516)
Net cash provided by (used in) financing activities	$(134,358)	$(62,505)	$(241,887)	$46,191

Liquidity and Capital Resources

We believe our principal short-term liquidity needs are to fund:

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

Factors affecting our liquidity and capital resources are our cash flows from operations, financing activities and investing activities (including dispositions) as well as general economic and market conditions. Operating cash flow has historically been determined by: (i) the number of apartment homes currently owned, (ii) rental rates,

(iii) occupancy levels and (iv) operating expenses with respect to apartment homes. The timing and type of capital markets activity in which we engage, as well as our plans for development, redevelopment, acquisition and disposition activity, are affected by changes in the capital markets environment, such as changes in interest rates or the availability of cost-effective capital. We regularly review our liquidity needs, the adequacy of cash flows from operations and other expected liquidity sources to meet these needs.

Table of Contents

We believe that our balance sheet strength, as measured by our current level of indebtedness, our current ability to service interest and other fixed charges, and our current moderate use of financial encumbrances (such as secured financing) provide us with adequate access to liquidity from the capital markets. We expect to be able to meet our reasonably foreseeable liquidity needs, as they arise, through a combination of one or more of the following sources: existing cash on hand; operating cash flows; borrowings under our Credit Facility; secured debt; the issuance of corporate securities (which could include unsecured debt, preferred equity and/or common equity, including common equity issued pursuant to the Forward); the sale of apartment communities; or through the formation of joint ventures. Our ability to obtain additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the real estate industry, our credit ratings and credit capacity, as well as the perception of lenders regarding our long or short-term financial prospects.

Unrestricted cash and cash equivalents totaled $65,126,000 at June 30, 2015, a decrease of $444,334,000 from $509,460,000 at December 31, 2014. As presented in our Condensed Consolidated Statements of Cash Flows included elsewhere in this report, the following discussion relates to changes in cash due to operating, investing and financing activities.

Operating Activities — Net cash provided by operating activities increased to $491,902,000 for the six months ended June 30, 2015 from $409,711,000 for the six months ended June 30, 2014. The change was driven primarily by increased NOI from existing and newly developed communities and the timing of payments of corporate obligations.

Investing Activities — Net cash used in investing activities of $694,349,000 for the six months ended June 30, 2015 related to investments in assets primarily through development and redevelopment, partially offset by proceeds received for dispositions and distributions from unconsolidated joint ventures. During the six months ended June 30, 2015, we invested $917,513,000 in the following:

- we invested approximately $865,497,000 in the development and redevelopment of communities including $376,150,000 for the acquisition of land for development; and
- we had capital expenditures of $52,016,000 for our operating communities and non-real estate assets.

These amounts are partially offset by:

- proceeds from dispositions of $135,841,000;
- insurance recoveries for property damage claims related to Edgewater of $44,142,000; and
- net distributions from unconsolidated joint ventures in the amount of $36,055,000.

Financing Activities — Net cash used in financing activities totaled $241,887,000 for the six months ended June 30, 2015. The net cash used is primarily due to:

- repayment of secured notes in the amount of $588,226,000; and
- payment of cash dividends in the amount of $318,240,000.

These amounts are partially offset by:

- proceeds from the issuance of unsecured notes in the amount of $524,066,000;
- issuance of common stock in the amount of $97,326,000, including $90,000,000 from the partial settlement of the Forward; and
- borrowing the final $50,000,000 available to us on the Term Loan.

Variable Rate Unsecured Credit Facility

The Company has a $1,300,000,000 revolving variable rate unsecured credit facility with a syndicate of banks (the "Credit Facility") which matures in April 2017. We may extend the maturity for up to one year through the exercise of two, six month extension options for an aggregate fee of $1,950,000. The Credit Facility bears interest at varying levels based on the London Interbank Offered Rate ("LIBOR"), rating levels achieved on our unsecured notes and on a maturity schedule selected by us. The current stated pricing is LIBOR plus 0.95% (1.14% at July 31, 2015 assuming a one month borrowing rate). The annual facility fee is 0.15% (or approximately $1,950,000 annually based on the $1,300,000,000 facility size and based on our current credit rating).

We had $420,000,000 outstanding under the Credit Facility and had $44,037,000 outstanding in letters of credit that reduced our borrowing capacity as of July 31, 2015.

Table of Contents

Financial Covenants

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

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

We were in compliance with these covenants at June 30, 2015.

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

Continuous Equity Offering Program

We had no sales under CEP III during 2015 and had $346,304,000 authorized for common stock issuance remaining at the expiration of the program on August 3, 2015.

Forward Equity Contract

On September 9, 2014, based on a market closing price of $155.83 per share on that date, we entered into a forward contract to sell 4,500,000 shares of common stock for an initial forward price of $151.74 per share, net of offering fees and discounts (the "Forward"). The sales price and proceeds achieved are determined on the date or dates of settlement, with adjustments during the term of the contract for our dividends as well as for a daily interest factor that varies with changes in the Fed Funds rate. We generally have the ability to determine the date(s) and method of settlement, subject to certain conditions and the right of the Forward counterparty to accelerate settlement under certain circumstances. Settlement may be (i) physical sale of shares of our common stock for cash, (ii) net cash settlement, whereby we will either pay or receive the difference between the Forward price and the weighted average market price for our common stock at the time of settlement, or (iii) net share settlement, whereby we will either receive or issue shares of our common stock, with the number of shares issued or received determined by the difference between the Forward price and the weighted average market price for its common stock at the time of settlement. The Forward price and the weighted average market price would in both cases be determined under the applicable terms of the Forward. Under either of the net settlement provisions, we will pay to the counterparty either cash or shares of common stock when the weighted average market price of our common stock at the time of settlement exceeds the Forward, and will receive either cash or shares of our common stock to the extent that the weighted average market price of our common stock at the time of settlement is less than the price under the Forward. Settlement of the Forward will occur on one or more dates not later than September 8, 2015. During the three months ended June 30, 2015, we issued 609,275 shares of common stock at a sales price of $147.72 per share, for net proceeds of $90,000,000, in partial settlement of the Forward.

Future Financing and Capital Needs — Debt Maturities

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

The following debt activity occurred during the six months ended June 30, 2015:

- In January 2015, in conjunction with the disposition of Avalon on Stamford Harbor, another operating community, AVA Belltown, was substituted as collateral for the disposed community's outstanding fixed rate secured mortgage loan.

Table of Contents

- In March 2015, we borrowed the final $50,000,000 available under the Term Loan, maturing in March 2021.

- In April 2015, we repaid an aggregate of $481,582,000 principal amount of secured indebtedness, which includes eight fixed rate mortgage loans secured by eight wholly-owned operating communities, at par. The indebtedness had an aggregate effective interest rate of 3.12%, and a stated maturity date of November 2015. We incurred a gain on the early debt extinguishment of $8,724,000, representing the excess of the write-off of unamortized premium from the debt assumed in the Archstone Acquisition.

- In May 2015, we issued $525,000,000 principal amount of unsecured notes in a public offering under our existing shelf registration statement for net proceeds of approximately $520,653,000. The notes mature in June 2025 and were issued at a 3.45% coupon interest rate.

- In June 2015, we repaid a $15,778,000 fixed rate secured mortgage note with an effective interest rate of 7.50% at par in advance of its February 2041 maturity date, recognizing a charge of $455,000 for a prepayment penalty and write-off of deferred financing costs.

- In June 2015, we repaid a $7,805,000 fixed rate secured mortgage note with an effective interest rate of 7.84% at par and without penalty in advance of its May 2027 maturity date, recognizing a charge of $263,000 for the write-off of deferred financing costs.

- In June 2015, we repaid the Edgewater $74,531,000 fixed rate secured mortgage note with an effective interest rate of 5.95% at par and without penalty in advance of its May 2019 maturity date, recognizing a charge of $259,000 for the write-off of deferred financing costs.

The following table details our consolidated debt maturities for the next five years, excluding our Credit Facility and amounts outstanding related to communities classified as held for sale, for debt outstanding at June 30, 2015 and December 31, 2014 (dollars in thousands). We are not directly or indirectly (as borrower or guarantor) obligated in any material respect to pay principal or interest on the indebtedness of any unconsolidated entities in which we have an equity or other interest.

Community	All-In interest rate (1)		Principal maturity date		Balance Outstanding 12/31/2014	6/30/2015	Scheduled Maturities 2015	2016	2017	2018	2019	Thereafter
Tax-exempt bonds (2)												
Fixed rate												
Eaves Washingtonian Center I	7.84	%	May-2027	(3)	$ 8,011	$ —	$—	$—	$—	$—	$—	$ —
Avalon Oaks	7.50	%	Feb-2041	(3)	15,887	—	—	—	—	—	—	—
Avalon Oaks West	7.54	%	Apr-2043		15,847	15,750	100	211	225	241	257	14,716
Avalon at Chestnut Hill	6.16	%	Oct-2047		39,545	39,320	232	482	509	536	566	36,995
Avalon Westbury	4.13	%	Nov-2036	(4)	62,200	62,200	—	—	—	—	—	62,200
					141,490	117,270	332	693	734	777	823	113,911
Variable rate (5)												
Avalon at Mountain View	0.82	%	Feb-2017	(6)	18,100	17,900	—	—	17,900	—	—	—
Avalon at Mission Viejo	1.24	%	Jun-2025	(6)	7,635	7,635	—	—	—	—	—	7,635

AVA Nob Hill	1.16	%	Jun-2025	(6)	20,800	20,800	—	—	—	—	—	20,800
Avalon Campbell	1.50	%	Jun-2025	(6)	38,800	38,800	—	—	—	—	—	38,800
Eaves Pacifica	1.51	%	Jun-2025	(6)	17,600	17,600	—	—	—	—	—	17,600
Avalon Bowery Place I	3.03	%	Nov-2037	(6)	93,800	93,800	—	—	—	—	—	93,800
Avalon Acton	1.53	%	Jul-2040	(6)	45,000	45,000	—	—	—	—	—	45,000
Avalon Walnut Creek	1.31	%	Mar-2046	(4)	116,000	116,000	—	—	—	—	—	116,000
Avalon Walnut Creek	1.31	%	Mar-2046	(4)	10,000	10,000	—	—	—	—	—	10,000
Avalon Morningside Park	1.51	%	May-2046	(4)	100,000	100,000	—	—	—	—	—	100,000
Avalon Clinton North	1.76	%	Nov-2038	(6)	147,000	147,000	—	—	—	—	—	147,000
Avalon Clinton South	1.76	%	Nov-2038	(6)	121,500	121,500	—	—	—	—	—	121,500
Avalon Midtown West	1.67	%	May-2029	(6)	100,500	100,500	—	—	—	—	—	100,500
Avalon San Bruno	1.65	%	Dec-2037	(6)	64,450	64,450	—	—	—	—	—	64,450
Avalon Calabasas	1.73	%	Apr-2028	(6)	44,410	44,410	—	—	—	128	403	43,879
					945,595	945,395	—	—	17,900	128	403	926,964
Conventional loans (2)												

34

Table of Contents

Fixed rate											
$250 Million unsecured notes	5.89	%	Sep-2016	250,000	250,000	—	250,000	—	—	—	—
$250 Million unsecured notes	5.82	%	Mar-2017	250,000	250,000	—	—	250,000	—	—	—
$250 Million unsecured notes	6.19	%	Mar-2020	250,000	250,000	—	—	—	—	—	250,000
$250 Million unsecured notes	4.04	%	Jan-2021	250,000	250,000	—	—	—	—	—	250,000
$450 Million unsecured notes	4.30	%	Sep-2022	450,000	450,000	—	—	—	—	—	450,000
$250 Million unsecured notes	3.00	%	Mar-2023	250,000	250,000	—	—	—	—	—	250,000
$400 Million unsecured notes	3.78	%	Oct-2020	400,000	400,000	—	—	—	—	—	400,000
$350 Million unsecured notes	4.30	%	Dec-2023	350,000	350,000	—	—	—	—	—	350,000
$300 Million unsecured notes	3.66	%	Nov-2024	300,000	300,000	—	—	—	—	—	300,000
$525 Million unsecured notes	3.55	%	Jun-2025	—	525,000	—	—	—	—	—	525,000
Avalon Orchards	7.79	%	Jul-2033	17,091	16,860	239	503	539	577	619	14,383
Avalon Darien	6.23	%	Dec-2015 (7)	47,700	47,283	47,283	—	—	—	—	—
AVA Stamford	6.13	%	Dec-2015 (7)	57,423	56,915	56,915	—	—	—	—	—
Avalon Walnut Creek	4.30	%	Jul-2066	3,042	3,163	—	—	—	—	—	3,163
Avalon Shrewsbury	5.92	%	May-2019	20,174	20,021	154	323	346	367	18,831	—
Eaves Trumbull	5.93	%	May-2019								