AVALONBAY COMMUNITIES INC
Form 10-K
February 29, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2007
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.)*

2900 Eisenhower Avenue, Suite 300
Alexandria, Virginia 22314
(Address of principal executive office)
(703) 329-6300
(Registrant s telephone number, including area code)

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

Common Stock, par value $.01 per share	New York Stock Exchange
8.70% Series H Cumulative Redeemable Preferred Stock, par value $.01 per share	New York Stock Exchange
(Title of each class)	*(Name of each exchange on which registered)*

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ý No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No o

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

Non-accelerated filer o Smaller reporting company o

Large accelerated filer ý	Accelerated filer o

(Do not check if a smaller reporting company)

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

Yes o No ý

The aggregate market value of the Registrant s Common Stock, par value $.01 per share, held by nonaffiliates of the registrant, as of June 30, 2007 was $9,281,643,046.

The number of shares of the registrant s Common Stock, par value $.01 per share, outstanding as of January 31, 2008 was 76,845,045.

Documents Incorporated by Reference

Portions of AvalonBay Communities, Inc. s Proxy Statement for the 2008 annual meeting of stockholders, a definitive copy of which will be filed with the SEC within 120 days after the year end of the year covered by this Form 10-K, are incorporated by reference herein as portions of Part III of this Form 10-K.

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PART I

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Our actual results could differ materially from those set forth in each forward-looking statement. Certain factors that might cause such a difference are discussed in this report, including in the section entitled Forward-Looking Statements on page 55 of this Form 10-K. You should also review Item 1a., Risk Factors, for a discussion of various risks that could adversely affect us.

ITEM 1. BUSINESS

General

AvalonBay Communities, Inc. (the Company, which term, unless the context otherwise requires, refers to AvalonBay Communities, Inc. together with its subsidiaries) is a Maryland corporation that has elected to be treated as a real estate investment trust, or REIT, for federal income tax purposes. We engage in the development, redevelopment, acquisition, ownership and operation of multifamily communities in high barrier-to-entry markets of the United States. These barriers-to-entry generally include a difficult and lengthy entitlement process with local jurisdictions and dense urban or suburban areas where zoned and entitled land is in limited supply. Our markets are located in the Northeast, Mid-Atlantic, Midwest, Pacific Northwest, and Northern and Southern California regions of the United States. We focus on these markets because we believe that over the long term, a limited new supply of apartment homes and lower housing affordability in these markets will result in larger increases in cash flows relative to other markets. In addition to increasing the rental revenues of our operating assets, we believe these market attributes will increase the value of our operating assets and enable us to create additional value through the development and selective acquisition of multifamily housing.

At January 31, 2008, we owned or held a direct or indirect ownership interest in:

- 163 operating apartment communities containing 45,932 apartment homes in ten states and the District of Columbia, of which (i) 12 communities containing 4,006 apartment homes were redevelopment communities, discussed below and (ii) 20 communities containing 4,229 apartment homes were held by the Fund (as defined below) which we manage and in which we own a 15.2% equity interest;

- 21 communities under construction that are expected to contain an aggregate of 6,816 apartment homes when completed; and

- rights to develop an additional 48 communities that, if developed in the manner expected, will contain an estimated 13,656 apartment homes.

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

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

Our principal financial goal is to increase long-term stockholder value by successfully and cost-effectively developing, redeveloping, acquiring, owning and operating high-quality communities in our selected markets that contain features and amenities desired by residents, as well as by providing our residents with efficient and effective service. To help fulfill this goal, we regularly (i) monitor our investment allocation by geographic market and product type, (ii) develop, redevelop and acquire apartment communities in high barrier-to-entry markets with growing or high potential for demand and high for-sale housing costs, (iii) selectively sell apartment communities that no longer meet our long-term strategy or when opportunities are presented to realize a portion of the value created through our investment and redeploy the proceeds from those sales, and (iv) endeavor to maintain a capital structure that is aligned with our business risks such that we maintain continuous access to cost-effective capital. Our long-term strategy is to more deeply penetrate the high barrier-to-entry markets in our chosen regions with a broad range of products and services and an intense focus on our customer. A substantial majority of our current communities are upscale, which generally command among the highest rents in their markets. However, we also pursue the ownership and operation of apartment communities that target a variety of customer segments and price points, consistent with our goal of offering a broad range of products and services.

During the three years ended December 31, 2007, excluding acquisition for the Fund, we acquired two apartment communities and executed the buyout of our partner s 75% interest in a joint venture that owns an apartment community. All three communities financial results are consolidated for financial reporting purposes. During the same three-year period, we disposed of 15 apartment communities, disposed of one investment in a real estate joint venture and completed the development of 21 apartment communities and the redevelopment of 10 apartment communities, including communities we redeveloped for the Fund (as defined below). In anticipation of favorable apartment fundamentals and to help position us for future growth, we increased our construction volume during 2007 (as measured by total projected capitalized cost at completion) and continued to secure new development opportunities, including the acquisition of land for future development. We also increased our investments in apartment communities through an institutional discretionary investment fund, AvalonBay Value Added Fund, L.P. (the Fund), which we manage and in which we own a 15% interest. To create value, the Fund acquired communities with the objective of either redeveloping or repositioning them, or taking advantage of market cycle timing and improved operating performance. Since its inception in March 2005, the Fund has acquired 20 communities. A more detailed description of the Fund and its investment activity can be found in the discussion under Item I. Business General Financing Strategy and Note 6, Investments in Real Estate Entities of the Consolidated Financial Statements in Item 8 of this report. As a result of strong capital flows to the industry, we also continued to dispose of assets at prices that provided significant realized gains.

In 2008, we expect additional new development starts to be in the range of $900,000,000 to $1,100,000,000, measured at total projected cost of completion, and anticipate an increase in our redevelopment activity for both wholly-owned assets and assets of the Fund. We also anticipate asset sales in the range of $700,000,000 to $1,000,000,000, dependent on strategic and value realization opportunities. The level of development, acquisition and disposition activity, however, is heavily influenced by capital market conditions, including prevailing interest rates. A further discussion of our development, redevelopment, disposition, acquisition, property management and related strategies follows.

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

- Boston, Massachusetts;
- Chicago, Illinois;
- Long Island, New York;
- Los Angeles, California;
- New York, New York;
- Newport Beach, California;
- San Francisco, California;
- San Jose, California;
- Seattle, Washington;
- Shelton, Connecticut;
- Virginia Beach, Virginia; and
- Woodbridge, New Jersey.

After selecting a target site, we usually negotiate for the right to acquire the site either through an option or a long-term conditional contract. Options and long-term conditional contracts allow us to acquire the target site shortly before the start of construction, which reduces development-related risks and preserves capital. However, as a result of the recent competitive market conditions for land suitable for development, we recently have acquired and held land prior to construction for extended periods while entitlements are obtained, or acquired land zoned for uses other than residential with the potential for rezoning. We currently own land that is held for development with an aggregate carrying basis under U.S. generally accepted accounting principles (GAAP) of $288,423,000 on which we have not yet commenced construction.

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

When there is increased competition for desirable development opportunities, we will in some cases be engaged in more complicated development pursuits. For example, at times we have acquired and may in the future acquire existing commercial buildings with the intent to pursue rezoning, tenant terminations or expirations and demolition of the existing structures. During the period that we hold these buildings for future development, the net revenue from these operations, which we consider to be incidental, is accounted for as a reduction in our investment in the development pursuit and not as net income. We have also participated, and may in the future participate, in master planned or other large multi-use developments where we commit to build infrastructure (such as roads) to be used by other participants or commit to act as construction manager or general contractor in building structures or spaces for third parties (such as municipal garages or parks). Costs we incur in connection with these activities may be accounted for as additional invested capital in the community or we may earn fee income for providing these services. Particularly with large scale, urban in-fill developments, we may engage in significant environmental remediation efforts to prepare a site for construction.

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

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Redevelopment Strategy. When we undertake the redevelopment of a community, our goal is to renovate and/or rebuild an existing community so that our total investment is generally below replacement cost and the community is well positioned in the market to achieve attractive returns on our capital. We have established procedures to reduce both the cost and risks of redevelopment. Our redevelopment teams, which include key redevelopment, construction and property management personnel, monitor redevelopment progress. We believe we achieve significant cost savings by acting as our own general contractor. More importantly, this helps to ensure high-quality design and workmanship and a smooth and timely transition into the lease-up and restabilization phase.

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

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

Acquisition Strategy. Our core competencies in development and redevelopment discussed above allow us to be selective in the acquisitions we target. Acquisitions allow us to achieve rapid penetration into markets in which we desire an increased presence. Acquisitions (and dispositions) also help us achieve our desired product mix or rebalance our portfolio. In 2005 we formed the Fund, which since then has served as the exclusive vehicle through which we acquired additional investments in apartment communities, subject to limited exceptions. At December 31, 2007, the Fund had invested $777,568,000. We expect that the Fund will invest approximately $46,000,000 of additional funds to redevelop the assets acquired, at which time the Fund will become fully invested. We are exploring various potential sources and vehicles for funding future acquisitions after the Fund is fully invested.

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

- strong focus on resident satisfaction;
- staggering lease terms such that lease expirations are better matched to traffic patterns;
- balancing high occupancy with premium pricing, and increasing rents as market conditions permit; and
- managing community occupancy for optimal rental revenue levels.

Constraining growth in operating expenses is another way in which we expect to increase earnings growth. Growth in our portfolio and the resulting increase in revenue allows for fixed operating costs to be spread over a larger volume of revenue, thereby increasing operating margins. We control operating expenses in a variety of ways, which include the following, among others:

- we use purchase order controls, acquiring goods and services from pre-approved vendors;
- we purchase supplies in bulk where possible;
- we bid third-party contracts on a volume basis;
- we strive to retain residents through high levels of service in order to eliminate the cost of preparing an apartment home for a new resident and to reduce marketing and vacant apartment utility costs;

- we perform turnover work in-house or hire third parties, generally depending upon the least costly alternative;

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

- we aggressively pursue real estate tax appeals.

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

We generally manage the operation and leasing activity of our communities directly (although we may use a wholly-owned subsidiary) both for ourselves and the joint ventures and partnerships of which we are a member or a partner. From time to time, we also pursue or arrange ancillary services for our residents to provide additional revenue sources or increase resident satisfaction. In general, as a REIT we cannot directly provide services to our tenants that are not customarily provided by a landlord, nor can we share in the income of a third party that provides such services. However, we can provide such non-customary services to residents or share in the revenue from such services if we do so through a taxable REIT subsidiary, which is a subsidiary that is treated as a C corporation and is therefore subject to federal income taxes.

Financing Strategy. We have consistently maintained, and intend to continue to maintain, a capital structure that provides us with flexibility in meeting the financial obligations and opportunities presented by our real estate development and ownership business. At December 31, 2007, our debt-to-total market capitalization was 30.3%, and our long-term floating rate debt, which includes amounts outstanding on our variable rate unsecured credit facility, was 10.2% of total market capitalization. Total market capitalization reflects the aggregate of the market value of our common stock, the market value of our operating partnership units outstanding (based on the market value of our common stock), the liquidation preference of our preferred stock and the outstanding principal amount of our debt. We believe that debt-to-total market capitalization can be one useful measure of a real estate operating company s long-term liquidity and balance sheet strength, because it shows an approximate relationship between a company s total debt and the current total market value of its assets based on the current price at which the company s common stock trades. However, because debt-to-total market capitalization changes with fluctuations in our stock price, which occur regularly, our debt-to-total market capitalization may change even when our earnings and debt levels remain stable.

We estimate that a portion of our short-term liquidity needs will be met from retained operating cash, borrowings under our variable rate unsecured credit facility and sales of current operating communities. If required to meet the balance of our current or anticipated liquidity needs, we will borrow funds under our existing unsecured credit facility, sell existing communities or land and/or issue additional debt or equity securities. A determination to engage in an equity or debt offering depends on a variety of factors such as general market and economic conditions, including interest rates, our short and long term liquidity needs, the adequacy of our expected liquidity sources, the relative costs of debt and equity capital, and growth opportunities. A summary of debt and equity activity for the last three years is reflected on our Consolidated Statement of Cash Flows of the Consolidated Financial Statements set forth in Item 8 of this report.

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

Since its inception in 2005, the Fund has served as the principal vehicle through which we have invested in the acquisition of apartment communities, subject to certain exceptions. These exceptions included significant individual asset and portfolio acquisitions, properties acquired in tax-deferred transactions and acquisitions that are inadvisable or inappropriate for the Fund. The Fund does not restrict our development activities, and will terminate after a term of eight years, subject to two one-year extensions. The Fund has nine institutional investors, including us, with a combined equity capital commitment of $330,000,000. A significant portion of the investments made in the Fund by its investors are being made through AvalonBay Value Added Fund, Inc., a Maryland corporation that qualifies as a REIT under the Internal Revenue Code (the Fund REIT). A wholly-owned subsidiary of the Company is the general partner of the Fund and has committed $50,000,000 to the Fund and the Fund REIT (of which approximately $43,399,000 has been invested as of January 31, 2008) representing a 15.2% combined general partner and limited partner equity interest. As of January 31, 2008, the Fund had invested $779,318,000, with an additional expected net investment of $39,000,000 to redevelop the assets acquired. We are exploring various potential sources and vehicles for funding future acquisitions after the Fund is fully invested.

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

Other Strategies and Activities. While we emphasize equity real estate investments in rental apartment communities, we have the ability to invest in other types of real estate, mortgages (including participating or convertible mortgages), securities of other REITs or real estate operating companies, or securities of technology companies that relate to our real estate operations or of companies that provide services to us or our residents, in each case consistent with our qualification as a REIT. On occasion, we own and lease retail space at our communities when either (i) the highest and best use of the space is for retail (e.g., street level in an urban area) or (ii) we believe the retail space will enhance the attractiveness of the community to residents. As of December 31, 2007, we had a total of 405,122 square feet of rentable retail space that produced gross rental revenue in 2007 of $7,790,000 (1.0% of total revenue). If we secure a development right and believe that its best use, in whole or in part, is to develop the real estate with the intent to sell rather than hold the asset, we may, through a taxable REIT subsidiary, develop real estate for sale. At present, through a taxable REIT subsidiary that is a 50% partner in Aria at Hathorne, LLC, we have an economic interest in the development of 64 for-sale townhomes at a total projected capital cost of $23,636,000 on a site that is adjacent to our Avalon Danvers community and that is zoned for for-sale development. Any investment in securities of other entities, and any development of real estate for sale, is subject to the percentage of ownership limitations, gross income tests, and other limitations that must be observed for REIT qualification.

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

Inflation and Deflation

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

Tax Matters

We filed an election with our 1994 federal income tax return to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, and intend to maintain our qualification as a REIT in the future. As a qualified REIT, with limited exceptions, we will not be taxed under federal and certain state income tax laws at the corporate level on our net income to the extent net income is distributed to our stockholders. We expect to make sufficient distributions to avoid income tax at the corporate level. While we believe that we are organized and qualified as a REIT and we intend to operate in a manner that will allow us to continue to qualify as a REIT, there can be no assurance that we will be successful in this regard. Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code for which there are limited judicial and administrative interpretations and involves the determination of a variety of factual matters and circumstances not entirely within our control.

Competition

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

Environmental and Related Matters

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

Other Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20002. You may call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. Our SEC filings are also available to the public from the SEC s website at www.sec.gov. In addition, you may read our SEC fillings at the offices of the New York Stock Exchange (NYSE), which is located at 20 Board Street, New York, New York 10005. Our SEC filings are available at the NYSE because our common stock and an outstanding series of preferred stock are listed on the NYSE.

We maintain a website at www.avalonbay.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934 are available free of charge in the Investor Relations section of our website as soon as reasonably practicable after the reports are filed with or furnished to the SEC. In addition, the charters of our Board s Nominating and Corporate Governance Committee, Audit Committee and Compensation Committee, as well as our Corporate Governance Guidelines and Code of Conduct, are available free of charge in that section of our website or by writing to AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Chief Financial Officer. To the extent required by the rules of the SEC and the New York Stock Exchange (NYSE), we will disclose amendments and waivers relating to these documents in the same place on our website.

We were incorporated under the laws of the State of California in 1978. In 1995, we reincorporated in the State of Maryland and have been focused on the ownership and operation of apartment communities since that time. As of December 31, 2007, we had 1,898 employees.

ITEM 1a. RISK FACTORS

Our operations involve various risks that could have adverse consequences, including those described below. This Item 1a includes forward-looking statements. You should refer to our discussion of the qualifications and limitations on forward-looking statements on page 55.

Development, redevelopment and construction risks could affect our profitability.

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

- we may be unable to obtain, or experience delays in obtaining, necessary zoning, occupancy, or other required governmental or third party permits and authorizations, which could result in increased costs or the delay or abandonment of opportunities;

- we may abandon opportunities that we have already begun to explore for a number of reasons, including changes in local market conditions or increases in construction or financing costs, and, as a result, we may fail to recover expenses already incurred in exploring those opportunities;

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

- occupancy rates and rents at a community may fail to meet our expectations for a number of reasons, including changes in market and economic conditions beyond our control and the development by competitors of competing communities;

- we may be unable to complete construction and lease up of a community on schedule, resulting in increased construction and financing costs and a decrease in expected rental revenues;

- we may be unable to obtain financing with favorable terms, or at all, for the proposed development of a community, which may cause us to delay or abandon an opportunity;

- we may incur liabilities to third parties during the development process, for example, in connection with managing existing improvements on the site prior to tenant terminations and demolition (such as commercial space) or in connection with providing services to third parties, such as the construction of shared infrastructure or other improvements; and

- we may incur liability if our communities are not constructed and operated in compliance with the accessibility provisions of the Americans with Disabilities Acts, the Fair Housing Act or other federal, state or local requirements. Noncompliance could result in imposition of fines, an award of damages to private litigants, and a requirement that we undertake structural modifications to remedy the noncompliance. We are currently engaged in a lawsuit alleging noncompliance with these statutes. See Legal Proceedings.

We project construction costs based on market conditions at the time we prepare our budgets, and our projections include changes that we anticipate but cannot predict with certainty. Construction costs have been increasing, particularly for materials such as steel, concrete and lumber, and, for some of our Development Communities and Development Rights, the total construction costs may be higher than the original budget. Total capitalized cost includes all capitalized costs projected to be incurred to develop or redevelop a community, determined in accordance with United States Generally Accepted Accounting Principles (GAAP), including:

- land and/or property acquisition costs;

- fees paid to secure air rights and/or tax abatements;

- construction or reconstruction costs;

costs of environmental remediation;

real estate taxes;

capitalized interest;

loan fees;

permits;

professional fees;

allocated development or redevelopment overhead; and

other regulatory fees.

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

Unfavorable changes in market and economic conditions could hurt occupancy, rental rates or operating expenses.

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

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

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

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

Compliance with changes in (i) laws increasing the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions, (ii) rent control or rent stabilization laws or (iii) other governmental rules and regulations or enforcement policies affecting the use and operation of our communities, including changes to building codes and fire and life-safety codes, may result in lower revenue growth or significant unanticipated expenditures.

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

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

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

Our apartment communities compete with other housing alternatives to attract residents, including other rental apartments, condominiums and single-family homes that are available for rent, as well as new and existing condominiums and single-family homes for sale. Competitive residential housing in a particular area could adversely affect our ability to lease apartment homes and to increase or maintain rental rates.

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

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

Insufficient cash flow could affect our debt financing and create refinancing risk.
We are subject to the risks associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest. In this regard, we note that we are required to annually distribute dividends generally equal to at least 90% of our REIT taxable income, computed without regard to the dividends paid deduction and our net capital gain, in order for us to continue to qualify as a REIT, and this requirement limits the amount of our cash flow available to meet required principal and interest payments. The principal outstanding balance on a portion of our debt will not be fully amortized prior to its maturity. Although we may be able to repay our debt by using our cash flows, we cannot assure you that we will have sufficient cash flows available to make all required principal payments. Therefore, we may need to refinance at least a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that a refinancing will not be done on as favorable terms, either of which could have a material adverse effect on our financial condition and results of operations.
Rising interest rates could increase interest costs and could affect the market price of our common stock.
We currently have, and may in the future incur, variable interest rate debt. In addition, we regularly seek access to both fixed and variable rate debt financing to repay maturing debt and to finance our development and redevelopment activity. Accordingly, if interest rates increase, our interest costs will also rise, unless we have made arrangements that hedge the risk of rising interest rates. In addition, an increase in market interest rates may lead purchasers of our common stock to demand a greater annual dividend yield, which could adversely affect the market price of our common stock.
Bond financing and zoning compliance requirements could limit our income, restrict the use of communities and cause favorable financing to become unavailable.
We have financed some of our apartment communities with obligations issued by local government agencies because the interest paid to the holders of this debt is generally exempt from federal income taxes and, therefore, the interest rate is generally more favorable to us. These obligations are commonly referred to as tax-exempt bonds and generally must be secured by communities. As a condition to obtaining tax-exempt financing, or on occasion as a condition to obtaining favorable zoning in some jurisdictions, we will commit to make some of the apartments in a community available to households whose income does not exceed certain thresholds (e.g., 50% or 80% of area median income), or who meet other qualifying tests. As of December 31, 2007, approximately 4.7% of our apartment homes at current operating communities were under income limitations such as these. These commitments, which may run without expiration or may expire after a period of time (such as 15 or 20 years) may limit our ability to raise rents aggressively and, in consequence, can also limit increases in the value of the communities subject to these restrictions.
In addition, some of our tax-exempt bond financing documents require us to obtain a guarantee from a financial institution of payment of the principal of, and interest on, the bonds. The guarantee may take the form of a letter of credit, surety bond, guarantee agreement or other additional collateral. If the financial institution defaults in its guarantee obligations, or if we are unable to renew the applicable guarantee or otherwise post satisfactory collateral, a default will occur under the applicable tax-exempt bonds and the community could be foreclosed upon.
Risks related to indebtedness.
We have a $1,000,000,000 revolving variable rate unsecured credit facility with JPMorgan Chase Bank, N.A., and Wachovia Bank, N.A., serving together as syndication agent and as banks, Bank of America, N.A., serving as administrative agent, swing lender, issuing bank and a bank, Morgan Stanley Bank, Wells Fargo Bank, N.A., and Deutsche Bank Trust Company Americas, serving collectively as documentation agent and as banks, and a syndicate of other financial institutions, serving as banks. Our organizational documents do not limit the amount or percentage of indebtedness that may be incurred. Accordingly, subject to compliance with outstanding debt covenants, we could incur more debt, resulting in an increased risk of default on our obligations and an increase in debt service requirements that could adversely affect our financial condition and results of operations.

The mortgages on those of our properties subject to secured debt, our unsecured credit facility and the indentures under which a substantial portion of our debt was issued contain customary restrictions, requirements and other limitations, as well as certain financial and operating covenants including maintenance of certain financial ratios. Maintaining compliance with these restrictions could limit our flexibility. A default in these requirements, if uncured, could result in a requirement that we repay indebtedness, which could severely affect our liquidity and increase our financing costs.

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

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

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

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

Difficulty of selling apartment communities could limit flexibility.

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

Acquisitions may not yield anticipated results.

Subject to the requirements related to the Fund, we may in the future acquire apartment communities on a select basis. Our acquisition activities and their success may be exposed to the following risks:

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

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

We may from time to time commence development activity or make acquisitions outside of our existing market areas if appropriate opportunities arise. As noted in the business description above, we also own and lease retail space when a retail component represents the best use of the space, as is often the case with large urban in-fill developments. Also as noted in the business description above, through a taxable REIT subsidiary that is a joint venture partner, we have a 50% economic interest in a 64 townhome for-sale development with a total estimated capital cost at completion of $23,636,000, on a site adjacent to one of our communities. We may engage or have an interest in for-sale activity in the future. Our historical experience in our existing markets in developing, owning and operating rental communities does not ensure that we will be able to operate successfully in new markets, should we choose to enter them, or that we will be successful in other activities. We may be exposed to a variety of risks if we choose to enter new markets, including an inability to evaluate accurately local apartment market conditions; an inability to obtain land for development or to identify appropriate acquisition opportunities; an inability to hire and retain key personnel; and lack of familiarity with local governmental and permitting procedures. We may be unsuccessful in owning and leasing retail space at our communities or in developing real estate with the intent to sell.

Risks involved in real estate activity through joint ventures.

Instead of acquiring or developing apartment communities directly, at times we invest as a partner or a co-venturer. Partnership or joint venture investments involve risks, including the possibility that our partner might become insolvent or otherwise refuse to make capital contributions when due; that we may be responsible to our partner for indemnifiable losses; that our partner might at any time have business goals which are inconsistent with ours; and that our partner may be in a position to take action or withhold consent contrary to our instructions or requests. Frequently, we and our partner may each have the right to trigger a buy-sell arrangement, which could cause us to sell our interest, or acquire our partner s interest, at a time when we otherwise would not have initiated such a transaction.

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

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

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

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

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

- while we have broad discretion to manage the Fund and make investment decisions on behalf of the Fund, the investors or an advisory committee comprised of representatives of the investors must approve certain matters, and as a result we may be unable to cause the Fund to make certain investments or implement certain decisions that we consider beneficial;

- we can develop communities but have been generally prohibited from making acquisitions of apartment communities outside of the Fund, which is our exclusive investment vehicle until March 2008 or when 80% of the Fund s capital is invested, subject to certain exceptions; and

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

If we were to employ a similar vehicle to fund acquisitions in the future, such vehicle could present similar risks to us, or similar requirements that our acquisition activity be conducted primarily through the vehicle.

Risk of earthquake damage.

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

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

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

In addition to the earthquake insurance discussed above, we carry commercial general liability insurance, property insurance and terrorism insurance with respect to our communities on terms we consider commercially reasonable. There are, however, certain types of losses (such as losses arising from acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in management s view, economically impractical. If an uninsured property loss or a property loss in excess of insured limits were to occur, we could lose our capital invested in a community, as well as the anticipated future revenues from such community. We would also continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. If an uninsured liability to a third party were to occur, we would incur the cost of defense and settlement with, or court ordered damages to, that third party. A significant uninsured property or liability loss could materially and adversely affect our business and our financial condition and results of operations.

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

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

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

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

In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and costs it incurs as a result of the contamination.

The development, construction and operation of our communities are subject to regulations and permitting under various federal, state and local laws, regulations and ordinances, which regulate matters including wetlands protection, storm water runoff and wastewater discharge. Noncompliance with such laws and regulations may subject us to fines and penalties. We do not currently anticipate that we will incur any material liabilities as a result of noncompliance with these laws.

Certain federal, state and local laws, regulations and ordinances govern the removal, encapsulation or disturbance of asbestos containing materials (ACMs) when such materials are in poor condition or in the event of renovation or demolition of a building. These laws and the common law may impose liability for release of ACMs and may allow third parties to seek recovery from owners or operators of real properties for personal injury associated with exposure to ACMs. We are not aware that any ACMs were used in the construction of the communities we developed. ACMs were, however, used in the construction of several of the communities that we acquired. We implement an operations and maintenance program at each of the communities at which ACMs are detected. We do not currently anticipate that we will incur any material liabilities as a result of the presence of ACMs at our communities.

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

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

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

Additionally, we have occasionally been involved in developing, managing, leasing and operating various properties for third parties. Consequently, we may be considered to have been an operator of such properties and, therefore, potentially liable for removal or remediation costs or other potential costs which could relate to hazardous or toxic substances. We are not aware of any material environmental liabilities with respect to properties managed or developed by us or our predecessors for such third parties.

We cannot assure you that:

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

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

If we fail to qualify as a REIT for federal income tax purposes, we will be subject to federal income tax on our taxable income at regular corporate rates (subject to any applicable alternative minimum tax). In addition, unless we are entitled to relief under applicable statutory provisions, we would be ineligible to make an election for treatment as a

REIT for the four taxable years following the year in which we lose our qualification. The additional tax liability resulting from the failure to qualify as a REIT would significantly reduce or eliminate the amount of funds available for distribution to our stockholders. Furthermore, we would no longer be required to make distributions to our stockholders. Thus, our failure to qualify as a REIT could also impair our ability to expand our business and raise capital, and would adversely affect the value of our common stock.

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

Even if we qualify as a REIT, we will be subject to certain federal, state and local taxes on our income and property and on taxable income that we do not distribute to our shareholders. In addition, we may engage in activities through taxable subsidiaries and will be subject to federal income tax at regular corporate rates on the income of those subsidiaries.

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

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

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

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

Our bylaws provide that the affirmative vote of holders of a majority of all of the shares entitled to be cast in the election of directors is required to elect a director. In a contested election, if no nominee receives the vote of holders of a majority of all of the shares entitled to be cast, the incumbent directors would remain in office. This requirement may prevent or delay a change in control and, as a result, could adversely affect our stockholders ability to realize a premium for their shares of common stock.

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

ITEM 1b. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. COMMUNITIES

Our real estate investments consist primarily of current operating apartment communities, communities in various stages of development (Development Communities) and Development Rights as defined below. Our current operating communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities and Redevelopment Communities. The following is a description of each category:

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

> *Established Communities (also known as Same Store Communities)* are consolidated communities where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year. For the year ended December 31, 2007, the Established Communities are communities that are consolidated for financial reporting purposes, had stabilized occupancy and operating expenses as of January 1, 2006, are not conducting or planning to conduct substantial redevelopment activities and are not held for sale or planned for disposition within the current year. A community is considered to have stabilized occupancy at the earlier of (i) attainment of 95% physical occupancy or (ii) the one-year anniversary of completion of development or redevelopment.
>
> *Other Stabilized Communities* includes all other completed communities that we own or have a direct or indirect ownership interest in, and that have stabilized occupancy, as defined above. Other Stabilized Communities do not include communities that are conducting or planning to conduct substantial redevelopment activities within the current year.
>
> *Lease-Up Communities* are communities where construction has been complete for less than one year and where physical occupancy has not reached 95%.
>
> *Redevelopment Communities* are communities where substantial redevelopment is in progress or is planned to begin during the current year. For communities that we wholly own, redevelopment is considered substantial when capital invested during the reconstruction effort is expected to exceed the lesser of $5,000,000 or 10% of the community s acquisition cost. The definition of substantial redevelopment may differ for communities owned through a joint venture arrangement.

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

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

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

As of December 31, 2007, 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:		
Northeast	42	11,226
Mid-Atlantic	17	5,757
Midwest	3	887
Pacific Northwest	9	2,278
Northern California	27	8,109
Southern California	10	3,172
Total Established	108	31,429
Other Stabilized Communities:		
Northeast	18	5,359
Mid-Atlantic	6	1,485
Midwest	3	869
Pacific Northwest	2	611
Northern California	5	1,149
Southern California	10	2,123
Total Other Stabilized	44	11,596
Lease-Up Communities	3	676
Redevelopment Communities	8	2,231
Total Current Communities	163	45,932
Development Communities	21	6,816
Development Rights	48	13,656

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

Current Communities

Our Current Communities are primarily garden-style apartment communities consisting of two and three-story buildings in landscaped settings. The Current Communities, as of January 31, 2008, include 123 garden-style (of which 14 are mixed communities and include townhomes), 21 high-rise and 19 mid-rise apartment communities. The Current Communities offer many attractive amenities including some or all of the following:

- vaulted ceilings;
- lofts;
- fireplaces;
- patios/decks; and
- modern appliances.

Other features at various communities may include:

- swimming pools;
- fitness centers;
- tennis courts; and
- business centers.

We also have an extensive and ongoing maintenance program to keep all communities and apartment homes substantially free of deferred maintenance and, where vacant, available for immediate occupancy. We believe that the aesthetic appeal of our communities and a service oriented property management team, focused on the specific needs of residents, enhances market appeal to discriminating residents. We believe this will ultimately achieve higher rental rates and occupancy levels while minimizing resident turnover and operating expenses.
Our Current Communities are located in the following geographic markets:

	Number of communities at		Number of apartment homes at		Percentage of total apartment homes at	
	1-31-07	1-31-08	1-31-07	1-31-08	1-31-07	1-31-08
Northeast	**56**	**64**	**15,732**	**17,547**	**36.1%**	**38.2%**
Boston, MA	18	22	4,490	5,788	10.3%	12.6%
Fairfield County, CT	14	14	3,812	3,812	8.8%	8.3%
Long Island, NY	6	7	1,621	1,732	3.7%	3.8%
Northern New Jersey	3	5	1,182	1,618	2.7%	3.5%
Central New Jersey	6	6	2,042	2,042	4.7%	4.4%
New York, NY	9	10	2,585	2,555	5.9%	5.6%
Mid-Atlantic	**24**	**25**	**7,622**	**7,818**	**17.5%**	**17.0%**
Baltimore, MD	9	9	1,987	1,987	4.6%	4.3%
Washington, DC	15	16	5,635	5,831	12.9%	12.7%
Midwest	**7**	**7**	**1,952**	**1,952**	**4.5%**	**4.2%**
Chicago, IL	7	7	1,952	1,952	4.5%	4.2%
Pacific Northwest	**12**	**12**	**3,111**	**3,111**	**7.2%**	**6.8%**
Seattle, WA	12	12	3,111	3,111	7.2%	6.8%
Northern California	**33**	**34**	**9,366**	**9,546**	**21.5%**	**20.8%**
Oakland-East Bay, CA	7	7	2,089	2,089	4.8%	4.5%
San Francisco, CA	11	11	2,489	2,489	5.7%	5.4%
San Jose, CA	15	16	4,788	4,968	11.0%	10.8%
Southern California	**19**	**21**	**5,750**	**5,958**	**13.2%**	**13.0%**
Los Angeles, CA	9	11	3,006	3,214	6.9%	7.0%
Orange County, CA	7	7	1,686	1,686	3.9%	3.7%
San Diego, CA	3	3	1,058	1,058	2.4%	2.3%
	151	163	43,533	45,932	100.0%	100.0%

We manage and operate substantially all of our Current Communities. During the year ended December 31, 2007, we completed construction of 1,749 apartment homes in eight communities, acquired one wholly-owned community containing 80 apartment homes and sold 982 apartment homes in four communities. In addition, the Fund acquired 1,491 apartment homes in seven communities. The average age of our Current Communities, on a weighted average basis according to number of apartment homes, is 15.3 years. When adjusted to reflect redevelopment activity, as if redevelopment were a new construction completion date, the average age of our Current Communities is 9.7 years.
Of the Current Communities, as of January 31, 2008, we own:

a full fee simple, or absolute, ownership interest in 120 operating communities, 5 of which are on land subject to land leases expiring in November 2028, December 2061, April 2095, September 2105, and

March 2142;

a general partnership interest in 3 partnerships that each own a fee simple interest in an operating community;

a general partnership interest and an indirect limited partnership interest in the Fund, which owns a fee simple interest in 20 operating communities;

a general partnership interest in two partnerships structured as DownREITs, as described more fully below, that own an aggregate of 12 communities;

- a membership interest in 7 limited liability companies that each hold a fee simple interest in an operating community, three of which are on land subject to land leases expiring in February 2093, August 2100, and December 2103; and

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

We also hold, directly or through wholly owned subsidiaries, the full fee simple ownership interest in 21 of the Development Communities, all of which are currently consolidated for financial reporting purposes.

In our two partnerships structured as DownREITs, either AvalonBay or one of our wholly-owned subsidiaries is the general partner, and there are one or more limited partners whose interest in the partnership is represented by units of limited partnership interest. For each DownREIT partnership, limited partners are entitled to receive an initial distribution before any distribution is made to the general partner. Although the partnership agreements for each of the DownREITs are different, generally the distributions per unit paid to the holders of units of limited partnership interests have approximated our current common stock dividend amount. The holders of units of limited partnership interest have the right to present all or some of their units for redemption for a cash amount as determined by the applicable partnership agreement and based on the fair value of our common stock. In lieu of a cash redemption by the partnership, we may elect to acquire any unit presented for redemption for one share of our common stock or for such cash amount. As of January 31, 2008, there were 64,019 DownREIT partnership units outstanding. The DownREIT partnerships are consolidated for financial reporting purposes.

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

	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Acres	Year of completion/ acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/07	Average economic occupancy 2007	Average economic occupancy 2006	Average rental rate $ per Apt (4)	Average rental rate $ p Sq.
OMMUNITIES											
ngton	Lexington, MA	198	230,280	16.1	1994	1,163	98.5%	96.5%	95.9%	1,784	1.4
t	Quincy, MA	245	216,509	8.0	1986/1996	884	96.7%	96.0%	95.5%	1,279	1.3
n Park	Quincy, MA	171	175,649	8.3	1998	1,027	95.9%	95.9%	96.3%	1,604	1.5
ential Center	Boston, MA	780	725,409	1.0	1968/1998	930	97.2%	97.0%	97.5%	2,858	2.9
	Weymouth, MA	304	330,606	57.6	2002	1,088	96.7%	95.0%	95.3%	1,452	1.2
ds	Marlborough, MA	156	176,477	23.0	2002	1,131	98.1%	96.0%	96.4%	1,449	1.2
ders Hill	Westborough, MA	280	299,425	62.0	2003	1,069	96.4%	96.0%	95.4%	1,438	1.2
ton Highlands	Newton, MA	294	339,537	7.0	2003	1,155	96.6%	95.5%	95.2%	2,231	1.8
Pinehills I	Plymouth, MA	101	150,991	6.0	2004	1,495	91.1%	95.8%	93.4%	1,786	1.1
e Brook	Danvers & Peabody, MA	387	410,076	20.0	2004	1,060	97.9%	95.7%	95.5%	1,347	1.2
er Place (11)	Providence, RI	225	222,834	1.2	1991/1997	990	91.6%	92.8%	93.8%	2,245	2.1
bury	Shrewsbury, MA	251	274,780	25.5	2007	1,095	97.2%	84.3%	N/A	1,312	1.0
n	Woburn, MA	446	486,091	56.0	2007	1,090	98.0%	61.4%	N/A	1,471	0.8
	Wilmington, MA	204	229,452	22.5	1999	1,125	96.1%	95.4%	95.1%	1,477	1.2
	Peabody, MA	154	198,478	11.1	2000	1,289	97.4%	96.5%	97.3%	1,577	1.1
Vest	Wilmington, MA	120	133,376	27.0	2002	1,111	94.2%	95.0%	93.7%	1,374	1.1
ford Center	Bedford, MA	139	159,704	38.0	2005	1,149	96.4%	95.6%	85.4%(3)	1,756	1.4
ut Hill	Chestnut Hill, MA	204	270,031	4.7	2007	1,324	97.1%	78.8%	7.9%	2,045	1.2
	Peabody, MA	286	250,322	18.0	2004	875	90.9%	96.3%(2)	97.8%	1,089	1.2
Haven, CT											
	Trumbull, CT	340	379,282	37.0	1997	1,116	97.4%	94.9%	98.1%	1,627	1.3
	Stamford, CT	238	221,843	4.1	1991	932	97.5%	97.2%	97.2%	2,015	2.1
s	Wilton, CT	102	158,259	12.0	1996	1,552	99.0%	96.5%	92.7%	2,983	1.8
	Danbury, CT	268	295,303	17.1	1999	1,102	98.1%	96.8%	98.1%	1,664	1.4
	North Haven, CT	128	139,972	10.6	2000	1,094	94.5%	96.8%	97.4%	1,594	1.4
	Orange, CT	168	161,795	9.6	2005	963	94.6%	95.1%	97.9%	1,499	1.4
nford Harbor	Stamford, CT	323	323,587	12.1	2003	1,002	94.7%	97.5%	97.6%	2,502	2.4
anaan	New Canaan, CT	104	131,468	9.1	2002	1,264	95.2%	94.3%	95.7%	2,935	2.1
rock Place	Stamford, CT	306	314,600	3.0	2002	1,028	95.8%	97.5%	97.9%	2,272	2.1
	Darien, CT	189	242,533	32.0	2004	1,283	97.9%	96.2%	93.7%	2,564	1.9
l I	Milford, CT	246	216,746	22.0	2004	881	97.2%	96.1%	98.1%	1,443	1.5
& II	Hamden, CT	764	435,426	38.4	1992/1994	1,003	91.9%	88.3%(2)	91.7%	1,308	2.0
ry	Danbury, CT	234	235,320	36.0	2005	1,006	95.3%	95.5%	94.5%	1,666	1.5

NY											
ons	Smithtown, NY	312	377,240	20.6	1997	1,209	95.5%	95.4%	97.1%	2,087	1.6
	Long Beach, NY	109	124,611	1.3	1990/1995	1,143	94.5%	96.8%	97.7%	3,491	2.9
	Melville, NY	494	596,942	35.4	1997/2000	1,208	92.5%	95.3%	96.3%	2,470	1.9
Cove South	Glen Cove, NY	256	261,462	4.0	2004	1,021	97.3%	94.5%	95.5%	2,343	2.1
	Coram, NY	298	362,132	32.0	2005	1,215	96.0%	95.7%	95.9%	1,912	1.5
Cove North	Glen Cove, NY	111	100,851	1.3	2007	909	97.3%	50.2%(3)	N/A	2,530	1.4
I	Coram, NY	152	183,857	42.0	2006	1,210	99.3%	96.3%	71.0%	1,887	1.5

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

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

	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Acres	Year of completion/ acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/07	Average economic occupancy 2007	Average economic occupancy 2006	Average rental rate $ per Apt (4)	Average rental rate $ per Sq. Ft.
T											
IL											
West Grove (8)	Westmont, IL	400	388,500	17.4	1967	971	96.0%	95.4%	95.0%	912	0.90
Danada Farms (8)	Wheaton, IL	295	351,326	19.2	1997	1,191	95.4%	95.5%	95.3%	1,414	1.13
Stratford Green (8)	Bloomingdale, IL	192	237,124	12.7	1997	1,235	96.9%	96.1%	95.9%	1,404	1.09
lington Heights	Arlington Heights, IL	409	346,416	2.8	1987/2000	847	97.1%	94.3%(2)	92.9%	1,456	1.62(2
NORTHWEST											
A											
Bear Creek	Redmond, WA	264	288,250	22.2	1998	1,092	96.2%	95.5%	96.3%	1,340	1.17
llevue	Bellevue, WA	202	167,070	1.7	2001	827	93.6%	96.6%	96.5%	1,513	1.77
ckMeadow (8)	Bothell, WA	206	243,958	11.2	2000	1,184	95.6%	96.6%	96.1%	1,264	1.03
ildReed (8)	Everett, WA	234	259,080	23.0	2000	1,107	97.0%	96.7%	96.7%	1,077	0.94
ghGrove (8)	Everett, WA	391	422,482	19.0	2000	1,081	96.4%	96.6%	96.5%	1,079	0.96
rcSquare (8)	Redmond, WA	124	127,231	2.0	2000	1,026	92.7%	96.5%	96.4%	1,507	1.42
ynhaven (8)	Issaquah, WA	333	424,803	11.6	2001	1,276	94.0%	96.4%	95.4%	1,376	1.04
andemoor (8)	Lynwood, WA	424	453,602	27.0	2001	1,070	96.0%	96.1%	96.8%	1,164	1.05
lltown	Seattle, WA	100	82,418	0.7	2001	824	95.0%	97.2%	96.4%	1,724	2.03
dmond Place	Redmond, WA	222	211,450	8.4	1991/1997	952	84.0%	90.1%(2)	96.7%	1,238	1.17(2
RN CALIFORNIA											
East Bay, CA											
emont I	Fremont, CA	308	311,121	14.3	1994	1,010	98.7%	97.4%	96.9%	1,698	1.64
ıblin	Dublin, CA	204	179,004	13.0	1989/1997	877	97.1%	97.3%	97.2%	1,507	1.67
easanton	Pleasanton, CA	456	366,062	14.7	1988/1994	803	97.1%	95.8%	96.8%	1,386	1.65
Union Square	Union City, CA	208	150,320	8.5	1973/1996	723	98.6%	97.6%	96.7%	1,211	1.64
	Hayward, CA	544	452,043	11.1	1985/1986	831	96.1%	96.5%	95.6%	1,218	1.42
Willow Creek	Fremont, CA	235	191,935	13.5	1985/1994	817	98.3%	98.1%	97.7%	1,462	1.76
cisco, CA											
Cedar Ridge	Daly City, CA	195	141,411	7.0	1972/1997	725	97.9%	98.1%	96.8%	1,506	2.04
Nob Hill	San Francisco, CA	185	108,712	1.4	1990/1995	588	97.8%	96.9%	96.4%	1,797	2.96
ster City	Foster City, CA	288	222,364	11.0	1973/1994	772	97.9%	97.1%	97.1%	1,505	1.89
wers by the Bay	San Francisco, CA	227	245,033	1.0	1999	1,079	98.2%	97.6%	96.8%	3,046	2.75
cifica	Pacifica, CA	220	186,800	21.9	1971/1995	849	97.7%	96.9%	96.7%	1,592	1.82
nset Towers	San Francisco, CA	243	171,854	16.0	1961/1996	707	98.4%	96.9%	96.7%	1,808	2.48
Mission Bay North	San Francisco, CA	250	240,368	1.4	2003	961	96.0%	94.5%	95.2%	3,213	3.16
idge	San Rafael, CA	254	221,635	21.9	1973/1996	873	94.5%	97.8%	96.3%	1,430	1.60

Diamond Heights	San Francisco, CA	154	123,047	3.0	1972/1994	799	96.6%	97.7%	97.4%	1,733	2.12

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

	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Acres	Year of completion/ acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/07	Average economic occupancy 2007	Average economic occupancy 2006	Averag rental ra $ per Apt (4)	$ Sc
ll	Campbell, CA	348	326,796	10.8	1995	939	97.7%	97.7%	96.9%	1,636	1.
om Hill	San Jose, CA	324	323,496	7.5	1995	998	97.5%	96.7%	96.7%	1,608	1.
	San Jose, CA	360	322,992	14.0	1985/1996	897	97.2%	97.0%	97.8%	1,491	1.
Oaks	San Jose, CA	226	210,050	4.0	1990/1996	929	98.7%	98.3%	97.6%	1,607	1.
ase I	San Jose, CA	252	213,072	7.0	1988/1987	846	99.2%	97.1%	96.7%	1,367	1.
ase II	San Jose, CA	144	120,723	5.0	1988/1987	838	97.2%	97.1%	97.2%	1,349	1.
de	Sunnyvale, CA	192	204,060	8.0	1991/1996	1,063	99.0%	97.5%	98.0%	1,837	1.
lameda	San Jose, CA	305	299,762	8.9	1999	983	97.4%	97.7%	96.9%	1,992	1.
k	San Jose, CA	456	448,512	16.6	1997/1999	984	97.8%	97.2%	96.4%	1,634	1.
yard	Campbell, CA	252	197,000	8.5	1968/1997	782	98.8%	97.3%	97.4%	1,381	1.
Valley	Sunnyvale, CA	710	653,929	13.6	1997	921	95.4%	96.2%	96.5%	1,917	2.
side	Mountain View, CA	294	215,680	13.0	1962/1997	734	98.6%	98.0%	97.7%	1,405	1.
Park	San Jose, CA	218	218,248	3.8	2002	1,001	96.8%	97.7%	97.0%	1,991	1.
on the Peninsula	Mountain View, CA	211	218,392	1.9	2002	1,035	97.2%	97.0%	96.5%	2,685	2.
	San Jose, CA	80	64,554	3.6	2007	807	98.8%	95.9%(3)	N/A	1,405	1.
n View	Mountain View, CA	248	211,552	10.5	1986	853	99.6%	96.6%	95.9%	1,756	1.
ALIFORNIA											
, CA											
t	Costa Mesa, CA	145	122,415	6.6	1956/1996	844	97.2%	97.7%	98.2%	1,671	1.
Viejo	Mission Viejo, CA	166	124,450	7.8	1984/1996	750	96.4%	96.1%	95.5%	1,321	1.
argarita	Rancho Santa Margarita, CA	301	229,593	20.0	1990/1997	763	97.7%	95.0%	96.9%	1,372	1.
c Bay	Huntington Beach, CA	304	268,000	9.7	1971/1997	882	97.7%	96.1%	96.0%	1,527	1.
Coast	Costa Mesa, CA	258	207,672	8.0	1973/1996	805	96.1%	96.4%	98.3%	1,453	1.
on Bay	San Diego, CA	564	402,285	12.9	1969/1997	713	93.4%	94.8%	95.7%	1,421	1.
on Ridge	San Diego, CA	200	208,125	4.0	1960/1997	1,041	96.5%	96.2%	96.3%	1,584	1.
z Hill	San Diego, CA	294	226,140	1.4	1973/1998	769	96.9%	94.9%	95.1%	1,461	1.

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

	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Acres	Year of completion/ acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/07	Average economic occupancy 2007	2006	Ave renta $ per Apt (4)
Center	Woodland Hills, CA	227	191,224	7.0	1979/1998	842	98.7%	96.9%	96.8%	1,705
1)	Burbank, CA	223	241,714	5.1	2003	1,084	95.5%	95.0%	95.4%	2,315
nter	Burbank, CA	748	530,084	14.1	1961/1997	709	96.1%	95.9%	95.7%	1,463
	Los Angeles, CA	123	125,093	1.6	2007	1,017	95.9%	55.8%(3)	N/A	2,715
	Burbank, CA	400	360,587	6.9	1988/2002	901	99.0%	97.8%	97.4%	1,896
	Camarillo, CA	249	233,267	10.0	2006	937	97.2%	94.9%	54.4%(3)	1,619
Hills	Woodland Hills, CA	663	594,396	18.2	1989/1997	897	89.6%	94.8%	95.5%	1,553
COMMUNITIES										
n Hills	Lexington, MA	387	487,483	23.0	N/A	1,260	N/A	N/A	N/A	N/A
	Danvers, MA	433	492,119	75.0	N/A	1,137	N/A	N/A	N/A	N/A
Shipyard	Hingham, MA	235	267,165	12.9	N/A	1,137	N/A	N/A	N/A	N/A
	Sharon, MA	156	175,512	27.2	N/A	1,125	N/A	N/A	N/A	N/A
	Acton, MA	380	299,228	50.3	N/A	787	N/A	N/A	N/A	N/A
	Shelton, CT	99	132,339	7.1	N/A	1,337	N/A	N/A	N/A	N/A
lls	Tinton Falls, NJ	216	239,208	35.0	N/A	1,107	N/A	N/A	N/A	N/A
North (11)	Long Island City, NY	602	477,232	1.8	N/A	793	N/A	N/A	N/A	N/A
d II (11)	New Rochelle, NY	588	562,499	1.7	N/A	957	N/A	N/A	N/A	N/A
e Park (11)	New York, NY	296	243,157	0.8	N/A	821	N/A	N/A	N/A	N/A
s	White Plains, NY	393	364,345	0.1	N/A	927	N/A	N/A	N/A	N/A
	Brooklyn, NY	628	498,632	1.0	N/A	794	N/A	N/A	N/A	N/A
er	Bellevue, WA	368	331,945	3.6	N/A	902	N/A	N/A	N/A	N/A
tation I	Dublin, CA	305	299,233	4.7	N/A	981	N/A	N/A	N/A	N/A
	Union City, CA	438	428,730	6.0	N/A	979	N/A	N/A	N/A	N/A
Bay III	San Francisco, CA	260	261,361	1.5	N/A	1,005	N/A	N/A	N/A	N/A
	Anaheim, CA	251	302,646	3.5	N/A	1,206	N/A	N/A	N/A	N/A
illage	Irvine, CA	279	243,157	4.5	N/A	872	N/A	N/A	N/A	N/A
ley	San Diego, CA	161	184,080	10.0	N/A	1,143	N/A	N/A	N/A	N/A
	Los Angeles, CA	131	131,252	2.0	N/A	1,002	N/A	N/A	N/A	N/A
ce	Canoga Park, CA	210	186,402	3.3	N/A	888	N/A	N/A	N/A	N/A
TED COMMUNITIES										
Bay North II (9)(12)	San Francisco, CA	313	291,556	1.5	2006	931	98.4%	83.3%	27.8%	3,096
	Los Angeles, CA	309	283,151	5.0	2006	916	95.8%	96.5%	94.3%	1,979
ce I (9)(11)	New York, NY	361	266,940	1.5	2005	739	97.5%	96.1%	98.4%(3)	3,803

age (10)	Kirkland, WA	211	207,916	2.9	2005	985	95.7%	95.2%	94.1%(3)	1,586
Beach (6)	Redondo Beach, CA	105	85,380	1.2	1971/2004	813	97.1%	94.0%	94.4%	2,017
	Los Angeles, CA	82	71,037	0.8	1987/2005	866	100.0%	88.3%(2)	96.1%(3)	1,873
	Norwalk, CA	192	173,568	8.7	1987/2005	904	92.7%	85.5%(2)	94.8%(3)	1,620
(6)	Fremont, CA	134	106,249	7.0	1987/2005	793	100.0%	87.3%(2)	96.9%(3)	1,256
a (6)	San Francisco, CA	160	159,498	0.9	2000/2006	997	97.5%	97.1%	95.4%	2,641
	Corona, CA	320	241,440	13.3	1987/2006	755	94.7%	94.2%	94.7%	1,105
	San Jose,CA	348	283,618	18.4	1994/2007	815	95.1%	96.2%(3)	N/A	1,306
ents (6)	West Covina, CA	85	104,600	5.3	1966/2007	1,231	94.1%	97.5%(3)	N/A	1,603
)	Wheaton, IL	204	162,821	12.4	2004	798	98.0%	95.1%	95.5%	945
eek (6)	Schaumburg, IL	196	178,490	12.8	1986/2005	911	82.7%	88.6%(2)	95.9%	1,124

Profile of Current, Development and Unconsolidated Communities (1)
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	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Acres	Year of completion/ acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/07	Average economic occupancy 2007	Average economic occupancy 2006	Average rental rate $ per Apt (4)	Average rental rate $ pe Sq. F
ngton (6)	Schaumburg, IL	256	201,924	13.2	1988/2006	789	94.9%	93.1%	83.8%	1,015	1.20
x Crossing (6)	Billerica, MA	252	188,915	13.0	2007	750	94.0%	93.6%(3)	N/A	1,224	1.53
Towers/South Shore)	Weymouth, MA	211	154,957	7.7	1971/2007	734	90.5%	87.9%(3)	N/A	1,005	1.20
olumbia (6)	Columbia, MD	170	177,284	11.3	1989/2004	1,043	92.9%	96.0%(2)	96.1%	1,453	1.34
ce (6)	Columbia, MD	156	150,219	11.4	1972/2006	963	95.2%	95.3%	96.6%	1,079	1.07
enterpoint (6)	Baltimore,MD	392	312,356	6.9	2005/2007	797	91.0%	92.9%(3)	N/A	912	1.06
Aberdeen Station (6)	Aberdeen, NJ	290	289,710	16.8	2002/2006	999	96.2%	96.1%	95.0%	1,750	1.68
Rutherford Station (6)	East Rutherford, NJ	108	112,537	1.5	2005/2007	1,042	93.5%	89.2%(3)	N/A	2,172	1.86
rystal Hill (6)	Pomona, NY	168	215,203	12.1	2001/2007	1,281	94.7%	94.9%(3)	N/A	2,011	1.49
edmond (6)	Redmond, WA	400	340,568	24.0	1983/2004	851	94.8%	85.6%(2)	88.4%	1,180	1.19

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

(1) We own a fee simple interest in the communities listed, excepted as noted below.

(2) Represents community which was under redevelopment during the year, resulting in lower average economic occupancy and average rental rate per square foot for the year.

(3) Represents a community that completed development or was purchased during the year, which could result in lower average economic occupancy and average rental rate per square foot for the year.

(4) Represents the average rental revenue per occupied apartment home.

(5)

Costs are presented in accordance with generally accepted accounting principles. For current Development Communities, cost represents total costs incurred through December 31, 2007. Financial reporting costs are excluded for unconsolidated communities, see Note 6, Investments in Real Estate Entities.

(6) We own a 15.2% combined general partnership and indirect limited partner equity interest in this community.

(7) We own a general partnership interest in a partnership that owns a fee simple interest in this community.

(8) We own a general partnership interest in a partnership structured as a DownREIT that

owns this community.

(9) We own a membership interest in a limited liability company that holds a fee simple interest in this community.

(10) This community was transferred to a joint venture entity upon completion of development. We do not hold an equity interest in the entity, but retain a promoted residual interest in the profits of the entity. We receive a property management fee for this community.

(11) Community is located on land subject to a land lease.

(12) This community completed development and was financed under a joint venture structure with third-party financing, in which the community is owned by a

limited liability
company
managed by one
of our
wholly-owned
subsidiaries.

Development Communities

As of December 31, 2007, we had 21 Development Communities under construction. We expect these Development Communities, when completed, to add a total of 6,816 apartment homes to our portfolio for a total capitalized cost, including land acquisition costs, of approximately $2,162,500,000. You should carefully review Item 1a., Risk Factors, for a discussion of the risks associated with development activity.

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

		Number of apartment homes	Total capitalized cost (1) ($ millions)	Construction start	Initial occupancy (2)	Estimated completion	Estimated stabilization (3)
1.	Avalon Riverview North *New York, NY*	602	$ 175.6	Q3 2005	Q3 2007	Q2 2008	Q4 2008
2.	Avalon Danvers *Danvers, MA*	433	84.8	Q4 2005	Q1 2007	Q3 2008	Q1 2009
3.	Avalon on the Sound II *New Rochelle, NY*	588	181.8	Q1 2006	Q2 2007	Q2 2008	Q4 2008
4.	Avalon Meydenbauer *Bellevue, WA*	368	84.3	Q1 2006	Q1 2008	Q3 2008	Q1 2009
5.	Avalon at Dublin Station I *Dublin, CA*	305	85.8	Q2 2006	Q4 2007	Q2 2008	Q4 2008
6.	Avalon at Lexington Hills *Lexington, MA*	387	86.2	Q2 2006	Q2 2007	Q3 2008	Q1 2009
7.	Avalon Encino *Los Angeles, CA*	131	61.5	Q3 2006	Q3 2008	Q4 2008	Q1 2009
8.	Avalon Warner Place *Canoga Park, CA*	210	53.9	Q4 2006	Q2 2008	Q3 2008	Q1 2009
9.	Avalon Acton (4) *Acton, MA*	380	68.8	Q4 2006	Q4 2007	Q4 2008	Q2 2009
10.	Avalon Morningside Park (4) *New York, NY*	296	125.5	Q1 2007	Q2 2008	Q1 2009	Q3 2009
11.	Avalon White Plains *White Plains, NY*	393	154.5	Q2 2007	Q4 2008	Q4 2009	Q2 2010
12.	Avalon at Tinton Falls *Tinton Falls, NJ*	216	41.2	Q2 2007	Q2 2008	Q4 2008	Q2 2009
13.	Avalon Fashion Valley *San Diego, CA*	161	64.7	Q2 2007	Q4 2008	Q1 2009	Q2 2009
14.	Avalon Anaheim *Anaheim, CA*	251	102.7	Q2 2007	Q2 2009	Q3 2009	Q1 2010
15.	Avalon Union City *Union City, CA*	438	125.2	Q3 2007	Q2 2009	Q3 2009	Q1 2010
16.	Avalon at the Hingham Shipyard	235	52.7	Q3 2007	Q3 2008	Q1 2009	Q2 2009

	Hingham, MA						
17.	Avalon Sharon *Sharon, MA*	156	30.7	Q3 2007	Q2 2008	Q4 2008	Q1 2009
18.	Avalon Huntington *Shelton, CT*	99	26.1	Q4 2007	Q4 2008	Q2 2009	Q3 2009
19.	Avalon at Mission Bay North III *San Francisco, CA*	260	157.8	Q4 2007	Q3 2009	Q4 2009	Q2 2010
20.	Avalon Jamboree Village *Irvine, CA*	279	78.3	Q4 2007	Q2 2009	Q4 2009	Q2 2010
21.	Avalon Fort Greene *New York, NY*	628	320.4	Q4 2007	Q2 2009	Q2 2010	Q4 2010
	Total	6,816	$ 2,162.5				

(1) Total capitalized cost includes all capitalized costs projected to be or actually incurred to develop the respective Development Community, determined in accordance with GAAP, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees. Total capitalized cost for communities identified as having joint venture ownership, either during construction or upon construction completion, represents the total projected joint venture contribution amount.

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

(3) Stabilized operations is defined as the earlier of (i) attainment of 95% or greater physical occupancy or (ii) the one-year anniversary of completion of development.

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

Redevelopment Communities

As of December 31, 2007, we had five consolidated communities under redevelopment. We expect the total capitalized cost to redevelop these communities to be $65,000,000, excluding costs prior to redevelopment. In addition, the Fund has three communities under redevelopment. We have found that the cost to redevelop an existing apartment community is more difficult to budget and estimate than the cost to develop a new community. Accordingly, we expect that actual costs may vary from our budget by a wider range than for a new development community. We cannot assure you that we will meet our schedule for reconstruction completion or restabilized operations, or that we will meet our budgeted costs, either individually or in the aggregate. We anticipate increasing our redevelopment activity related to Fund-owned communities, as well as communities in our current operating portfolio. You should carefully review Item 1a., Risk Factors, for a discussion of the risks associated with redevelopment activity.

The following presents a summary of these Redevelopment Communities:

	Number of apartment homes	Total cost ($ millions) Pre-redevelopment cost	Total cost ($ millions) Total capitalized cost (1)	Reconstruction start	Estimated reconstruction completion	Estimated restabilized operations (2)
Consolidated Communities						
1. Avalon at AutumnWoods *Fairfax, VA*	420	$ 31.2	$ 38.3	Q3 2006	Q2 2008	Q4 2008
2. Essex Place *Peabody, MA*	286	23.7	34.5	Q3 2007	Q2 2009	Q4 2009
3. Avalon Redmond Place *Redmond, WA*	222	26.3	31.3	Q3 2007	Q4 2008	Q2 2009
4. Avalon Woodland Hills *Woodland Hills, CA*	663	72.1	109.3	Q4 2007	Q1 2010	Q3 2010
5. Avalon at Diamond Heights *San Francisco, CA*	154	25.3	30.2	Q4 2007	Q4 2010	Q2 2011
Subtotal	1,745	$ 178.6	$ 243.6			
Fund Communities						
1. Avalon at Poplar Creek *Schaumburg, IL*	196	$ 25.2	$ 28.6	Q4 2006	Q1 2008	Q3 2008
2. Avalon Paseo Place *Fremont, CA*	134	19.8	25.5	Q2 2007	Q2 2008	Q4 2008
	156	21.0	25.0			

3. Avalon Cedar Place *Columbia, MD*				Q3 2007	Q1 2009	Q3 2009
Subtotal	486	$ 66.0	$ 79.1			
Total	2,231	$ 244.6	$ 322.7			