AVALONBAY COMMUNITIES INC
Form 10-Q
August 01, 2011

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2011

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	**(I.R.S. Employer**

incorporation or organization)	Identification No.)

Ballston Tower

671 N. Glebe Rd, Suite 800

Arlington, Virginia 22203

(Address of principal executive offices, including zip code)

(703) 329-6300

(Registrant s telephone number, including area code)

(Former name, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

88,942,331 shares of common stock, par value $0.01 per share, were outstanding as of July 29, 2011

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AVALONBAY COMMUNITIES, INC.

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PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

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AVALONBAY COMMUNITIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	6-30-11 (unaudited)	12-31-10
ASSETS		
Real estate:		
Land	$ 1,348,767	$ 1,331,775
Buildings and improvements	6,761,517	6,613,865
Furniture, fixtures and equipment	220,753	203,299
	8,331,037	8,148,939
Less accumulated depreciation	(1,787,021)	(1,705,410)
Net operating real estate	6,544,016	6,443,529
Construction in progress, including land	399,313	309,704
Land held for development	225,896	184,150
Operating real estate assets held for sale, net	18,207	18,262
Total real estate, net	7,187,432	6,955,645
Cash and cash equivalents	290,104	306,426
Cash in escrow	70,130	173,343
Resident security deposits	24,326	22,289
Investments in unconsolidated real estate entities	118,627	121,537
Deferred financing costs, net	31,308	33,284
Deferred development costs	79,186	77,253
Prepaid expenses and other assets	141,629	131,711
Total assets	$ 7,942,742	$ 7,821,488
LIABILITIES AND STOCKHOLDERS EQUITY		
Unsecured notes, net	$ 1,819,478	$ 1,820,141
Variable rate unsecured credit facility		
Mortgage notes payable	2,166,679	2,247,516
Dividends payable	79,157	76,676
Payables for construction	33,821	34,433
Accrued expenses and other liabilities	282,880	246,591
Accrued interest payable	37,423	32,248
Resident security deposits	37,289	34,030
Total liabilities	4,456,727	4,491,635
Redeemable noncontrolling interests	6,852	14,262
Stockholders equity:		
Preferred stock, $0.01 par value; $25 liquidation preference; 50,000,000 shares authorized at both June 30, 2011 and December 31, 2010; zero shares issued and outstanding at June 30, 2011 and December 31, 2010, respectively		
Common stock, $0.01 par value; 140,000,000 shares authorized at both June 30, 2011 and December 31, 2010; 88,678,968 and 85,899,080 shares issued and outstanding at June 30, 2011 and December 31, 2010,	887	859

respectively		
Additional paid-in capital	3,863,220	3,593,677
Accumulated earnings less dividends	(368,412)	(282,743)
Accumulated other comprehensive loss	(20,595)	(1,175)
Total stockholders equity	3,475,100	3,310,618
Noncontrolling interest	4,063	4,973
Total equity	3,479,163	3,315,591
Total liabilities and stockholders equity	$ 7,942,742	$ 7,821,488

See accompanying notes to Condensed Consolidated Financial Statements.

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AVALONBAY COMMUNITIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

AND OTHER COMPREHENSIVE INCOME

(unaudited)

(Dollars in thousands, except per share data)

	For the three months ended		For the six months ended	
	6-30-11	6-30-10	6-30-11	6-30-10
Revenue:				
Rental and other income	$ 242,527	$ 218,658	$ 476,014	$ 432,257
Management, development and other fees	2,332	1,684	4,652	3,533
Total revenue	244,859	220,342	480,666	435,790
Expenses:				
Operating expenses, excluding property taxes	68,600	65,804	136,657	130,724
Property taxes	24,152	23,083	48,940	46,171
Interest expense, net	45,855	41,458	90,126	83,999
Depreciation expense	62,894	57,317	124,154	113,250
General and administrative expense	8,145	4,041	15,437	12,936
Total expenses	209,646	191,703	415,314	387,080
Equity in income of unconsolidated entities	395	463	898	689
Income from continuing operations	35,608	29,102	66,250	49,399
Discontinued operations:				
Income (loss) from discontinued operations	(91)	35	(197)	1,813
Gain on sale of real estate assets	7,675	21,929	7,675	72,220
Total discontinued operations	7,584	21,964	7,478	74,033
Net income	43,192	51,066	73,728	123,432
Net (income) loss attributable to noncontrolling interests	181	59	(15)	216
Net income attributable to common stockholders	$ 43,373	$ 51,125	$ 73,713	$ 123,648
Other comprehensive income:				
Unrealized loss on cash flow hedges	(19,336)	(677)	(19,420)	(135)
Comprehensive income	$ 24,037	$ 50,448	$ 54,293	$ 123,513

Earnings per common share - basic:

Income from continuing operations attributable to common stockholders	$	0.41	$	0.35	$	0.76	$	0.60
Discontinued operations attributable to common stockholders		0.09		0.26		0.09		0.89
Net income attributable to common stockholders	$	0.50	$	0.61	$	0.85	$	1.49
Earnings per common share - diluted:								
Income from continuing operations attributable to common stockholders	$	0.40	$	0.35	$	0.75	$	0.60
Discontinued operations attributable to common stockholders		0.09		0.26		0.09		0.89
Net income attributable to common stockholders	$	0.49	$	0.61	$	0.84	$	1.49
Dividends per common share:	$	0.8925	$	0.8925	$	1.7850	$	1.7850

See accompanying notes to Condensed Consolidated Financial Statements.

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AVALONBAY COMMUNITIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(Dollars in thousands)

	For the six months ended	
	6-30-11	6-30-10
Net income	$ 73,728	$ 123,432
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation expense	124,154	113,250
Depreciation expense from discontinued operations	65	324
Amortization of deferred financing costs and debt premium/discount	3,485	3,908
Amortization of stock-based compensation	3,262	3,409
Equity in (income) loss of unconsolidated entities and noncontrolling interests, net of eliminations	421	120
Gain on sale of real estate assets	(7,675)	(72,220)
Expensed acquisition costs	958	
(Increase) decrease in cash in operating escrows	(1,144)	1,185
(Increase) decrease in resident security deposits, prepaid expenses and other assets	(9,943)	3,009
Increase (decrease) in accrued expenses, other liabilities and accrued interest payable	18,568	(4,693)
Net cash provided by operating activities	205,879	171,724
Cash flows from investing activities:		
Development/redevelopment of real estate assets including land acquisitions and deferred development costs	(266,374)	(233,994)
Acquisition of real estate assets	(46,275)	
Capital expenditures - existing real estate assets	(7,765)	(4,872)
Capital expenditures - non-real estate assets	(7,748)	(524)
Proceeds from exchange/sale of real estate, net of selling costs	22,371	187,587
Decrease in payables for construction	(612)	(6,180)
Decrease in cash in construction escrows	10,917	21,224
Decrease in investments in unconsolidated real estate entities	2,458	2,781
Net cash used in investing activities	(293,028)	(33,978)
Cash flows from financing activities:		
Issuance of common stock	264,134	306,817
Dividends paid	(154,382)	(146,258)
Repayments of mortgage notes payable	(31,963)	(27,930)
Payment of deferred financing costs	(252)	(2,218)
Acquisition of joint venture partner equity interest	(6,570)	
Distributions to DownREIT partnership unitholders	(13)	(27)
Distributions to joint venture and profit-sharing partners	(127)	(100)
Net cash provided by financing activities	70,827	130,284
Net (decrease) increase in cash and cash equivalents	(16,322)	268,030
Cash and cash equivalents, beginning of period	306,426	105,691

Cash and cash equivalents, end of period	$ 290,104	$ 373,721
Cash paid during the period for interest, net of amount capitalized	$ 76,315	$ 78,009

See accompanying notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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

During the six months ended June 30, 2011:

As described in Note 4, Stockholders Equity, 498,810 shares of common stock valued at $63,061,000 were issued in connection with stock grants primarily associated with the Company s 2008 deferred stock performance plan, as discussed in Note 9, Stock Based Compensation Plans ; 1,809 shares valued at $212,000 were issued through the Company s dividend reinvestment plan; 126,928 shares valued at $14,825,000 were withheld to satisfy employees tax withholding and other liabilities; and 505 shares valued at $16,000 were forfeited. In addition, the Company granted 144,827 options for common stock at a value of $4,258,000.

7,500 units of limited partnership, valued at $365,000, were presented for redemption to the DownREIT partnerships that issued such units and were acquired by the Company in exchange for an equal number of shares of the Company s common stock.

The Company recorded an increase to other liabilities and a corresponding decrease to other comprehensive income of $19,420,000; and recorded a decrease to prepaid expenses and other assets of $863,000, with a corresponding offset to the basis of unsecured notes, net to record the impact of the Company s hedge accounting activity (as described in Note 5, Derivative Instruments and Hedging Activities).

Common dividends declared but not paid totaled $79,157,000.

The Company recorded an increase of $1,218,000 in redeemable noncontrolling interests with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units. For further discussion of the nature and valuation of these items, see Note 11, Fair Value .

The Company repaid all amounts due under a $93,440,000 variable-rate, tax-exempt bond financing using the proceeds which were held in escrow.

The Company assumed a 4.75% coupon fixed-rate mortgage loan with an outstanding balance of $44,044,000 in conjunction with the acquisition of Fairfax Towers.

As part of an asset exchange the Company assumed a $55,400,000 fixed-rate mortgage loan with a 5.24% interest rate and relinquished a $55,800,000 mortgage loan with a 5.86% fixed rate.

During the six months ended June 30, 2010:

102,984 shares of common stock valued at $7,777,000 were issued in connection with stock grants; 3,609 shares valued at $308,000 were issued through the Company s dividend reinvestment plan; 45,165 shares valued at $3,812,000 were withheld to satisfy employees tax withholding and other liabilities; 1,300 shares valued at $38,000 were forfeited; and 61,055 shares valued at $3,322,000 were issued to members of the board of directors in fulfillment of deferred stock awards for a net value of $7,556,000. In addition, the Company granted 126,484 options for common stock at a value of $2,460,000.

The Company recorded an increase to other liabilities and a corresponding decrease to other comprehensive income of $135,000 and recorded an increase to prepaid expenses and other assets of $1,412,000, with a corresponding offset to the basis of unsecured notes, net to record the impact of the Company s hedge accounting activity.

Common dividends declared but not paid totaled $75,944,000.

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The Company recorded an increase of $3,928,000 in redeemable noncontrolling interests with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units.

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AVALONBAY COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Organization, Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

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

At June 30, 2011, the Company owned or held a direct or indirect ownership interest in 182 operating apartment communities containing 53,655 apartment homes in ten states and the District of Columbia, of which eight communities containing 2,724 apartment homes were under reconstruction. In addition, the Company owned or held a direct or indirect ownership interest in 13 communities under construction that are expected to contain an aggregate of 2,861 apartment homes when completed. The Company also owned or held a direct or indirect ownership interest in land or rights to land in which the Company expects to develop an additional 32 communities that, if developed as expected, will contain an estimated 9,407 apartment homes.

The interim unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements required by GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited financial statements should be read in conjunction with the financial statements and notes included in the Company s 2010 Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2011 are not necessarily indicative of the operating results for the full year. Management believes the disclosures are adequate to ensure the information presented is not misleading. In the opinion of management, all adjustments and eliminations, consisting only of normal, recurring adjustments necessary for a fair presentation of the financial statements for the interim periods, have been included.

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

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Earnings per Common Share

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

	For the three months ended		For the six months ended	
	6-30-11	6-30-10	6-30-11	6-30-10
Basic and diluted shares outstanding				
Weighted average common shares - basic	87,317,602	83,517,908	86,746,992	82,583,638
Weighted average DownREIT units outstanding	7,707	15,351	8,992	15,351
Effect of dilutive securities	871,129	711,846	841,997	649,006
Weighted average common shares - diluted	88,196,438	84,245,105	87,597,981	83,247,995
Calculation of Earnings per Share - basic				
Net income attributable to common stockholders	$ 43,373	$ 51,125	$ 73,713	$ 123,648
Net income allocated to unvested restricted shares	(123)	(143)	(206)	(368)
Net income attributable to common stockholders, adjusted	$ 43,250	$ 50,982	$ 73,507	$ 123,280
Weighted average common shares - basic	87,317,602	83,517,908	86,746,992	82,583,638
Earnings per common share - basic	$ 0.50	$ 0.61	$ 0.85	$ 1.49
Calculation of Earnings per Share - diluted				
Net income attributable to common stockholders	$ 43,373	$ 51,125	$ 73,713	$ 123,648
Add: noncontrolling interests of DownREIT unitholders in consolidated partnerships, including discontinued operations	7	14	13	27
Adjusted net income attributable to common stockholders	$ 43,380	$ 51,139	$ 73,726	$ 123,675
Weighted average common shares - diluted	88,196,438	84,245,105	87,597,981	83,247,995
Earnings per common share - diluted	$ 0.49	$ 0.61	$ 0.84	$ 1.49

Certain options to purchase shares of common stock in the amounts of 320,698 and 1,176,293 were outstanding at June 30, 2011 and 2010, respectively, but were not included in the computation of diluted earnings per share because such options were anti-dilutive.

The Company is required to estimate the forfeiture of stock options and recognize compensation cost net of the estimated forfeitures. The estimated forfeitures included in compensation cost are adjusted to reflect actual forfeitures at the end of the vesting period. The forfeiture rate at June 30, 2011 is based on the average forfeiture activity over a period equal to the estimated life of the stock options, and was 0.9%. The application of estimated forfeitures did not materially impact compensation expense for the three and six months ended June 30, 2011 or 2010.

Abandoned Pursuit Costs and Impairment of Long-Lived Assets

The Company capitalizes pre-development costs incurred in pursuit of new development opportunities for which the Company currently believes future development is probable (Development Rights). Future development of these Development Rights is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and the availability of capital. Initial pre-development costs incurred for pursuits for which future development is not yet considered probable are expensed as incurred. In addition, if the status of a Development Right changes, making future development by the Company no longer probable, any capitalized pre-development costs are written off with a charge to expense. The Company expensed costs related to abandoned pursuits, which includes the abandonment of Development Rights as well as costs incurred in pursuing the

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disposition of assets for which the disposition did not occur, in the amounts of $395,000 and $443,000 for the three months ended June 30, 2011 and 2010, respectively, and $1,045,000 and $947,000 for the six months ended June 30, 2011 and 2010, respectively. These costs are included in operating expenses, excluding property taxes on the accompanying Condensed Consolidated Statements of Operations and Other Comprehensive Income. Abandoned pursuit costs can vary greatly, and the costs incurred in any given period may be significantly different in future periods.

The Company evaluates its real estate and other long-lived assets for impairment when potential indicators of impairment exist. Such assets are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the Company assesses its recoverability by comparing the carrying amount of the long-lived asset to its estimated undiscounted future cash flows. If the carrying amount exceeds the aggregate undiscounted future cash flows, the Company recognizes an impairment loss to the extent the carrying amount exceeds the estimated fair value of the long-lived asset. Based on periodic tests of recoverability of long-lived assets, the Company did not record any impairment losses for the three and six months ended June 30, 2011 and 2010.

Legal and Other Contingencies

The Company accounts for recoveries from legal matters as a reduction in the legal and related costs incurred associated with the matter, with recoveries in excess of these costs reported as a gain or, where appropriate, a reduction in the basis of a community to which the suit related. During the second quarter of 2010, the Company recognized receipt of settlement proceeds of $3,300,000 related to environmental contamination matters pursued by the Company. The Company reported $1,200,000 of these recoveries as a reduction in the legal and professional fees related to costs incurred in pursuit of the matters during 2010 and years prior as a component of general and administrative expense, with the remainder of the recovery reported as a reduction in the associated capitalized basis of the related communities. The Company did not have any material recoveries from legal matters in 2011.

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

Use of Estimates

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

Reclassifications

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

2. Interest Capitalized

The Company capitalizes interest during the development and redevelopment of real estate assets. Capitalized interest associated with the Company s development or redevelopment activities totaled $7,673,000 and $9,655,000 for the three months ended June 30, 2011 and 2010, respectively, and $14,016,000 and $19,491,000 for the six months ended June 30, 2011 and 2010, respectively.

3. Notes Payable, Unsecured Notes and Credit Facility

The Company s mortgage notes payable, unsecured notes and Credit Facility, as defined below, as of June 30, 2011 and December 31, 2010, are summarized below (dollars in thousands). The following amounts and discussion do not include the mortgage notes related to the communities classified as held for sale, if any, as of June 30, 2011 and December 31, 2010, as shown in the Condensed Consolidated Balance Sheets (see Note 7, Real Estate Disposition Activities).

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	6-30-11	12-31-10
Fixed rate unsecured notes (1)	$ 1,595,901	$ 1,595,901
Variable rate unsecured notes (1)	225,000	225,000
Fixed rate mortgage notes payable - conventional and tax-exempt (2)	1,691,894	1,651,135
Variable rate mortgage notes payable - conventional and tax-exempt	473,621	596,381
Total notes payable and unsecured notes	3,986,416	4,068,417
Credit Facility		
Total mortgage notes payable, unsecured notes and Credit Facility	$ 3,986,416	$ 4,068,417

(1) Balances at June 30, 2011 and December 31, 2010 exclude $2,069 and $2,269, respectively, of debt discount, and $646 and $1,509, respectively, for basis adjustments, as reflected in unsecured notes, net on the Company s Condensed Consolidated Balance Sheets.

(2) Balance at June 30, 2011 excludes $1,164 of debt premium as reflected in mortgage notes payable on the Company s Condensed Consolidated Balance Sheet.

The following debt activity occurred during the six months ended June 30, 2011:

In March 2011, the Company repaid a variable rate secured mortgage note in the amount of $28,785,000 in accordance with its scheduled maturity date.

As part of an asset exchange in April 2011, the Company assumed a $55,400,000 fixed-rate mortgage loan with a 5.24% interest rate, and relinquished a $55,800,000 mortgage loan with a 5.86% fixed-rate.

In conjunction with the acquisition of Fairfax Towers in April 2011, the Company assumed a $44,044,000 principal balance, 4.75% fixed-rate mortgage loan that matures in August 2015.

In April 2011, the Company repaid $93,440,000 in variable rate tax-exempt borrowings related to a Development Right. The bonds were repaid using the original issue proceeds, which were held in escrow.

In the aggregate, secured notes payable mature at various dates from October 2011 through July 2066, and are secured by certain apartment communities and improved land parcels (with a net carrying value of $1,740,964,000 as of June 30, 2011).

As of June 30, 2011, the Company has guaranteed approximately $273,264,000 of mortgage notes payable held by wholly owned subsidiaries; all such mortgage notes payable are consolidated for financial reporting purposes. The weighted average interest rate of the Company s fixed rate mortgage notes payable (conventional and tax-exempt) was 5.7% at both June 30, 2011 and December 31, 2010. The weighted average interest rate of the Company s variable rate mortgage notes payable and its Credit Facility, including the effect of certain financing related fees, was 2.4% at June 30, 2011 and 2.2% at December 31, 2010.

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Scheduled payments and maturities of mortgage notes payable and unsecured notes outstanding at June 30, 2011 are as follows (dollars in thousands):

Year	Secured notes payments (1)	Secured notes maturities	Unsecured notes maturities	Stated interest rate of unsecured notes
2011	$ 7,356	$ 7,213	$ 39,900	6.625%
			150,000	5.687%(2)
2012	15,508	14,661	104,400	5.500%
			201,601	6.125%
			75,000	4.352%(2)
2013	15,134	318,045	100,000	4.950%
2014	16,031	33,100	150,000	5.375%
2015	13,867	405,613		
2016	14,690		250,000	5.750%
2017	15,568	18,300	250,000	5.700%
2018	16,498			
2019	2,588	651,973		
2020	2,761		250,000	6.100%
Thereafter	357,974	238,635	250,000	3.950%
	$ 477,975	$ 1,687,540	$ 1,820,901	

(1) Secured note payments are comprised of the principal pay downs for amortizing mortgage notes.
(2) The weighted average interest rate for the swapped unsecured notes as of June 30, 2011.

The Company has a variable rate unsecured credit facility (the Credit Facility) in the amount of $1,000,000,000 with a syndicate of commercial banks, to whom the Company pays an annual facility fee of approximately $1,250,000. The Company did not have any amounts outstanding under the Credit Facility and had $51,593,000 outstanding in letters of credit as of June 30, 2011. At December 31, 2010, there were no amounts outstanding under the Credit Facility and $44,105,000 outstanding in letters of credit. The Credit Facility bears interest at varying levels based on the London Interbank Offered Rate (LIBOR), rating levels achieved on the Company s unsecured notes and on a maturity schedule selected by the Company. The current stated pricing is LIBOR plus 0.40% per annum (0.59% at June 30, 2011).

The Company expects to enter into a new unsecured credit facility in the third quarter of 2011 to replace its existing unsecured credit facility, which is scheduled to expire in November 2011. The new unsecured credit facility is expected to have a capacity of approximately $750,000,000. The Company expects that the interest rate, upfront fees and recurring fees for the new unsecured credit facility will be higher than the expiring facility, consistent with current market terms for similar unsecured credit facilities.

The Company was in compliance at June 30, 2011 with certain customary financial and other covenants under the Credit Facility and the Company s unsecured notes.

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4. Stockholders Equity

The following summarizes the changes in stockholders equity for the six months ended June 30, 2011 (dollars in thousands):

	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total AvalonBay stockholders equity	Noncontrolling interests	Total equity
Balance at December 31, 2010	$ 859	$ 3,593,677	$ (282,743)	$ (1,175)	$ 3,310,618	$ 4,973	$ 3,315,591
Net income attributable to common stockholders			73,713		73,713		73,713
Unrealized loss on cash flow hedges				(19,420)	(19,420)		(19,420)
Change in redemption value of redeemable noncontrolling interest			(1,218)		(1,218)		(1,218)
Noncontrolling interests (a)						(910)	(910)
Dividends declared to common stockholders			(157,075)		(157,075)		(157,075)
Issuance of common stock, net of withholdings	28	251,060	(1,089)		249,999		249,999
Amortization of deferred compensation		18,483			18,483		18,483
Balance at June 30, 2011	$ 887	$ 3,863,220	$ (368,412)	$ (20,595)	$ 3,475,100	$ 4,063	$ 3,479,163

(a) Represents the impact of consolidating a Fund I subsidiary. See Note 6, Investments in Real Estate Entities.

During the six months ended June 30, 2011, the Company:

(i) issued 1,801,766 shares of common stock through public offerings;

(ii) issued 597,436 shares of common stock in connection with stock options exercised;

(iii) issued 1,809 common shares through the Company s dividend reinvestment plan;

(iv) issued 498,810 common shares in connection with stock grants;

(v) issued 7,500 common shares for Down REIT OP units conversion;

(vi) withheld 126,928 common shares to satisfy employees tax withholding and other liabilities; and

(vii) redeemed 505 shares of restricted common stock upon forfeiture.

In addition, the Company granted 144,827 options for common stock to employees. Any deferred compensation related to the Company s stock option and restricted stock grants during the six months ended June 30, 2011 is not reflected on the Company s Condensed Consolidated Balance Sheet as of June 30, 2011, and will not be reflected until earned as compensation cost.

In November 2010, the Company commenced a second continuous equity program (CEP II), under which the Company may sell up to $500,000,000 of its common stock from time to time during a 36-month period. During the three months ended June 30, 2011, the Company sold 553,856 shares at an average sales price of $130.56 per share, for net proceeds of $71,225,000. During the six months ended June 30, 2011, the Company sold 1,801,766 shares at an average sales price of $120.47 per share, for aggregate net proceeds of $213,794,000. From program inception in November 2010 through the end of the second quarter of 2011, the Company sold 2,234,598 shares at an average price of $118.91 per share for aggregate net proceeds of $261,729,000.

5. Derivative Instruments and Hedging Activities

The Company enters into interest rate swap and interest rate cap agreements (collectively, the Hedging Derivatives) for interest rate risk management purposes and in conjunction with certain variable rate secured debt to satisfy lender requirements. The Company does not enter into derivative transactions for trading or other speculative purposes. In April 2011, the Company entered into $430,000,000 of forward starting interest rate swaps where the Company has agreed to pay a fixed rate of interest in exchange for a floating rate of interest at a future date. These swaps were transacted to reduce the Company s exposure to fluctuations in interest rates on future debt issuances, and are not expected to impact the Company s 2011 operating results.

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The following table summarizes the consolidated Hedging Derivatives at June 30, 2011, excluding derivatives executed to hedge debt on communities classified as held for sale (dollars in thousands):

	Non-designated Hedges Interest Rate Caps	Cash Flow Hedges Interest Rate Caps	Cash Flow Hedges Interest Rate Swaps	Fair Value Hedges Interest Rate Swaps
Notional balance	$ 75,847	$ 195,799	$ 430,000	$ 225,000
Weighted average interest rate (1)	1.1%	2.3%	4.5%	5.2%
Weighted average capped interest rate	7.1%	5.3%	N/A	N/A
Earliest maturity date	Aug-12	Jun-12	Sep-12	Sep-11
Latest maturity date	Mar-14	Jun-15	May-13	Jan-12
Estimated fair value, asset/(liability)	$ 6	$ 278	$ (19,145)	$ 646

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

Excluding derivatives executed to hedge debt on communities classified as held for sale, the Company had seven derivatives designated as cash flow hedges, three derivatives designated as fair value hedges and four derivatives not designated as hedges at June 30, 2011. Fair value changes for derivatives that are not in qualifying hedge relationships are reported as a component of general and administrative expenses on the accompanying Condensed Consolidated Statements of Operations and Other Comprehensive Income. Fair value changes for derivatives not in qualifying hedge relationships for the six months ended June 30, 2011, were not material. For the derivative positions that the Company has determined qualify as effective cash flow hedges, the Company has recorded the effective portion of cumulative changes in the fair value of the Hedging Derivatives in other comprehensive income. Amounts recorded in other comprehensive income will be reclassified into earnings in the periods in which earnings are affected by the hedged cash flow. To adjust the Hedging Derivatives in qualifying cash flow hedges to their fair value and recognize the impact of hedge accounting, the Company recorded a decrease in other comprehensive income of $19,420,000 and $135,000 during the six months ended June 30, 2011 and 2010, respectively. The amount reclassified into earnings for the six months ended June 30, 2011, as well as the estimated amount included in accumulated other comprehensive income as of June 30, 2011, expected to be reclassified into earnings within the next twelve months to offset the variability of cash flows of the hedged items during this period are not material. For the derivative positions that the Company has determined qualify as effective fair value hedges, the Company has recorded a decrease in the fair value of $863,000 and an increase of $1,412,000 for the six months ended June 30, 2011 and 2010, respectively. The derivatives fair value is reported as a component of prepaid expenses and other assets, with the associated gain as an adjustment to the carrying amount of the corresponding debt being hedged on the accompanying Condensed Consolidated Balance Sheets as of June 30, 2011.

The Company assesses, both at inception and on an on-going basis, the effectiveness of qualifying cash flow and fair value hedges. Hedge ineffectiveness, reported as a component of general and administrative expenses, did not have a material impact on earnings of the Company for any prior period, and the Company does not anticipate that it will have a material effect in the future. The fair values of the Hedging Derivatives and non-designated derivatives that are in an asset position are recorded in prepaid expenses and other assets. The fair value of derivatives that are in a liability position are included in accrued expenses and other liabilities on the accompanying Condensed Consolidated Balance Sheets.

Derivative financial instruments expose the Company to credit risk in the event of nonperformance by the counterparties under the terms of the Hedging Derivatives. The Company minimizes its credit risk on these transactions by dealing with major, creditworthy financial institutions which have an A+ or better credit rating by the Standard & Poor s Ratings Group. As part of its on-going control procedures, the Company monitors the credit ratings of counterparties and the exposure of the Company to any single entity, thus minimizing credit risk concentration. The Company believes the likelihood of realizing losses from counterparty non-performance is remote. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty s nonperformance risk in the fair value measurements of its derivative financial instruments. Refer to Note 11, Fair Value, for further discussion.

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6. Investments in Real Estate Entities

Investments in consolidated entities

During the three months ended June 30, 2011, the Company completed an exchange of assets with UDR, Inc. (UDR). The transaction included exchanging a portfolio of three communities and a parcel of land owned by the Company for a portfolio of six UDR communities and $26,000,000 in cash. The Company s portfolio consisted of two properties and a small land parcel located in metropolitan Boston and one property located in San Francisco. The UDR portfolio is located in Southern California (Los Angeles, Orange County and San Diego). The Company accounted for the exchange as a non-monetary transaction based on the carrying value of the assets relinquished by the Company. The Company recognized a partial gain of $7,675,000, related to the monetary consideration received, representing the proportionate share of the assets sold. In addition, the Company assumed a $55,400,000 5.24% fixed-rate mortgage loan that matures in June 2013. In exchange, the Company relinquished a $55,800,000 5.86% fixed-rate mortgage loan that matures in May 2019.

In addition, in April 2011, the Company acquired Fairfax Towers, located in Falls Church, Virginia. Fairfax Towers contains 415 apartment homes and was acquired for a purchase price of $89,200,000. In conjunction with this acquisition, the Company assumed the existing 4.75% fixed-rate mortgage loan with an outstanding principal amount of $44,044,000 which matures in August 2015.

The Company accounted for the acquisition of Fairfax Towers as a business combination and allocated the purchase price to the acquired assets and assumed liabilities, including identifiable intangibles, based on their fair values. The Company looked to third party pricing for the value of the land, and an internal model to determine the fair value of the real estate assets, in place leases and mortgage loan. Given the heterogeneous nature of multi-family real estate, the fair values for the land, real estate assets and in place leases incorporated significant unobservable inputs and therefore are considered to be Level 3 prices within the fair value hierarchy. The Company used a discounted cash flow analysis on the expected cash flows of the mortgage note to determine its fair value, considering the contractual terms of the instrument and observable market-based inputs. The fair value of the mortgage loan is considered a Level 2 price as the majority of the inputs used fall within Level 2 of the fair value hierarchy.

Transaction costs for the asset exchange and acquisition of Fairfax Towers were $958,000. These costs are included in operating expenses, excluding property taxes on the accompanying Condensed Consolidated Statements of Operations and Other Comprehensive Income.

Investments in unconsolidated entities

As of June 30, 2011, the Company had investments in six unconsolidated real estate entities with ownership interest percentages ranging from 15.2% to 50%. The Company accounts for its investments in unconsolidated real estate entities under the equity method of accounting, except as otherwise noted below. The significant accounting policies of the Company s unconsolidated real estate entities are consistent with those of the Company in all material respects.

During the three months ended June 30, 2011, AvalonBay Value Added Fund II, LP (Fund II) acquired Yale Village Townhomes, located in Rockville, MD. The community contains 210 townhomes and was acquired for a purchase price of $49,500,000.

There were no other changes in the Company s ownership interest in, or presentation of, its investments in unconsolidated real estate entities during the three months ended June 30, 2011.

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Detail of the real estate and associated funding underlying the Company s unconsolidated investments is presented in the following table (unaudited, dollars in thousands):

Unconsolidated Real Estate Investments	Company Ownership Percentage	# of Apartment Homes	Total Capitalized Cost (1)	Debt Amount (2)	Type	Interest Rate (3)	Maturity Date
Fund I							
1. Avalon at Redondo Beach - Los Angeles, CA		105	$ 24,624	$ 21,033	Fixed	4.87%	Oct 2011
2. Avalon Lakeside - Chicago, IL		204	18,491	12,056	Fixed	5.74%	Mar 2012
3. Avalon Columbia - Baltimore, MD		170	29,410	22,275	Fixed	5.48%	Apr 2013
4. Avalon Sunset - Los Angeles, CA		82	20,903	12,750	Fixed	5.41%	Mar 2014
5. Avalon at Poplar Creek - Chicago, IL		196	28,097	16,500	Fixed	4.83%	Oct 2013
6. Avalon at Civic Center - Norwalk, CA		192	42,756	27,001	Fixed	5.38%	Aug 2013
7. Avalon Paseo Place - Fremont, CA		134	25,078	11,800	Fixed	5.74%	Nov 2014
8. Avalon at Yerba Buena - San Francisco, CA		160	66,813	41,500	Fixed	5.88%	Mar 2014
9. Avalon at Aberdeen Station - Aberdeen, NJ		290	58,587	39,842	Fixed	5.64%	Sep 2013
10. The Springs - Corona, CA (4)		320	29,875	23,717	Fixed	6.06%	Oct 2014
11. Avalon Lombard - Lombard, IL		256	35,323	17,243	Fixed	5.43%	Jan 2014
12. Avalon Cedar Place - Columbia, MD		156	24,505	12,000	Fixed	5.68%	Feb 2015
13. Avalon Centerpoint - Baltimore, MD (5)		392	80,259	45,000	Fixed	5.74%	Dec 2014
14. Middlesex Crossing - Billerica, MA		252	38,386	24,100	Fixed	5.49%	Dec 2014
15. Avalon Crystal Hill - Ponoma, NY		168	38,645	24,500	Fixed	5.43%	Dec 2014
16. Avalon Skyway - San Jose, CA		348	78,251	37,500	Fixed	6.11%	Mar 2014
17. Avalon Rutherford Station - East Rutherford, NJ		108	36,821	19,627	Fixed	6.13%	Sep 2016
18. South Hills Apartments - West Covina, CA		85	24,756	11,761	Fixed	5.92%	Oct 2014
19. Weymouth Place - Weymouth, MA		211	25,298	13,455	Fixed	5.12%	Mar 2015
Total Fund I	15.2%	3,829	$ 726,878	$ 433,660		5.6%	
Fund II							
1. Avalon Bellevue Park - Bellevue, WA		220	$ 33,993	$ 21,515	Fixed	5.52%	Jun 2019
2. Avalon Fair Oaks - Fairfax, VA		491	72,100	42,600	Fixed	5.26%	May 2017
3. Avalon Rothbury - Gaithersburg, MD		203	31,481	18,750	Variable	2.78%	Jun 2017
4. The Apartments at Briarwood - Owings Mills, MD		348	45,125	26,850	Fixed	3.64%	Nov 2017
5. Grove Park Apartments - Gaithersburg, MD		684	101,899	63,200	Fixed	5.42%	Jan 2018
6. Creekside Meadows - Tustin, CA		628	99,793	59,100	Fixed	3.81%	Oct 2017
7. Canyonwoods - Lake Forest, CA		140	25,316		N/A	N/A	N/A
8. Fox Run Apartments - Plainsboro, NJ (6)		776	86,727	54,509	Fixed	4.56%	Nov 2014
9. Waterstone Carlsbad - Carlsbad, CA		448	78,509	46,141	Fixed	4.68%	Feb 2018
10. Yale Village - Rockville, MD		210	49,500		N/A	N/A	N/A
Fund II corporate debt		N/A	N/A	61,500	Variable	2.69%	Dec 2011
Total Fund II	31.3%	4,148	$ 624,443	$ 394,165		4.3%	
Other Operating Joint Ventures							
1. Avalon Chrystie Place I - New York, NY (7)	20.0%	361	$ 136,544	$ 117,000	Variable	0.81%	Nov 2036
2. Avalon at Mission Bay North II - San Francisco, CA (8)	25.0%	313	124,031	105,000	Fixed	6.02%	Dec 2015
3. Avalon Del Rey - Los Angeles, CA	30.0%	309	70,053	44,692	Variable	3.53%	Apr 2016
Other Development Joint Ventures							
1. Aria at Hathorne - Danvers, MA (8) (9) (10)	50.0%	64	N/A	1,860	Variable	7.98%	Jun 2010
Total Other Joint Ventures		1,047	$ 330,628	$ 268,552		3.3%	

Total Unconsolidated Investments	9,024	$ 1,681,949	$ 1,096,377	4.6%

(1) Represents total capitalized cost as of June 30, 2011.
(2) The Company has not guaranteed the debt of its unconsolidated investees and bears no responsibility for the repayment, other than the construction and completion and related financing guarantee for Avalon Chrystie Place I associated with the construction completion and occupancy certificate.
(3) Represents weighted average rate on outstanding debt as of June 30, 2011.
(4) Beginning in the third quarter of 2010, the Company consolidated the net assets and results of operations of The Springs.
(5) Borrowing on this community is comprised of three mortgage loans.
(6) Borrowing on this community is comprised of two mortgage loans.
(7) After the venture makes certain threshold distributions to the third-party partner, the Company generally receives 50% of all further distributions.
(8) The Company has contributed land, receiving capital credit for the fair value upon contribution, as its only capital contribution to this development.
(9) After the venture makes certain threshold distributions to the Company, the Company receives 50% of all further distributions.
(10) The loan for this venture matured in June 2010. As of June 30, 2011, the amounts under this borrowing have not been repaid, and the venture is

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negotiating an extension or refinancing of the amounts outstanding. As of June 30, 2011, the lender has declared an event of default with respect to the note and required the venture to pay a default rate of interest, the impact of which is not material to the Company. Although the Company has not guaranteed the debt of Aria at Hathorne nor does it have any obligation to fund the debt should the venture be unable to do so, the Company has the right to cure any event of default by the venture.

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

	6-30-11 (unaudited)	12-31-10 (unaudited)
Assets:		
Real estate, net	$ 1,503,160	$ 1,393,274
Other assets	52,622	67,278
Total assets	$ 1,555,782	$ 1,460,552
Liabilities and partners capital:		
Mortgage notes payable and credit facility	$ 1,072,660	$ 965,931
Other liabilities	26,901	24,835
Partners capital	456,221	469,786
Total liabilities and partners capital	$ 1,555,782	$ 1,460,552

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

	For the three months ended (unaudited)		For the six months ended (unaudited)	
	6-30-11 (unaudited)	6-30-10 (unaudited)	6-30-11 (unaudited)	6-30-10 (unaudited)
Rental and other income	$ 38,632	$ 26,652	$ 76,454	$ 52,830
Operating and other expenses	(17,090)	(11,862)	(34,644)	(24,802)
Interest expense, net	(12,478)	(9,498)	(24,779)	(18,591)
Depreciation expense	(11,737)	(8,605)	(23,339)	(17,252)
Net loss	$ (2,673)	$ (3,313)	$ (6,308)	$ (7,815)

In conjunction with the formation of Fund I and Fund II, as well as the acquisition and development of certain other investments in unconsolidated entities, the Company incurred costs in excess of its equity in the underlying net assets of the respective investments. These costs represent $10,443,000 at June 30, 2011 and $10,644,000 at December 31, 2010 of the respective investment balances.

As part of the formation of Fund I and Fund II, the Company provided separate and distinct guarantees to one of the limited partners in each of the ventures. These guarantees are specific to the respective fund and any impacts or obligation of the Company to perform under one of the guarantees has no impact on the Company s obligations with respect to the other guarantee. The guarantees provide that, if, upon final liquidation of Fund I or Fund II, the total amount of all distributions to the guaranteed partner during the life of the respective fund (whether from operating cash flow or property sales) does not equal the total capital contributions made by that partner, then the Company will pay the guaranteed partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the guaranteed partner (maximum of approximately $7,500,000 for Fund I and approximately $5,843,000 for Fund II as of June 30, 2011). As of June 30, 2011, the expected realizable values of the real estate assets owned by Fund I and Fund II are considered adequate to cover such potential payments under a liquidation scenario. The estimated fair value of, and the Company s obligation under these guarantees, both at inception and as of June 30, 2011, was not significant and therefore the Company has not recorded any obligation for either of these guarantees as of June 30, 2011.

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7. Real Estate Disposition Activities

The Company did not sell any communities during the three months ended June 30, 2011. As of June 30, 2011, the Company had two real estate assets, improved land parcels, that qualified as held for sale.

The operations for any real estate assets sold from January 1, 2010 through June 30, 2011 have been presented as income from discontinued operations in the accompanying Condensed Consolidated Statements of Operations and Other Comprehensive Income. Accordingly, certain reclassifications have been made to prior years to reflect discontinued operations consistent with current year presentation.

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

	For the three months ended		For the six months ended	
	6-30-11 (unaudited)	6-30-10 (unaudited)	6-30-11 (unaudited)	6-30-10 (unaudited)
Rental income	$	$ 674	$	$ 4,015
Operating and other expenses	(65)	(477)	(132)	(1,878)
Depreciation expense	(26)	(162)	(65)	(324)
Income (loss) from discontinued operations	$ (91)	$ 35	$ (197)	$ 1,813

8. Segment Reporting

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

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

The Company s segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing each segments performance. The Company s chief operating decision maker is comprised of several members of its executive management team who use net operating income (NOI) as the primary financial measure for Established Communities and Other Stabilized Communities. NOI is defined by the Company as total revenue less direct property operating expenses. Although the Company considers NOI a useful measure of a community s or communities operating performance, NOI should not be considered an alternative to net income or net cash flow from operating activities, as determined in accordance with GAAP. NOI excludes a number of income and expense categories as detailed in the reconciliation of NOI to net income.

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A reconciliation of NOI to net income for the three and six months ended June 30, 2011 and 2010 is as follows (dollars in thousands):

	For the three months ended		For the six months ended	
	6-30-11	6-30-10	6-30-11	6-30-10
Net income	$ 43,192	$ 51,066	$ 73,728	$ 123,432
Indirect operating expenses, net of corporate income	7,701	7,849	14,729	15,080
Investments and investment management expense	1,341	1,047	2,532	2,086
Expensed acquisition, development and other pursuit costs	1,353	443	2,004	947
Interest expense, net	45,855	41,458	90,126	83,999
General and administrative expense	8,145	4,041	15,437	12,936
Equity in (income) loss of unconsolidated entities	(395)	(463)	(898)	(689)
Depreciation expense	62,894	57,317	124,154	113,250
Gain on sale of real estate assets	(7,675)	(21,929)	(7,675)	(72,220)
(Income) loss from discontinued operations	91	(35)	197	(1,813)
Net operating income	$ 162,502	$ 140,794	$ 314,334	$ 277,008

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

The following table provides details of the Company s segment information as of the dates specified (dollars in thousands). The segments are classified based on the individual community s status as of the beginning of the given calendar year. Therefore, each year the composition of communities within each business segment is adjusted. Accordingly, the amounts between years are not directly comparable. Segment information for the three and six months ended June 30, 2011 and 2010 have been adjusted for the real estate assets that were sold from January 1, 2010 through June 30, 2011, or otherwise qualify as discontinued operations as of June 30, 2011, as described in Note 7, Real Estate Disposition Activities.

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	For the three months ended			For the six months ended			
	Total revenue	NOI	% NOI change from prior year	Total revenue	NOI	% NOI change from prior year	Gross real estate (1)
For the period ended June 30, 2011							
Established							
New England	$ 42,083	$ 27,006	10.5%	$ 83,110	$ 52,488	8.6%	$ 1,297,280
Metro NY/NJ	48,501	33,153	6.4%	96,191	64,712	5.9%	1,530,426
Mid-Atlantic/Midwest	30,892	22,404	6.1%	61,100	44,047	7.1%	