

AVALONBAY COMMUNITIES INC

Form 10-K/A

July 23, 2003

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

**FORM 10-K/A**

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

Commission file number 1-12672

**AVALONBAY COMMUNITIES, INC.**

*(Exact name of registrant as specified in its charter)*

Maryland  
*(State or other jurisdiction of  
incorporation or organization)*

77-0404318  
*(I.R.S. Employer  
Identification No.)*

2900 Eisenhower Avenue, Suite 300  
Alexandria, Virginia 22314  
*(Address of principal executive office, including zip code)*

(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, Pacific Exchange   |
| 8.00% Series D Cumulative Redeemable Preferred Stock,<br>par value \$.01 per share                                 | New York Stock Exchange, Pacific Exchange   |
| 8.70% Series H Cumulative Redeemable Preferred Stock,<br>par value \$.01 per share<br><i>(Title of each class)</i> | New York Stock Exchange, Pacific Exchange<br><i>(Name of each exchange on which registered)</i> |

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

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  No

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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/A or any amendment to this Form 10-K/A.

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

Yes  No

The aggregate market value of the Registrant's Common Stock, par value \$.01 per share, held by nonaffiliates of the Registrant, as of June 28, 2002 was \$3,239,807,363.

The number of shares of the Registrant's Common Stock, par value \$.01 per share, outstanding as of February 1, 2003 was 68,149,232.

Documents Incorporated by Reference

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Portions of AvalonBay Communities, Inc.'s Proxy Statement for the 2003 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/A, are incorporated by reference herein as portions of Part III of this Form 10-K/A.

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**Explanatory Note**

AvalonBay Communities, Inc. (the Company) is filing this Form 10-K/A to amend its Annual Report on Form 10-K for the year ended December 31, 2002, which was filed with the Securities and Exchange Commission (the SEC) on March 11, 2003, (i) to update its historical financial statements for the fiscal years ended December 31, 2002, 2001 and 2000 in connection with Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets and (ii) in connection with the filing of its Registration Statement on Form S-3 with the SEC on March 11, 2003, as thereafter amended.

From January 1, 2003 through March 31, 2003, the Company sold one community and reclassified six communities as real estate held for sale. In compliance with SFAS No. 144, the Company has reported the operations of these communities as discontinued operations in its quarterly report on Form 10-Q for the period ended March 31, 2003, including any comparable periods presented. Under SEC requirements, the same reclassification as discontinued operations is required for previously issued annual financial statements for each of the three years shown in the Company's most recently filed Annual Report on Form 10-K, if those financial statements are incorporated by reference in subsequent filings with the SEC made under the Securities Act of 1933, even though those financial statements relate to periods prior to the date of sale or transfer. This reclassification has no effect on the Company's reported net income available to common stockholders or funds from operations (FFO).

The following Items are amended in this Form 10-K/A, however, all Items have been presented in this Form 10-K/A in their entirety. This Form 10-K/A speaks as of the original filing date and, except as expressly provided above, has not been updated to reflect events occurring subsequent to the original filing date.

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## PART I

This Form 10-K/A 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 40 of this Form 10-K/A.

### ITEM 1. BUSINESS

#### General

AvalonBay Communities, Inc. is a Maryland corporation that has elected to be treated as a real estate investment trust, or REIT, for federal income tax purposes. We focus on the ownership and operation of upscale apartment communities (which generally command among the highest rents in their submarkets) in high barrier-to-entry markets of the United States. This is because we believe that, long term, the limited new supply of upscale apartment homes and lower housing affordability in these markets will result in larger increases in cash flows relative to other markets over an entire business cycle. 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 (in-fill locations) 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 believe that we have penetrated substantially all of the high barrier-to-entry markets of the country.

At February 1, 2003, we owned or held a direct or indirect ownership interest in 137 operating apartment communities containing 40,179 apartment homes in eleven states and the District of Columbia, of which two communities containing 1,089 apartment homes were under reconstruction. In addition, we owned or held a direct or indirect ownership interest in 12 communities under construction that are expected to contain an aggregate of 3,429 apartment homes when completed. We also owned a direct or indirect ownership interest in rights to develop an additional 38 communities that, if developed in the manner expected, will contain an estimated 9,950 apartment homes. We generally obtain ownership in an apartment community by developing a new community on vacant land or by acquiring and either repositioning or redeveloping an existing community. In selecting sites for development, redevelopment or acquisition, we favor locations that are near expanding employment centers and convenient to 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 were owned and had stabilized occupancy and costs as of the beginning of the prior year. Other Stabilized Communities are generally all other operating communities that have stabilized occupancy and costs as of the beginning of the current year, but 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, 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, our investment policy is (i) to selectively develop, redevelop and acquire apartment communities in high barrier-to-entry markets with growing or high potential for demand and (ii) to selectively sell apartment communities that no longer meet our long-term strategy due to product type, location or relative potential for future value creation and redeploy the proceeds from those sales to develop and redevelop apartment communities. In implementing our investment policy, we endeavor to maintain a conservative capital structure to provide continuous access to cost-effective capital and ensure balance sheet flexibility.

During the three years ended December 31, 2002, we acquired 11 apartment communities, disposed of 16 apartment communities, and completed the development of 22 apartment communities and the redevelopment of seven apartment communities. We presently expect to decrease acquisition and development during 2003 as compared to

prior years and to increase disposition activity during 2003 in response to current and anticipated real estate and capital market conditions. The level of disposition, acquisition or development activity, however, is heavily influenced by capital market conditions, including prevailing interest rates. As a result, we cannot assure you that assets can be sold on terms that we consider satisfactory. A further discussion of our development, redevelopment, disposition and acquisition strategy follows.

*Development Strategy.* We carefully 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 offices in Alexandria, Virginia, we also maintain regional offices and administrative or specialty offices in or near the following cities:

Boston, Massachusetts;

Chicago, Illinois;

New Canaan, Connecticut;

New York, New York;

Newport Beach, California;

San Jose, California;

Seattle, Washington; and

Woodbridge, New Jersey.

After selecting a target site, we usually negotiate for the right to acquire the site either through an option or a long-term conditional contract. Options and long-term conditional contracts generally enable us to acquire the target site shortly before the start of construction, which reduces development-related risks as well as preserves capital. After we acquire land, we generally shift our focus to construction. Except for certain mid-rise and high-rise apartment communities where we may elect to use third-party general contractors or construction managers, we act as our own general contractor and construction manager. We 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 operational phase.

During the development process, we generally act as our own construction manager and general contractor. We perform these functions directly (and not through a subsidiary) both for ourselves and for the joint ventures and partnerships of which we are a member or a partner. From time to time, in lieu of managing construction ourselves, we will hire a third-party construction manager, particularly for high-rise construction.

Throughout this report, the term *development* has been 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 only to one element of the development cycle – the actual construction of the property.

*Redevelopment Strategy.* When we undertake the redevelopment of a community, our goal is to generally renovate and/or rebuild an existing community so that our total investment is significantly below replacement cost and the community is the highest quality apartment community or best rental value for an upscale apartment community in its local area. We have established procedures to minimize both the cost and risks of redevelopment. Our redevelopment teams, which include key redevelopment, construction and property management personnel, monitor redevelopment progress. We believe we achieve significant cost savings by acting as our own general contractor. More importantly, this helps to ensure high-quality design and workmanship and a smooth and timely transition into the lease-up and restabilization phase.

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

*Disposition Strategy.* To optimize our concentration of communities in selected high barrier-to-entry markets, we sell assets that do not meet our long-term investment criteria when market conditions are favorable and redeploy the proceeds from those sales to develop and redevelop communities under construction or reconstruction. This disposition strategy acts as a source of capital because we are able to redeploy the net proceeds from our dispositions in lieu of raising that amount of capital externally by issuing debt or equity securities. When we decide to sell a community, we generally solicit competing bids from unrelated parties for these individual assets and consider the sales price and tax ramifications of each proposal. In connection with this disposition strategy, we disposed of one community during the period from January 1, 2002 through February 1, 2003. The net proceeds from the sale of this community were approximately \$78,454,000. We expect to increase our disposition activity during 2003 in response to current and anticipated real estate and capital markets conditions. However, we cannot assure you that assets can be sold on terms that we consider satisfactory, or at all, or that market conditions will continue to make the sale of assets an appealing strategy.

*Acquisition Strategy.* Our core competencies in development and redevelopment discussed above allow us to be selective in the acquisitions we target. Between January 1, 2002 and February 1, 2003, we acquired two communities containing 706 apartment homes, one of which was acquired in connection with a forward purchase contract agreed to in 1997. The acquisition of these communities was designed to achieve rapid penetration into markets that are generally supply constrained and in which we desired an increased presence.

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

Our principal strategies to maximize revenue include:

strong focus on resident satisfaction;

staggering lease terms such that lease expirations are better matched to traffic patterns;

balancing high occupancy with premium pricing, and increasing rents as market conditions permit;

managing community occupancy for optimal rental revenue levels; and

applying new technology to optimize revenue from each community.

Controlling operating expenses is another way in which we intend to increase earnings growth. Growth in our portfolio and the resulting increase in revenue allows for fixed operating costs to be spread over a larger volume of revenue, thereby increasing operating margins. We aggressively pursue real estate tax appeals and control operating expenses as follows:

receive and approve invoices on-site to ensure careful monitoring of budgeted versus actual expenses;

purchase supplies in bulk where possible;

bid third-party contracts on a volume basis;

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;

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

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

On-site property management teams receive bonuses based largely upon the net operating income produced at their respective communities.

We generally manage the operation and leasing activity of our communities directly (and not through a subsidiary) both for ourselves and the joint ventures and partnerships of which we are a member or a partner.

We are also pursuing ancillary services which could provide additional revenue sources. 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 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. We have used taxable REIT subsidiaries on a limited basis, such as to receive a commission from a preferred provider maid service company used by residents.

*Technology Strategy.* We believe that an innovative management information system infrastructure is an important element in managing our future growth. This is because timely and accurate collection of financial and resident profile data will enable us to maximize revenue through careful leasing decisions and financial management.

We currently have investments in three technology companies. These investments were made with the belief that they would promote the development and application of technology and services which would improve the operating performance of our real estate holdings. Historically, our most significant technology investment has been Realeum, Inc., ( Realeum ), an entity engaged in the development and deployment of an on-site property management and leasing automation system that enables management to capture, review and analyze data to a greater extent than is possible using existing commercial software. To help monitor this investment, Thomas J. Sargeant, our Executive Vice President and Chief Financial Officer, is a director of Realeum. After consideration of our share of Realeum's losses, the carrying value of our investment in Realeum has been reduced to zero as of December 31, 2002. We are also a member of Constellation Real Technologies LLC, ( Constellation ), an entity formed by a number of real estate investment trusts and real estate operating companies for the purpose of investing in multi-sector real estate technology opportunities. Our original commitment to Constellation was \$4,000,000 but, as a result of an agreement among the members reducing the commitment due from each member, our commitment is currently \$2,600,000, of which we have contributed \$959,000 to date. The remaining unfunded commitment of \$1,641,000 is expected to be funded over the next five years. Our third investment is in Rent.com, an internet-based rental housing information provider. The aggregate carrying value of our technology investments at February 1, 2003 was \$1,404,000.

*Financing Strategy.* We have consistently maintained, and intend to continue to maintain, a conservative capital structure. At December 31, 2002, our debt-to-total market capitalization was 46.1%, and our permanent long-term floating rate debt, not including borrowings under the unsecured credit facility, was only 2.0% of total market capitalization. Market capitalization reflects the aggregate of the market value of common stock, the liquidation preference of preferred stock and the principal amount of debt.

Before planned construction or reconstruction activity begins, we intend to arrange adequate capital sources to complete such undertakings, although we cannot assure you that we will be able to obtain such financing. During 2002, substantially all of our construction and reconstruction activities were funded by the issuance of unsecured debt securities, net proceeds from asset sales and retained operating cash. In the event that financing cannot be obtained, we may have to abandon planned development activities, write-off associated pursuit costs and/or forego reconstruction activity. In such instances, we will not realize the increased revenues and earnings that we expected from such pursuits.

We estimate that a portion of our short-term liquidity needs will be met from retained operating cash and borrowings under our \$500,000,000 variable rate unsecured credit facility. At February 28, 2003, \$155,470,000 was outstanding, \$15,529,000 was used to provide letters of credit and \$329,001,000 was available for borrowing under the unsecured credit facility.

If required to meet the balance of our current or anticipated liquidity needs, we will attempt to arrange additional capacity under our existing unsecured credit facility, sell additional 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. During the three years ended December 31, 2002, we issued an aggregate of approximately \$1,100,000,000 principal amount of senior debt securities (including the issuance of medium-term notes), and we repaid an aggregate of \$100,000,000 in principal of senior debt securities. In addition, we repaid an aggregate of \$50,000,000 in principal of senior debt securities in January 2003. Also, during the three years ended December 31, 2002, in the aggregate our issuances and redemptions of preferred stock resulted in net redemptions of \$276,375,000 (based on liquidation preference).

While we believe we have the financial position to expand our short-term credit capacity and access the capital markets as needed, we cannot assure you that we will be successful in completing these arrangements, sales or offerings. The failure to complete these transactions on a cost-effective basis or at all could have a material adverse impact on our operating results and financial condition, including the abandonment of development pursuits.

We may, from time to time, enter into joint ventures (including limited liability companies) or partnerships through which we would own an indirect economic interest in less than 100% of the property or properties owned directly by such joint venture or partnership. As of February 1, 2003, we had an interest in 14 joint ventures or partnerships (including the six DownREIT partnerships referred to below) through which we have an indirect economic interest in 27 of our communities. 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 facts 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. Any future investments in joint ventures or partnerships will not be limited to a specified percentage of our assets. Each joint venture or partnership agreement is individually negotiated, and our ability to operate and/or dispose of a community in our sole discretion may be limited to varying degrees depending on the terms of the joint venture or partnership agreement.

We may, from time to time, offer shares of our equity securities, debt securities or options to purchase stock in exchange for property. During the three years ended December 31, 2002, we issued an aggregate of 361,835 units of limited partnership interest in DownREITs in connection with the acquisition of properties or communities. Our DownREIT partnerships are described further under Item 2, Communities.

While we emphasize equity real estate investments in apartment communities, we have the ability, which would be exercised in the discretion of our Board of Directors, to invest in other types of real estate, mortgages (including participating or convertible mortgages), securities of other REITs or real estate operating companies, or securities of technology companies that relate to our real estate operations or of companies that provide services to us or our residents, in each case consistent with our qualification as a REIT. On occasion, we own and operate retail space at our communities when either (i) the highest and best use of the space is for retail (e.g., street level in an urban area) or (ii) we believe the retail space will enhance the attractiveness of the community to residents. As of December 31, 2002, we had a total of 176,253 square feet of rentable retail space that produced gross rental revenue in 2002 of \$2,255,960 (0.4% of total revenue). Any investment in securities of other entities is subject to the percentage of ownership limitations and gross income tests necessary for REIT qualification. Our current policy does not contemplate future investments in mortgages or deeds of trust.

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 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 leases are for a term of one year or less, which may enable us to realize increased rents upon renewal of existing leases or the beginning of new leases. Such short-term leases generally minimize the risk to us of the adverse effects of inflation, although as a general rule these leases permit residents to leave at the end of the lease term without penalty and therefore expose us to the effect of a decline in market rent. Our current policy is generally to allow residents to terminate leases upon an agreed advance written notice and a lease termination payment, as provided for in the resident's lease. Short-term leases combined with relatively consistent demand have allowed rents, and therefore cash flow from the portfolio, to provide an attractive inflation hedge. However, in a deflationary rent environment as is currently being experienced, we are exposed to declining rents more quickly under these shorter-term leases.

Tax Matters

We filed an election with our initial 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.

Competition

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

Environmental and Related Matters

Under various federal, state and local environmental laws, regulations and ordinances, a current or previous owner or operator of real estate may be required, regardless of knowledge or responsibility, to investigate and remediate the effects of hazardous or toxic substances or petroleum product releases at the property and may be held liable to a governmental entity or to third parties for property damage and for investigation and remediation costs incurred by these parties as a result of the contamination. These damages and costs may be substantial. The presence of such substances, or the failure to properly remediate the contamination, may adversely affect the owner's 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.

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 reconstruction, remodeling, renovation, or demolition of a building. These laws may impose liability for release of ACMs and may provide for 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 have implemented an operations and maintenance program for each of the communities at which ACMs have been detected. We do not 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 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 operations. In connection with our ownership, operation and development of communities, from time to time we undertake remedial action in response to the presence of subsurface or other contaminants. In some cases, an indemnity exists upon which we may be able to rely if environmental liability arises from the contamination. 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 assure that mold or excessive moisture will be detected and remediated in a timely manner. If a significant mold problem arises at one of our communities, we could be required to undertake a costly remediation program to contain or remove the mold from the affected community and could be exposed to other liabilities.

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

We cannot assure you that:

the environmental assessments described above have identified all potential environmental liabilities;

no prior owner created any material environmental condition not known to us or the consultants who prepared the assessments;

no environmental liabilities have developed since the environmental assessments were prepared;

the condition of land or operations in the vicinity of our communities, such as the presence of underground storage tanks, will not affect the environmental condition of our communities;

future uses or conditions, including, without limitation, changes in applicable environmental laws and regulations, will not result in the imposition of environmental liability; and

no environmental liabilities will develop at communities that we have sold for which we may have liability.

#### Other Information

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 ([www.avalonbay.com](http://www.avalonbay.com)) as soon as reasonably practicable after the reports are filed with or furnished to the SEC.

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, 2002, we had 1,775 employees.

## ITEM 2. COMMUNITIES

Our real estate investments consist of current operating apartment communities, communities in various stages of development, and land or land options held for development ( Development Rights ). 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 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 costs as of the beginning of the prior year. We determine which of our communities fall into the Established Communities category annually as of January 1st of each year and maintain that classification throughout the year. For the year 2002, the Established Communities were communities that had stabilized occupancy and costs as of January 1, 2001 and are not conducting or planning to conduct substantial redevelopment activities, as described below, within the current year. We consider a community 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. Established Communities do not include communities that are currently held for sale or planned for disposition during the current year.

*Other Stabilized Communities* are all other completed communities that have stabilized occupancy and are not conducting or planning redevelopment activities within the current year. Other Stabilized Communities therefore include communities that were either acquired or achieved stabilization after January 1, 2001 and that were not conducting or planning to start redevelopment activities within the current year. Other Stabilized Communities do not include communities that are currently held for sale.

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

*Redevelopment Communities* are communities where substantial redevelopment is in progress or is planned to begin during the current year. Redevelopment is considered substantial when capital invested during the reconstruction effort exceeds the lesser of \$5,000,000 or 10% of the community's acquisition cost.

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

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

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As of December 31, 2002, our communities were classified as follows:

|                                | <u>Number of<br/>communities</u> | <u>Number of<br/>apartment homes</u> |
|--------------------------------|----------------------------------|--------------------------------------|
| <b>Current Communities</b>     |                                  |                                      |
| Established Communities:       |                                  |                                      |
| Northeast                      | 27                               | 7,196                                |
| Mid-Atlantic                   | 18                               | 5,154                                |
| Midwest                        | 4                                | 1,296                                |
| Pacific Northwest              | 3                                | 907                                  |
| Northern California            | 29                               | 8,601                                |
| Southern California            | 10                               | 3,004                                |
|                                | <u>91</u>                        | <u>26,158</u>                        |
| Other Stabilized Communities:  |                                  |                                      |
| Northeast                      | 11                               | 3,040                                |
| Mid-Atlantic                   | 2                                | 960                                  |
| Midwest                        |                                  |                                      |
| Pacific Northwest              | 8                                | 2,152                                |
| Northern California            | 2                                | 499                                  |
| Southern California            | 5                                | 1,890                                |
|                                | <u>28</u>                        | <u>8,541</u>                         |
| Held for Sale Communities (1)  | 7                                | 2,091                                |
| Lease-Up Communities           | 9                                | 2,300                                |
| Redevelopment Communities      | 2                                | 1,089                                |
|                                | <u>137</u>                       | <u>40,179</u>                        |
| <u>Development Communities</u> | <u>12</u>                        | <u>3,429</u>                         |
| <u>Development Rights</u>      | <u>38</u>                        | <u>9,950</u>                         |

(1) Represents assets sold or transferred to held for sale during the period January 1, 2003 through March 31, 2003. Our holdings under each of the above categories are discussed on the following pages.

Current Communities

The Current Communities are primarily garden-style apartment communities consisting of two and three-story buildings in landscaped settings. The Current Communities, as of February 1, 2003, include 106 garden-style, 17 high-rise and 14 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.

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These Current Communities are located in the following geographic markets:

|                            | Number of communities at |            | Number of apartment homes at |               | Percentage of total apartment homes at |               |
|----------------------------|--------------------------|------------|------------------------------|---------------|--|---------------|
|                            | 1-1-02                   | 2-1-03     | 1-1-02                       | 2-1-03        | 1-1-02                                 | 2-1-03        |
| <b>Northeast</b>           | <b>38</b>                | <b>45</b>  | <b>10,877</b>                | <b>12,667</b> | <b>29.3%</b>                           | <b>31.5%</b>  |
| Boston, MA                 | 11                       | 13         | 2,839                        | 3,142         | 7.6%                                   | 7.8%          |
| Fairfield County, CT       | 11                       | 13         | 2,939                        | 3,350         | 7.9%                                   | 8.3%          |
| Long Island, NY            | 3                        | 3          | 915                          | 915           | 2.5%                                   | 2.3%          |
| Northern New Jersey        | 4                        | 5          | 1,394                        | 1,802         | 3.8%                                   | 4.5%          |
| Central New Jersey         | 3                        | 4          | 1,144                        | 1,440         | 3.1%                                   | 3.6%          |
| New York, NY               | 6                        | 7          | 1,646                        | 2,018         | 4.4%                                   | 5.0%          |
| <b>Mid-Atlantic</b>        | <b>21</b>                | <b>22</b>  | <b>6,422</b>                 | <b>6,754</b>  | <b>17.2%</b>                           | <b>16.8%</b>  |
| Baltimore, MD              | 4                        | 4          | 1,054                        | 1,054         | 2.8%                                   | 2.6%          |
| Washington, DC             | 17                       | 18         | 5,368                        | 5,700         | 14.4%                                  | 14.2%         |
| <b>Midwest</b>             | <b>9</b>                 | <b>9</b>   | <b>2,624</b>                 | <b>2,624</b>  | <b>7.1%</b>                            | <b>6.5%</b>   |
| Chicago, IL                | 4                        | 4          | 1,296                        | 1,296         | 3.5%                                   | 3.2%          |
| Minneapolis, MN            | 5                        | 5          | 1,328                        | 1,328         | 3.6%                                   | 3.3%          |
| <b>Pacific Northwest</b>   | <b>12</b>                | <b>12</b>  | <b>3,159</b>                 | <b>3,159</b>  | <b>8.5%</b>                            | <b>7.9%</b>   |
| Seattle, WA                | 12                       | 12         | 3,159                        | 3,159         | 8.5%                                   | 7.9%          |
| <b>Northern California</b> | <b>30</b>                | <b>32</b>  | <b>8,889</b>                 | <b>9,318</b>  | <b>23.8%</b>                           | <b>23.2%</b>  |
| Oakland-East Bay, CA       | 6                        | 6          | 2,090                        | 2,090         | 5.6%                                   | 5.2%          |
| San Francisco, CA          | 8                        | 8          | 1,765                        | 1,765         | 4.7%                                   | 4.4%          |
| San Jose, CA               | 16                       | 18         | 5,034                        | 5,463         | 13.5%                                  | 13.6%         |
| <b>Southern California</b> | <b>16</b>                | <b>17</b>  | <b>5,257</b>                 | <b>5,657</b>  | <b>14.1%</b>                           | <b>14.1%</b>  |
| Los Angeles, CA            | 4                        | 5          | 2,001                        | 2,401         | 5.4%                                   | 6.0%          |
| Orange County, CA          | 8                        | 8          | 2,022                        | 2,022         | 5.4%                                   | 5.0%          |
| San Diego, CA              | 4                        | 4          | 1,234                        | 1,234         | 3.3%                                   | 3.1%          |
|                            | <b>126</b>               | <b>137</b> | <b>37,228</b>                | <b>40,179</b> | <b>100.0%</b>                          | <b>100.0%</b> |

We manage and operate all of the Current Communities. During the year ended December 31, 2002, we completed construction of 2,521 apartment homes in ten communities for a total cost of \$466,600,000. The average age of the Current Communities, on a weighted average basis according to number of apartment homes, is 8.1 years.

Of the Current Communities, as of February 1, 2003, we own:

a fee simple, or absolute, ownership interest in 112 operating communities, one of which is on land subject to a land lease expiring in March 2142;

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

a general partnership interest in four partnerships structured as DownREITs, as described more fully below, that own an aggregate of 17 communities;



a membership interest in four limited liability companies that each hold a fee simple interest in an operating community; and

a 100% interest in a senior participating mortgage note secured by one community, which allows us to share in part of the rental income or resale proceeds of the community.

We also hold a fee simple ownership interest in nine of the Development Communities, a membership interest in a limited liability company that holds a fee simple interest in a Development Community and a general partnership interest in two partnerships structured as DownREITs that each own one Development Community.

In each of the six partnerships structured as DownREITs, either we 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. Each DownREIT partnership has been structured so that it is unlikely the limited partners will be entitled to a distribution greater than the initial distribution provided for in the applicable partnership agreement. The holders of units of limited partnership interest have the right to present each unit of limited partnership interest for redemption for cash equal to the fair market value of a share of our common stock on the date of redemption. In lieu of cash, we may elect to acquire any unit presented for redemption for one share of our common stock. As of February 1, 2003, there were 975,751 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 or acquisition | Average size (Sq. Ft.) |
|--------------------------------|-------------------|-----------------|---------------------------------|-------|-----------------------------------|------------------------|
| <b>CURRENT COMMUNITIES</b>     |                   |                 |                                 |       |                                   |                        |
| <b>NORTHEAST</b>               |                   |                 |                                 |       |                                   |                        |
| <b>Boston, MA</b>              |                   |                 |                                 |       |                                   |                        |
| Avalon at Center Place (10)    | Providence, RI    | 225             | 231,671                         | 1.2   | 1997                              | 1,030                  |
| Avalon at Faxon Park           | Quincy, MA        | 171             | 175,494                         | 8.3   | 1998                              | 1,026                  |
| Avalon at Lexington            | Lexington, MA     | 198             | 231,182                         | 18.0  | 1994                              | 1,168                  |
| Avalon at Prudential Center    | Boston, MA        | 781             | 747,954                         | 1.0   | 1968/1998                         | 958                    |
| Avalon Essex                   | Peabody, MA       | 154             | 173,520                         | 11.1  | 2000                              | 1,127                  |
| Avalon Estates                 | Hull, MA          | 162             | 188,392                         | 55.0  | 2001                              | 1,163                  |
| Avalon Ledges                  | Weymouth, MA      | 304             | 315,554                         | 58.0  | 2002                              | 1,023                  |
| Avalon Oaks                    | Wilmington, MA    | 204             | 229,748                         | 22.5  | 1999                              | 1,023                  |
| Avalon Oaks West               | Wilmington, MA    | 120             | 123,960                         | 27.0  | 2002                              | 1,033                  |
| Avalon Orchards                | Marlborough, MA   | 156             | 186,500                         | 23.0  | 2002                              | 1,219                  |
| Avalon Summit                  | Quincy, MA        | 245             | 203,848                         | 9.1   | 1996                              | 832                    |
| Avalon West                    | Westborough, MA   | 120             | 147,472                         | 10.1  | 1996                              | 1,229                  |
| <b>Fairfield-New Haven, CT</b> |                   |                 |                                 |       |                                   |                        |
| Avalon at Greyrock Place       | Stamford, CT      | 306             | 201,500                         | 3.0   | 2002                              | 1,040                  |
| Avalon Corners                 | Stamford, CT      | 195             | 192,174                         | 3.2   | 2000                              | 986                    |
| Avalon Gates                   | Trumbull, CT      | 340             | 381,322                         | 37.0  | 1997                              | 1,122                  |
| Avalon Glen                    | Stamford, CT      | 238             | 221,828                         | 4.1   | 1991                              | 932                    |
| Avalon Haven                   | North Haven, CT   | 128             | 140,107                         | 10.6  | 2000                              | 1,095                  |
| Avalon Lake                    | Danbury, CT       | 135             | 166,231                         | 32.0  | 1999                              | 1,184                  |
| Avalon New Canaan (6)          | New Canaan, CT    | 104             | 130,104                         | 9.1   | 2002                              | 1,251                  |
| Avalon Springs                 | Wilton, CT        | 102             | 158,259                         | 12.0  | 1996                              | 1,552                  |
| Avalon Valley                  | Danbury, CT       | 268             | 297,479                         | 17.1  | 1999                              | 1,070                  |
| Avalon Walk I & II             | Hamden, CT        | 764             | 761,441                         | 38.4  | 1992/1994                         | 996                    |
| <b>Long Island, NY</b>         |                   |                 |                                 |       |                                   |                        |
| Avalon Commons                 | Smithtown, NY     | 312             | 363,049                         | 20.6  | 1997                              | 1,164                  |
| Avalon Court                   | Melville, NY      | 494             | 597,104                         | 35.4  | 1997/2000                         | 1,209                  |
| Avalon Towers                  | Long Beach, NY    | 109             | 124,836                         | 1.3   | 1995                              | 1,145                  |
| <b>Northern New Jersey</b>     |                   |                 |                                 |       |                                   |                        |
| Avalon at Edgewater            | Edgewater, NJ     | 408             | 405,144                         | 7.1   | 2002                              | 993                    |
| Avalon at Florham Park         | Florham Park, NJ  | 270             | 331,560                         | 41.9  | 2001                              | 1,228                  |
| Avalon Cove                    | Jersey City, NJ   | 504             | 574,675                         | 11.1  | 1997                              | 1,140                  |
| Avalon Crest                   | Fort Lee, NJ      | 351             | 371,411                         | 13.1  | 1999                              | 1,058                  |
| The Tower at Avalon Cove       | Jersey City, NJ   | 269             | 241,825                         | 2.8   | 1999                              | 905                    |
| <b>Central New Jersey</b>      |                   |                 |                                 |       |                                   |                        |
| Avalon at Freehold             | Freehold, NJ      | 296             | 317,608                         | 42.3  | 2002                              | 1,073                  |
| Avalon Run East                | Lawrenceville, NJ | 206             | 265,198                         | 27.0  | 1996                              | 1,287                  |
| Avalon Watch                   | West Windsor, NJ  | 512             | 485,871                         | 64.0  | 1988                              | 949                    |

[Additional columns below]

[Continued from above table, first column(s) repeated]

Average economic  
occupancyAverage  
rental rate

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|                                | Physical<br>occupancy<br>at<br>12/31/02 | 2002     | 2001     | \$ per<br>Apt (4) | \$ per<br>Sq. Ft. | Financial<br>reporting cost<br>(5) |
|--------------------------------|---|----------|----------|-------------------|-------------------|------------------------------------|
| <b>CURRENT COMMUNITIES</b>     |   |          |          |                   |                   |                                    |
| <b>NORTHEAST</b>               |   |          |          |                   |                   |                                    |
| <b>Boston, MA</b>              |   |          |          |                   |                   |                                    |
| Avalon at Center Place (10)    | 94.7%                                   | 96.2%    | 96.1%    | \$2,172           | \$2.03            | \$ 27,318                          |
| Avalon at Faxon Park           | 93.6%                                   | 93.9%    | 97.4%    | 1,833             | 1.68              | 15,231                             |
| Avalon at Lexington            | 93.9%                                   | 93.8%    | 96.5%    | 1,933             | 1.55              | 15,347                             |
| Avalon at Prudential Center    | 93.3%                                   | 89.2%(2) | 94.9%(2) | 2,612             | 2.43(2)           | 151,813                            |
| Avalon Essex                   | 95.5%                                   | 94.0%    | 96.4%    | 1,870             | 1.56              | 21,537                             |
| Avalon Estates                 | 83.3%                                   | 88.5%    | 91.2%(3) | 1,736             | 1.32              | 20,216                             |
| Avalon Ledges                  | 71.1%                                   | 37.5%(3) | N/A      | 1,603             | 0.58(3)           | 35,527                             |
| Avalon Oaks                    | 94.6%                                   | 92.2%    | 96.3%    | 1,687             | 1.38              | 20,823                             |
| Avalon Oaks West               | 94.6%                                   | 76.3%(3) | N/A      | 1,495             | 1.10(3)           | 16,619                             |
| Avalon Orchards                | 93.0%                                   | 63.1%(3) | N/A      | 1,546             | 0.82(3)           | 20,835                             |
| Avalon Summit                  | 88.2%                                   | 90.7%    | 96.8%    | 1,375             | 1.50              | 16,748                             |
| Avalon West                    | 95.0%                                   | 92.1%    | 97.8%    | 1,625             | 1.22              | 10,921                             |
| <b>Fairfield-New Haven, CT</b> |   |          |          |                   |                   |                                    |
| Avalon at Greyrock Place       | 83.0%                                   | 66.7%(3) | N/A      | 1,998             | 2.02(3)           | 69,673                             |
| Avalon Corners                 | 82.1%                                   | 87.7%    | 96.5%    | 2,145             | 1.91              | 31,778                             |
| Avalon Gates                   | 88.2%                                   | 93.0%    | 98.8%    | 1,672             | 1.39              | 36,100                             |
| Avalon Glen                    | 89.1%                                   | 91.4%    | 96.5%    | 1,763             | 1.73              | 31,295                             |
| Avalon Haven                   | 82.0%                                   | 91.0%    | 98.8%    | 1,638             | 1.36              | 13,750                             |
| Avalon Lake                    | 87.4%                                   | 95.2%    | 98.1%    | 1,800             | 1.39              | 16,995                             |
| Avalon New Canaan (6)          | 69.2%                                   | 31.0%(3) | N/A      | 2,852             | 0.71(3)           | 32,050                             |
| Avalon Springs                 | 79.4%                                   | 86.1%    | 95.9%    | 2,777             | 1.54              | 16,873                             |
| Avalon Valley                  | 90.3%                                   | 96.4%    | 99.0%    | 1,646             | 1.43              | 26,059                             |
| Avalon Walk I & II             | 91.4%                                   | 94.6%    | 98.5%    | 1,313             | 1.25              | 59,044                             |
| <b>Long Island, NY</b>         |   |          |          |                   |                   |                                    |
| Avalon Commons                 | 99.7%                                   | 98.1%    | 97.1%    | 1,796             | 1.51              | 33,293                             |
| Avalon Court                   | 99.4%                                   | 98.9%    | 99.3%    | 2,201             | 1.80              | 59,272                             |
| Avalon Towers                  | 99.1%                                   | 97.6%    | 99.0%    | 2,850             | 2.43              | 16,913                             |
| <b>Northern New Jersey</b>     |   |          |          |                   |                   |                                    |
| Avalon at Edgewater            | 90.2%                                   | 71.9%(3) | N/A      | 2,167             | 1.57(3)           | 74,590                             |
| Avalon at Florham Park         | 88.9%                                   | 93.4%    | 91.8%(3) | 2,404             | 1.83              | 41,569                             |
| Avalon Cove                    | 91.7%                                   | 87.4%    | 96.7%    | 2,565             | 1.97              | 91,953                             |
| Avalon Crest                   | 83.2%                                   | 90.2%    | 94.2%    | 2,167             | 1.85              | 56,062                             |
| The Tower at Avalon Cove       | 91.5%                                   | 85.6%    | 96.6%    | 2,364             | 2.25              | 49,659                             |
| <b>Central New Jersey</b>      |   |          |          |                   |                   |                                    |
| Avalon at Freehold             | 89.9%                                   | 80.7%(3) | N/A      | 1,560             | 1.17(3)           | 34,307                             |
| Avalon Run East                | 93.7%                                   | 93.0%    | 97.2%    | 1,658             | 1.20              | 16,272                             |
| Avalon Watch                   | 92.8%                                   | 92.0%    | 96.7%    | 1,378             | 1.34              | 29,597                             |

*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 or acquisition | Average size (Sq. Ft.) |
|--|-----------------------|-----------------|---------------------------------|-------|-----------------------------------|------------------------|
| <b>New York, NY</b>                            |                       |                 |                                 |       |                                   |                        |
| Avalon Riverview I                             | Long Island City, NY  | 372             | 332,940                         | 1.0   | 2002                              | 895                    |
| Avalon Gardens                                 | Nanuet, NY            | 504             | 638,439                         | 55.0  | 1998                              | 1,267                  |
| Avalon Green                                   | Elmsford, NY          | 105             | 113,538                         | 16.9  | 1995                              | 1,081                  |
| Avalon on the Sound (8)                        | New Rochelle, NY      | 412             | 372,860                         | 2.4   | 2001                              | 905                    |
| Avalon View                                    | Wappingers Falls, NY  | 288             | 335,088                         | 41.0  | 1993                              | 1,164                  |
| Avalon Willow                                  | Mamaroneck, NY        | 227             | 199,945                         | 4.0   | 2000                              | 881                    |
| The Avalon                                     | Bronxville, NY        | 110             | 119,186                         | 1.5   | 1999                              | 1,085                  |
| <b>MID-ATLANTIC</b>                            |                       |                 |                                 |       |                                   |                        |
| <b>Baltimore, MD</b>                           |                       |                 |                                 |       |                                   |                        |
| Avalon at Fairway Hills I & II                 | Columbia, MD          | 720             | 724,253                         | 42.1  | 1987/1996                         | 1,005                  |
| Avalon at Symphony Glen                        | Columbia, MD          | 176             | 179,867                         | 10.0  | 1986                              | 1,022                  |
| Avalon Landing                                 | Annapolis, MD         | 158             | 117,033                         | 13.8  | 1984/1995                         | 741                    |
| <b>Washington, DC</b>                          |                       |                 |                                 |       |                                   |                        |
| 4100 Massachusetts Avenue                      | Washington, D.C.      | 308             | 298,725                         | 2.7   | 1982                              | 970                    |
| AutumnWoods                                    | Fairfax, VA           | 420             | 355,228                         | 24.2  | 1996                              | 846                    |
| Avalon at Arlington Square I                   | Arlington, VA         | 510             | 583,950                         | 14.2  | 2001                              | 1,145                  |
| Avalon at Arlington Square II                  | Arlington, VA         | 332             | 325,499                         | 6.1   | 2002                              | 980                    |
| Avalon at Ballston Vermont & Quincy Towers (7) | Arlington, VA         | 454             | 420,242                         | 2.3   | 1997                              | 926                    |
| Avalon at Ballston Washington Towers           | Arlington, VA         | 344             | 294,786                         | 4.1   | 1990                              | 857                    |
| Avalon at Cameron Court                        | Alexandria, VA        | 460             | 467,292                         | 16.0  | 1998                              | 1,016                  |
| Avalon at Decoverly                            | Rockville, MD         | 368             | 368,446                         | 25.0  | 1995                              | 1,001                  |
| Avalon at Dulles                               | Sterling, VA          | 236             | 232,632                         | 15.7  | 1986                              | 986                    |
| Avalon at Fair Lakes                           | Fairfax, VA           | 234             | 285,822                         | 10.0  | 1998                              | 1,221                  |
| Avalon at Fox Mill                             | Herndon, VA           | 165             | 219,360                         | 12.8  | 2000                              | 1,329                  |
| Avalon at Providence Park                      | Fairfax, VA           | 141             | 148,211                         | 4.0   | 1988/1997                         | 1,051                  |
| Avalon Crescent                                | McLean, VA            | 558             | 613,426                         | 19.1  | 1996                              | 1,099                  |
| Avalon Crossing                                | Rockville, MD         | 132             | 147,690                         | 5.0   | 1996                              | 1,119                  |
| Avalon Fields I & II                           | Gaithersburg, MD      | 288             | 292,282                         | 9.2   | 1998                              | 1,050                  |
| Avalon Knoll                                   | Germantown, MD        | 300             | 290,365                         | 26.7  | 1985                              | 968                    |
| <b>MIDWEST</b>                                 |                       |                 |                                 |       |                                   |                        |
| <b>Chicago, IL</b>                             |                       |                 |                                 |       |                                   |                        |
| 200 Arlington Place                            | Arlington Heights, IL | 409             | 346,832                         | 2.8   | 2000                              | 848                    |
| Avalon at Danada Farms (7)                     | Wheaton, IL           | 295             | 350,606                         | 19.2  | 1997                              | 1,188                  |
| Avalon at Stratford Green (7)                  | Bloomington, IL       | 192             | 237,204                         | 12.7  | 1997                              | 1,235                  |
| Avalon at West Grove (7)                       | Westmont, IL          | 400             | 388,500                         | 17.4  | 1967                              | 971                    |
| <b>Minneapolis, MN</b>                         |                       |                 |                                 |       |                                   |                        |
| Avalon at Devonshire (7)                       | Bloomington, MN       | 498             | 470,762                         | 42.0  | 1988                              | 945                    |
| Avalon at Edinburgh (7)                        | Brooklyn Park, MN     | 198             | 222,130                         | 11.3  | 1992                              | 1,122                  |
| Avalon at Town Centre                          | Eagan, MN             | 248             | 235,518                         | 18.7  | 1986                              | 950                    |
| Avalon at Town Square                          | Plymouth, MN          | 160             | 144,026                         | 8.3   | 1986                              | 900                    |
| Avalon at Woodbury (7)                         | Woodbury, MN          | 224             | 287,975                         | 15.0  | 1998                              | 1,286                  |

[Additional columns below]

[Continued from above table, first column(s) repeated]

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|  | Physical<br>occupancy at<br>12/31/02 | Average economic<br>occupancy |          | Average<br>rental rate |                   | Financial<br>reporting cost<br>(5) |
|--|--------------------------------------|-------------------------------|----------|------------------------|-------------------|------------------------------------|
|  |                                      | 2002                          | 2001     | \$ per<br>Apt (4)      | \$ per<br>Sq. Ft. |                                    |
| <b>New York, NY</b>                            |                                      |                               |          |                        |                   |                                    |
| Avalon Riverview I                             | 71.5%                                | 37.3%(3)                      | N/A      | 2,520                  | 1.05(3)           | 94,045                             |
| Avalon Gardens                                 | 95.4%                                | 90.7%                         | 94.3%    | 1,863                  | 1.33              | 54,265                             |
| Avalon Green                                   | 88.6%                                | 94.8%                         | 94.5%    | 2,419                  | 2.12              | 12,603                             |
| Avalon on the Sound (8)                        | 94.2%                                | 87.7%                         | 35.5%(3) | 2,182                  | 2.11              | 91,614                             |
| Avalon View                                    | 92.7%                                | 95.3%                         | 98.4%    | 1,343                  | 1.10              | 18,290                             |
| Avalon Willow                                  | 92.1%                                | 90.3%                         | 95.5%    | 2,276                  | 2.33              | 47,000                             |
| The Avalon                                     | 96.4%                                | 96.0%                         | 97.8%    | 3,373                  | 2.99              | 31,228                             |
| <b>MID-ATLANTIC</b>                            |                                      |                               |          |                        |                   |                                    |
| <b>Baltimore, MD</b>                           |                                      |                               |          |                        |                   |                                    |
| Avalon at Fairway Hills I & II                 | 95.2%                                | 95.0%                         | 96.8%    | 1,121                  | 1.06              | 44,855                             |
| Avalon at Symphony Glen                        | 97.7%                                | 97.2%                         | 97.1%    | 1,143                  | 1.09              | 9,172                              |
| Avalon Landing                                 | 96.8%                                | 97.7%                         | 97.5%    | 1,030                  | 1.36              | 9,791                              |
| <b>Washington, DC</b>                          |                                      |                               |          |                        |                   |                                    |
| 4100 Massachusetts Avenue                      | 81.5%                                | 88.4%(2)                      | 96.4%    | 1,822                  | 1.66 (2)          | 36,028                             |
| Autumn Woods                                   | 93.1%                                | 93.8%                         | 95.7%    | 1,134                  | 1.26              | 30,928                             |
| Avalon at Arlington Square I                   | 88.0%                                | 90.7%                         | 49.9%(3) | 1,730                  | 1.37              | 69,678                             |
| Avalon at Arlington Square II                  | 68.4%                                | 40.1%(3)                      | N/A      | 1,619                  | 0.66(3)           | 42,405                             |
| Avalon at Ballston Vermont & Quincy Towers (7) | 87.4%                                | 90.9%                         | 95.3%    | 1,456                  | 1.43              | 47,169                             |
| Avalon at Ballston Washington Towers           | 88.1%                                | 91.9%                         | 96.9%    | 1,444                  | 1.55              | 37,359                             |
| Avalon at Cameron Court                        | 92.6%                                | 94.6%                         | 96.3%    | 1,631                  | 1.52              | 43,246                             |
| Avalon at Decoverly                            | 94.6%                                | 92.7%                         | 97.0%    | 1,327                  | 1.23              | 31,772                             |
| Avalon at Dulles                               | 96.2%                                | 92.2%                         | 95.5%    | 1,069                  | 1.00              | 12,164                             |
| Avalon at Fair Lakes                           | 96.6%                                | 94.0%                         | 96.0%    | 1,497                  | 1.15              | 23,476                             |
| Avalon at Fox Mill                             | 88.5%                                | 93.3%                         | 95.6%    | 1,560                  | 1.09              | 19,513                             |
| Avalon at Providence Park                      | 96.5%                                | 96.0%                         | 96.4%    | 1,271                  | 1.16              | 11,299                             |
| Avalon Crescent                                | 90.1%                                | 93.4%                         | 93.9%    | 1,622                  | 1.38              | 57,283                             |
| Avalon Crossing                                | 92.4%                                | 94.0%                         | 95.3%    | 1,740                  | 1.46              | 13,895                             |
| Avalon Fields I & II                           | 90.9%                                | 92.3%                         | 97.2%    | 1,341                  | 1.22              | 22,700                             |
| Avalon Knoll                                   | 96.3%                                | 95.0%                         | 97.8%    | 1,067                  | 1.05              | 8,609                              |
| <b>MIDWEST</b>                                 |                                      |                               |          |                        |                   |                                    |
| <b>Chicago, IL</b>                             |                                      |                               |          |                        |                   |                                    |
| 200 Arlington Place                            | 91.7%                                | 92.3%                         | 95.1%    | 1,190                  | 1.30              | 49,962                             |
| Avalon at Danada Farms (7)                     | 92.9%                                | 93.5%                         | 95.7%    | 1,347                  | 1.06              | 38,423                             |
| Avalon at Stratford Green (7)                  | 86.5%                                | 91.5%                         | 95.2%    | 1,339                  | 0.99              | 21,949                             |
| Avalon at West Grove (7)                       | 91.5%                                | 91.5%                         | 96.4%    | 904                    | 0.85              | 29,915                             |
| <b>Minneapolis, MN</b>                         |                                      |                               |          |                        |                   |                                    |
| Avalon at Devonshire (7)                       | 91.2%                                | 93.7%                         | 95.4%    | 1,022                  | 1.01              | 37,686                             |
| Avalon at Edinburgh (7)                        | 93.4%                                | 93.6%                         | 96.5%    | 1,138                  | 0.95              | 18,559                             |
| Avalon at Town Centre                          | 95.2%                                | 93.6%                         | 95.9%    | 1,000                  | 0.99              | 18,214                             |
| Avalon at Town Square                          | 93.1%                                | 91.5%                         | 96.8%    | 1,020                  | 1.04              | 10,898                             |
| Avalon at Woodbury (7)                         | 94.6%                                | 94.9%                         | 93.9%    | 1,153                  | 0.85              | 25,985                             |

*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 or acquisition | Average size (Sq. Ft.) |
|-----------------------------|-------------------|-----------------|---------------------------------|-------|-----------------------------------|------------------------|
| <b>PACIFIC NORTHWEST</b>    |                   |                 |                                 |       |                                   |                        |
| <b>Seattle, WA</b>          |                   |                 |                                 |       |                                   |                        |
| Avalon at Bear Creek (7)    | Redmond, WA       | 264             | 288,250                         | 22.0  | 1998                              | 1,092                  |
| Avalon Bellevue             | Bellevue, WA      | 202             | 164,226                         | 1.7   | 2001                              | 813                    |
| Avalon Belltown             | Seattle, WA       | 100             | 80,200                          | 0.7   | 2001                              | 802                    |
| Avalon Brandemoor (7)       | Lynwood, WA       | 424             | 453,602                         | 22.6  | 2001                              | 1,070                  |
| Avalon Greenbriar           | Renton, WA        | 421             | 382,382                         | 20.0  | 1987/1988                         | 908                    |
| Avalon HighGrove (7)        | Everett, WA       | 391             | 422,482                         | 19.8  | 2000                              | 1,081                  |
| Avalon ParcSquare (7)       | Redmond, WA       | 124             | 127,236                         | 1.9   | 2000                              | 1,026                  |
| Avalon Redmond Place (7)    | Redmond, WA       | 222             | 206,004                         | 22.0  | 1997                              | 928                    |
| Avalon RockMeadow (7)       | Mill Creek, WA    | 206             | 240,817                         | 11.5  | 2000                              | 1,169                  |
| Avalon WildReed (7)         | Everett, WA       | 234             | 259,080                         | 22.3  | 2000                              | 1,107                  |
| Avalon WildWood (7)         | Lynwood, WA       | 238             | 313,107                         | 15.8  | 2001                              | 1,316                  |
| Avalon Wynhaven (7)         | Issaquah, WA      | 333             | 424,604                         | 11.6  | 2001                              | 1,275                  |
| <b>NORTHERN CALIFORNIA</b>  |                   |                 |                                 |       |                                   |                        |
| <b>Oakland-East Bay, CA</b> |                   |                 |                                 |       |                                   |                        |
| Avalon at Union Square      | Union City, CA    | 208             | 150,140                         | 8.5   | 1973/1996                         | 722                    |
| Avalon at Willow Creek      | Fremont, CA       | 235             | 197,575                         | 3.5   | 1985/1994                         | 841                    |
| Avalon Dublin               | Dublin, CA        | 204             | 179,004                         | 13.0  | 1997                              | 877                    |
| Avalon Fremont              | Fremont, CA       | 443             | 446,422                         | 22.3  | 1994                              | 1,008                  |
| Avalon Pleasanton           | Pleasanton, CA    | 456             | 377,438                         | 14.7  | 1988/1994                         | 828                    |
| Waterford                   | Hayward, CA       | 544             | 451,937                         | 11.1  | 1985/1986                         | 831                    |
| <b>San Francisco, CA</b>    |                   |                 |                                 |       |                                   |                        |
| Avalon at Cedar Ridge       | Daly City, CA     | 195             | 141,411                         | 8.0   | 1975/1997                         | 725                    |
| Avalon at Diamond Heights   | San Francisco, CA | 154             | 123,080                         | 2.6   | 1972/1994                         | 799                    |
| Avalon at Nob Hill          | San Francisco, CA | 185             | 109,238                         | 1.4   | 1990/1995                         | 590                    |
| Avalon Sunset Towers        | San Francisco, CA | 243             | 175,511                         | 16.0  | 1961/1996                         | 722                    |
| Avalon Foster City          | Foster City, CA   | 288             | 222,276                         | 11.0  | 1973/1994                         | 772                    |
| Avalon Pacifica             | Pacifica, CA      | 220             | 186,785                         | 7.7   | 1971/1995                         | 849                    |
| Avalon Towers by the Bay    | San Francisco, CA | 226             | 243,033                         | 1.0   | 1999                              | 1,075                  |
| Crowne Ridge                | San Rafael, CA    | 254             | 221,525                         | 21.9  | 1973/1996                         | 872                    |
| <b>San Jose, CA</b>         |                   |                 |                                 |       |                                   |                        |
| Avalon at Blossom Hill      | San Jose, CA      | 324             | 322,207                         | 7.5   | 1995                              | 994                    |
| Avalon at Cahill Park       | San Jose, CA      | 218             | 218,245                         | 3.8   | 2002                              | 1,001                  |
| Avalon at Creekside         | Mountain View, CA | 294             | 215,680                         | 13.0  | 1962/1997                         | 734                    |
| Avalon at Foxchase          | San Jose, CA      | 396             | 335,212                         | 12.0  | 1986/1987                         | 844                    |
| Avalon at Parkside          | Sunnyvale, CA     | 192             | 199,353                         | 8.0   | 1991/1996                         | 1,038                  |
| Avalon at Pruneyard         | Campbell, CA      | 252             | 197,000                         | 8.5   | 1966/1997                         | 782                    |
| Avalon at River Oaks        | San Jose, CA      | 226             | 210,050                         | 4.0   | 1990/1996                         | 929                    |
| Avalon Campbell             | Campbell, CA      | 348             | 326,796                         | 8.0   | 1995                              | 939                    |
| Avalon Cupertino            | Cupertino, CA     | 311             | 293,328                         | 8.0   | 1999                              | 943                    |
| Avalon Mountain View (6)    | Mountain View, CA | 248             | 211,552                         | 10.5  | 1986                              | 853                    |

[Additional columns below]

[Continued from above table, first column(s) repeated]

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|                             | Physical<br>occupancy at<br>12/31/02 | Average economic<br>occupancy |          | Average<br>rental rate |                   | Financial<br>reporting<br>cost<br>(5) |
|-----------------------------|--------------------------------------|-------------------------------|----------|------------------------|-------------------|---------------------------------------|
|                             |                                      | 2002                          | 2001     | \$ per<br>Apt (4)      | \$ per<br>Sq. Ft. |                                       |
|                             |                                      |                               |          |                        |                   |                                       |
| <b>PACIFIC NORTHWEST</b>    |                                      |                               |          |                        |                   |                                       |
| <b>Seattle, WA</b>          |                                      |                               |          |                        |                   |                                       |
| Avalon at Bear Creek (7)    | 93.9%                                | 94.3%                         | 94.2%    | 1,164                  | 1.01              | 34,437                                |
| Avalon Bellevue             | 98.0%                                | 92.5%                         | 63.5%(3) | 1,131                  | 1.29              | 30,633                                |
| Avalon Belltown             | 98.0%                                | 83.8%                         | 16.1%(3) | 1,263                  | 1.32              | 18,279                                |
| Avalon Brandemoor (7)       | 96.0%                                | 93.9%                         | 96.5%(3) | 978                    | 0.86              | 45,309                                |
| Avalon Greenbriar           | 93.4%                                | 91.0%                         | 92.2%    | 807                    | 0.81              | 36,259                                |
| Avalon HighGrove (7)        | 97.4%                                | 94.8%                         | 93.5%    | 920                    | 0.81              | 39,620                                |
| Avalon ParcSquare (7)       | 96.0%                                | 95.7%                         | 94.2%    | 1,254                  | 1.17              | 18,995                                |
| Avalon Redmond Place (7)    | 89.2%                                | 94.6%                         | 94.8%    | 1,104                  | 1.13              | 26,042                                |
| Avalon RockMeadow (7)       | 95.6%                                | 93.3%                         | 92.7%    | 1,058                  | 0.84              | 24,457                                |
| Avalon WildReed (7)         | 96.6%                                | 94.4%                         | 95.9%    | 939                    | 0.80              | 22,956                                |
| Avalon WildWood (7)         | 95.4%                                | 94.1%                         | 96.0%(3) | 1,149                  | 0.82              | 32,865                                |
| Avalon Wynhaven (7)         | 86.2%                                | 89.3%                         | 95.1%(3) | 1,287                  | 0.90              | 52,554                                |
| <b>NORTHERN CALIFORNIA</b>  |                                      |                               |          |                        |                   |                                       |
| <b>Oakland-East Bay, CA</b> |                                      |                               |          |                        |                   |                                       |
| Avalon at Union Square      | 99.5%                                | 94.8%                         | 95.5%    | 1,188                  | 1.56              | 21,891                                |
| Avalon at Willow Creek      | 100.0%                               | 95.8%                         | 95.3%    | 1,371                  | 1.56              | 34,258                                |
| Avalon Dublin               | 96.6%                                | 94.9%                         | 94.4%    | 1,417                  | 1.53              | 26,742                                |
| Avalon Fremont              | 96.4%                                | 93.7%                         | 95.8%    | 1,568                  | 1.46              | 77,170                                |
| Avalon Pleasanton           | 96.5%                                | 95.7%                         | 92.8%    | 1,313                  | 1.52              | 60,522                                |
| Waterford                   | 94.5%                                | 92.9%                         | 94.7%    | 1,202                  | 1.34              | 59,066                                |
| <b>San Francisco, CA</b>    |                                      |                               |          |                        |                   |                                       |
| Avalon at Cedar Ridge       | 96.9%                                | 96.6%                         | 96.5%    | 1,475                  | 1.96              | 25,530                                |
| Avalon at Diamond Heights   | 98.7%                                | 92.2%                         | 95.2%    | 1,582                  | 1.82              | 24,398                                |
| Avalon at Nob Hill          | 94.1%                                | 94.3%                         | 93.7%    | 1,503                  | 2.40              | 27,500                                |
| Avalon Sunset Towers        | 95.8%                                | 95.0%                         | 96.7%    | 1,606                  | 2.11              | 28,171                                |
| Avalon Foster City          | 95.8%                                | 96.6%                         | 92.1%    | 1,457                  | 1.82              | 42,852                                |
| Avalon Pacifica             | 97.7%                                | 95.9%                         | 97.3%    | 1,471                  | 1.66              | 31,298                                |
| Avalon Towers by the Bay    | 94.7%                                | 93.8%                         | 91.4%    | 2,730                  | 2.38              | 66,882                                |
| Crowne Ridge                | 92.9%                                | 93.4%                         | 97.1%    | 1,448                  | 1.55              | 31,050                                |
| <b>San Jose, CA</b>         |                                      |                               |          |                        |                   |                                       |
| Avalon at Blossom Hill      | 97.2%                                | 93.4%                         | 93.2%    | 1,637                  | 1.54              | 60,886                                |
| Avalon at Cahill Park       | 92.7%                                | 39.7%(3)                      | N/A      | 1,761                  | 0.70(3)           | 52,114                                |
| Avalon at Creekside         | 98.3%                                | 96.3%                         | 95.6%    | 1,437                  | 1.89              | 42,966                                |
| Avalon at Foxchase          | 97.9%                                | 94.9%                         | 95.6%    | 1,342                  | 1.50              | 58,822                                |
| Avalon at Parkside          | 97.9%                                | 95.8%                         | 95.6%    | 1,756                  | 1.62              | 37,853                                |
| Avalon at Pruneyard         | 98.0%                                | 94.9%                         | 95.9%    | 1,341                  | 1.63              | 31,850                                |
| Avalon at River Oaks        | 96.0%                                | 93.9%                         | 93.4%    | 1,614                  | 1.63              | 45,005                                |
| Avalon Campbell             | 92.5%                                | 93.1%                         | 93.1%    | 1,594                  | 1.58              | 60,009                                |
| Avalon Cupertino            | 95.2%                                | 93.9%                         | 96.3%    | 1,868                  | 1.86              | 49,098                                |
| Avalon Mountain View (6)    | 96.0%                                | 93.8%                         | 97.5%    | 1,736                  | 1.91              | 50,512                                |



*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 or acquisition | Average size (Sq. Ft.) |
|--------------------------------|----------------------------|-----------------|---------------------------------|-------|-----------------------------------|------------------------|
| Avalon on the Alameda          | San Jose, CA               | 305             | 299,722                         | 8.9   | 1999                              | 983                    |
| Avalon Rosewalk                | San Jose, CA               | 456             | 450,252                         | 16.6  | 1997/1999                         | 987                    |
| Avalon Silicon Valley          | Sunnyvale, CA              | 710             | 658,591                         | 13.6  | 1997                              | 928                    |
| Avalon Sunnyvale               | Sunnyvale, CA              | 220             | 159,653                         | 5.0   | 1987/1995                         | 726                    |
| Avalon Towers on the Peninsula | Mountain View, CA          | 211             | 218,392                         | 1.9   | 2002                              | 1,035                  |
| CountryBrook (7)               | San Jose, CA               | 360             | 323,012                         | 14.0  | 1985/1996                         | 897                    |
| Fairway Glen                   | San Jose, CA               | 144             | 119,492                         | 6.0   | 1986                              | 830                    |
| San Marino                     | San Jose, CA               | 248             | 209,465                         | 11.5  | 1984/1988                         | 845                    |
| <b>SOUTHERN CALIFORNIA</b>     |                            |                 |                                 |       |                                   |                        |
| <b>Los Angeles, CA</b>         |                            |                 |                                 |       |                                   |                        |
| Avalon at Media Center         | Burbank, CA                | 748             | 530,114                         | 14.7  | 1969/1997                         | 709                    |
| Avalon at Warner Center        | Woodland Hills, CA         | 227             | 191,645                         | 6.8   | 1979/1998                         | 844                    |
| Avalon Westside Terrace        | Los Angeles, CA            | 363             | 229,296                         | 4.8   | 1966/1997                         | 632                    |
| Avalon Woodland Hills          | Woodland Hills, CA         | 663             | 592,722                         | 18.2  | 1989/1997                         | 894                    |
| The Promenade                  | Burbank, CA                | 400             | 360,587                         | 6.9   | 1988/2002                         | 923                    |
| <b>Orange County, CA</b>       |                            |                 |                                 |       |                                   |                        |
| Amberway                       | Anaheim, CA                | 272             | 205,572                         | 9.9   | 1983/1998                         | 756                    |
| Avalon at Laguna Niguel        | Laguna Niguel, CA          | 176             | 174,848                         | 10.0  | 1988/1998                         | 993                    |
| Avalon at Pacific Bay          | Huntington Beach, CA       | 304             | 268,000                         | 9.7   | 1971/1997                         | 882                    |
| Avalon at South Coast          | Costa Mesa, CA             | 258             | 208,890                         | 8.9   | 1973/1996                         | 810                    |
| Avalon Huntington Beach        | Huntington Beach, CA       | 400             | 353,192                         | 16.4  | 1972/1997                         | 883                    |
| Avalon Mission Viejo           | Mission Viejo, CA          | 166             | 124,600                         | 7.8   | 1984/1996                         | 751                    |
| Avalon Newport                 | Costa Mesa, CA             | 145             | 120,690                         | 6.6   | 1956/1996                         | 832                    |
| Avalon Santa Margarita         | Rancho Santa Margarita, CA | 301             | 229,593                         | 20.0  | 1990/1997                         | 763                    |
| <b>San Diego, CA</b>           |                            |                 |                                 |       |                                   |                        |
| Avalon at Cortez Hill          | San Diego, CA              | 294             | 224,840                         | 1.2   | 1973/1998                         | 765                    |
| Avalon at Mission Bay          | San Diego, CA              | 564             | 402,327                         | 5.7   | 1969/1997                         | 713                    |
| Avalon at Mission Ridge        | San Diego, CA              | 200             | 208,100                         | 4.0   | 1960/1997                         | 1,041                  |
| Avalon at Penasquitos Hills    | San Diego, CA              | 176             | 141,120                         | 8.8   | 1982/1997                         | 802                    |

[Additional columns below]

[Continued from above table, first column(s) repeated]

|                       | Physical occupancy at 12/31/02 | Average economic occupancy |       | Average rental rate |                | Financial reporting cost (5) |
|-----------------------|--------------------------------|----------------------------|-------|---------------------|----------------|------------------------------|
|                       |                                | 2002                       | 2001  | \$ per Apt (4)      | \$ per Sq. Ft. |                              |
| Avalon on the Alameda | 95.7%                          | 92.7%                      | 89.5% | 1,882               | 1.77           | 56,426                       |
| Avalon Rosewalk       | 96.7%                          | 92.7%                      | 91.9% | 1,609               | 1.51           | 78,210                       |
| Avalon Silicon Valley | 94.1%                          | 92.2%                      | 91.2% | 1,895               | 1.88           | 120,851                      |
| Avalon Sunnyvale      | 98.2%                          | 95.2%                      | 94.9% | 1,429               | 1.87           | 34,897                       |

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|                                |        |          |          |       |         |        |
|--------------------------------|--------|----------|----------|-------|---------|--------|
| Avalon Towers on the Peninsula | 97.2%  | 62.4%(3) | N/A      | 2,229 | 1.34(3) | 65,581 |
| CountryBrook (7)               | 95.3%  | 93.1%    | 91.6%    | 1,342 | 1.39    | 47,792 |
| Fairway Glen                   | 100.0% | 95.1%    | 94.0%    | 1,333 | 1.53    | 17,128 |
| San Marino                     | 96.8%  | 93.7%    | 91.0%    | 1,369 | 1.52    | 34,065 |
| <b>SOUTHERN CALIFORNIA</b>     |        |          |          |       |         |        |
| <b>Los Angeles, CA</b>         |        |          |          |       |         |        |
| Avalon at Media Center         | 94.5%  | 90.3%(2) | 83.8%(2) | 1,127 | 1.44(2) | 75,508 |
| Avalon at Warner Center        | 97.4%  | 96.5%    | 97.2%    | 1,329 | 1.52    | 26,414 |
| Avalon Westside Terrace        | 95.6%  | 92.3%    | 95.7%    | 1,171 | 1.71    | 37,241 |
| Avalon Woodland Hills          | 97.6%  | 95.4%    | 96.1%    | 1,273 | 1.36    | 71,590 |
| The Promenade                  | 95.0%  | 92.8%(3) | N/A      | 1,443 | 1.49(3) | 70,996 |
| <b>Orange County, CA</b>       |        |          |          |       |         |        |
| Amberway                       | 96.7%  | 95.7%    | 93.9%    | 1,003 | 1.27    | 21,400 |
| Avalon at Laguna Niguel        | 99.4%  | 96.8%    | 96.1%    | 1,232 | 1.20    | 20,957 |
| Avalon at Pacific Bay          | 97.7%  | 95.3%    | 96.6%    | 1,235 | 1.33    | 31,941 |
| Avalon at South Coast          | 98.8%  | 96.5%    | 94.8%    | 1,137 | 1.35    | 24,596 |
| Avalon Huntington Beach        | 95.5%  | 91.6%    | 94.7%    | 1,276 | 1.32    | 37,192 |
| Avalon Mission Viejo           | 98.8%  | 95.9%    | 96.9%    | 1,138 | 1.45    | 13,167 |
| Avalon Newport                 | 100.0% | 97.7%    | 97.9%    | 1,346 | 1.58    | 10,112 |
| Avalon Santa Margarita         | 94.0%  | 94.4%    | 96.0%    | 1,153 | 1.43    | 23,635 |
| <b>San Diego, CA</b>           |        |          |          |       |         |        |
| Avalon at Cortez Hill          | 96.3%  | 92.5%    | 84.0%    | 1,216 | 1.47    | 34,368 |
| Avalon at Mission Bay          | 97.0%  | 96.2%    | 97.1%    | 1,242 | 1.67    | 66,060 |
| Avalon at Mission Ridge        | 97.0%  | 96.4%    | 97.2%    | 1,389 | 1.29    | 21,625 |
| Avalon at Penasquitos Hills    | 95.5%  | 95.2%    | 95.9%    | 1,105 | 1.31    | 14,323 |

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

|                                   | City and state     | Number<br>of<br>homes | Approx.<br>rentable area<br>(Sq. Ft.) | Acres | Year of<br>completion or<br>acquisition | Average<br>size<br>(Sq. Ft.) |
|-----------------------------------|--------------------|-----------------------|---------------------------------------|-------|---|------------------------------|
| <b>DEVELOPMENT COMMUNITIES</b>    |                    |                       |                                       |       |   |                              |
| Avalon at Flanders Hill           | Westborough, MA    | 280                   | 299,978                               | 62.0  | N/A                                     | 1,099                        |
| Avalon at Gallery Place I         | Washington, DC     | 203                   | 183,326                               | 0.5   | N/A                                     | 903                          |
| Avalon at Glen Cove South         | Glen Cove, NY      | 256                   | 270,000                               | 4.0   | N/A                                     | 1,050                        |
| Avalon at Grosvenor Station       | North Bethesda, MD | 497                   | 478,530                               | 9.9   | N/A                                     | 963                          |
| Avalon at Mission Bay North       | San Francisco, CA  | 250                   | 244,224                               | 1.4   | N/A                                     | 977                          |
| Avalon at Newton Highlands        | Newton, MA         | 294                   | 401,241                               | 7.0   | N/A                                     | 1,177                        |
| Avalon at Rock Spring             | North Bethesda, MD | 386                   | 388,480                               | 10.2  | N/A                                     | 1,006                        |
| Avalon at Steven's Pond           | Saugus, MA         | 326                   | 360,509                               | 82.0  | N/A                                     | 1,106                        |
| Avalon Darien                     | Darien, CT         | 189                   | 242,311                               | 30.0  | N/A                                     | 1,282                        |
| Avalon Glendale                   | Burbank, CA        | 223                   | 241,712                               | 5.1   | N/A                                     | 1,084                        |
| Avalon on Stamford Harbor         | Stamford, CT       | 323                   | 336,566                               | 12.1  | N/A                                     | 1,042                        |
| Avalon Traville Phase I           | North Potomac, MD  | 200                   | 231,800                               | 23.8  | N/A                                     | 1,159                        |
| <b>UNCONSOLIDATED COMMUNITIES</b> |                    |                       |                                       |       |   |                              |
| Avalon Arbor (9)                  | Shrewsbury, MA     | 302                   | 297,989                               | 26.0  | 1991                                    | 986                          |
| Avalon Bedford (8)                | Stamford, CT       | 368                   | 331,655                               | 4.6   | 1961/1998                               | 819                          |
| Avalon Grove (8)                  | Stamford, CT       | 402                   | 363,408                               | 12.0  | 1996                                    | 906                          |
| Avalon Run (6)                    | Lawrenceville, NJ  | 426                   | 443,168                               | 9.0   | 1994                                    | 1,010                        |
| Falkland Chase (8)                | Silver Spring, MD  | 450                   | 341,859                               | 22.7  | 1936/1993                               | 760                          |

[Additional columns below]

[Continued from above table, first column(s) repeated]

|                                | Physical<br>occupancy<br>at<br>12/31/02 | Average economic<br>occupancy |      | Average<br>rental rate |                   | Financial<br>reporting<br>cost<br>(5) |
|--------------------------------|---|-------------------------------|------|------------------------|-------------------|---------------------------------------|
|                                |   | 2002                          | 2001 | \$ per<br>Apt (4)      | \$ per<br>Sq. Ft. |                                       |
| <b>DEVELOPMENT COMMUNITIES</b> |   |                               |      |                        |                   |                                       |
| Avalon at Flanders Hill        | N/A                                     | N/A                           | N/A  | N/A                    | N/A               | 35,855                                |
| Avalon at Gallery Place I      | N/A                                     | N/A                           | N/A  | N/A                    | N/A               | 41,414                                |
| Avalon at Glen Cove South      | N/A                                     | N/A                           | N/A  | N/A                    | N/A               | 16,777                                |
| Avalon at Grosvenor Station    | N/A                                     | N/A                           | N/A  | N/A                    | N/A               | 40,146                                |
| Avalon at Mission Bay North    | N/A                                     | N/A                           | N/A  | N/A                    | N/A               | 71,470                                |
| Avalon at Newton Highlands     | N/A                                     | N/A                           | N/A  | N/A                    | N/A               | 27,629                                |
| Avalon at Rock Spring          | N/A                                     | N/A                           | N/A  | N/A                    | N/A               | 36,787                                |
| Avalon at Steven's Pond        | N/A                                     | N/A                           | N/A  | N/A                    | N/A               | 23,230                                |
| Avalon Darien                  | N/A                                     | N/A                           | N/A  | N/A                    | N/A               | 13,537                                |
| Avalon Glendale                | N/A                                     | N/A                           | N/A  | N/A                    | N/A               | 17,132                                |
| Avalon on Stamford Harbor      | N/A                                     | N/A                           | N/A  | N/A                    | N/A               | 61,146                                |
| Avalon Traville Phase I        | N/A                                     | N/A                           | N/A  | N/A                    | N/A               | 8,882                                 |

| <b>UNCONSOLIDATED COMMUNITIES</b> |       |       |          |       |      |     |
|-----------------------------------|-------|-------|----------|-------|------|-----|
| Avalon Arbor (9)                  | 90.7% | 92.0% | 97.7%    | 1,360 | 1.27 | N/A |
| Avalon Bedford (8)                | 88.6% | 90.9% | 80.6%(2) | 1,544 | 1.56 | N/A |
| Avalon Grove (8)                  | 85.8% | 84.9% | 95.2%    | 2,155 | 2.02 | N/A |
| Avalon Run (6)                    | 92.5% | 91.4% | 97.1%    | 1,431 | 1.26 | N/A |
| Falkland Chase (8)                | 97.8% | 94.4% | 98.6%    | 1,140 | 1.42 | N/A |

- (1) For this table, Current Communities excludes communities held by unconsolidated real estate joint ventures, which are listed separately. We own a fee simple interest in the Current Communities listed, excepted as noted below.
- (2) Represents community which was under redevelopment during the year, resulting in lower average economic occupancy and average rental rate per square foot for the year.
- (3) Represents community that completed development or was purchased during the year, which could result in lower average economic occupancy and average rental rate per square foot for the year.
- (4) Represents the average rental revenue per occupied apartment home.
- (5) Costs are presented in accordance with generally accepted accounting principles. For current Development Communities, cost represents total costs incurred through December 31, 2002. Financial reporting costs are excluded for unconsolidated communities, see Note 6, Investments in Unconsolidated Entities, of the Consolidated Financial Statements set forth in Item 8 of this report.
- (6) We own a general partnership interest in a partnership that owns a fee simple interest in this community.
- (7) We own a general partnership interest in a partnership structured as a DownREIT that owns this community.
- (8) We own a membership interest in a limited liability company that holds a fee simple interest in this community.
- (9) We have a 100% interest in a senior participating mortgage note secured by this community, which allows us to share in part of the rental income or resale proceeds of the community.
- (10) Community is located on land subject to a land lease expiring in March 2142.

*Features and Recreational Amenities Current and Development Communities*

|                                | 1 BR        |             | 2BR           |       | 3BR |     | Studios/<br>efficiencies |     | Other | Total | Parking<br>spaces | Washer<br>&<br>dryer<br>hook-ups<br>or<br>units |
|--------------------------------|-------------|-------------|---------------|-------|-----|-----|--------------------------|-----|-------|-------|-------------------|---|
|                                | 1/1.5<br>BA | 1/1.5<br>BA | 2/2.5/3<br>BA | 2/2.5 | 3BA |     |                          |     |       |       |                   |   |
| <b>CURRENT COMMUNITIES</b>     |             |             |               |       |     |     |                          |     |       |       |                   |   |
| <b>(1)</b>                     |             |             |               |       |     |     |                          |     |       |       |                   |   |
| <b>NORTHEAST</b>               |             |             |               |       |     |     |                          |     |       |       |                   |   |
| <b>Boston, MA</b>              |             |             |               |       |     |     |                          |     |       |       |                   |   |
| Avalon at Center Place         | 103         |             | 111           | 5     |     | 6   |                          |     |       | 225   | 345               | All   |
| Avalon at Faxon Park           | 68          |             | 75            | 28    |     |     |                          |     |       | 171   | 287               | All   |
| Avalon at Lexington            | 28          | 24          | 90            | 56    |     |     |                          |     |       | 198   | 355               | All   |
| Avalon at Prudential<br>Center | 361         |             | 237           |       | 23  | 148 |                          | 12  |       | 781   | 142               | None  |
| Avalon Essex                   | 50          |             | 62            |       |     |     |                          | 42  |       | 154   | 259               | All   |
| Avalon Estates                 | 66          | 16          | 80            |       |     |     |                          |     |       | 162   | 354               | All   |
| Avalon Ledges                  | 124         |             | 152           | 28    |     |     |                          |     |       | 304   | 610               | All   |
| Avalon Oaks                    | 60          | 24          | 96            | 24    |     |     |                          |     |       | 204   | 355               | All   |
| Avalon Oaks West               | 48          | 12          | 48            | 12    |     |     |                          |     |       | 120   | 233               | All   |
| Avalon Orchards                | 69          | 12          | 75            |       |     |     |                          |     |       | 156   | 312               | All   |
| Avalon Summit                  | 154         | 61          | 28            | 2     |     |     |                          |     |       | 245   | 328               | None  |
| Avalon West                    | 40          |             | 55            | 25    |     |     |                          |     |       | 120   | 145               | All   |
| <b>Fairfield-New Haven, CT</b> |             |             |               |       |     |     |                          |     |       |       |                   |   |
| Avalon at Greyrock Place       | 104         | 91          | 99            | 12    |     |     |                          |     |       | 306   | 459               | All   |
| Avalon Corners                 | 118         |             | 77            |       |     |     |                          |     |       | 195   | 273               | All   |
| Avalon Gates                   | 122         |             | 168           | 50    |     |     |                          |     |       | 340   | 580               | All   |
| Avalon Glen                    | 124         |             | 114           |       |     |     |                          |     |       | 238   | 400               | Most  |
| Avalon Haven                   | 44          | 60          |               | 24    |     |     |                          |     |       | 128   | 256               | All   |
| Avalon Lake                    | 36          |             | 46            |       |     | 24  |                          | 29  |       | 135   | 382               | All   |
| Avalon New Canaan              | 16          |             | 64            | 24    |     |     |                          |     |       | 104   | 202               | All   |
| Avalon Springs                 |             |             | 70            | 32    |     |     |                          |     |       | 102   | 153               | All   |
| Avalon Valley                  | 106         |             | 134           | 28    |     |     |                          |     |       | 268   | 626               | All   |
| Avalon Walk I & II             | 272         | 116         | 122           | 74    |     |     |                          | 180 |       | 764   | 1,528             | All   |
| <b>Long Island, NY</b>         |             |             |               |       |     |     |                          |     |       |       |                   |   |
| Avalon Commons                 | 128         | 40          | 112           | 32    |     |     |                          |     |       | 312   | 538               | All   |
| Avalon Court                   | 172         | 54          | 194           | 44    | 30  |     |                          |     |       | 494   | 1,110             | All   |
| Avalon Towers                  |             |             | 37            | 1     | 3   | 1   | 67                       |     |       | 109   | 198               | All   |
| <b>Northern New Jersey</b>     |             |             |               |       |     |     |                          |     |       |       |                   |   |
| Avalon at Edgewater            | 158         |             | 190           | 60    |     |     |                          |     |       | 408   | 872               | All   |
| Avalon at Florham Park         | 46          |             | 107           | 117   |     |     |                          |     |       | 270   | 611               | All   |
| Avalon Cove                    | 190         |             | 190           | 46    | 2   |     | 76                       |     |       | 504   | 464               | All   |
| Avalon Crest                   | 96          |             | 131           | 67    |     |     | 57                       |     |       | 351   | 364               | All   |
| The Tower at Avalon Cove       | 147         | 24          | 74            | 24    |     |     |                          |     |       | 269   | 263               | All   |
| <b>Central New Jersey</b>      |             |             |               |       |     |     |                          |     |       |       |                   |   |
| Avalon at Freehold             | 42          | 41          | 176           | 37    |     |     |                          |     |       | 296   | 611               | All   |
| Avalon Run East                | 64          |             | 106           | 36    |     |     |                          |     |       | 206   | 345               | All   |
| Avalon Watch                   | 252         | 36          | 142           | 82    |     |     |                          |     |       | 512   | 768               | Most  |

|  | Vaulted<br>ceilings |  | Lofts<br>Fireplaces |  | Large<br>storage<br>or<br>walk-in<br>closet |  | Balcony,<br>patio,<br>deck<br>or<br>sunroom |  | Built-in<br>bookcases<br>Carports |  | Non-<br>direct<br>access<br>garages |  | Direct<br>access<br>garages |  | Homes<br>w/<br>pre-wired<br>security<br>systems |  |
|--|---------------------|--|---------------------|--|---|--|---|--|-----------------------------------|--|-------------------------------------|--|-----------------------------|--|---|--|
|--|---------------------|--|---------------------|--|---|--|---|--|-----------------------------------|--|-------------------------------------|--|-----------------------------|--|---|--|

**CURRENT COMMUNITIES (1)**  
**NORTHEAST**

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| <b>Boston, MA</b>              |      |      |      |      |      |      |     |     |      |      |
|--------------------------------|------|------|------|------|------|------|-----|-----|------|------|
| Avalon at Center Place         |      |      |      |      |      |      |     |     |      |      |
| Avalon at Faxon Park           | None | None | None | Half | Some | None | No  | No  | No   | None |
| Avalon at Lexington            | Some | Some | Some | All  | All  | None | No  | Yes | No   | All  |
| Avalon at Prudential Center    | Some | Some | Some | Most | All  | None | Yes | Yes | No   | All  |
| Avalon Center                  | None | None | None | Most | Some | None | No  | No  | No   | None |
| Avalon Essex                   | None | Some | Some | All  | All  | None | No  | Yes | Yes  | All  |
| Avalon Estates                 | Some | Some | Some | All  | All  | None | No  | Yes | Yes  | All  |
| Avalon Ledges                  | None | Some | Some | All  | Some | None | No  | Yes | No   | All  |
| Avalon Oaks                    | Some | Some | Some | All  | All  | None | No  | Yes | No   | All  |
| Avalon Oaks West               | Some | Some | Some | All  | All  | None | No  | Yes | No   | All  |
| Avalon Orchards                | None | Half | Some | Most | All  | None | No  | Yes | Yes  | All  |
| Avalon Summit                  | None | None | None | None | All  | None | No  | Yes | No   | None |
| Avalon West                    | Some | Some | Some | All  | Half | None | No  | Yes | Yes  | All  |
| <b>Fairfield-New Haven, CT</b> |      |      |      |      |      |      |     |     |      |      |
| Avalon at Greyrock Place       | None | None | None | All  | All  | None | No  | No  | Yes  | All  |
| Avalon Corners                 | Some | Some | Some | All  | All  | None | No  | Yes | No   | All  |
| Avalon Gates                   | Some | Some | None | All  | All  | None | Yes | Yes | No   | All  |
| Avalon Glen                    | Some | Some | Some | Half | Most | None | Yes | Yes | No   | Most |
| Avalon Haven                   | None | Some | Some | All  | All  | None | Yes | Yes | No   | All  |
| Avalon Lake                    | Some | Some | Some | All  | All  | None | No  | Yes | No   | All  |
| Avalon New Canaan              | None | Some | Some | All  | All  | None | No  | Yes | Yes  | All  |
| Avalon Springs                 | Half | Half | Most | All  | All  | None | No  | No  | Yes  | All  |
| Avalon Valley                  | Some | Some | Some | All  | All  | None | Yes | Yes | No   | All  |
| Avalon Walk I & II             | Some | Some | Half | All  | All  | Some | Yes | No  | No   | Half |
| <b>Long Island, NY</b>         |      |      |      |      |      |      |     |     |      |      |
| Avalon Commons                 | Some | Some | Some | All  | All  | None | No  | Yes | No   | All  |
| Avalon Court                   | Some | Most | Some | All  | All  | None | No  | Yes | Yes  | All  |
| Avalon Towers                  | None | None | None | All  | Most | None | No  | No  | Yes  | All  |
| <b>Northern New Jersey</b>     |      |      |      |      |      |      |     |     |      |      |
| Avalon at Edgewater            | None | Some | Some | All  | All  | None | No  | No  | Yes  | Some |
| Avalon at Florham Park         | Most | None | Some | All  | Some | None | No  | No  | Yes  | All  |
| Avalon Cove                    | Some | Some | Some | All  | Most | None | No  | Yes | Some | All  |
| Avalon Crest                   | Some | Some | Some | All  | All  | None | No  | Yes | Yes  | All  |
| The Tower at Avalon Cove       | None | None | None | Half | Some | None | No  | Yes | No   | All  |
| <b>Central New Jersey</b>      |      |      |      |      |      |      |     |     |      |      |
| Avalon at Freehold             | Some | Some | Some | All  | All  | None | No  | Yes | No   | None |
| Avalon Run East                | Some | Some | Some | All  | All  | None | Yes | Yes | Yes  | All  |
| Avalon Watch                   | Some | None | Some | All  | All  | None | No  | Yes | No   | None |

*Features and Recreational Amenities Current and Development Communities*

|   | 1 BR        | 2BR         |               | 3BR   |     | Studios/<br>efficiencies |    | Total | Parking<br>spaces | Washer<br>&<br>dryer<br>hook-ups<br>or units |
|---|-------------|-------------|---------------|-------|-----|--------------------------|----|-------|-------------------|--|
|   | 1/1.5<br>BA | 1/1.5<br>BA | 2/2.5/3<br>BA | 2/2.5 | 3BA | Other                    |    |       |                   |  |
| <b>New York, NY</b>                             |             |             |               |       |     |                          |    |       |                   |  |
| Avalon Riverview I                              | 184         |             | 114           |       | 31  | 43                       |    | 372   | 128               | All  |
| Avalon Gardens                                  | 208         | 48          | 144           | 104   |     |                          |    | 504   | 1,008             | All  |
| Avalon Green                                    | 25          | 24          | 56            |       |     |                          |    | 105   | 179               | All  |
| Avalon on the Sound                             | 143         |             | 184           | 22    | 20  | 43                       |    | 412   | 645               | Most   |
| Avalon View                                     | 115         | 47          | 62            | 64    |     |                          |    | 288   | 576               | All  |
| Avalon Willow                                   | 150         | 77          |               |       |     |                          |    | 227   | 379               | All  |
| The Avalon                                      | 55          | 2           | 43            | 10    |     |                          |    | 110   | 167               | All  |
| <b>MID-ATLANTIC</b>                             |             |             |               |       |     |                          |    |       |                   |  |
| <b>Baltimore, MD</b>                            |             |             |               |       |     |                          |    |       |                   |  |
| Avalon at Fairway Hills I & II                  | 283         | 223         | 154           | 60    |     |                          |    | 720   | 1,137             | All  |
| Avalon at Symphony Glen                         | 86          | 14          | 54            | 20    |     |                          |    | 174   | 266               | All  |
| Avalon Landing                                  | 65          | 18          | 57            |       |     | 18                       |    | 158   | 257               | All  |
| <b>Washington, DC</b>                           |             |             |               |       |     |                          |    |       |                   |  |
| 4100 Massachusetts Avenue                       | 160         | 70          |               | 3     |     | 27                       | 48 | 308   | 330               | All  |
| Autumn Woods                                    | 220         | 72          | 96            |       |     |                          | 32 | 420   | 727               | All  |
| Avalon at Arlington Square I                    | 211         | 20          | 226           | 53    |     |                          |    | 510   | 949               | All  |
| Avalon at Arlington Square II                   | 172         |             | 116           | 44    |     |                          |    | 332   | 563               | All  |
| Avalon at Ballston - Vermont &<br>Quincy Towers | 333         | 37          | 84            |       |     |                          |    | 454   | 498               | All  |
| Avalon at Ballston - Washington<br>Towers       | 205         | 28          | 111           |       |     |                          |    | 344   | 415               | All  |
| Avalon at Cameron Court                         | 208         |             | 168           |       |     |                          | 84 | 460   | 736               | All  |
| Avalon at Decoverly                             | 156         |             | 104           | 64    | 44  |                          |    | 368   | 584               | All  |
| Avalon at Dulles                                | 104         | 40          | 76            |       | 16  |                          |    | 236   | 493               | All  |
| Avalon at Fair Lakes                            | 45          | 12          | 125           | 26    | 26  |                          |    | 234   | 505               | All  |
| Avalon at Fox Mill                              |             |             | 92            | 73    |     |                          |    | 165   | 343               | All  |
| Avalon at Providence Park                       | 19          |             | 112           | 4     |     |                          | 6  | 141   | 287               | All  |
| Avalon Crescent                                 | 186         | 26          | 346           |       |     |                          |    | 558   | 662               | All  |
| Avalon Crossing                                 |             | 27          | 105           |       |     |                          |    | 132   | 224               | All  |
| Avalon Fields I & II                            | 74          | 32          | 84            | 32    |     |                          | 66 | 288   | 443               | All  |
| Avalon Knoll                                    | 136         | 55          | 81            | 28    |     |                          |    | 300   | 482               | All  |
| <b>MIDWEST</b>                                  |             |             |               |       |     |                          |    |       |                   |  |
| <b>Chicago, IL</b>                              |             |             |               |       |     |                          |    |       |                   |  |
| 200 Arlington Place                             | 142         | 89          | 148           |       |     | 30                       |    | 409   | 650               | All  |
| Avalon at Danada Farms                          | 80          | 52          | 134           | 29    |     |                          |    | 295   | 714               | All  |
| Avalon at Stratford Green                       | 45          | 9           | 108           | 21    |     |                          | 9  | 192   | 437               | All  |
| Avalon at West Grove                            | 200         | 200         |               |       |     |                          |    | 400   | 860               | None   |
| <b>Minneapolis, MN</b>                          |             |             |               |       |     |                          |    |       |                   |  |
| Avalon at Devonshire                            | 194         |             | 304           |       |     |                          |    | 498   | 498               | Most   |
| Avalon at Edinburgh                             | 56          |             | 114           | 26    |     | 2                        |    | 198   | 210               | All  |
| Avalon at Town Centre                           | 104         |             | 111           | 33    |     |                          |    | 248   | 250               | All  |
| Avalon at Town Square                           | 76          |             | 68            | 12    |     |                          | 4  | 160   | 162               | All  |
| Avalon at Woodbury                              | 41          |             | 147           | 36    |     |                          |    | 224   | 513               | All  |

| Vaulted<br>ceilings | Lofts | Fireplaces | Large<br>storage<br>or<br>walk-in<br>closet | Balcony,<br>patio,<br>deck<br>or<br>sunroom | Built-in<br>bookcases | Carports | Non-<br>direct<br>access<br>garages | Direct<br>access<br>garages | Homes<br>w/<br>pre-wired<br>security<br>systems |
|---------------------|-------|------------|---|---|-----------------------|----------|-------------------------------------|-----------------------------|---|
|---------------------|-------|------------|---|---|-----------------------|----------|-------------------------------------|-----------------------------|---|

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| <b>New York, NY</b>                          |      |      |      |      |      |      |     |     |     |      |  |
|--|------|------|------|------|------|------|-----|-----|-----|------|--|
| Avalon Riverview I                           | None | None | None | Most | Some | None | No  | Yes | No  | Some |  |
| Avalon Gardens                               | Half | Half | Some | All  | Most | None | Yes | Yes | Yes | All  |  |
| Avalon Green                                 | Some | Half | Some | All  | All  | None | Yes | No  | No  | All  |  |
| Avalon on the Sound                          | None | Some | None | Most | Some | None | No  | Yes | No  | Some |  |
| Avalon View                                  | Some | Some | Some | Most | All  | None | Yes | No  | No  | None |  |
| Avalon Willow                                | Some | Some | None | Most | All  | None | No  | Yes | Yes | All  |  |
| The Avalon                                   | Some | Some | Some | Most | Half | None | No  | Yes | No  | All  |  |
| <b>MID-ATLANTIC</b>                          |      |      |      |      |      |      |     |     |     |      |  |
| <b>Baltimore, MD</b>                         |      |      |      |      |      |      |     |     |     |      |  |
| Avalon at Fairway Hills I & II               | Some | None | Some | Some | All  | Some | No  | No  | No  | None |  |
| Avalon at Symphony Glen                      | Some | None | Most | All  | All  | Half | No  | No  | No  | None |  |
| Avalon Landing                               | None | None | Most | Most | All  | None | Yes | No  | No  | None |  |
| <b>Washington, DC</b>                        |      |      |      |      |      |      |     |     |     |      |  |
| 4100 Massachusetts Avenue                    | None | None | Some | Most | All  | Some | No  | Yes | No  | None |  |
| AutumnWoods                                  | Some | None | Some | All  | All  | Some | Yes | No  | No  | None |  |
| Avalon at Arlington Square I                 | Some | Some | Some | All  | Some | Some | No  | No  | Yes | All  |  |
| Avalon at Arlington Square II                | Some | Some | Some | Some | All  | Some | No  | No  | No  | All  |  |
| Avalon at Ballston - Vermont & Quincy Towers | None | None | None | Most | All  | None | No  | No  | Yes | None |  |
| Avalon at Ballston - Washington Towers       | None | None | Some | Most | All  | None | No  | No  | Yes | None |  |
| Avalon at Cameron Court                      | Some | Some | Some | All  | Most | None | No  | Yes | Yes | All  |  |
| Avalon at Decoverly                          | Some | Some | Most | Most | All  | None | No  | No  | No  | None |  |
| Avalon at Dulles                             | Some | None | Some | All  | All  | Some | No  | No  | No  | None |  |
| Avalon at Fair Lakes                         | Half | None | Half | All  | Most | None | No  | Yes | Yes | None |  |
| Avalon at Fox Mill                           | Most | None | Most | All  | All  | None | No  | No  | Yes | All  |  |
| Avalon at Providence Park                    | None | None | Most | All  | All  | None | No  | No  | No  | None |  |
| Avalon Crescent                              | Some | Some | Half | Most | All  | Some | No  | Yes | Yes | All  |  |
| Avalon Crossing                              | Some | Some | Half | All  | All  | Some | No  | Yes | Yes | All  |  |
| Avalon Fields I & II                         | Some | Some | Half | All  | Most | None | No  | Yes | No  | All  |  |
| Avalon Knoll                                 | Some | None | Half | All  | All  | Some | No  | No  | No  | None |  |
| <b>MIDWEST</b>                               |      |      |      |      |      |      |     |     |     |      |  |
| <b>Chicago, IL</b>                           |      |      |      |      |      |      |     |     |     |      |  |
| 200 Arlington Place                          | None | None | None | All  | Some | None | No  | Yes | No  | None |  |
| Avalon at Danada Farms                       | None | None | Some | All  | Some | Some | No  | No  | Yes | None |  |
| Avalon at Stratford Green                    | None | None | Some | Most | Some | Some | No  | Yes | Yes | None |  |
| Avalon at West Grove                         | None | None | None | None | All  | None | Yes | No  | No  | None |  |
| <b>Minneapolis, MN</b>                       |      |      |      |      |      |      |     |     |     |      |  |
| Avalon at Devonshire                         | Some | None | Some | Most | Most | Some | No  | Yes | Yes | None |  |
| Avalon at Edinburgh                          | None | None | Some | Some | All  | None | No  | Yes | No  | None |  |
| Avalon at Town Centre                        | Some | None | Some | Some | All  | None | No  | Yes | No  | None |  |
| Avalon at Town Square                        | Some | None | Some | Some | All  | None | No  | Yes | No  | None |  |
| Avalon at Woodbury                           | None | None | Some | Some | Some | None | No  | No  | Yes | None |  |



*Features and Recreational Amenities Current and Development Communities*

|                                | 1 BR        | 2BR         |               | 3BR   |     | Studios/<br>efficiencies |  | Total | Parking<br>spaces | Washer<br>&<br>dryer<br>hook-ups<br>or units |
|--------------------------------|-------------|-------------|---------------|-------|-----|--------------------------|--|-------|-------------------|--|
|                                | 1/1.5<br>BA | 1/1.5<br>BA | 2/2.5/3<br>BA | 2/2.5 | 3BA | Other                    |  |       |                   |  |
| <b>PACIFIC NORTHWEST</b>       |             |             |               |       |     |                          |  |       |                   |  |
| <b>Seattle, WA</b>             |             |             |               |       |     |                          |  |       |                   |  |
| Avalon at Bear Creek           | 55          | 40          | 110           | 59    |     |                          |  | 264   | 470               | All  |
| Avalon Bellevue                | 110         |             | 67            |       |     | 25                       |  | 202   | 304               | All  |
| Avalon Belltown                | 64          |             | 20            |       |     | 16                       |  | 100   | 134               | All  |
| Avalon Brandemoor              | 88          | 109         | 149           | 78    |     |                          |  | 424   | 732               | All  |
| Avalon Greenbriar              | 16          | 19          | 217           | 169   |     |                          |  | 421   | 731               | All  |
| Avalon HighGrove               | 84          | 119         | 124           | 56    | 8   |                          |  | 391   | 713               | All  |
| Avalon ParcSquare              | 31          | 26          | 55            | 5     | 7   |                          |  | 124   | 196               | All  |
| Avalon Redmond Place           | 76          | 44          | 67            | 35    |     |                          |  | 222   | 384               | All  |
| Avalon RockMeadow              | 28          | 48          | 86            | 28    | 16  |                          |  | 206   | 308               | All  |
| Avalon WildReed                | 36          | 60          | 78            | 60    |     |                          |  | 234   | 462               | All  |
| Avalon Wildwood                | 5           |             | 211           |       | 17  | 5                        |  | 238   | 16                | All  |
| Avalon Wynhaven                | 3           | 42          | 239           | 13    | 28  | 8                        |  | 333   | 260               | All  |
| <b>NORTHERN CALIFORNIA</b>     |             |             |               |       |     |                          |  |       |                   |  |
| <b>Oakland-East Bay, CA</b>    |             |             |               |       |     |                          |  |       |                   |  |
| Avalon at Union Square         | 124         | 84          |               |       |     |                          |  | 208   | 210               | None   |
| Avalon at Willow Creek         | 99          |             | 136           |       |     |                          |  | 235   | 240               | All  |
| Avalon Dublin                  | 72          | 8           | 60            | 48    |     | 16                       |  | 204   | 427               | Most   |
| Avalon Fremont                 | 130         | 81          | 176           |       | 56  |                          |  | 443   | 830               | All  |
| Avalon Pleasanton              | 238         |             | 218           |       |     |                          |  | 456   | 856               | All  |
| Waterford                      | 208         |             | 336           |       |     |                          |  | 544   | 876               | Some   |
| <b>San Francisco, CA</b>       |             |             |               |       |     |                          |  |       |                   |  |
| Avalon at Cedar Ridge          | 117         | 33          | 24            |       |     | 21                       |  | 195   | 258               | None   |
| Avalon at Diamond Heights      | 90          |             | 49            | 15    |     |                          |  | 154   | 155               | None   |
| Avalon at Nob Hill             | 114         |             | 25            |       |     | 46                       |  | 185   | 104               | None   |
| Avalon at Sunset Towers        | 183         | 20          | 20            |       |     | 20                       |  | 243   | 244               | None   |
| Avalon Foster City             | 124         | 123         | 1             |       |     | 40                       |  | 288   | 490               | None   |
| Avalon Pacifica                | 58          | 106         | 56            |       |     |                          |  | 220   | 299               | None   |
| Avalon Towers by the Bay       | 103         |             | 120           |       | 3   |                          |  | 226   | 235               | All  |
| Crowne Ridge                   | 158         | 68          | 24            |       |     | 4                        |  | 254   | 377               | Some   |
| <b>San Jose, CA</b>            |             |             |               |       |     |                          |  |       |                   |  |
| Avalon at Blossom Hill         | 90          |             | 210           |       | 24  |                          |  | 324   | 562               | All  |
| Avalon at Cahill Park          | 118         |             | 94            |       | 6   |                          |  | 218   | 283               | All  |
| Avalon at Creekside            | 158         | 128         |               |       |     | 8                        |  | 294   | 376               | None   |
| Avalon at Foxchase             | 168         |             | 228           |       |     |                          |  | 396   | 719               | All  |
| Avalon at Parkside             | 60          |             | 96            | 36    |     |                          |  | 192   | 192               | All  |
| Avalon at Pruneyard            | 212         | 40          |               |       |     |                          |  | 252   | 395               | All  |
| Avalon at River Oaks           | 100         |             | 126           |       |     |                          |  | 226   | 354               | All  |
| Avalon Campbell                | 156         |             | 180           |       | 12  |                          |  | 348   | 588               | All  |
| Avalon Cupertino               | 145         |             | 152           |       | 14  |                          |  | 311   | 526               | All  |
| Avalon Mountain View           | 108         |             | 88            | 52    |     |                          |  | 248   | 248               | All  |
| Avalon on the Alameda          | 113         |             | 164           |       | 28  |                          |  | 305   | 558               | All  |
| Avalon Rosewalk I & II         | 168         |             | 264           |       | 24  |                          |  | 456   | 648               | All  |
| Avalon Silicon Valley          | 338         |             | 336           | 18    | 15  | 3                        |  | 710   | 1,400             | All  |
| Avalon Sunnyvale               | 112         | 10          | 54            |       |     | 44                       |  | 220   | 394               | Some   |
| Avalon Towers on the Peninsula | 90          |             | 115           |       | 6   |                          |  | 211   | 512               | All  |
| CountryBrook                   | 108         |             | 252           |       |     |                          |  | 360   | 694               | All  |
| Fairway Glen                   | 60          |             | 84            |       |     |                          |  | 144   | 226               | All  |
| San Marino                     | 103         |             | 145           |       |     |                          |  | 248   | 436               | All  |

Large  
storage

Balcony,

Non-  
direct

Direct

Homes  
w/  
pre-wired

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|                                | Vaulted  |       |            | or      | patio,  | Built-in  |          | access  | access  | security |
|--------------------------------|----------|-------|------------|---------|---------|-----------|----------|---------|---------|----------|
|                                | ceilings | Lofts | Fireplaces | walk-in | deck    | bookcases | Carports | garages | garages | systems  |
|                                |          |       |            | closet  | or      |           |          |         |         |          |
|                                |          |       |            |         | sunroom |           |          |         |         |          |
| <b>PACIFIC NORTHWEST</b>       |          |       |            |         |         |           |          |         |         |          |
| <b>Seattle, WA</b>             |          |       |            |         |         |           |          |         |         |          |
| Avalon at Bear Creek           | All      | None  | Most       | All     | All     | Some      | Yes      | Yes     | Yes     | All      |
| Avalon Bellevue                | None     | Some  | Some       | All     | All     | None      | No       | No      | No      | None     |
| Avalon Belltown                | None     | None  | None       | All     | Some    | None      | No       | No      | No      | Some     |
| Avalon Brandemoor              | Some     | None  | Most       | All     | All     | Some      | Yes      | Yes     | Yes     | All      |
| Avalon Greenbriar              | Some     | None  | Most       | All     | All     | Some      | Yes      | No      | No      | None     |
| Avalon HighGrove               | Some     | None  | Most       | Most    | All     | Some      | Yes      | Yes     | Yes     | All      |
| Avalon ParcSquare              | None     | None  | None       | All     | All     | None      | No       | No      | No      | All      |
| Avalon Redmond Place           | Some     | None  | Most       | All     | All     | None      | Yes      | Yes     | No      | None     |
| Avalon RockMeadow              | Some     | None  | Most       | Most    | All     | Some      | Yes      | Yes     | Yes     | All      |
| Avalon WildReed                | Some     | None  | Most       | Most    | All     | Some      | Yes      | Yes     | No      | All      |
| Avalon Wildwood                | Some     | None  | Most       | Some    | Most    | None      | No       | No      | Yes     | All      |
| Avalon Wynhaven                | Most     | Some  | Most       | All     | All     | None      | Yes      | Yes     | Yes     | All      |
| <b>NORTHERN CALIFORNIA</b>     |          |       |            |         |         |           |          |         |         |          |
| <b>Oakland-East Bay, CA</b>    |          |       |            |         |         |           |          |         |         |          |
| Avalon at Union Square         | None     | None  | Most       | All     | All     | None      | Yes      | No      | No      | None     |
| Avalon at Willow Creek         | None     | None  | None       | All     | All     | None      | Yes      | No      | No      | None     |
| Avalon Dublin                  | Some     | None  | Most       | All     | All     | None      | No       | Yes     | No      | None     |
| Avalon Fremont                 | Most     | None  | Some       | Most    | All     | None      | Yes      | Yes     | No      | All      |
| Avalon Pleasanton              | Some     | None  | Most       | All     | All     | None      | Yes      | Yes     | Yes     | None     |
| Avalon Waterford               | Some     | None  | None       | All     | All     | None      | Yes      | No      | No      | None     |
| <b>San Francisco, CA</b>       |          |       |            |         |         |           |          |         |         |          |
| Avalon at Cedar Ridge          | None     | Some  | None       | Some    | All     | None      | Yes      | No      | Yes     | None     |
| Avalon at Diamond Heights      | Some     | None  | None       | All     | All     | None      | No       | Yes     | No      | None     |
| Avalon at Nob Hill             | None     | None  | None       | None    | Some    | Most      | No       | Yes     | No      | None     |
| Avalon at Sunset Towers        | None     | None  | None       | None    | Some    | None      | No       | No      | Yes     | None     |
| Avalon Foster City             | None     | None  | None       | Most    | Most    | None      | Yes      | No      | No      | None     |
| Avalon Pacifica                | None     | None  | Some       | Some    | All     | None      | Yes      | Yes     | No      | None     |
| Avalon Towers by the Bay       | Some     | None  | Some       | Half    | Most    | None      | No       | No      | Yes     | All      |
| Avalon Crowne Ridge            | Some     | None  | Some       | None    | All     | None      | Yes      | No      | Yes     | None     |
| <b>San Jose, CA</b>            |          |       |            |         |         |           |          |         |         |          |
| Avalon at Blossom Hill         | Some     | None  | None       | Most    | All     | None      | Yes      | Yes     | No      | All      |
| Avalon at Cahill Park          | Some     | Some  | Some       | Most    | All     | None      | No       | Yes     | No      | None     |
| Avalon at Creekside            | None     | None  | Some       | None    | Most    | None      | Yes      | No      | No      | None     |
| Avalon at Foxchase             | Some     | None  | None       | Some    | All     | None      | Yes      | No      | No      | None     |
| Avalon at Parkside             | Some     | None  | Half       | All     | All     | Some      | Yes      | Yes     | No      | None     |
| Avalon at Pruneyard            | None     | None  | None       | None    | Half    | None      | Yes      | Yes     | No      | None     |
| Avalon at River Oaks           | None     | None  | Most       | All     | All     | None      | No       | No      | Yes     | None     |
| Avalon Campbell                | Some     | None  | None       | All     | All     | None      | Yes      | Yes     | No      | All      |
| Avalon Cupertino               | Some     | None  | Some       | Some    | All     | Some      | No       | Yes     | No      | None     |
| Avalon Mountain View           | Some     | None  | None       | Some    | All     | None      | Yes      | No      | No      | None     |
| Avalon on the Alameda          | Some     | None  | Some       | All     | All     | Some      | No       | Yes     | No      | All      |
| Avalon Rosewalk I & II         | Some     | None  | Some       | Some    | All     | Most      | Yes      | Yes     | No      | All      |
| Avalon Silicon Valley          | Some     | Some  | Some       | Most    | All     | Some      | No       | Yes     | No      | None     |
| Avalon Sunnyvale               | None     | None  | None       | All     | All     | None      | No       | No      | Yes     | None     |
| Avalon Towers on the Peninsula | None     | None  | None       | Most    | All     | None      | No       | Yes     | No      | None     |
| Avalon CountryBrook            | Some     | None  | All        | None    | All     | None      | Yes      | Yes     | No      | None     |
| Avalon Fairway Glen            | Some     | None  | None       | None    | All     | None      | Yes      | No      | No      | Some     |
| Avalon San Marino              | Some     | None  | None       | Most    | All     | None      | Yes      | No      | No      | None     |

*Features and Recreational Amenities Current and Development Communities*

|                                | 1 BR        |             | 2BR           |       | 3BR |  | Studios/<br>efficiencies Other |   | Total | Parking<br>spaces | Washer<br>&<br>dryer<br>hook-ups<br>or units |
|--------------------------------|-------------|-------------|---------------|-------|-----|--|--------------------------------|---|-------|-------------------|--|
|                                | 1/1.5<br>BA | 1/1.5<br>BA | 2/2.5/3<br>BA | 2/2.5 | 3BA |  |                                |   |       |                   |  |
| <b>SOUTHERN CALIFORNIA</b>     |             |             |               |       |     |  |                                |   |       |                   |  |
| <b>Los Angeles, CA</b>         |             |             |               |       |     |  |                                |   |       |                   |  |
| Avalon at Media Center         | 296         | 102         | 117           | 12    |     |  | 221                            |   | 748   | 838               | Some   |
| Avalon at Warner Center        | 88          | 54          | 65            | 20    |     |  |                                |   | 227   | 252               | All  |
| Avalon Westside Terrace        | 126         |             | 102           |       |     |  | 135                            |   | 363   | 487               | None   |
| Avalon Woodland Hills          | 222         |             | 441           |       |     |  |                                |   | 663   | 1,300             | Some   |
| The Promenade                  | 153         |             | 196           | 51    |     |  |                                |   | 400   | 720               | Some   |
| <b>Orange County, CA</b>       |             |             |               |       |     |  |                                |   |       |                   |  |
| Amberway                       | 114         | 48          | 48            |       |     |  | 62                             |   | 272   | 454               | None   |
| Avalon at Laguna Niguel        |             |             | 176           |       |     |  |                                |   | 176   | 335               | None   |
| Avalon at Pacific Bay          | 144         | 56          | 104           |       |     |  |                                |   | 304   | 478               | All  |
| Avalon at South Coast          | 124         |             | 86            |       |     |  | 48                             |   | 258   | 403               | Some   |
| Avalon Huntington Beach        |             | 36          | 324           | 40    |     |  |                                |   | 400   | 790               | None   |
| Avalon Mission Viejo           | 94          | 28          | 44            |       |     |  |                                |   | 166   | 250               | None   |
| Avalon Newport                 | 44          | 54          |               | 35    |     |  | 12                             |   | 145   | 235               | Most   |
| Avalon Santa Margarita         | 160         |             | 141           |       |     |  |                                |   | 301   | 523               | All  |
| <b>San Diego, CA</b>           |             |             |               |       |     |  |                                |   |       |                   |  |
| Avalon at Cortez Hill          | 114         |             | 83            |       |     |  | 97                             |   | 294   | 292               | None   |
| Avalon at Mission Bay          | 270         | 9           | 165           |       |     |  | 120                            |   | 564   | 695               | None   |
| Avalon at Mission Ridge        | 18          | 1           | 98            | 83    |     |  |                                |   | 200   | 384               | Most   |
| Avalon at Penasquitos Hills    | 48          | 48          | 80            |       |     |  |                                |   | 176   | 176               | All  |
| <b>DEVELOPMENT COMMUNITIES</b> |             |             |               |       |     |  |                                |   |       |                   |  |
| Avalon at Flanders Hill        | 108         |             | 142           | 30    |     |  |                                |   | 280   | 569               | All  |
| Avalon at Gallery Place I      | 111         | 77          |               | 4     |     |  | 11                             |   | 203   | 125               | All  |
| Avalon at Glen Cove South      | 112         |             | 91            |       |     |  | 53                             |   | 256   | 458               | All  |
| Avalon at Grosvenor Station    | 265         | 33          | 185           | 13    |     |  | 1                              |   | 497   | 742               | All  |
| Avalon at Mission Bay North    | 148         |             | 95            | 6     |     |  | 1                              |   | 250   | 198               | All  |
| Avalon at Newton Highlands     | 90          | 46          | 92            | 56    | 4   |  | 6                              |   | 294   | 540               | All  |
| Avalon at Rock Spring          | 178         | 39          | 133           | 36    |     |  |                                |   | 386   | 678               | All  |
| Avalon at Steven's Pond        | 102         |             | 202           | 22    |     |  |                                |   | 326   | 663               | All  |
| Avalon Darien                  | 77          |             | 78            | 32    |     |  |                                | 2 | 189   | 472               | All  |
| Avalon Glendale                | 75          |             | 121           |       | 27  |  |                                |   | 223   | 460               | All  |
| Avalon on Stamford Harbor      | 159         |             | 130           | 20    |     |  | 14                             |   | 323   | 543               | All  |
| Avalon Traville Phase I        | 67          | 16          | 87            | 30    |     |  |                                |   | 200   | 431               | All  |

|                            | Vaulted<br>ceilings | Lofts | Fireplaces | Large<br>storage<br>or<br>walk-in<br>closet | Balcony,<br>patio,<br>deck<br>or<br>sunroom | Built-in<br>bookcases | Carports | Non-<br>direct<br>access<br>garages | Direct<br>access<br>garages | Homes<br>w/<br>pre-wired<br>security<br>systems |
|----------------------------|---------------------|-------|------------|---|---|-----------------------|----------|-------------------------------------|-----------------------------|---|
| <b>SOUTHERN CALIFORNIA</b> |                     |       |            |   |   |                       |          |                                     |                             |   |
| <b>Los Angeles, CA</b>     |                     |       |            |   |   |                       |          |                                     |                             |   |
| Avalon at Media Center     | None                | None  | Some       | Some  | Some  | None                  | Yes      | Yes                                 | No                          | None  |
| Avalon at Warner Center    | Some                | None  | Some       | Some  | All   | None                  | Yes      | No                                  | No                          | None  |
| Avalon Westside Terrace    | None                | None  | None       | None  | All   | Some                  | No       | No                                  | No                          | None  |
| Avalon Woodland Hills      | None                | Some  | None       | Most  | All   | None                  | No       | No                                  | No                          | None  |
| The Promenade              | None                | Some  | All        | Some  | All   | None                  | No       | No                                  | No                          | None  |
| <b>Orange County, CA</b>   |                     |       |            |   |   |                       |          |                                     |                             |   |
| Amberway                   | Some                | None  | None       | None  | All   | None                  | Yes      | Yes                                 | No                          | None  |
| Avalon at Laguna Niguel    | Some                | None  | All        | None  | Most  | None                  | Yes      | No                                  | No                          | None  |

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|                                |      |      |      |      |      |      |     |     |     |      |
|--------------------------------|------|------|------|------|------|------|-----|-----|-----|------|
| Avalon at Pacific Bay          | None | None | None | Half | All  | None | Yes | Yes | No  | None |
| Avalon at South Coast          | Half | None | None | Half | All  | None | Yes | Yes | No  | None |
| Avalon Huntington Beach        | None | None | None | Most | Most | None | Yes | Yes | No  | None |
| Avalon Mission Viejo           | None | None | None | None | All  | None | Yes | Yes | No  | None |
| Avalon Newport                 | Some | None | Some | Most | Most | Some | Yes | Yes | No  | None |
| Avalon Santa Margarita         | None | None | None | None | All  | None | Yes | Yes | No  | None |
| <b>San Diego, CA</b>           |      |      |      |      |      |      |     |     |     |      |
| Avalon at Cortez Hill          | None | None | None | None | All  | None | No  | No  | Yes | None |
| Avalon at Mission Bay          | None | None | None | Some | All  | None | No  | Yes | No  | None |
| Avalon at Mission Ridge        | None | None | Most | Most | Most | None | No  | Yes | No  | None |
| Avalon at Penasquitos Hills    | None | None | All  | Some | All  | All  | Yes | No  | No  | None |
| <b>DEVELOPMENT COMMUNITIES</b> |      |      |      |      |      |      |     |     |     |      |
| Avalon at Flanders Hill        | None | Some | Some | All  | Some | None | No  | Yes | Yes | All  |
| Avalon at Gallery Place I      | Some | None | None | All  | Some | None | No  | No  | No  | None |
| Avalon at Glen Cove South      | None | None | Some | Most | Some | None | No  | No  | No  | Some |
| Avalon at Grosvenor Station    | Some | Some | Some | Most | All  | None | No  | No  | Yes | All  |
| Avalon at Mission Bay North    | None | Some | None | All  | Some | None | No  | Yes | No  | None |
| Avalon at Newton Highlands     | Some | Some | Some | Most | Most | None | No  | Yes | No  | All  |
| Avalon at Rock Spring          | Some | Some | Some | Most | Most | Some | No  | No  | Yes | All  |
| Avalon at Steven s Pond        | Some | Some | Some | All  | All  | Some | No  | Yes | Yes | All  |
| Avalon Darien                  | Some | Some | Some | Some | All  | None | No  | No  | Yes | All  |
| Avalon Glendale                | None | None | Some | All  | All  | None | No  | Yes | No  | All  |
| Avalon on Stamford Harbor      | Some | Some | Some | Most | All  | None | No  | No  | No  | All  |
| Avalon Traville Phase I        | Some | Some | Some | Most | All  | Some | No  | Yes | Yes | None |

*Features and Recreational Amenities Current and Development Communities*

|                                | Community Building                     |                                  | Under-<br>ground<br>parking | Aerobics<br>dance<br>studio | Car<br>wash | Picnic<br>area | Walking<br>/<br>jogging<br>trail | Pool | Sauna /<br>whirlpool |
|--------------------------------|--|----------------------------------|-----------------------------|-----------------------------|-------------|----------------|----------------------------------|------|----------------------|
|                                | Buildings<br>w/<br>security<br>systems | entrance<br>controlled<br>access |                             |                             |             |                |                                  |      |                      |
| <b>CURRENT COMMUNITIES (1)</b> |  |                                  |                             |                             |             |                |                                  |      |                      |
| <b>NORTHEAST</b>               |  |                                  |                             |                             |             |                |                                  |      |                      |
| <b>Boston, MA</b>              |  |                                  |                             |                             |             |                |                                  |      |                      |
| Avalon at Center Place         | None                                   | Yes                              | Yes                         | No                          | Yes         | Yes            | No                               | Yes  | No                   |
| Avalon at Faxon Park           | None                                   | No                               | Yes                         | No                          | No          | Yes            | No                               | Yes  | Yes                  |
| Avalon at Lexington            | None                                   | No                               | Yes                         | No                          | No          | Yes            | No                               | Yes  | No                   |
| Avalon at Prudential Center    | None                                   | No                               | Yes                         | No                          | No          | Yes            | No                               | No   | No                   |
| Avalon Essex                   | None                                   | No                               | Yes                         | No                          | No          | Yes            | No                               | Yes  | Yes                  |
| Avalon Estates                 | None                                   | No                               | No                          | No                          | No          | Yes            | Yes                              | Yes  | Yes                  |
| Avalon Ledges                  | All                                    | No                               | Yes                         | No                          | No          | Yes            | No                               | Yes  | Yes                  |
| Avalon Oaks                    | None                                   | No                               | Yes                         | No                          | No          | Yes            | No                               | Yes  | Yes                  |
| Avalon Oaks West               | All                                    | No                               | Yes                         | No                          | No          | Yes            | No                               | Yes  | Yes                  |
| Avalon Orchards                | None                                   | No                               | No                          | No                          | No          | Yes            | Yes                              | Yes  | Yes                  |
| Avalon Summit                  | None                                   | No                               | Yes                         | No                          | No          | Yes            | No                               | Yes  | No                   |
| Avalon West                    | None                                   | No                               | Yes                         | No                          | No          | Yes            | No                               | Yes  | No                   |
| <b>Fairfield-New Haven, CT</b> |  |                                  |                             |                             |             |                |                                  |      |                      |
| Avalon at Greyrock Place       | All                                    | Yes                              | No                          | Yes                         | No          | Yes            | No                               | Yes  | No                   |
| Avalon Corners                 | All                                    | Yes                              | Yes                         | Yes                         | No          | Yes            | No                               | Yes  | No                   |
| Avalon Gates                   | None                                   | Yes                              | No                          | No                          | No          | Yes            | No                               | Yes  | No                   |
| Avalon Glen                    | None                                   | No                               | Yes                         | Yes                         | No          | No             | No                               | Yes  | No                   |
| Avalon Haven                   | None                                   | No                               | No                          | No                          | No          | Yes            | No                               | Yes  | No                   |
| Avalon Lake                    | None                                   | No                               | No                          | No                          | No          | Yes            | No                               | Yes  | No                   |
| Avalon New Canaan              | All                                    | No                               | Yes                         | No                          | No          | Yes            | Yes                              | Yes  | No                   |
| Avalon Springs                 | All                                    | No                               | No                          | No                          | No          | Yes            | Yes                              | Yes  | No                   |
| Avalon Valley                  | None                                   | No                               | No                          | No                          | No          | Yes            | No                               | Yes  | No                   |
| Avalon Walk I & II             | None                                   | No                               | No                          | No                          | Yes         | Yes            | Yes                              | Yes  | No                   |
| <b>Long Island, NY</b>         |  |                                  |                             |                             |             |                |                                  |      |                      |
| Avalon Commons                 | All                                    | No                               | Yes                         | No                          | No          | Yes            | No                               | Yes  | No                   |
| Avalon Court                   | All                                    | Yes                              | Yes                         | No                          | No          | Yes            | Yes                              | Yes  | No                   |
| Avalon Towers                  | All                                    | No                               | No                          | Yes                         | No          | No             | No                               | Yes  | No                   |
| <b>Northern New Jersey</b>     |  |                                  |                             |                             |             |                |                                  |      |                      |
| Avalon at Edgewater            | All                                    | Yes                              | Yes                         | Yes                         | No          | No             | No                               | Yes  | No                   |
| Avalon at Florham Park         | None                                   | No                               | No                          | No                          | No          | No             | No                               | Yes  | No                   |
| Avalon Cove                    | All                                    | Yes                              | Yes                         | No                          | No          | Yes            | Yes                              | Yes  | No                   |
| Avalon Crest                   | All                                    | Yes                              | Yes                         | No                          | No          | No             | No                               | Yes  | No                   |
| The Tower at Avalon Cove       | All                                    | No                               | Yes                         | No                          | No          | Yes            | Yes                              | Yes  | No                   |
| <b>Central New Jersey</b>      |  |                                  |                             |                             |             |                |                                  |      |                      |
| Avalon at Freehold             | None                                   | No                               | No                          | No                          | No          | Yes            | No                               | Yes  | No                   |
| Avalon Run East                | None                                   | No                               | No                          | No                          | No          | Yes            | Yes                              | Yes  | No                   |
| Avalon Watch                   | None                                   | No                               | Yes                         | No                          | No          | Yes            | No                               | Yes  | No                   |

|                                | Indoor /        |             | Fitness<br>center | Sand<br>volleyball | outdoor<br>basketball | Clubhouse<br>/<br>clubroom | Business<br>center | Totlot | Concierge |
|--------------------------------|-----------------|-------------|-------------------|--------------------|-----------------------|----------------------------|--------------------|--------|-----------|
|                                | Tennis<br>court | Racquetball |                   |                    |                       |                            |                    |        |           |
| <b>CURRENT COMMUNITIES (1)</b> |                 |             |                   |                    |                       |                            |                    |        |           |
| <b>NORTHEAST</b>               |                 |             |                   |                    |                       |                            |                    |        |           |
| <b>Boston, MA</b>              |                 |             |                   |                    |                       |                            |                    |        |           |
| Avalon at Center Place         | No              | No          | Yes               | No                 | No                    | Yes                        | No                 | No     | Yes       |
| Avalon at Faxon Park           | No              | No          | Yes               | No                 | No                    | Yes                        | No                 | Yes    | No        |
| Avalon at Lexington            | No              | No          | Yes               | No                 | Yes                   | Yes                        | No                 | Yes    | No        |
| Avalon at Prudential Center    | No              | No          | No                | No                 | No                    | Yes                        | No                 | No     | Yes       |

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|                                |     |     |     |     |     |     |     |     |     |
|--------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Avalon Essex                   | No  | No  | Yes | No  | No  | Yes | No  | No  | No  |
| Avalon Estates                 | No  | No  | Yes | No  | No  | No  | Yes | Yes | No  |
| Avalon Ledges                  | No  | No  | Yes | No  | Yes | Yes | No  | Yes | No  |
| Avalon Oaks                    | No  | No  | Yes | No  | No  | Yes | No  | Yes | No  |
| Avalon Oaks West               | No  | No  | Yes | No  | No  | Yes | No  | Yes | No  |
| Avalon Orchards                | No  | No  | Yes | No  | No  | Yes | No  | Yes | No  |
| Avalon Summit                  | No  | No  | Yes | No  | No  | No  | No  | No  | No  |
| Avalon West                    | No  | No  | No  | No  | Yes | Yes | No  | Yes | No  |
| <b>Fairfield-New Haven, CT</b> |     |     |     |     |     |     |     |     |     |
| Avalon at Greyrock Place       | Yes | No  | Yes | No  | No  | Yes | Yes | Yes | Yes |
| Avalon Corners                 | No  | No  | Yes | No  | No  | Yes | Yes | No  | Yes |
| Avalon Gates                   | No  | Yes | Yes | Yes | Yes | Yes | No  | Yes | No  |
| Avalon Glen                    | No  | Yes | Yes | No  | No  | Yes | No  | No  | Yes |
| Avalon Haven                   | No  | No  | Yes | No  | No  | Yes | No  | Yes | No  |
| Avalon Lake                    | No  | No  | Yes | No  | No  | No  | No  | No  | No  |
| Avalon New Canaan              | No  | No  | Yes | No  | No  | Yes | Yes | Yes | No  |
| Avalon Springs                 | No  | No  | Yes | No  | No  | Yes | No  | Yes | No  |
| Avalon Valley                  | No  | No  | Yes | No  | Yes | Yes | No  | Yes | No  |
| Avalon Walk I & II             | Yes | Yes | Yes | No  | Yes | Yes | No  | Yes | No  |
| <b>Long Island, NY</b>         |     |     |     |     |     |     |     |     |     |
| Avalon Commons                 | No  | No  | Yes | No  | Yes | Yes | Yes | Yes | No  |
| Avalon Court                   | No  | Yes | Yes | No  | Yes | Yes | Yes | Yes | No  |
| Avalon Towers                  | No  | No  | Yes | No  | No  | Yes | No  | No  | Yes |
| <b>Northern New Jersey</b>     |     |     |     |     |     |     |     |     |     |
| Avalon at Edgewater            | No  | No  | Yes | No  | No  | Yes | Yes | No  | Yes |
| Avalon at Florham Park         | No  | No  | Yes | No  | No  | Yes | No  | No  | No  |
| Avalon Cove                    | Yes | Yes | Yes | No  | Yes | Yes | Yes | Yes | Yes |
| Avalon Crest                   | No  | No  | Yes | No  | Yes | Yes | Yes | No  | No  |
| The Tower at Avalon Cove       | Yes | Yes | Yes | No  | Yes | Yes | Yes | Yes | Yes |
| <b>Central New Jersey</b>      |     |     |     |     |     |     |     |     |     |
| Avalon at Freehold             | No  | No  | Yes | No  | No  | Yes | Yes | Yes | No  |
| Avalon Run East                | No  | No  | Yes | No  | No  | Yes | No  | Yes | No  |
| Avalon Watch                   | Yes | Yes | Yes | No  | Yes | Yes | No  | Yes | No  |

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*Features and Recreational Amenities Current and Development Communities*

|  | Community Building            |                            |                            |                      |                       |          |             |                         |      |                   |
|--|-------------------------------|----------------------------|----------------------------|----------------------|-----------------------|----------|-------------|-------------------------|------|-------------------|
|  | Buildings w/ security systems | entrance controlled access | entrance controlled access | Under-ground parking | Aerobics dance studio | Car wash | Picnic area | Walking / jogging trail | Pool | Sauna / whirlpool |
| <b>New York, NY</b>                        |                               |                            |                            |                      |                       |          |             |                         |      |                   |
| Avalon Riverview I                         | All                           | Yes                        | Yes                        | No                   | No                    | No       | Yes         | Yes                     | No   | No                |
| Avalon Gardens                             | All                           | No                         | No                         | No                   | No                    | No       | Yes         | No                      | Yes  | No                |
| Avalon Green                               | All                           | No                         | No                         | No                   | No                    | No       | No          | No                      | Yes  | No                |
| Avalon on the Sound                        | All                           | Yes                        | Yes                        | No                   | No                    | No       | Yes         | Yes                     | Yes  | No                |
| Avalon View                                | None                          | No                         | No                         | No                   | No                    | No       | Yes         | No                      | Yes  | No                |
| Avalon Willow                              | All                           | Yes                        | Yes                        | Yes                  | No                    | No       | Yes         | No                      | Yes  | No                |
| The Avalon                                 | All                           | No                         | Yes                        | Yes                  | No                    | No       | No          | No                      | No   | No                |
| <b>MID-ATLANTIC</b>                        |                               |                            |                            |                      |                       |          |             |                         |      |                   |
| <b>Baltimore, MD</b>                       |                               |                            |                            |                      |                       |          |             |                         |      |                   |
| Avalon at Fairway Hills I & II             | None                          | No                         | No                         | No                   | No                    | Yes      | Yes         | No                      | Yes  | No                |
| Avalon at Symphony Glen                    | None                          | No                         | No                         | No                   | No                    | Yes      | Yes         | Yes                     | Yes  | No                |
| Avalon Landing                             | None                          | No                         | No                         | No                   | No                    | Yes      | Yes         | Yes                     | Yes  | No                |
| <b>Washington, DC</b>                      |                               |                            |                            |                      |                       |          |             |                         |      |                   |
| 4100 Massachusetts Avenue                  | None                          | Yes                        | Yes                        | Yes                  | No                    | No       | No          | Yes                     | Yes  | No                |
| AutumnWoods                                | None                          | No                         | No                         | No                   | No                    | Yes      | Yes         | Yes                     | Yes  | No                |
| Avalon at Arlington Square I               | None                          | No                         | Yes                        | No                   | No                    | No       | Yes         | No                      | Yes  | No                |
| Avalon at Arlington Square II              | All                           | No                         | Yes                        | No                   | No                    | No       | Yes         | No                      | Yes  | No                |
| Avalon at Ballston Vermont & Quincy Towers | None                          | Yes                        | Yes                        | Yes                  | No                    | No       | Yes         | No                      | Yes  | Yes               |
| Avalon at Ballston Washington Towers       | None                          | Yes                        | Yes                        | Yes                  | No                    | No       | Yes         | No                      | Yes  | No                |
| Avalon at Cameron Court                    | All                           | Yes                        | No                         | No                   | Yes                   | Yes      | Yes         | No                      | Yes  | Yes               |
| Avalon at Decoverly                        | None                          | No                         | No                         | No                   | No                    | Yes      | Yes         | Yes                     | Yes  | No                |
| Avalon at Dulles                           | None                          | No                         | No                         | No                   | No                    | Yes      | No          | Yes                     | Yes  | Yes               |
| Avalon at Fair Lakes                       | None                          | Yes                        | No                         | No                   | No                    | Yes      | Yes         | No                      | Yes  | No                |
| Avalon at Fox Mill                         | None                          | No                         | No                         | No                   | No                    | Yes      | Yes         | No                      | Yes  | No                |
| Avalon at Providence Park                  | None                          | No                         | No                         | No                   | No                    | Yes      | No          | No                      | Yes  | No                |
| Avalon Crescent                            | None                          | Yes                        | No                         | No                   | Yes                   | Yes      | Yes         | Yes                     | Yes  | No                |
| Avalon Crossing                            | None                          | Yes                        | No                         | No                   | No                    | Yes      | Yes         | No                      | Yes  | No                |
| Avalon Fields I & II                       | All                           | No                         | No                         | No                   | No                    | Yes      | Yes         | No                      | Yes  | No                |
| Avalon Knoll                               | None                          | No                         | Yes                        | No                   | No                    | Yes      | Yes         | Yes                     | Yes  | No                |
| <b>MIDWEST</b>                             |                               |                            |                            |                      |                       |          |             |                         |      |                   |
| <b>Chicago, IL</b>                         |                               |                            |                            |                      |                       |          |             |                         |      |                   |
| 200 Arlington Place                        | None                          | No                         | Yes                        | No                   | No                    | No       | No          | No                      | Yes  | No                |
| Avalon at Danada Farms                     | None                          | No                         | No                         | No                   | No                    | No       | No          | No                      | Yes  | No                |
| Avalon at Stratford Green                  | None                          | No                         | No                         | No                   | No                    | Yes      | Yes         | Yes                     | Yes  | No                |
| Avalon at West Grove                       | None                          | No                         | Yes                        | No                   | No                    | No       | Yes         | No                      | Yes  | Yes               |
| <b>Minneapolis, MN</b>                     |                               |                            |                            |                      |                       |          |             |                         |      |                   |
| Avalon at Devonshire                       | None                          | No                         | Yes                        | Yes                  | No                    | Yes      | Yes         | Yes                     | Yes  | No                |
| Avalon at Edinburgh                        | None                          | No                         | Yes                        | Yes                  | No                    | Yes      | Yes         | Yes                     | Yes  | Yes               |
| Avalon at Town Centre                      | None                          | No                         | Yes                        | Yes                  | No                    | Yes      | Yes         | Yes                     | Yes  | Yes               |
| Avalon at Town Square                      | None                          | No                         | Yes                        | Yes                  | No                    | Yes      | Yes         | Yes                     | Yes  | Yes               |
| Avalon at Woodbury                         | None                          | No                         | No                         | No                   | No                    | No       | No          | Yes                     | Yes  | No                |

|                     | Indoor /     |             |                |                 |                             |                      |                 |        |           |     |
|---------------------|--------------|-------------|----------------|-----------------|-----------------------------|----------------------|-----------------|--------|-----------|-----|
|                     | Tennis court | Racquetball | Fitness center | Sand volleyball | Indoor / outdoor basketball | Clubhouse / clubroom | Business center | Totlot | Concierge |     |
| <b>New York, NY</b> |              |             |                |                 |                             |                      |                 |        |           |     |
| Avalon Riverview I  | No           | No          | Yes            | No              | No                          | Yes                  | Yes             | No     | Yes       | Yes |
| Avalon Gardens      | Yes          | Yes         | Yes            | Yes             | Yes                         | Yes                  | Yes             | Yes    | Yes       | Yes |
| Avalon Green        | No           | No          | No             | Yes             | No                          | Yes                  | No              | No     | No        | No  |

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|  |     |     |     |     |     |     |     |     |     |
|--|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Avalon on the Sound                        | No  | No  | Yes | No  | Yes | Yes | Yes | No  | Yes |
| Avalon View                                | Yes | No  | Yes | No  | Yes | Yes | No  | Yes | No  |
| Avalon Willow                              | No  | Yes | Yes | No  | No  | Yes | Yes | No  | Yes |
| The Avalon                                 | No  | No  | Yes | No  | No  | Yes | Yes | No  | Yes |
| <b>MID-ATLANTIC</b>                        |     |     |     |     |     |     |     |     |     |
| <b>Baltimore, MD</b>                       |     |     |     |     |     |     |     |     |     |
| Avalon at Fairway Hills I & II             | Yes | Yes | Yes | No  | No  | Yes | Yes | Yes | No  |
| Avalon at Symphony Glen                    | No  | No  | Yes | No  | No  | Yes | No  | Yes | No  |
| Avalon Landing                             | No  | No  | Yes | No  | No  | Yes | No  | No  | No  |
| <b>Washington, DC</b>                      |     |     |     |     |     |     |     |     |     |
| 4100 Massachusetts Avenue                  | No  | No  | Yes | No  | No  | Yes | No  | No  | No  |
| AutumnWoods                                | Yes | No  | Yes | Yes | Yes | Yes | No  | Yes | No  |
| Avalon at Arlington Square I               | No  | No  | Yes | No  | Yes | Yes | Yes | Yes | No  |
| Avalon at Arlington Square II              | No  | No  | Yes | No  | Yes | Yes | Yes | Yes | No  |
| Avalon at Ballston Vermont & Quincy Towers | No  | No  | Yes | No  | No  | Yes | No  | No  | No  |
| Avalon at Ballston Washington Towers       | Yes | No  | Yes | No  | No  | Yes | No  | No  | Yes |
| Avalon at Cameron Court                    | No  | No  | Yes | Yes | Yes | Yes | Yes | No  | No  |
| Avalon at Decoverly                        | Yes | Yes | Yes | No  | Yes | Yes | No  | Yes | No  |
| Avalon at Dulles                           | Yes | No  | Yes | No  | No  | Yes | No  | No  | No  |
| Avalon at Fair Lakes                       | Yes | No  | Yes | No  | No  | Yes | Yes | No  | No  |
| Avalon at Fox Mill                         | No  | No  | Yes | No  | No  | Yes | No  | Yes | No  |
| Avalon at Providence Park                  | No  | No  | Yes | No  | No  | Yes | Yes | No  | No  |
| Avalon Crescent                            | No  | No  | Yes | No  | No  | Yes | Yes | Yes | Yes |
| Avalon Crossing                            | No  | No  | Yes | No  | No  | Yes | No  | Yes | No  |
| Avalon Fields I & II                       | No  | No  | Yes | No  | No  | Yes | No  | Yes | No  |
| Avalon Knoll                               | Yes | No  | Yes | No  | Yes | No  | No  | Yes | No  |
| <b>MIDWEST</b>                             |     |     |     |     |     |     |     |     |     |
| <b>Chicago, IL</b>                         |     |     |     |     |     |     |     |     |     |
| 200 Arlington Place                        | No  | No  | Yes | No  | No  | Yes | No  | No  | No  |
| Avalon at Danada Farms                     | No  | No  | Yes | No  | No  | Yes | Yes | No  | Yes |
| Avalon at Stratford Green                  | No  | No  | No  | No  | No  | Yes | No  | No  | Yes |
| Avalon at West Grove                       | No  | Yes | Yes | No  | No  | Yes | Yes | Yes | No  |
| <b>Minneapolis, MN</b>                     |     |     |     |     |     |     |     |     |     |
| Avalon at Devonshire                       | Yes | No  | Yes | No  | No  | Yes | No  | No  | No  |
| Avalon at Edinburgh                        | No  | No  | Yes | No  | No  | Yes | No  | No  | No  |
| Avalon at Town Centre                      | Yes | No  | Yes | Yes | No  | Yes | No  | Yes | No  |
| Avalon at Town Square                      | Yes | No  | Yes | Yes | No  | Yes | No  | Yes | No  |
| Avalon at Woodbury                         | No  | No  | Yes | No  | No  | No  | No  | No  | No  |



*Features and Recreational Amenities Current and Development Communities*

|                                | <b>Buildings<br/>w/<br/>security<br/>systems</b> | <b>Community<br/>entrance<br/>controlled<br/>access</b> | <b>Building<br/>entrance<br/>controlled<br/>access</b> | <b>Under-<br/>ground<br/>parking</b> | <b>Aerobics<br/>dance<br/>studio</b> | <b>Car<br/>wash</b> | <b>Picnic<br/>area</b> | <b>Walking<br/>/<br/>jogging<br/>trail</b> | <b>Pool</b> | <b>Sauna /<br/>whirlpool</b> |
|--------------------------------|--|---|--|--------------------------------------|--------------------------------------|---------------------|------------------------|--|-------------|------------------------------|
| <b>PACIFIC NORTHWEST</b>       |  |   |  |                                      |                                      |                     |                        |  |             |                              |
| <b>Seattle, WA</b>             |  |   |  |                                      |                                      |                     |                        |  |             |                              |
| Avalon at Bear Creek           | All  | Yes   | No   | No                                   | No                                   | No                  | Yes                    | Yes  | Yes         | Yes                          |
| Avalon Bellevue                | None   | No  | Yes  | Yes                                  | No                                   | No                  | No                     | No   | No          | No                           |
| Avalon Belltown                | None   | Yes   | Yes  | Yes                                  | No                                   | No                  | No                     | No   | No          | No                           |
| Avalon Brandemoor              | All  | No  | No   | No                                   | No                                   | No                  | Yes                    | No   | Yes         | Yes                          |
| Avalon Greenbriar              | None   | No  | Yes  | No                                   | No                                   | No                  | Yes                    | No   | Yes         | Yes                          |
| Avalon HighGrove               | None   | No  | No   | No                                   | No                                   | No                  | No                     | No   | Yes         | Yes                          |
| Avalon ParcSquare              | None   | Yes   | Yes  | Yes                                  | No                                   | No                  | No                     | Yes  | No          | No                           |
| Avalon Redmond Place           | None   | No  | No   | No                                   | No                                   | Yes                 | No                     | Yes  | Yes         | Yes                          |
| Avalon RockMeadow              | None   | No  | No   | No                                   | No                                   | No                  | Yes                    | No   | Yes         | Yes                          |
| Avalon WildReed                | None   | No  | No   | No                                   | No                                   | No                  | Yes                    | Yes  | Yes         | Yes                          |
| Avalon Wildwood                | All  | No  | No   | No                                   | No                                   | No                  | No                     | Yes  | Yes         | Yes                          |
| Avalon Wynhaven                | None   | No  | Yes  | Yes                                  | No                                   | No                  | Yes                    | Yes  | Yes         | Yes                          |
| <b>NORTHERN CALIFORNIA</b>     |  |   |  |                                      |                                      |                     |                        |  |             |                              |
| <b>Oakland-East Bay, CA</b>    |  |   |  |                                      |                                      |                     |                        |  |             |                              |
| Avalon at Union Square         | None   | Yes   | No   | No                                   | No                                   | No                  | No                     | No   | Yes         | No                           |
| Avalon at Willow Creek         | Some   | Yes   | No   | No                                   | No                                   | Yes                 | Yes                    | No   | Yes         | Yes                          |
| Avalon Dublin                  | None   | No  | No   | No                                   | No                                   | Yes                 | Yes                    | No   | Yes         | Yes                          |
| Avalon Fremont                 | All  | No  | No   | Yes                                  | Yes                                  | Yes                 | No                     | No   | Yes         | Yes                          |
| Avalon Pleasanton              | None   | No  | No   | No                                   | No                                   | Yes                 | No                     | No   | Yes         | Yes                          |
| Avalon Waterford               | Some   | Yes   | No   | No                                   | No                                   | Yes                 | No                     | No   | Yes         | Yes                          |
| <b>San Francisco, CA</b>       |  |   |  |                                      |                                      |                     |                        |  |             |                              |
| Avalon at Cedar Ridge          | None   | No  | No   | No                                   | No                                   | No                  | No                     | No   | Yes         | Yes                          |
| Avalon at Diamond Heights      | None   | No  | Yes  | Yes                                  | No                                   | No                  | No                     | No   | Yes         | Yes                          |
| Avalon at Nob Hill             | None   | Yes   | Yes  | Yes                                  | No                                   | No                  | Yes                    | No   | No          | No                           |
| Avalon at Sunset Towers        | All  | Yes   | Yes  | Yes                                  | No                                   | Yes                 | Yes                    | No   | No          | No                           |
| Avalon Foster City             | Some   | No  | No   | No                                   | No                                   | Yes                 | No                     | Yes  | Yes         | No                           |
| Avalon Pacifica                | None   | No  | No   | No                                   | No                                   | No                  | No                     | No   | Yes         | No                           |
| Avalon Towers by the Bay       | None   | Yes   | Yes  | Yes                                  | No                                   | No                  | No                     | No   | No          | Yes                          |
| Avalon Crowne Ridge            | None   | No  | No   | Yes                                  | No                                   | No                  | No                     | Yes  | Yes         | Yes                          |
| <b>San Jose, CA</b>            |  |   |  |                                      |                                      |                     |                        |  |             |                              |
| Avalon at Blossom Hill         | None   | Yes   | Yes  | No                                   | No                                   | Yes                 | No                     | No   | Yes         | Yes                          |
| Avalon at Cahill Park          | All  | Yes   | Yes  | Yes                                  | Yes                                  | No                  | No                     | No   | Yes         | Yes                          |
| Avalon at Creekside            | Some   | No  | No   | No                                   | No                                   | No                  | Yes                    | Yes  | Yes         | No                           |
| Avalon at Foxchase             | None   | No  | No   | Yes                                  | No                                   | Yes                 | No                     | No   | Yes         | Yes                          |
| Avalon at Parkside             | None   | No  | No   | Yes                                  | No                                   | No                  | Yes                    | No   | Yes         | Yes                          |
| Avalon at Pruneyard            | None   | No  | No   | No                                   | No                                   | No                  | Yes                    | No   | Yes         | Yes                          |
| Avalon at River Oaks           | None   | No  | No   | No                                   | No                                   | No                  | Yes                    | No   | Yes         | Yes                          |
| Avalon Campbell                | Some   | Yes   | Yes  | Yes                                  | Yes                                  | No                  | Yes                    | Yes  | Yes         | Yes                          |
| Avalon Cupertino               | None   | Yes   | Yes  | Yes                                  | No                                   | No                  | No                     | No   | Yes         | Yes                          |
| Avalon Mountain View           | None   | No  | No   | Yes                                  | No                                   | Yes                 | Yes                    | No   | Yes         | No                           |
| Avalon on the Alameda          | All  | Yes   | Yes  | Yes                                  | No                                   | No                  | No                     | No   | Yes         | Yes                          |
| Avalon Rosewalk I & II         | None   | Yes   | No   | No                                   | Yes                                  | No                  | Yes                    | Yes  | Yes         | Yes                          |
| Avalon Silicon Valley          | Some   | Yes   | Yes  | Yes                                  | Yes                                  | No                  | Yes                    | No   | Yes         | Yes                          |
| Avalon Sunnyvale               | None   | No  | No   | Yes                                  | Yes                                  | Yes                 | Yes                    | No   | Yes         | Yes                          |
| Avalon Towers on the Peninsula | All  | Yes   | Yes  | Yes                                  | No                                   | Yes                 | Yes                    | No   | Yes         | Yes                          |
| Avalon CountryBrook            | None   | Yes   | No   | No                                   | No                                   | Yes                 | No                     | No   | Yes         | Yes                          |
| Avalon Fairway Glen            | Some   | No  | No   | No                                   | No                                   | Yes                 | Yes                    | No   | Yes         | Yes                          |
| Avalon San Marino              | None   | Yes   | No   | No                                   | No                                   | Yes                 | No                     | No   | Yes         | Yes                          |

Tennis

Fitness

Sand

Indoor /  
outdoor

Business

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|                                | <u>court</u> | <u>Racquetball</u> | <u>center</u> | <u>volleyball</u> | <u>basketball</u> | <u>Clubhouse<br/>/<br/>clubroom</u> | <u>center</u> | <u>Totlot</u> | <u>Concierge</u> |
|--------------------------------|--------------|--------------------|---------------|-------------------|-------------------|-------------------------------------|---------------|---------------|------------------|
| <b>PACIFIC NORTHWEST</b>       |              |                    |               |                   |                   |                                     |               |               |                  |
| <b>Seattle, WA</b>             |              |                    |               |                   |                   |                                     |               |               |                  |
| Avalon at Bear Creek           | No           | No                 | Yes           | No                | No                | Yes                                 | Yes           | Yes           | No               |
| Avalon Bellevue                | No           | No                 | Yes           | No                | No                | Yes                                 | Yes           | No            | Yes              |
| Avalon Belltown                | No           | No                 | Yes           | No                | No                | Yes                                 | No            | No            | No               |
| Avalon Brandemoor              | No           | No                 | Yes           | No                | No                | Yes                                 | Yes           | Yes           | No               |
| Avalon Greenbriar              | No           | No                 | Yes           | No                | Yes               | Yes                                 | No            | Yes           | No               |
| Avalon HighGrove               | No           | No                 | Yes           | No                | No                | Yes                                 | Yes           | Yes           | No               |
| Avalon ParcSquare              | No           | No                 | Yes           | No                | No                | Yes                                 | Yes           | No            | No               |
| Avalon Redmond Place           | No           | No                 | Yes           | No                | No                | Yes                                 | No            | Yes           | No               |
| Avalon RockMeadow              | No           | No                 | Yes           | No                | No                | Yes                                 | Yes           | Yes           | No               |
| Avalon WildReed                | No           | No                 | Yes           | No                | No                | Yes                                 | Yes           | Yes           | No               |
| Avalon Wildwood                | No           | No                 | Yes           | No                | No                | Yes                                 | Yes           | Yes           | No               |
| Avalon Wynhaven                | No           | No                 | Yes           | No                | Yes               | Yes                                 | Yes           | Yes           | No               |
| <b>NORTHERN CALIFORNIA</b>     |              |                    |               |                   |                   |                                     |               |               |                  |
| <b>Oakland-East Bay, CA</b>    |              |                    |               |                   |                   |                                     |               |               |                  |
| Avalon at Union Square         | No           | No                 | Yes           | No                | No                | No                                  | No            | No            | No               |
| Avalon at Willow Creek         | No           | No                 | Yes           | No                | No                | No                                  | No            | No            | No               |
| Avalon Dublin                  | No           | No                 | Yes           | Yes               | Yes               | No                                  | Yes           | No            | No               |
| Avalon Fremont                 | No           | No                 | Yes           | No                | No                | Yes                                 | No            | No            | No               |
| Avalon Pleasanton              | No           | No                 | Yes           | No                | Yes               | No                                  | Yes           | Yes           | No               |
| Waterford                      | No           | No                 | Yes           | No                | Yes               | No                                  | No            | Yes           | No               |
| <b>San Francisco, CA</b>       |              |                    |               |                   |                   |                                     |               |               |                  |
| Avalon at Cedar Ridge          | No           | No                 | Yes           | No                | No                | Yes                                 | No            | No            | No               |
| Avalon at Diamond Heights      | No           | No                 | Yes           | No                | No                | Yes                                 | No            | No            | No               |
| Avalon at Nob Hill             | No           | No                 | Yes           | No                | No                | No                                  | No            | No            | Yes              |
| Avalon at Sunset Towers        | No           | No                 | No            | No                | No                | No                                  | No            | No            | No               |
| Avalon Foster City             | No           | No                 | No            | No                | No                | Yes                                 | No            | Yes           | No               |
| Avalon Pacifica                | No           | No                 | Yes           | No                | No                | No                                  | No            | No            | No               |
| Avalon Towers by the Bay       | No           | No                 | Yes           | No                | No                | Yes                                 | Yes           | No            | Yes              |
| Crowne Ridge                   | No           | No                 | Yes           | No                | No                | No                                  | Yes           | No            | No               |
| <b>San Jose, CA</b>            |              |                    |               |                   |                   |                                     |               |               |                  |
| Avalon at Blossom Hill         | No           | No                 | Yes           | No                | No                | No                                  | Yes           | No            | No               |
| Avalon at Cahill Park          | No           | No                 | Yes           | No                | No                | Yes                                 | Yes           | No            | No               |
| Avalon at Creekside            | Yes          | No                 | Yes           | Yes               | Yes               | Yes                                 | Yes           | No            | No               |
| Avalon at Foxchase             | No           | No                 | Yes           | No                | No                | No                                  | No            | No            | No               |
| Avalon at Parkside             | No           | No                 | Yes           | No                | Yes               | Yes                                 | Yes           | Yes           | No               |
| Avalon at Pruneyard            | No           | No                 | Yes           | Yes               | Yes               | No                                  | Yes           | No            | No               |
| Avalon at River Oaks           | No           | No                 | Yes           | No                | No                | No                                  | Yes           | No            | No               |
| Avalon Campbell                | No           | No                 | Yes           | Yes               | No                | No                                  | Yes           | Yes           | No               |
| Avalon Cupertino               | No           | No                 | Yes           | No                | No                | No                                  | Yes           | No            | No               |
| Avalon Mountain View           | No           | No                 | Yes           | No                | No                | No                                  | Yes           | Yes           | No               |
| Avalon on the Alameda          | No           | No                 | Yes           | No                | No                | No                                  | No            | No            | No               |
| Avalon Rosewalk I & II         | No           | No                 | Yes           | No                | No                | No                                  | Yes           | No            | No               |
| Avalon Silicon Valley          | Yes          | No                 | Yes           | No                | Yes               | Yes                                 | Yes           | Yes           | Yes              |
| Avalon Sunnyvale               | No           | No                 | Yes           | No                | No                | No                                  | Yes           | Yes           | No               |
| Avalon Towers on the Peninsula | No           | No                 | Yes           | No                | No                | No                                  | No            | No            | Yes              |
| CountryBrook                   | No           | No                 | Yes           | No                | No                | No                                  | No            | No            | No               |
| Fairway Glen                   | No           | No                 | Yes           | No                | No                | No                                  | No            | Yes           | No               |
| San Marino                     | No           | No                 | Yes           | No                | No                | No                                  | No            | Yes           | No               |

*Features and Recreational Amenities Current and Development Communities*

|                                | Community Buildings |                            | Building                   |                      | Aerobics     |          | Picnic area | Walking / jogging trail | Pool | Sauna / whirlpool |
|--------------------------------|---------------------|----------------------------|----------------------------|----------------------|--------------|----------|-------------|-------------------------|------|-------------------|
|                                | w/ security systems | entrance controlled access | entrance controlled access | Under-ground parking | dance studio | Car wash |             |                         |      |                   |
| <b>SOUTHERN CALIFORNIA</b>     |                     |                            |                            |                      |              |          |             |                         |      |                   |
| <b>Los Angeles, CA</b>         |                     |                            |                            |                      |              |          |             |                         |      |                   |
| Avalon at Media Center         | None                | No                         | Yes                        | No                   | No           | No       | Yes         | No                      | Yes  | No                |
| Avalon at Warner Center        | None                | Yes                        | Yes                        | No                   | No           | No       | No          | No                      | Yes  | Yes               |
| Avalon Westside Terrace        | None                | Yes                        | Yes                        | Yes                  | No           | No       | No          | No                      | Yes  | Yes               |
| Avalon Woodland Hills          | None                | Yes                        | No                         | Yes                  | No           | No       | No          | No                      | Yes  | Yes               |
| The Promenade                  | None                | Yes                        | Yes                        | Yes                  | No           | No       | Yes         | No                      | Yes  | Yes               |
| <b>Orange County, CA</b>       |                     |                            |                            |                      |              |          |             |                         |      |                   |
| Amberway                       | None                | Yes                        | No                         | No                   | No           | No       | No          | No                      | Yes  | Yes               |
| Avalon at Laguna Niguel        | None                | No                         | No                         | Yes                  | No           | No       | No          | No                      | Yes  | Yes               |
| Avalon at Pacific Bay          | None                | Yes                        | No                         | No                   | No           | No       | No          | No                      | Yes  | Yes               |
| Avalon at South Coast          | None                | Yes                        | No                         | No                   | No           | Yes      | No          | No                      | Yes  | Yes               |
| Avalon Huntington Beach        | None                | Yes                        | No                         | No                   | No           | No       | Yes         | No                      | Yes  | Yes               |
| Avalon Mission Viejo           | None                | Yes                        | No                         | No                   | No           | No       | No          | Yes                     | Yes  | Yes               |
| Avalon Newport                 | None                | No                         | No                         | No                   | No           | Yes      | No          | No                      | Yes  | Yes               |
| Avalon Santa Margarita         | None                | No                         | No                         | No                   | No           | No       | Yes         | Yes                     | Yes  | Yes               |
| <b>San Diego, CA</b>           |                     |                            |                            |                      |              |          |             |                         |      |                   |
| Avalon at Cortez Hill          | All                 | Yes                        | Yes                        | No                   | No           | No       | No          | Yes                     | Yes  | Yes               |
| Avalon at Mission Bay          | None                | Yes                        | Yes                        | Yes                  | Yes          | Yes      | No          | No                      | Yes  | Yes               |
| Avalon at Mission Ridge        | Some                | No                         | No                         | No                   | No           | No       | Yes         | No                      | Yes  | Yes               |
| Avalon at Penasquitos Hills    | None                | No                         | No                         | No                   | No           | No       | Yes         | Yes                     | Yes  | Yes               |
| <b>DEVELOPMENT COMMUNITIES</b> |                     |                            |                            |                      |              |          |             |                         |      |                   |
| Avalon at Flanders Hill        | All                 | No                         | Yes                        | No                   | No           | No       | Yes         | No                      | Yes  | Yes               |
| Avalon at Gallery Place I      | All                 | Yes                        | Yes                        | Yes                  | No           | No       | No          | No                      | No   | No                |
| Avalon at Glen Cove South      | Some                | Yes                        | Yes                        | No                   | Yes          | No       | Yes         | Yes                     | Yes  | No                |
| Avalon at Grosvenor Station    | All                 | Yes                        | Yes                        | Yes                  | No           | Yes      | Yes         | No                      | Yes  | No                |
| Avalon at Mission Bay North    | All                 | Yes                        | Yes                        | Yes                  | Yes          | No       | No          | No                      | No   | No                |
| Avalon at Newton Highlands     | All                 | No                         | Yes                        | Yes                  | No           | No       | Yes         | Yes                     | Yes  | Yes               |
| Avalon at Rock Spring          | None                | No                         | Yes                        | No                   | No           | No       | Yes         | No                      | Yes  | No                |
| Avalon at Stevens Pond         | All                 | No                         | Yes                        | No                   | Yes          | No       | Yes         | No                      | Yes  | Yes               |
| Avalon Darien                  | None                | No                         | No                         | No                   | No           | No       | Yes         | Yes                     | Yes  | No                |
| Avalon Glendale                | None                | Yes                        | Yes                        | Yes                  | No           | No       | No          | No                      | Yes  | No                |
| Avalon on Stamford Harbor      | All                 | Yes                        | Yes                        | Yes                  | No           | No       | Yes         | Yes                     | Yes  | No                |
| Avalon Traville Phase I        | None                | No                         | Yes                        | No                   | No           | No       | Yes         | Yes                     | Yes  | No                |

|                            | Indoor /     |             | Fitness |            | Sand               |          | Clubhouse / |        | Business center |     | Totlot | Concierge |
|----------------------------|--------------|-------------|---------|------------|--------------------|----------|-------------|--------|-----------------|-----|--------|-----------|
|                            | Tennis court | Racquetball | center  | volleyball | outdoor basketball | clubroom | center      | center |                 |     |        |           |
| <b>SOUTHERN CALIFORNIA</b> |              |             |         |            |                    |          |             |        |                 |     |        |           |
| <b>Los Angeles, CA</b>     |              |             |         |            |                    |          |             |        |                 |     |        |           |
| Avalon at Media Center     | No           | No          | Yes     | No         | No                 | No       | No          | Yes    | No              | No  | No     | No        |
| Avalon at Warner Center    | Yes          | No          | Yes     | No         | No                 | No       | No          | Yes    | No              | No  | No     | No        |
| Avalon Westside Terrace    | Yes          | No          | Yes     | No         | Yes                | Yes      | Yes         | Yes    | Yes             | Yes | No     | No        |
| Avalon Woodland Hills      | No           | No          | Yes     | No         | No                 | No       | No          | Yes    | No              | No  | No     | No        |
| The Promenade              | No           | No          | Yes     | No         | No                 | No       | Yes         | Yes    | Yes             | Yes | Yes    | No        |
| <b>Orange County, CA</b>   |              |             |         |            |                    |          |             |        |                 |     |        |           |
| Amberway                   | No           | No          | Yes     | No         | No                 | No       | No          | No     | No              | No  | No     | No        |
| Avalon at Laguna Niguel    | No           | No          | Yes     | No         | No                 | No       | No          | No     | Yes             | Yes | Yes    | No        |
| Avalon at Pacific Bay      | No           | No          | Yes     | No         | No                 | No       | No          | Yes    | Yes             | Yes | Yes    | No        |
| Avalon at South Coast      | Yes          | No          | Yes     | Yes        | No                 | Yes      | Yes         | Yes    | Yes             | No  | No     | No        |
| Avalon Huntington Beach    | No           | No          | Yes     | No         | No                 | Yes      | Yes         | Yes    | Yes             | Yes | Yes    | No        |

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|                                |     |     |     |     |     |     |     |     |     |
|--------------------------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| Avalon Mission Viejo           | No  | No  | Yes | No  | No  | No  | Yes | No  | No  |
| Avalon Newport                 | No  | No  | Yes | No  | No  | No  | Yes | No  | No  |
| Avalon Santa Margarita         | No  | No  | Yes | No  | No  | No  | No  | Yes | No  |
| <b>San Diego, CA</b>           |     |     |     |     |     |     |     |     |     |
| Avalon at Cortez Hill          | Yes | No  | Yes | No  | No  | Yes | Yes | No  | No  |
| Avalon at Mission Bay          | Yes | No  | Yes | Yes | Yes | Yes | Yes | No  | No  |
| Avalon at Mission Ridge        | No  | No  | Yes | No  | No  | No  | No  | Yes | No  |
| Avalon at Penasquitos Hills    | Yes | Yes | Yes | Yes | No  | No  | Yes | Yes | No  |
| <b>DEVELOPMENT COMMUNITIES</b> |     |     |     |     |     |     |     |     |     |
| Avalon at Flanders Hill        | No  | No  | Yes | No  | Yes | Yes | No  | Yes | No  |
| Avalon at Gallery Place I      | No  | No  | Yes | No  | No  | No  | Yes | No  | Yes |
| Avalon at Glen Cove South      | No  | No  | Yes | No  | No  | Yes | Yes | No  | Yes |
| Avalon at Grosvenor Station    | No  | No  | Yes | No  | No  | Yes | Yes | No  | Yes |
| Avalon at Mission Bay North    | No  | No  | Yes | No  | No  | Yes | No  | No  | Yes |
| Avalon at Newton Highlands     | No  | No  | Yes | No  | No  | Yes | Yes | Yes | Yes |
| Avalon at Rock Spring          | No  | No  | Yes | No  | No  | Yes | Yes | Yes | No  |
| Avalon at Steven s Pond        | No  | No  | Yes | No  | Yes | Yes | No  | Yes | No  |
| Avalon Darien                  | No  | Yes | Yes | No  | No  | Yes | Yes | Yes | No  |
| Avalon Glendale                | No  | No  | Yes | No  | No  | Yes | Yes | No  | No  |
| Avalon on Stamford Harbor      | No  | Yes | Yes | No  | Yes | Yes | Yes | No  | Yes |
| Avalon Traville Phase I        | No  | No  | Yes | No  | Yes | Yes | Yes | Yes | No  |

(1) For the purpose of this table, Current Communities excludes communities held by unconsolidated real estate joint ventures.

Development Communities

As of February 1, 2003, we had 12 Development Communities under construction. We expect these Development Communities, when completed, to add a total of 3,429 apartment homes to our portfolio for a total capitalized cost, including land acquisition costs, of approximately \$645,700,000. Statements regarding the future development or performance of the Development Communities are forward-looking statements. We cannot assure you that:

we will complete the Development Communities;

our budgeted costs or estimates of occupancy rates will be realized;

our schedule of leasing start dates, construction completion dates or stabilization dates will be achieved; or

future developments will realize returns comparable to our past developments.

You should carefully review the discussion under Risks of Development and Redevelopment included elsewhere in this Item 2.

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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.

|     |   | Total                                    |                       |                          |                                 |  |         |
|-----|---|--|-----------------------|--------------------------|---------------------------------|--|---------|
|     | Number<br>of<br>apartment<br>homes                              | budgeted<br>cost (1)<br>(\$<br>millions) | Construction<br>start | Initial<br>occupancy (2) | Estimated<br>completion<br>date | Estimated<br>stabilization<br>date (3) |         |
| 1.  | Avalon on Stamford Harbor<br><i>Stamford, CT</i>                | 323                                      | \$ 60.7               | Q3 2000                  | Q1 2002                         | Q1 2003                                | Q3 2003 |
| 2.  | Avalon at Mission Bay North<br><i>San Francisco, CA</i>         | 250                                      | 79.5                  | Q1 2001                  | Q4 2002                         | Q2 2003                                | Q4 2003 |
| 3.  | Avalon at Flanders Hill<br><i>Westborough, MA</i>               | 280                                      | 38.4                  | Q3 2001                  | Q2 2002                         | Q1 2003                                | Q3 2003 |
| 4.  | Avalon at Rock Spring (4)<br><i>North Bethesda, MD</i>          | 386                                      | 45.9                  | Q4 2001                  | Q4 2002                         | Q3 2003                                | Q1 2004 |
| 5.  | Avalon at Gallery Place I (5)<br><i>Washington, DC</i>          | 203                                      | 50.0                  | Q4 2001                  | Q2 2003                         | Q4 2003                                | Q2 2004 |
| 6.  | Avalon Glendale<br><i>Glendale, CA</i>                          | 223                                      | 40.4                  | Q1 2002                  | Q2 2003                         | Q1 2004                                | Q3 2004 |
| 7.  | Avalon at Grosvenor Station<br>(6)<br><i>North Bethesda, MD</i> | 499                                      | 82.3                  | Q1 2002                  | Q3 2003                         | Q4 2004                                | Q2 2005 |
| 8.  | Avalon at Newton Highlands<br>(6)<br><i>Newton, MA</i>          | 294                                      | 58.7                  | Q2 2002                  | Q3 2003                         | Q1 2004                                | Q3 2004 |
| 9.  | Avalon at Glen Cove South<br><i>Glen Cove, NY</i>               | 256                                      | 62.0                  | Q3 2002                  | Q1 2004                         | Q2 2004                                | Q4 2004 |
| 10. | Avalon at Steven s Pond<br><i>Saugus, MA</i>                    | 326                                      | 55.4                  | Q3 2002                  | Q2 2003                         | Q2 2004                                | Q4 2004 |
| 11. | Avalon Darien<br><i>Darien, CT</i>                              | 189                                      | 43.6                  | Q4 2002                  | Q4 2003                         | Q3 2004                                | Q1 2005 |
| 12. | Avalon Traville Phase I<br><i>North Potomac, MD</i>             | 200                                      | 28.8                  | Q4 2002                  | Q4 2003                         | Q2 2004                                | Q4 2004 |
|     | <i>Total</i>  | 3,429                                    | \$ 645.7              |                          |                                 |  |         |

- (1) Total budgeted cost includes all capitalized costs projected to be incurred to develop the respective Development Community, determined in accordance with generally accepted accounting principles ( GAAP ), including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees.
- (2) Future initial occupancy dates are estimates.
- (3) Stabilized operations is defined as the first full quarter of 95% or greater physical occupancy after completion of construction.
- (4) This community is owned by a limited liability company in which we are a majority equity holder. The costs reflected above exclude construction and management fees due to us. This limited liability company is consolidated for financial reporting purposes.
- (5) The total budgeted cost for this community is net of approximately \$4,000,000 of proceeds that we estimate we will receive upon the sale of transferable development rights associated with the development of the community. These rights do not become transferable until construction completion and there can be no assurance that the projected amount of proceeds will be achieved.
- (6) The community is owned by a DownREIT partnership in which one of our wholly-owned subsidiaries is the general partner with a majority equity interest. This partnership is consolidated for financial reporting purposes.



Redevelopment Communities

As of February 1, 2003, we had two communities under redevelopment. We expect the total budgeted cost to complete these communities, including the cost of acquisition, capital expenditures subsequent to acquisition and redevelopment, to be approximately \$197,800,000, of which approximately \$28,200,000 is the additional capital invested or expected to be invested during redevelopment and \$5,800,000 has been invested since acquisition unrelated to redevelopment. Statements regarding the future redevelopment or performance of the Redevelopment Communities are forward-looking statements. 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 schedules for reconstruction completion or restabilized operations, or that we will meet our budgeted costs, either individually or in the aggregate. See the discussion under Risks of Development and Redevelopment included elsewhere in this Item 2.

The following presents a summary of these Redevelopment Communities:

|   | Number<br>of<br>apartment<br>homes | Total cost<br>(\$ millions) |                               | Reconstruction<br>start | Reconstruction<br>completion (3) | Estimated<br>restabilized<br>operations (4) |
|---|------------------------------------|-----------------------------|-------------------------------|-------------------------|----------------------------------|---|
|   |                                    | Acquisition<br>cost (1)     | Total<br>budgeted<br>cost (2) |                         |                                  |   |
| 1. 4100 Massachusetts<br>Avenue<br>Washington, DC | 308                                | \$ 35.7                     | \$ 43.3                       | Q4 2002                 | Q2 2004                          | Q4 2004                                     |
| 2. Avalon at Prudential<br>Center<br>Boston, MA   | 781                                | 133.9                       | 154.5                         | Q4 2000                 | Q1 2003                          | Q3 2003                                     |
| <i>Total</i>                                      | 1,089                              | \$ 169.6                    | \$ 197.8                      |                         |                                  |   |

- (1) Acquisition cost includes capital expenditures subsequent to acquisition unrelated to redevelopment.
- (2) Total budgeted cost includes all capitalized costs projected to be incurred to redevelop the respective Redevelopment Community, including costs to acquire the community, reconstruction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated redevelopment overhead and other regulatory fees determined in accordance with GAAP.
- (3) Reconstruction completion dates are estimates.
- (4) Restabilized operations is defined as the first full quarter of 95% or greater physical occupancy after completion of reconstruction.

Development Rights

As of February 1, 2003, we are considering the development of 38 new apartment communities on land that is either owned by us, under contract, subject to a leasehold interest, or for which we hold a purchase option. We generally hold Development Rights through options to acquire land, although for 11 of the Development Rights we currently own the land on which a community would be built if we proceeded with development. The Development Rights range from those beginning design and architectural planning to those that have completed site plans and drawings and can begin construction almost immediately. We estimate that the successful completion of all of these communities would ultimately add 9,950 upscale apartment homes to our portfolio. Substantially all of these apartment homes will offer features like those offered by the communities we currently own. At December 31, 2002, there were cumulative net capitalized costs (including legal fees, design fees and related overhead costs, but excluding land costs and net of an allowance for abandoned pursuit costs) of \$31,461,000 relating to Development Rights. In addition, land costs related to the pursuit of Development Rights (consisting of original land and additional carrying costs) of \$78,688,000 are reflected as land held for development on the accompanying Consolidated Balance Sheets as of December 31, 2002. These land costs include \$19,939,000 associated with two land parcels that were determined not likely to proceed to development and were planned for disposition as of December 31, 2002.



The properties comprising the Development Rights are in different stages of the due diligence and regulatory approval process. The decisions as to which of the Development Rights to pursue, if any, or to continue to pursue once an investment in a Development Right is made, are business judgments that we make after we perform

financial, demographic and other analyses. In the event that we do not proceed with a Development Right, we generally would not recover capitalized costs incurred in the pursuit of those communities, unless we were to recover amounts in connection with the sale of land; however we cannot guarantee a recovery. To recognize the possibility of such loss, we recognize a charge to expense to provide an allowance for potentially unrecoverable capitalized pre-development costs related to these Development Rights. The determination of a charge to expense relative to Development Rights involves management judgment regarding the probability that a Development Right will not proceed to development. The amount charged to expense and reflected in operating expenses in the accompanying Consolidated Financial Statements related to possible abandoned Development Rights was \$2,800,000 and \$2,200,000 for the years ended December 31, 2002 and 2001, respectively.

Because we intend to limit the percentage of debt used to finance new developments, other financing alternatives may be required to help finance the development of those Development Rights scheduled to start construction after January 1, 2003.

Although the development of any particular Development Right cannot be assured, we believe that the Development Rights, in the aggregate, present attractive potential opportunities for future development and growth of long-term stockholder value.

Statements regarding the future development of the Development Rights are forward-looking statements. We cannot assure you that:

we will succeed in obtaining zoning and other necessary governmental approvals or the financing required to develop these communities, or that we will decide to develop any particular community; or

if we undertake construction of any particular community, that we will complete construction at the total budgeted cost assumed in the financial projections in the following table.

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The following presents a summary of the 38 Development Rights we are currently pursuing:

|     | <u>Location</u>                       |     | <u>Estimated<br/>number<br/>of homes</u> | <u>Total<br/>budgeted<br/>cost<br/>(\$ millions)</u> |
|-----|---------------------------------------|-----|--|--|
| 1.  | Plymouth, MA Phase I                  | (1) | 98                                       | \$ 21  |
| 2.  | Milford, CT                           | (1) | 246                                      | 37   |
| 3.  | New York, NY                          | (2) | 361                                      | 138  |
| 4.  | Lawrence, NJ                          |     | 312                                      | 43   |
| 5.  | Danvers & Peabody, MA                 |     | 387                                      | 63   |
| 6.  | Danbury, CT                           | (1) | 234                                      | 36   |
| 7.  | Coram, NY Phase I                     |     | 298                                      | 49   |
| 8.  | Los Angeles, CA                       | (1) | 309                                      | 63   |
| 9.  | Washington, DC                        | (1) | 144                                      | 30   |
| 10. | Kirkland, WA                          |     | 211                                      | 50   |
| 11. | Oakland, CA                           | (1) | 180                                      | 40   |
| 12. | Norwalk, CT                           |     | 314                                      | 63   |
| 13. | New Rochelle, NY Phase II and III     |     | 588                                      | 144  |
| 14. | Hingham, MA                           |     | 236                                      | 44   |
| 15. | Long Island City, NY Phase II and III |     | 552                                      | 162  |
| 16. | Glen Cove, NY                         |     | 111                                      | 31   |
| 17. | Plymouth, MA Phase II                 |     | 72                                       | 13   |
| 18. | North Potomac, MD Phase II            | (1) | 320                                      | 46   |
| 19. | Bedford, MA                           |     | 139                                      | 21   |
| 20. | Quincy, MA                            | (1) | 156                                      | 24   |
| 21. | Orange, CT                            | (1) | 168                                      | 22   |
| 22. | Andover, MA                           |     | 115                                      | 21   |
| 23. | Milford, CT                           |     | 284                                      | 41   |
| 24. | Seattle, WA                           | (1) | 154                                      | 50   |
| 25. | Bellevue, WA                          |     | 368                                      | 71   |
| 26. | Newton, MA                            |     | 235                                      | 60   |
| 27. | San Francisco, CA                     |     | 313                                      | 100  |
| 28. | Stratford, CT                         |     | 146                                      | 18   |
| 29. | Los Angeles, CA                       |     | 173                                      | 47   |
| 30. | Camarillo, CA                         | (1) | 249                                      | 43   |
| 31. | Cohasset, MA                          |     | 200                                      | 38   |
| 32. | Sharon, MA                            |     | 190                                      | 31   |
| 33. | Greenburgh, NY Phase II               |     | 766                                      | 139  |
| 34. | Coram, NY Phase II                    |     | 152                                      | 26   |
| 35. | Long Beach, CA                        |     | 299                                      | 57   |
| 36. | Wilton, CT                            |     | 100                                      | 24   |
| 37. | Yaphank, NY                           |     | 450                                      | 71   |
| 38. | College Park, MD                      |     | 320                                      | 44   |
|     | <i>Total</i>                          |     | <u>9,950</u>                             | <u>\$2,021</u>                                       |

(1) We own the land parcel, but construction has not yet begun.

(2) Total budgeted cost for this community includes costs associated with the construction of 89,000 square feet of retail space and 30,000 square feet for a neighborhood facility.

Risks of Development and Redevelopment

We intend to continue to pursue the development and redevelopment of apartment home communities. Our development and redevelopment activities may be exposed to the following:

we may abandon opportunities we have already begun to explore based on further review of, or changes in, financial, demographic, environmental or other factors;

we may encounter liquidity constraints, including the unavailability of financing on favorable terms for the development or redevelopment of a community;

we may be unable to obtain, or we may experience delays in obtaining, all necessary zoning, land-use, building, occupancy, and other required governmental permits and authorizations;

we may incur construction or reconstruction costs for a community that exceed our original estimates due to increased materials, labor or other expenses, which could make completion of development or redevelopment of the community uneconomical;

occupancy rates and rents at a newly completed development or redevelopment community may fluctuate depending on a number of factors, including market and general economic conditions, and may not be sufficient to make the community profitable; and

we may be unable to complete construction and lease-up on schedule, resulting in increased debt service expense and construction costs.

The occurrence of any of the events described above could adversely affect our ability to achieve our projected yields on communities under development or redevelopment and could affect results of operations and our payment of distributions to our stockholders.

Construction costs are projected by us based on market conditions prevailing in the community's market at the time our budgets are prepared and reflect changes to those market conditions that we anticipated at that time. Although we attempt to anticipate changes in market conditions, we cannot predict with certainty what those changes will be. Construction costs have been increasing and, for some of our Development Communities, the total construction costs have been or are expected to be higher than the original budget. Total budgeted cost includes all capitalized costs projected to be incurred to develop the respective Development or Redevelopment Community, determined in accordance with GAAP, including:

land and/or property acquisition costs;

construction or reconstruction costs;

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 communities or redevelopment communities complete lease-up will be sufficient to fully offset the effects of any increased construction or reconstruction costs.

Capitalized Interest

In accordance with GAAP, we capitalize interest expense during construction or reconstruction until a building obtains a final certificate of occupancy. Interest that is incurred thereafter and allocated to a completed apartment



home within the community is expensed. Capitalized interest during the years ended December 31, 2002 and 2001 totaled \$29,937,000 and \$27,635,000, respectively.

Acquisition Activities and Other Recent Developments

*Acquisitions of Existing Communities.* During the year ended December 31, 2002, we acquired two communities. The Promenade, located in Burbank, California, contains 400 apartment homes and was acquired for a total price of \$70,300,000, which includes the assumption of \$33,900,000 of floating-rate, tax-exempt debt. Avalon Greyrock, located in Stamford, Connecticut, contains 306 apartment homes and was acquired pursuant to a forward purchase contract agreed to in 1997 with an unaffiliated third party for a total acquisition cost of approximately \$69,900,000.

One DownREIT partnership was formed since January 1, 2002 in conjunction with the acquisition of land by that partnership.

*Sales of Existing Communities.* We seek to increase our geographical concentration in selected high barrier-to-entry markets where we believe we can:

apply sufficient market and management presence to enhance revenue growth;

reduce operating expenses; and

leverage management talent.

To achieve this increased concentration, we sell assets that do not meet our long-term investment criteria and redeploy the proceeds from those sales to develop and redevelop communities. Pending such redeployment, we will generally use the proceeds from the sale of these communities to reduce amounts outstanding under our variable rate unsecured credit facility. On occasion, we will set aside the proceeds from the sale of communities into a cash escrow account to facilitate a nontaxable, like-kind exchange transaction. We sold one community, totaling 277 apartment homes, during the period from January 1, 2002 through February 1, 2003. Net proceeds from the sale of this asset were \$78,454,000.

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*Land Acquisitions and Leases for New Developments.* We carefully select land for development and follow established procedures that we believe minimize both the cost and the risks of development. During 2002, we acquired the following land parcels which are currently held for future development:

|    |  | Gross<br>acres | Estimated<br>number<br>of<br>apartment<br>homes | Total<br>budgeted<br>cost (1)<br>(\$<br>millions) | Date<br>acquired | Construction<br>start (2) | Construction<br>completion (2) |
|----|--|----------------|---|---|------------------|---------------------------|--------------------------------|
| 1. | Avalon at Pinehills Phase I<br><i>Plymouth, MA</i>   | 6.0            | 98  | \$ 21   | September 2002   | Q3 2003                   | Q3 2004                        |
| 2. | Avalon at Milford Phase I<br><i>Milford, CT</i>      | 22.0           | 246   | 37  | December 2002    | Q3 2003                   | Q4 2004                        |
| 3. | Avalon Traville Phase II<br><i>North Potomac, MD</i> | 42.0           | 320   | 46  | October 2002     | Q1 2004                   | Q2 2005                        |
| 4. | Avalon at Faxon West<br><i>Quincy, MA</i>            | 14.4           | 156   | 24  | July 2002        | Q1 2004                   | Q1 2005                        |
| 5. | Avalon Camarillo<br><i>Camarillo, CA</i>             | 9.6            | 249   | 43  | November 2002    | Q2 2004                   | Q4 2005                        |
|    | <i>Total</i>   | 94.0           | 1,069   | \$ 171  |                  |                           |                                |

- (1) Total budgeted cost includes all capitalized costs projected to be incurred to develop the respective Development Community, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees determined in accordance with GAAP.
- (2) Future construction start and completion dates are estimates. There can be no assurance that we will pursue to completion any or all of these proposed developments.

### Insurance and Risk of Uninsured Losses

We carry commercial general liability insurance and property insurance with respect to all of our communities. These policies, and other insurance policies we carry, have policy specifications, insured limits and deductibles that we consider commercially reasonable. There are, however, certain types of losses (such as losses arising from acts of war) that are not insured, in full or in part, because they are either uninsurable or are not economically feasible. 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 have noted that the insurance and reinsurance markets have worsened as compared to the prior year, which we believe have resulted in higher insurance costs for the entire real estate sector. Although we will continue to maintain commercially reasonable insurance coverage, we believe that the cost of such coverage will increase at a faster rate than other operating expenses.

Many of our West Coast communities are located in the general vicinity of active earthquake faults. A large concentration of our communities lie near, and thus are susceptible to, the major fault lines in the San Francisco Bay Area, including the San Andreas fault and Hayward fault. We cannot assure you that an earthquake would not cause damage or losses greater than insured levels. In November 2002, we renewed our earthquake insurance. We have in place with respect to communities located in California, for any single occurrence and in the aggregate, \$75,000,000 of coverage with a deductible per building equal to five percent of the insured value of that building. The five percent deductible is subject to a minimum of \$100,000 per occurrence. Earthquake coverage outside of California is subject to a \$100,000,000 limit, except with respect to the state of Washington, for which the limit is \$65,000,000. Our earthquake insurance outside of California provides for a \$100,000 deductible per occurrence. In





addition, up to an annual aggregate of \$2,000,000, the next \$400,000 of loss per occurrence outside California will be treated as an additional deductible.

Our annual general liability policy and workman's compensation coverage was renewed on August 1, 2002. Although the insurance coverage provided for in the renewal policies did not materially change from the preceding year, the level of our deductible and premiums costs has increased. Including the costs we may incur as a result of deductibles, we expect the cost related to these insurance categories for the policy period from August 1, 2002 to July 31, 2003 to increase approximately \$1,200,000 as compared to the prior period.

Our property insurance, which includes the earthquake coverage as previously described and builder's risk, was renewed on November 1, 2002, with an increase in the annual premium of approximately \$1,100,000 over the prior period.

Just as with office buildings, transportation systems and government buildings, there have been recent reports that apartment communities could become targets of terrorism. In November 2002, Congress passed the Terrorism Risk Insurance Act ( TRIA ) which is designed to make terrorism insurance available. In connection with this legislation, we have purchased insurance for property damage due to terrorism up to \$200,000,000, with the first \$15,000,000 of damage costs payable by us. Our general liability policy provides coverage (subject to deductibles and insured limits) for liability to third parties that result from terrorist acts at our communities. In connection with TRIA, we purchased third party liability terrorism insurance for communities with greater than 24 floors, which were previously excluded under our general liability policy.

We cannot assure that we will have full coverage under our existing policies for property damage or liability to third parties arising as a result of exposure to mold or a claim of exposure to mold at one of our communities. See discussion under Environmental Matters included in Item 1 of this report.

In March 2003, we expect to renew our directors and officers insurance ( D&O ). In the past year, the D&O market has experienced increased and high profile claim activity. We estimate that our costs for this insurance will increase approximately 80% at renewal.

#### Americans with Disabilities Act

The apartment communities we own and any apartment communities that we acquire must comply with Title III of the Americans with Disabilities Act to the extent that such properties are public accommodations and/or commercial facilities as defined by the Americans with Disabilities Act. Compliance with the Americans with Disabilities Act requirements could require removal of structural barriers to handicapped access in certain public areas of our properties where such removal is readily achievable. The Americans with Disabilities Act does not, however, consider residential properties, such as apartment communities, to be public accommodations or commercial facilities, except to the extent portions of such facilities, such as leasing offices, are open to the public. We believe our properties comply in all material respects with all present requirements under the Americans with Disabilities Act and applicable state laws. Noncompliance could result in imposition of fines or an award of damages to private litigants.

### **ITEM 3. LEGAL PROCEEDINGS**

We are from time to time subject to claims and administrative proceedings arising in the ordinary course of business. Some of these claims and proceedings are expected to be covered by liability insurance. The following matter, for which, based on the advice of counsel, we believe we have meritorious defenses and are therefore vigorously defending against, is not covered by liability insurance. However, outstanding litigation matters, individually and in the aggregate, including the matter described below, are not expected to have a material adverse effect on our business or financial condition.

We are currently involved in litigation with York Hunter Construction, Inc. and National Union Fire Insurance Company. The action arises from our October 1999 termination of York Hunter as construction manager under a

contract relating to construction of the Avalon Willow community in Mamaroneck, New York, because of alleged failures and deficiencies by York Hunter and its subcontractors in performing under the contract. York Hunter initiated the litigation in October 1999 by filing a complaint against us and other defendants claiming more than \$15,000,000 in damages. We have filed counterclaims against York Hunter seeking more than \$9,000,000 in compensatory damages, including lost rental income and costs to complete the community. We have also filed a claim against National Union Fire Insurance, which furnished construction and performance bonds to us on behalf of York Hunter. Although no assurances can be made with respect to any litigation, based on the advice of our counsel in this matter, Wachtel & Masyr LLP, we believe that we have meritorious defenses against all of York Hunter's claims and are vigorously contesting those claims. We also intend to pursue our counterclaims against York Hunter and National Union Fire Insurance aggressively. The litigation is pending in the Supreme Court of the State of New York, County of Westchester. A trial date has been set for April 2003.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF STOCKHOLDERS**

No matter was submitted to a vote of our security holders during the fourth quarter of 2002.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS**

Our common stock is traded on the New York Stock Exchange (NYSE) and the Pacific Exchange (PCX) under the ticker symbol AVB. The following table sets forth the quarterly high and low sales prices per share of our common stock on the NYSE for the years 2002 and 2001, as reported by the NYSE. On February 1, 2003 there were 795 holders of record of an aggregate of 68,149,232 shares of our outstanding common stock. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one recordholder.

|                            | 2002        |          |                       | 2001        |          |                       |
|----------------------------|-------------|----------|-----------------------|-------------|----------|-----------------------|
|                            | Sales Price |          | Dividends<br>declared | Sales Price |          | Dividends<br>declared |
|                            | High        | Low      |                       | High        | Low      |                       |
| Quarter ended March 31     | \$50.660    | \$44.440 | \$0.70                | \$50.000    | \$45.200 | \$0.64                |
| Quarter ended June 30      | \$52.650    | \$45.660 | \$0.70                | \$47.450    | \$42.450 | \$0.64                |
| Quarter ended September 30 | \$46.150    | \$40.480 | \$0.70                | \$51.900    | \$43.800 | \$0.64                |
| Quarter ended December 31  | \$41.830    | \$36.720 | \$0.70                | \$49.700    | \$44.010 | \$0.64                |

We expect to continue our policy of paying regular quarterly cash dividends. However, dividend distributions will be declared at the discretion of the Board of Directors and will depend on actual cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and other factors as the Board of Directors may consider relevant. The Board of Directors may modify our dividend policy from time to time.

**ITEM 6. SELECTED FINANCIAL DATA**

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

|  | For the year ended |                   |                   |                   |                  |
|--|--------------------|-------------------|-------------------|-------------------|------------------|
|  | 12-31-02           | 12-31-01          | 12-31-00          | 12-31-99          | 12-31-98         |
| <b>Revenue:</b>  |                    |                   |                   |                   |                  |
| Rental income  | \$ 604,411         | \$ 602,916        | \$ 539,269        | \$ 475,311        | \$ 347,857       |
| Management fees  | 1,355              | 1,325             | 1,051             | 1,176             | 1,377            |
| Other income   | 7,110              | 2,953             | 401               | 236               | 81               |
| <b>Total revenue</b>   | <b>612,876</b>     | <b>607,194</b>    | <b>540,721</b>    | <b>476,723</b>    | <b>349,315</b>   |
| <b>Expenses:</b>   |                    |                   |                   |                   |                  |
| Operating expenses, excluding property taxes                     | 169,268            | 152,593           | 133,857           | 127,444           | 97,973           |
| Property taxes   | 53,790             | 48,742            | 43,607            | 39,976            | 29,077           |
| Interest expense   | 120,559            | 102,069           | 81,973            | 73,337            | 53,179           |
| Depreciation expense   | 138,080            | 123,007           | 115,338           | 103,443           | 72,932           |
| General and administrative expense                               | 14,332             | 15,224            | 13,013            | 9,592             | 9,124            |
| Non-recurring items  |                    |                   |                   | 16,782            |                  |
| Impairment loss  | 6,800              |                   |                   |                   |                  |
| <b>Total expenses</b>  | <b>502,829</b>     | <b>441,635</b>    | <b>387,788</b>    | <b>370,574</b>    | <b>262,285</b>   |
| Equity in income of unconsolidated entities                      | 55                 | 856               | 2,428             | 2,867             | 2,638            |
| Interest income  | 3,978              | 6,823             | 4,764             | 7,362             | 3,508            |
| Minority interest in consolidated partnerships                   | (1,771)            | 161               | (1,086)           | (1,231)           | (1,373)          |
| Income before gain on sale of communities and extraordinary item | 112,309            | 173,399           | 159,039           | 115,147           | 91,803           |
| Gain on sale of communities                                      |                    | 62,852            | 40,779            | 47,093            | 25,270           |
| Income from continuing operations before extraordinary item      | 112,309            | 236,251           | 199,818           | 162,240           | 117,073          |
| <b>Discontinued operations:</b>                                  |                    |                   |                   |                   |                  |
| Income from discontinued operations                              | 12,416             | 12,746            | 10,786            | 10,036            | 6,707            |
| Gain on sale of communities                                      | 48,893             |                   |                   |                   |                  |
| <b>Total discontinued operations</b>                             | <b>61,309</b>      | <b>12,746</b>     | <b>10,786</b>     | <b>10,036</b>     | <b>6,707</b>     |
| Income before extraordinary item                                 | 173,618            | 248,997           | 210,604           | 172,276           | 123,780          |
| Extraordinary item   |                    |                   |                   |                   | (245)            |
| Net income   | 173,618            | 248,997           | 210,604           | 172,276           | 123,535          |
| Dividends attributable to preferred stock                        | (17,896)           | (32,497)          | (39,779)          | (39,779)          | (28,132)         |
|  | <b>\$ 155,722</b>  | <b>\$ 216,500</b> | <b>\$ 170,825</b> | <b>\$ 132,497</b> | <b>\$ 95,403</b> |

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Net income available to common  
stockholders

**Per Common Share and Share  
Information:**

Earnings per common share basic

|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| Income from continuing operations<br>(net of dividends attributable to<br>preferred stock) | \$ 1.37    | \$ 3.00    | \$ 2.42    | \$ 1.89    | \$ 1.76    |
| Discontinued operations  | \$ 0.89    | \$ 0.19    | \$ 0.16    | \$ 0.16    | \$ 0.13    |
| Net income available to common<br>stockholders   | \$ 2.26    | \$ 3.19    | \$ 2.58    | \$ 2.05    | \$ 1.89    |
| Weighted average common shares<br>outstanding  | 68,772,139 | 67,842,752 | 66,309,707 | 64,724,799 | 50,387,258 |

Earnings per common share diluted

|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| Income from continuing operations<br>(net of dividends attributable to<br>preferred stock) | \$ 1.35    | \$ 2.93    | \$ 2.36    | \$ 1.87    | \$ 1.74    |
| Discontinued operations  | \$ 0.88    | \$ 0.19    | \$ 0.17    | \$ 0.16    | \$ 0.14    |
| Net income available to common<br>stockholders   | \$ 2.23    | \$ 3.12    | \$ 2.53    | \$ 2.03    | \$ 1.88    |
| Weighted average common shares and<br>DownREIT units outstanding                           | 70,674,211 | 69,781,719 | 68,140,998 | 66,110,664 | 51,771,247 |
| Cash dividends declared  | \$ 2.80    | \$ 2.56    | \$ 2.24    | \$ 2.06    | \$ 2.04    |

## For the year ended

|   | 12-31-02     | 12-31-01     | 12-31-00     | 12-31-99     | 12-31-98     |
|---|--------------|--------------|--------------|--------------|--------------|
| <b>Other Information:</b>                                 |              |              |              |              |              |
| Net income  | \$ 173,618   | \$ 248,997   | \$ 210,604   | \$ 172,276   | \$ 123,535   |
| Depreciation continuing operations                        | 138,080      | 123,007      | 115,338      | 103,443      | 72,932       |
| Depreciation discontinued operations                      | 6,397        | 7,072        | 7,272        | 6,316        | 4,442        |
| Interest expense continuing operations                    | 120,559      | 102,069      | 81,973       | 73,337       | 53,179       |
| Interest expense discontinued operations                  | 823          | 1,134        | 1,636        | 1,362        | 1,471        |
| Interest income   | (3,978)      | (6,823)      | (4,764)      | (7,362)      | (3,508)      |
| EBITDA (1)  | \$ 435,499   | \$ 475,456   | \$ 412,059   | \$ 349,372   | \$ 252,051   |
| Funds from Operations (2)                                 | \$ 258,210   | \$ 283,293   | \$ 252,013   | \$ 196,058   | \$ 148,487   |
| Number of Current Communities (3)                         | 137          | 126          | 126          | 122          | 127          |
| Number of apartment homes                                 | 40,179       | 37,228       | 37,147       | 36,008       | 37,911       |
| <b>Balance Sheet Information:</b>                         |              |              |              |              |              |
| Real estate, before accumulated depreciation              | \$ 5,369,453 | \$ 4,837,869 | \$ 4,535,969 | \$ 4,266,426 | \$ 4,006,456 |
| Total assets  | \$ 4,950,835 | \$ 4,664,289 | \$ 4,397,255 | \$ 4,154,662 | \$ 4,005,013 |
| Notes payable and unsecured credit facilities             | \$ 2,471,163 | \$ 2,082,769 | \$ 1,729,924 | \$ 1,593,647 | \$ 1,484,371 |
| <b>Cash Flow Information:</b>                             |              |              |              |              |              |
| Net cash flows provided by operating activities           | \$ 307,810   | \$ 320,528   | \$ 302,083   | \$ 251,779   | \$ 192,339   |
| Net cash flows used in investing activities               | \$ (440,331) | \$ (270,406) | \$ (258,155) | \$ (236,687) | \$ (566,516) |
| Net cash flows provided by (used in) financing activities | \$ 72,543    | \$ (34,444)  | \$ 5,685     | \$ (16,361)  | \$ 376,345   |

Notes to Selected Financial Data

- (1) EBITDA is defined by us as earnings before interest income and expense, income taxes, depreciation and amortization from both continuing and discontinued operations. Management generally considers EBITDA to be an appropriate supplemental measure to net income of our operating performance because it helps investors to understand our ability to incur and service debt and to make capital expenditures. EBITDA should not be considered as an alternative to net income (as determined in accordance with generally accepted accounting principles, or GAAP), as an indicator of our operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Our calculation of EBITDA may not be comparable to EBITDA as calculated by other companies.
- (2) We generally consider Funds from Operations, or FFO, to be an appropriate supplemental measure of our operating and financial performance because, by excluding gains or losses related to dispositions of property and excluding real estate depreciation, which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates, FFO can help one compare the operating performance of a company's real estate between periods or as compared to different companies. We believe that to gain a clear understanding of our operating results, FFO should be examined with net income as presented in the Consolidated Statements of Operations and Other Comprehensive Income included elsewhere in this report. Consistent with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts®, we calculate FFO as:

net income or loss computed in accordance with GAAP, except that excluded from net income or loss are gains or losses on sales of property, impairment losses on planned dispositions and extraordinary gains or losses (as defined by GAAP);

plus depreciation of real estate assets; and

after adjustments for unconsolidated partnerships and joint ventures.

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

|   | For the year ended |                   |                   |                   |                   |
|---|--------------------|-------------------|-------------------|-------------------|-------------------|
|   | 12-31-02           | 12-31-01          | 12-31-00          | 12-31-99          | 12-31-98          |
| Net income  | \$ 173,618         | \$ 248,997        | \$ 210,604        | \$ 172,276        | \$ 123,535        |
| Dividends attributable to preferred stock                                   | (17,896)           | (32,497)          | (39,779)          | (39,779)          | (28,132)          |
| Depreciation real estate assets   | 135,262            | 119,912           | 112,144           | 101,612           | 71,172            |
| Depreciation discontinued operations  | 6,397              | 7,072             | 7,272             | 6,316             | 4,442             |
| Joint venture adjustments   | 1,321              | 1,102             | 792               | 751               | 725               |
| Minority interest expense continuing operations                             | 802                | 801               | 937               | 1,231             | 1,373             |
| Minority interest expense discontinued operations                           | 799                | 758               | 822               | 744               | 397               |
| Gain on sale of communities, net of impairment loss on planned dispositions | (42,093)           | (62,852)          | (40,779)          | (47,093)          | (25,270)          |
| Extraordinary items   |                    |                   |                   |                   | 245               |
| <b>Funds from Operations</b>  | <b>\$ 258,210</b>  | <b>\$ 283,293</b> | <b>\$ 252,013</b> | <b>\$ 196,058</b> | <b>\$ 148,487</b> |

FFO also does not represent cash generated from operating activities in accordance with GAAP, and therefore should not be considered an alternative to net cash flows from operating activities, as determined by GAAP, as a measure of liquidity. Additionally, it is not necessarily indicative of cash available to fund cash needs. A presentation of GAAP based cash flow metrics is as follows:

|   |             |             |             |             |             |
|---|-------------|-------------|-------------|-------------|-------------|
| Net cash provided by operating activities           | \$ 307,810  | \$ 320,528  | \$ 302,083  | \$ 251,779  | \$ 192,339  |
| Net cash used in investing activities               | \$(440,331) | \$(270,406) | \$(258,155) | \$(236,687) | \$(566,516) |
| Net cash provided by (used in) financing activities | \$ 72,543   | \$ (34,444) | \$ 5,685    | \$ (16,361) | \$ 376,345  |

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

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Forward-Looking Statements

This Form 10-K/A, including the footnotes to our Consolidated Financial Statements which immediately follow, contains forward-looking statements as that term is defined under the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by our use of the words believe, expect, anticipate, intend, estimate, assume, project, plan, will and other similar expressions in this Form 10-K/A that predict or indicate future events and trends or that do not report historical matters. These statements include, among other things, statements regarding our intent, belief or expectations with respect to:

our potential development, redevelopment, acquisition or disposition of communities;

the timing and cost of completion of apartment communities under construction, reconstruction, development or redevelopment;

the timing of lease-up, occupancy and stabilization of apartment communities;

the pursuit of land on which we are considering future development;

the anticipated operating performance of our communities;

cost, yield and earnings estimates;

our declaration or payment of distributions;

our policies regarding investments, indebtedness, acquisitions, dispositions, financings and other matters;

our qualification as a REIT under the Internal Revenue Code;

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

the availability of debt and equity financing;

interest rates;

general economic conditions; and

trends affecting our financial condition or results of operations.

We cannot assure the future results or outcome of the matters described in these statements; rather, these statements merely reflect our current expectations of the approximate outcomes of the matters discussed. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to differ materially from the anticipated future results, performance or achievements expressed or implied by these forward-looking statements. Some of the factors that could cause our actual results, performance or achievements to differ materially from those expressed or implied by these forward-looking statements include, but are not limited to, the following:

we may fail to secure development opportunities due to an inability to reach agreements with third parties or to obtain desired zoning and other local approvals;

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

construction costs of a community may exceed our original estimates;

we may not complete construction and lease-up of communities under development or redevelopment on schedule, resulting in increased interest expense and construction costs and a decrease in our expected rental revenues;



occupancy rates and market rents may be adversely affected by competition and local economic and market conditions which are beyond our control;

financing may not be available on favorable terms or at all, and our cash flow from operations and access to cost effective capital may be insufficient for the development of our pipeline which could limit our pursuit of opportunities;

our cash flow may be insufficient to meet required payments of principal and interest, and we may be unable to refinance existing indebtedness or the terms of such refinancing may not be as favorable as the terms of existing indebtedness;

we may be unsuccessful in managing changes in our portfolio composition; and

companies developing software applications and ancillary services in which we have invested may be unsuccessful in achieving their business plans or unsuccessful in obtaining additional funding, which could lead to a partial or complete loss of our investment in these companies.

You should read our Consolidated Financial Statements and notes included in this report in conjunction with the following discussion. These forward-looking statements represent our estimates and assumptions only as of the date of this report. We do not undertake to update these forward-looking statements, and you should not rely upon them after the date of this report.

#### Business Description and Community Information

We are a Maryland corporation that has elected to be treated as a real estate investment trust, or REIT, for federal income tax purposes. We focus on the ownership and operation of upscale apartment communities (which generally command among the highest rents in their submarkets) in high barrier-to-entry markets of the United States. This is because we believe that, long term, the limited new supply of upscale apartment homes and lower housing affordability in these markets will result in larger increases in cash flows relative to other markets over an entire business cycle. However, we are in a period of a business cycle where rents are resetting to lower levels, resulting in a decline in cash flows in 2002 compared to 2001. 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 ( in-fill locations ) 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 are a fully-integrated real estate organization with in-house expertise in the following areas:

development and redevelopment;

construction and reconstruction;

leasing and management;

acquisition and disposition;

financing;

marketing; and

information technologies.

We believe apartment communities present an attractive long-term investment opportunity compared to other real estate investments because a broad potential resident base should result in relatively stable demand over a real estate cycle. We intend to pursue real estate investments in markets where constraints to new supply exist and where new household formations are expected to out-pace multifamily permit activity over the course of the real estate cycle. A number of our markets are experiencing economic contraction due to continuing job losses, particularly in the technology, telecom and financial services sectors. We expect these conditions to continue for most of 2003.

Although we believe we are well-positioned to continue to pursue opportunities to develop and acquire upscale apartment homes based on our in-house capabilities and expertise, we expect to decrease acquisition and development activity during 2003 as compared to prior years and plan to increase disposition activity. The level of disposition, acquisition or development volume is heavily influenced by

capital market conditions, including prevailing interest rates. Given current capital market and real estate market conditions, we are evaluating the appropriate allocation of capital investment among development and redevelopment communities, the acquisition of existing communities, and stock redemptions/repurchases. In addition, we expect to increase disposition activity to realize a portion of the value created over the past business cycle as well as to provide additional liquidity. See [Liquidity and Capital Resources](#) and [Future Financing and Capital Needs](#).

Our real estate investments consist primarily of current operating apartment communities, communities in various stages of development ( [Development Communities](#) ), and Development Rights (i.e., land or land options held for development), as further described in Item 2 of this report. Our current operating communities are further distinguished as [Established Communities](#), [Other Stabilized Communities](#), [Lease-Up Communities](#) and [Redevelopment Communities](#). [Established Communities](#) are generally operating communities that were owned and had stabilized occupancy and costs as of the beginning of the prior year. [Other Stabilized Communities](#) are generally all other operating communities that have stabilized occupancy and costs as of the beginning of the current year, but had not achieved stabilization as of the beginning of the prior year. [Lease-Up Communities](#) consist of communities where construction is complete but stabilization has not been achieved. [Redevelopment Communities](#) consist of communities where substantial redevelopment is in progress or is planned to begin during the current year. A more detailed description of these categories and operating performance information can be found in Note 9, [Segment Reporting](#), in our Consolidated Financial Statements included in this report. In addition, although each of these categories is important to our business, we generally evaluate overall operating, industry and market trends based on the operating results of our [Established Communities](#), for which a detailed discussion can be found in [Results of Operations](#) as part of our discussion of overall operating results. We evaluate our current and future cash needs and future operating potential based on acquisition, disposition, development, redevelopment and financing activities within [Other Stabilized](#), [Redevelopment](#) and [Development Communities](#), for which detailed discussions can be found in [Liquidity and Capital Resources](#) and [Future Financing and Capital Needs](#).

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On December 31, 2002, we owned or had an ownership interest in these categories as follows:

|                                | <u>Number of<br/>communities</u> | <u>Number of<br/>apartment<br/>homes</u> |
|--------------------------------|----------------------------------|--|
| <u>Current Communities</u>     |                                  |  |
| Established Communities:       |                                  |  |
| Northeast                      | 27                               | 7,196                                    |
| Mid-Atlantic                   | 18                               | 5,154                                    |
| Midwest                        | 4                                | 1,296                                    |
| Pacific Northwest              | 3                                | 907                                      |
| Northern California            | 29                               | 8,601                                    |
| Southern California            | 10                               | 3,004                                    |
|                                | <u>          </u>                | <u>          </u>                        |
| Total Established              | 91                               | 26,158                                   |
|                                | <u>          </u>                | <u>          </u>                        |
| Other Stabilized Communities:  |                                  |  |
| Northeast                      | 11                               | 3,040                                    |
| Mid-Atlantic                   | 2                                | 960                                      |
| Midwest                        |                                  |  |
| Pacific Northwest              | 8                                | 2,152                                    |
| Northern California            | 2                                | 499                                      |
| Southern California            | 5                                | 1,890                                    |
|                                | <u>          </u>                | <u>          </u>                        |
| Total Other Stabilized         | 28                               | 8,541                                    |
|                                | <u>          </u>                | <u>          </u>                        |
| Held for Sale Communities (1)  | 7                                | 2,091                                    |
| Lease-Up Communities           | 9                                | 2,300                                    |
| Redevelopment Communities      | 2                                | 1,089                                    |
|                                | <u>          </u>                | <u>          </u>                        |
| Total Current Communities      | 137                              | 40,179                                   |
|                                | <u>          </u>                | <u>          </u>                        |
| <u>Development Communities</u> | 12                               | 3,429                                    |
|                                | <u>          </u>                | <u>          </u>                        |
| <u>Development Rights</u>      | 38                               | 9,950                                    |
|                                | <u>          </u>                | <u>          </u>                        |

(1) Represents assets sold or transferred to held for sale during the period January 1, 2003 through March 31, 2003.

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Results of Operations and Funds From Operations

A comparison of our operating results for the years 2002, 2001 and 2000 follows (dollars in thousands):

|   | 2002           | 2001           | Change           |                | 2001           | 2000           | Change        |              |
|---|----------------|----------------|------------------|----------------|----------------|----------------|---------------|--------------|
|   |                |                | \$               | %              |                |                | \$            | %            |
| <b>Revenue:</b>   |                |                |                  |                |                |                |               |              |
| Rental income   | \$ 604,411     | \$ 602,916     | \$ 1,495         | 0.2%           | \$ 602,916     | \$ 539,269     | \$ 63,647     | 11.8%        |
| Management fees   | 1,355          | 1,325          | 30               | 2.3%           | 1,325          | 1,051          | 274           | 26.1%        |
| Other income  | 7,110          | 2,953          | 4,157            | 140.8%         | 2,953          | 401            | 2,552         | 636.4%       |
| <b>Total revenue</b>  | <b>612,876</b> | <b>607,194</b> | <b>5,682</b>     | <b>0.9%</b>    | <b>607,194</b> | <b>540,721</b> | <b>66,473</b> | <b>12.3%</b> |
| <b>Expenses:</b>  |                |                |                  |                |                |                |               |              |
| Direct property operating expenses, excluding property taxes              | 137,105        | 119,626        | 17,479           | 14.6%          | 119,626        | 105,746        | 13,880        | 13.1%        |
| Property taxes  | 53,790         | 48,742         | 5,048            | 10.4%          | 48,742         | 43,607         | 5,135         | 11.8%        |
| <b>Total community operating expenses</b>                                 | <b>190,895</b> | <b>168,368</b> | <b>22,527</b>    | <b>13.4%</b>   | <b>168,368</b> | <b>149,353</b> | <b>19,015</b> | <b>12.7%</b> |
| <b>Net operating income</b>   | <b>421,981</b> | <b>438,826</b> | <b>(16,845)</b>  | <b>(3.8%)</b>  | <b>438,826</b> | <b>391,368</b> | <b>47,458</b> | <b>12.1%</b> |
| Corporate-level property management and other indirect operating expenses | 32,163         | 32,967         | (804)            | (2.4%)         | 32,967         | 28,111         | 4,856         | 17.3%        |
| Interest expense  | 120,559        | 102,069        | 18,490           | 18.1%          | 102,069        | 81,973         | 20,096        | 24.5%        |
| Depreciation expense  | 138,080        | 123,007        | 15,073           | 12.3%          | 123,007        | 115,338        | 7,669         | 6.6%         |
| General and administrative expense  | 14,332         | 15,224         | (892)            | (5.9%)         | 15,224         | 13,013         | 2,211         | 17.0%        |
| Impairment loss   | 6,800          |                | 6,800            | 100.0%         |                |                |               |              |
| <b>Total other expenses</b>   | <b>311,934</b> | <b>273,267</b> | <b>38,667</b>    | <b>14.1%</b>   | <b>273,267</b> | <b>238,435</b> | <b>34,832</b> | <b>14.6%</b> |
| Equity in income of unconsolidated entities                               | 55             | 856            | (801)            | (93.6%)        | 856            | 2,428          | (1,572)       | (64.7%)      |
| Interest income   | 3,978          | 6,823          | (2,845)          | (41.7%)        | 6,823          | 4,764          | 2,059         | 43.2%        |
| Minority interest in consolidated partnerships                            | (1,771)        | 161            | (1,932)          | (1,200.0%)     | 161            | (1,086)        | 1,247         | (114.8%)     |
| <b>Income before gain on sale of communities</b>                          | <b>112,309</b> | <b>173,399</b> | <b>(61,090)</b>  | <b>(35.2%)</b> | <b>173,399</b> | <b>159,039</b> | <b>14,360</b> | <b>9.0%</b>  |
| Gain on sale of communities   |                | 62,852         | (62,852)         | (100.0%)       | 62,852         | 40,779         | 22,073        | 54.1%        |
| <b>Income from continuing operations</b>                                  | <b>112,309</b> | <b>236,251</b> | <b>(123,942)</b> | <b>(52.5%)</b> | <b>236,251</b> | <b>199,818</b> | <b>36,433</b> | <b>18.2%</b> |
| <b>Discontinued operations:</b>   |                |                |                  |                |                |                |               |              |
| Income from discontinued operations                                       | 12,416         | 12,746         | (330)            | (2.6%)         | 12,746         | 10,786         | 1,960         | 18.2%        |
| Gain on sale of communities   | 48,893         |                | 48,893           | 100.0%         |                |                |               |              |
| <b>Total discontinued operations</b>                                      | <b>61,309</b>  | <b>12,746</b>  | <b>48,563</b>    | <b>381.0%</b>  | <b>12,746</b>  | <b>10,786</b>  | <b>1,960</b>  | <b>18.2%</b> |

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|   |            |            |             |         |            |            |           |         |
|---|------------|------------|-------------|---------|------------|------------|-----------|---------|
| Net income                                  | 173,618    | 248,997    | (75,379)    | (30.3%) | 248,997    | 210,604    | 38,393    | 18.2%   |
| Dividends attributable to preferred stock   | (17,896)   | (32,497)   | 14,601      | (44.9%) | (32,497)   | (39,779)   | 7,282     | (18.3%) |
| Net income available to common stockholders | \$ 155,722 | \$ 216,500 | \$ (60,778) | (28.1%) | \$ 216,500 | \$ 170,825 | \$ 45,675 | 26.7%   |

*Net income available to common stockholders* decreased \$60,778,000 (28.1%) to \$155,722,000 in 2002. This decrease is primarily attributable to fewer gains on sales of communities in 2002, coupled with a decline in net operating income due to deteriorating market conditions in several of our principal markets and increases in interest and depreciation expenses. Net income available to common stockholders increased by \$45,675,000 (26.7%) to \$216,500,000 in 2001 due to additional net operating income from newly developed and redeveloped communities, as well as growth in net operating income from Established Communities and increased gain on sale of communities.

*Net operating income* ( NOI ) is defined by us as total revenue less direct property operating expenses, including property taxes, and excludes corporate-level property management and other indirect operating expenses, interest income and expense, general and administrative expense, equity in income of unconsolidated entities, minority interest in consolidated partnerships, depreciation expense, gain on sale of communities, impairment losses and income from discontinued operations. We believe that NOI is an appropriate supplemental measure to net income of our operating performance because it helps both investors and management to understand the core operations of a community or communities prior to the allocation of any corporate-level property management overhead or general and administrative costs. This is more reflective of the operating performance of a community, and allows for an easier comparison of the operating performance of single assets or groups of assets. In addition, because prospective buyers of real estate have different overhead structures, with varying marginal impacts to overhead by acquiring real estate, NOI is considered by many in the real estate industry to be a useful measure for determining the value of a real estate asset or group of assets. NOI does not represent cash generated from operating activities in accordance with generally accepted accounting principles ( GAAP ). Therefore, it should not be considered an alternative to net income as an indication of our performance. NOI should also not be considered an alternative to net cash flows from operating activities, as determined by GAAP, as a measure of liquidity. Additionally, NOI is not necessarily indicative of cash available to fund cash needs. A calculation of NOI, along with a reconciliation to net income, is provided in the preceding table.

The NOI decrease of \$16,845,000 for the year ended December 31, 2002 and the increase of \$47,458,000 for the year ended December 31, 2001 as compared to the prior years consist of changes in the following categories:

|   | <u>2002</u><br>Increase (Decrease) | <u>2001</u><br>Increase (Decrease) |
|---|------------------------------------|------------------------------------|
| Established Communities                   | \$(36,410,000)                     | \$21,220,000                       |
| Other Stabilized Communities              | (405,000)                          | 13,254,000                         |
| Development and Redevelopment Communities | 19,138,000                         | 12,919,000                         |
| Non-allocated                             | 832,000                            | 65,000                             |
|   | <u>                    </u>        | <u>                    </u>        |
| Total NOI                                 | <u>\$(16,845,000)</u>              | <u>\$47,458,000</u>                |

The NOI decrease in Established Communities in 2002 was largely due to the effects of the weakened economy in many of our submarkets. Strong single family home sales, partially fueled by a low mortgage rate environment, in addition to continuing job losses in many of our submarkets, have aggravated a weak demand environment, causing market rental rates and occupancies to decline. We currently expect to continue to experience weak demand during most of 2003. We also anticipate that any growth or improvement that we may experience in late 2003 will be at a slower rate than that experienced by the overall market and economy, if any, due to the types of industries (technology, telecom, financial services) that make up a large proportion of the jobs in our markets.

*Rental income* increased due to rental income generated from acquired and newly developed communities offset by a decline in occupancies and effective rental rates for Established Communities.

**Overall Portfolio** The weighted average number of occupied apartment homes increased to 32,708 apartment homes for 2002 compared to 32,155 apartment homes for 2001 and 31,662 in 2000. This change in 2002 is primarily the result of increased homes available from acquired and newly developed communities, offset by occupancy declines related to the weakened demand in certain of our submarkets. The weighted average monthly revenue per occupied apartment home decreased to \$1,539 in 2002 compared to \$1,562 in 2001 and \$1,418 in 2000.

**Established Communities** Rental revenue decreased \$30,184,000 (6.3%) in 2002 and increased by \$25,424,000 (6.7%) in 2001. The decrease in 2002 is due to both declining effective rental

rates and declining economic occupancy. The increase in 2001 is due to market conditions during the year that allowed for higher average rents partially offset by lower economic occupancy. For 2002, the weighted average monthly revenue per occupied apartment home decreased (4.3%) to \$1,537 compared to \$1,607 for 2001, partially due to increased concessions granted in 2002. The average economic occupancy decreased from 95.5% in 2001 to 93.5% for 2002. Economic occupancy takes into account the fact that apartment homes of different sizes and locations within a community have different economic impacts on a community's gross revenue. Economic occupancy is defined as gross potential revenue less vacancy loss as a percentage of gross potential revenue. Gross potential revenue is determined by valuing occupied homes at contract rates and vacant homes at market rents.

Although most of our markets have experienced weak demand, we have observed the most significant declines in average rental rates and occupancy during 2002 in certain Northern California and Northeast submarkets. Northern California, which accounts for approximately 33.6% of current Established Community rental revenue, experienced a decline in rental revenue in 2002, partially related to job losses in the technology sector. Although economic occupancy remained flat in Northern California in 2002 as compared to 2001, average rental rates dropped 12.6% from \$1,788 to \$1,562 for those same periods.

The Northeast region accounts for approximately 33.5% of current Established Community rental revenue and has been experiencing a decline in rental revenue, primarily the result of job losses in the financial services sector. Economic occupancy decreased in the Northeast, from 96.9% in 2001 to 92.6% for 2002, while average rental rates improved slightly during 2002.

In accordance with GAAP, cash concessions are amortized into rental income over the approximate lease term, which is generally one year. However, we consider rental revenue with concessions stated on a cash basis to be a supplemental measure to rental revenue in conformity with GAAP in helping investors to evaluate the impact of both current and historical concessions on GAAP based rental revenue and to more readily enable comparisons to revenue as reported by other companies. In addition, rental revenue with concessions stated on a cash basis allows an investor to understand the historical trend in cash concessions, which is an indicator of current rental market conditions. The following reconciles total revenue in conformity with GAAP to total revenue adjusted to state concessions on a cash basis for the years ended December 31, 2002, 2001 and 2000 (dollars in thousands):

|   | For the year ended |            |            |
|---|--------------------|------------|------------|
|   | 12-31-02           | 12-31-01   | 12-31-00   |
| Total revenue (GAAP basis)                                  | \$ 612,876         | \$ 607,194 | \$ 540,721 |
| Concessions amortized                                       | 10,714             | 3,875      | 2,873      |
| Concessions granted   | (16,956)           | (6,141)    | (2,186)    |
| Total revenue adjusted to state concessions on a cash basis | \$ 606,634         | \$ 604,928 | \$ 541,408 |

*Other income* increased primarily due to the recognition of \$5,800,000 and \$2,500,000 in 2002 and 2001, respectively, of business interruption insurance related to the settlement of a fire insurance claim that occurred during the construction of Avalon at Edgewater. In addition, we recognized \$711,000 in the first quarter of 2002 in construction management fees in connection with the redevelopment of a community owned by a limited liability company in which we have a membership interest.

*Direct property operating expenses, excluding property taxes* increased due to the addition of newly developed, redeveloped and acquired apartment homes coupled with increased insurance, marketing and bad debt. Insurance expense has increased over the past two years, particularly during 2001 as the insurance and reinsurance markets deteriorated, resulting in higher insurance costs for the entire real estate sector. We renewed our general liability policy on August 1, 2002 and our property coverage on November 1, 2002. See *Insurance and Risk of Uninsured Losses* for a discussion of our insurance

policies and related coverage. Capitalization of insurance and other costs associated with Development and Redevelopment Communities ends, and such costs are expensed, as the related assets, or portions of assets, within a community are delivered and are ready for their intended use. Marketing initiatives have been expanded in response to the weak demand, and bad debt expense has increased as a direct result of continuing job losses and the weakened economy.

For Established Communities, direct property operating expenses, excluding property taxes, increased \$5,408,000 (6.3%) to \$91,151,000 due to the increases in insurance, marketing and bad debt expenses discussed above. During 2001, operating expenses increased \$3,370,000 (4.9%) due to increases in insurance, utilities, marketing and office and administration expenses.

*Property taxes* increased due to higher assessments and the addition of newly developed and redeveloped apartment homes. Property taxes on Development and Redevelopment Communities are capitalized while the community is under construction or reconstruction. We begin to expense these costs as assets, or portions of assets, within the community are delivered and are ready for their intended use.

For Established Communities, the increases in property taxes in 2002 and 2001 of \$943,000 and \$878,000, respectively, were primarily due to higher assessments throughout all regions.

*Corporate-level property management and other indirect operating expenses* decreased in 2002 and increased in 2001 as a result of executive separation costs that were recognized in 2001 but not in 2002 or 2000. The decrease in 2002 is partially offset by increases in unallocated central marketing costs and abandoned pursuit costs. Similar to the community level, central marketing initiatives have been expanded in response to the weak demand. Abandoned pursuit costs increased \$600,000 from \$2,200,000 in 2001 to \$2,800,000 in 2002 related to Development Rights which may not be developed as planned.

*Interest expense* increased in 2002 due to the issuance of \$750,000,000 of unsecured notes between September 2001 and December 2002, partially offset by the repayment of \$100,000,000 of unsecured notes in September 2002 and overall lower interest rates on both short-term and long-term borrowings. In addition, higher average outstanding balances on our unsecured credit facility resulted in higher interest expense between years. Interest expense increased in 2001 due to the issuance of \$650,000,000 of unsecured notes during 2000 and 2001.

*Depreciation expense* increased primarily related to acquisitions and completion of development or redevelopment activities. We expect depreciation expense to continue to increase as we complete additional development and redevelopment communities, partially offset by the elimination of depreciation of communities that are sold or designated as held for sale during 2003.

*General and administrative expense* decreased in 2002 and increased in 2001 as a result of additional compensation expense recognized in the fourth quarter of 2001 due to the retirement of a senior executive. Unfilled positions and lower incentive compensation also contributed to the decrease in 2002.

*Impairment loss* of \$6,800,000 was recorded during 2002 related to two land parcels that as of December 31, 2002 were determined not likely to proceed to development and therefore were planned for disposition. This loss was recorded to reflect the parcels at fair market value (based on their entitlement status as of December 31, 2002.) In February 2003, we won an appeal regarding the entitlement status of one of these parcels. If we decide to continue with the planned disposition, this change in entitlement status may increase the potential value of the land and therefore decrease the previously estimated loss that would be recognized at the date of disposal. However, we are currently reevaluating our plans for this parcel, which may result in 2003 in the partial recovery of the impairment loss recognized in 2002, if we decide to hold the land for development.

*Equity in income of unconsolidated entities* decreased during 2002 primarily due to losses recorded for an investment in a technology company accounted for under the equity method. During 2002 and 2001, we



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recorded losses of \$3,166,000 and \$1,730,000, respectively, related to this investment, bringing the carrying value of this investment to zero as of December 31, 2002. In addition, a \$934,000 valuation allowance was recorded during 2001 for an investment in a different technology company which contributed to the decrease in 2001 over the prior year period.

*Interest income* during 2002 decreased due to lower average cash balances invested and lower interest rates. The increase in interest income during 2001 resulted from higher average cash balances invested.

*Gain on sale of communities*, including discontinued operations, of \$48,893,000, \$62,852,000 and \$40,779,000 were realized in 2002, 2001 and 2000, respectively. These gains on the sale of communities are the result of our strategy to sell communities that do not meet our long-term strategic objectives and redeploy the proceeds to current Development and Redevelopment Communities. The amount of gains realized depend on many factors, including the number of communities sold, the size and carrying value of those communities, and the market conditions in the local area. In 2003, we expect to increase our disposition activity as compared to 2002.

### *Funds from Operations*

We consider Funds from Operations ( FFO ) to be an appropriate supplemental measure of our operating and financial performance because, by excluding gains or losses related to dispositions of property and excluding real estate depreciation, which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates, FFO can help one compare the operating performance of a company's real estate between periods or as compared to different companies. We believe that in order to understand our operating results, FFO should be examined with net income as presented in the Consolidated Statements of Operations and Other Comprehensive Income included elsewhere in this report. Consistent with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts®, we calculate FFO as:

net income or loss computed in accordance with GAAP, except that excluded from net income or loss are gains or losses on sales of property, impairment losses on planned dispositions and extraordinary gains or losses (as defined by GAAP);

plus depreciation of real estate assets; and

after adjustments for unconsolidated partnerships and joint ventures.

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

|   | <b>For the year ended</b> |                   |                   |
|---|---------------------------|-------------------|-------------------|
|   | <b>2002</b>               | <b>2001</b>       | <b>2000</b>       |
| <b>Funds from Operations</b>  |                           |                   |                   |
| Net income  | \$ 173,618                | \$ 248,997        | \$ 210,604        |
| Dividends attributable to preferred stock                                   | (17,896)                  | (32,497)          | (39,779)          |
| Depreciation real estate assets   | 135,262                   | 119,912           | 112,144           |
| Depreciation discontinued operations  | 6,397                     | 7,072             | 7,272             |
| Joint venture adjustments   | 1,321                     | 1,102             | 792               |
| Minority interest expense continuing operations                             | 802                       | 801               | 937               |
| Minority interest expense discontinued operations                           | 799                       | 758               | 822               |
| Gain on sale of communities, net of impairment loss on planned dispositions | (42,093)                  | (62,852)          | (40,779)          |
|   | <b>\$ 258,210</b>         | <b>\$ 283,293</b> | <b>\$ 252,013</b> |



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FFO also does not represent cash generated from operating activities in accordance with GAAP, and therefore should not be considered an alternative to net cash flows from operating activities, as determined by GAAP, as a measure of liquidity. Additionally, it is not necessarily indicative of cash available to fund cash needs. A presentation of GAAP based cash flow metrics is as follows (dollars in thousands):

|   | For the year ended |              |              |
|---|--------------------|--------------|--------------|
|   | 2002               | 2001         | 2000         |
| <u>GAAP based Cash Flow Metrics</u>                 |                    |              |              |
| Net cash provided by operating activities           | \$ 307,810         | \$ 320,528   | \$ 302,083   |
| Net cash used in investing activities               | \$ (440,331)       | \$ (270,406) | \$ (258,155) |
| Net cash provided by (used in) financing activities | \$ 72,543          | \$ (34,444)  | \$ 5,685     |

### Capitalization of Fixed Assets and Community Improvements

Our policy with respect to capital expenditures is generally to capitalize only non-recurring expenditures. We capitalize improvements and upgrades only if the item:

exceeds \$15,000;

extends the useful life of the asset; and

is not related to making an apartment home ready for the next resident.

Under this policy, virtually all capitalized costs are non-recurring, as recurring make-ready costs are expensed as incurred. Recurring make-ready costs include the following:

carpet and appliance replacements;

floor coverings;

interior painting; and

other redecorating costs.

We capitalize purchases of personal property, such as computers and furniture, only if the item is a new addition and the item exceeds \$2,500. We generally expense purchases of personal property made for replacement purposes. For Established and Other Stabilized Communities, we recorded non-revenue generating capitalized expenditures of approximately \$297 per apartment home in 2002 and \$251 per apartment home in 2001. The average maintenance costs charged to expense, including carpet and appliance replacements, related to these communities was \$1,214 per apartment home in 2002 and \$1,163 in 2001. We anticipate that capitalized costs per apartment home will gradually increase as the average age of our communities increases. We expect expensed maintenance costs to increase as the average age of our communities increases, and to fluctuate with changes in turnover.

We have expanded our Consolidated Statements of Cash Flows included elsewhere in this report to include additional information on capital expenditures. For the years ended December 31, 2002 and 2001, the amounts capitalized (excluding land costs) related to (i) acquisitions, development and redevelopment were \$457,851,000 and \$401,359,000, respectively, (ii) revenue generating expenditures, such as water sub-metering equipment and cable installations were \$697,000 and \$1,675,000, respectively, and (iii) non-revenue generating expenditures were \$11,375,000 and \$12,234,000, respectively.

### Liquidity and Capital Resources

*Liquidity.* The primary source of liquidity is our cash flows from operations. Operating cash flows have historically been determined by:

the number of apartment homes;

rental rates;

occupancy levels; and

our expenses with respect to these apartment homes.

The timing, source and amount of cash flows provided by financing activities and used in investing activities are sensitive to the capital markets environment, particularly to changes in interest rates. Changes in the capital markets environment affect our plans for undertaking construction and development as well as acquisition and disposition activity.

Cash and cash equivalents totaled \$12,934,000 at December 31, 2002, a decrease of \$59,978,000 for the year. The following discussion relates to changes in cash due to operating, investing and financing activities, which are presented in our Consolidated Statements of Cash Flows included in this report.

**Operating Activities** Net cash provided by operating activities decreased to \$307,810,000 in 2002 from \$320,528,000 in 2001 primarily due to the decline in net operating income from Established Communities and the loss of net operating income from communities sold during 2002 and 2001, partially offset by additional net operating income from newly developed and redeveloped communities.

**Investing Activities** Net cash used in investing activities of \$440,331,000 in 2002 related to investments in assets through development, redevelopment and acquisition of apartment communities, partially offset by proceeds from the sales of apartment communities.

During 2002, we invested \$545,202,000 in the purchase and development of real estate and capital expenditures.

We began the development of seven new communities. These communities, if developed as expected, will contain a total of 1,987 apartment homes, and the total investment, including land acquisition costs, is projected to be approximately \$371,200,000. We also completed the development of ten new communities containing a total of 2,521 apartment homes for a total investment, including land acquisition cost, of \$466,600,000.

We completed the redevelopment of two communities containing 1,116 apartment homes for a total investment in redevelopment (excluding acquisition costs) of \$44,200,000.

We acquired two communities containing 706 apartment homes for a total investment of \$140,200,000, including the assumption of \$33,900,000 in debt.

We had capital expenditures relating to current communities real estate assets of \$10,930,000 and non-real estate capital expenditures of \$1,142,000.

The development and redevelopment of communities involve risks that the investment will fail to perform in accordance with expectations. See **Risks of Development and Redevelopment** in Item 2 of this report for our discussion of these and other risks inherent in developing or redeveloping communities.

We sold one community during 2002, generating net proceeds of \$78,454,000. These proceeds are being used to develop and redevelop communities currently under construction and reconstruction, as well as to repay and redeem certain debt and equity securities, as discussed below.

**Financing Activities** Net cash provided by financing activities totaled \$72,543,000 for the year ended December 31, 2002, primarily due to the issuance of unsecured notes and an increase in borrowings under our unsecured credit facility, partially offset by dividends paid, common stock repurchases, and the redemption of the Series C Preferred Stock. See Note 3, **Notes Payable, Unsecured Notes and**

Credit Facility, and Note 4, Stockholders Equity, in our Consolidated Financial Statements, for additional information.

We regularly review our short and long-term liquidity needs, the adequacy of cash flow from operations and other expected liquidity sources to meet these needs. We believe our principal short-term liquidity needs are to fund:

normal recurring operating expenses;

debt service and maturity payments;

the distributions required with respect to preferred stock;

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

opportunities for the acquisition of improved property; and

development and redevelopment activity in which we are currently engaged.

We anticipate that we can fully satisfy these needs from a combination of cash flows provided by operating activities, proceeds from asset dispositions and borrowing capacity under the unsecured credit facility.

One of our principal long-term liquidity needs is the repayment of medium and long-term debt at the time that such debt matures. For unsecured notes, we anticipate that no significant portion of the principal of these notes will be repaid prior to maturity. On January 15, 2003, \$50,000,000 in unsecured notes matured and was paid, including the balance of accrued interest. During the remainder of 2003, we have \$100,000,000 in maturing unsecured notes. If we do not have funds on hand sufficient to repay our indebtedness, it will be necessary for us to refinance this debt. This refinancing may be accomplished by uncollateralized private or public debt offerings, additional debt financing that is collateralized by mortgages on individual communities or groups of communities, draws on our credit facility or by additional equity offerings. We also anticipate having retained cash flow available in each year so that when a debt obligation matures, some or all of each maturity can be satisfied from this retained cash. Although we believe we will have the capacity to meet our long-term liquidity needs, we cannot assure you that additional debt financing or debt or equity offerings will be available or, if available, that they will be on terms we consider satisfactory.

*Capital Resources.* We intend to match the long-term nature of our real estate assets with long-term cost-effective capital to the extent permitted by prevailing market conditions. From January 1, 2000 through February 1, 2003, we issued \$1,100,000,000 of unsecured notes through public offerings. We expect this source of capital, together with cash flow from operating activities, dispositions, and other sources of capital, to remain available to meet our capital needs, for the foreseeable future, although no assurance can be provided that the debt capital markets will remain available or that such debt will be available on attractive terms.

*Off Balance Sheet Arrangements.* We own interests in unconsolidated real estate entities, with ownership interests up to 50%. However, based on the provisions of the related partnership or limited liability company agreements, which grant varying degrees of control, we are not deemed to have control of these entities sufficient to require or permit consolidation for accounting purposes. Two of these unconsolidated real estate entities have aggregate debt outstanding of \$47,195,000 as of February 1, 2003, which mature in 2005 (\$22,500,000) and 2030 (\$24,695,000) and are payable by the unconsolidated real estate entity with operating cash flow from the underlying real estate. We have not guaranteed any of this debt, nor do we have any obligation to fund this debt should the unconsolidated real estate entities be unable to do so. There are no lines of credit, side agreements, financial guarantees, or any other derivative financial instruments related to or between us and our unconsolidated real estate entities. However, in evaluating our capital structure and overall leverage, management takes into consideration our proportionate share of this unconsolidated debt.

Variable Rate Unsecured Credit Facility

We have a \$500,000,000 revolving variable rate unsecured credit facility with J.P. Morgan Chase and Fleet National Bank serving as co-agents for a syndicate of commercial banks. Under the terms of the credit facility, if we elect to increase the facility up to \$650,000,000, and one or more banks (from the syndicate or otherwise) voluntarily agree to provide the additional commitment, then we will be able to increase the facility up to \$650,000,000, and no member of the syndicate of banks can prohibit such increase; such an increase in the facility will only be effective to the extent banks (from the syndicate or otherwise) choose to commit to lend additional funds. We pay participating banks, in the aggregate, an annual facility fee of approximately \$750,000 in quarterly installments. The unsecured credit facility bears interest at varying levels based on the London Interbank Offered Rate ( LIBOR ), rating levels achieved on our unsecured notes and on a maturity schedule selected by us. The current stated pricing is LIBOR plus 0.60% per annum (1.94% on February 28, 2003). Pricing could vary if there is a change in rating by either of the two leading national rating agencies; a change in rating of one level would impact the unsecured credit facility pricing by 0.05% to 0.15%. A competitive bid option is available for borrowings of up to \$400,000,000. This option allows banks that are part of the lender consortium to bid to provide us loans at a rate that is lower than the stated pricing provided by the unsecured credit facility. The competitive bid option may result in lower pricing if market conditions allow. Pricing under the competitive bid option resulted in average pricing of LIBOR plus 0.34% for amounts most recently borrowed under the competitive bid option. We are subject to (i) certain customary covenants under the unsecured credit facility, including, but not limited to, maintaining certain maximum leverage ratios, a minimum fixed charges coverage ratio and minimum unencumbered assets and equity levels, and (ii) prohibitions on paying dividends in amounts that exceed 95% of our FFO, except as may be required to maintain our REIT status. The existing facility matures in May 2005 assuming exercise of a one-year renewal at our option. At February 28, 2003, \$155,470,000 was outstanding, \$15,529,000 was used to provide letters of credit and \$329,001,000 was available for borrowing under the unsecured credit facility.

Interest Rate Protection Agreements

We are not a party to any long-term interest rate agreements, other than interest rate protection and swap agreements on approximately \$166,000,000 of our variable rate tax-exempt indebtedness. We intend, however, to evaluate the need for long-term interest rate protection agreements as interest rate market conditions dictate, and we have engaged a consultant to assist in managing our interest rate risks and exposure.

Future Financing and Capital Needs

As of December 31, 2002, we had 12 new communities under construction, for which a total estimated cost of \$254,146,000 remained to be invested. In addition, we had two communities under reconstruction, for which a total estimated cost of \$7,656,000 remained to be invested.

Substantially all of the capital expenditures necessary to complete the communities currently under construction and reconstruction will be funded from:

the remaining capacity under our current \$500,000,000 unsecured credit facility;

the net proceeds from sales of existing communities;

retained operating cash; and/or

the issuance of debt or equity securities.

We expect to continue to fund development costs related to pursuing Development Rights from retained operating cash and borrowings under the unsecured credit facility. We believe these sources of capital will be adequate to take the proposed communities to the point in the development cycle where construction can begin. Before planned reconstruction activity or the construction of a Development Right begins, we intend to arrange adequate financing to complete these undertakings, although we cannot assure you that

we will be able to obtain such financing. In the event that financing cannot be obtained, we may have to abandon Development Rights, write-off associated pre-development costs that were capitalized and/or forego reconstruction activity. In such instances, we will not realize the increased revenues and earnings that we expected from such Development Rights.

Our liquidity could be adversely impacted by expanding development and acquisition activities and/or reduced capital (as compared to prior years) available from asset sales. To meet the balance of our liquidity needs under such conditions, we would need to arrange additional capacity under our existing unsecured credit facility, sell additional existing communities and/or issue additional debt or equity securities. While we believe we have the financial position to expand our short-term credit capacity and support our capital markets activity, we cannot assure you that we will be successful in completing these arrangements, sales or offerings. The failure to complete these transactions on a cost-effective basis could have a material adverse impact on our operating results and financial condition, including the abandonment of Development Rights.

It is our policy to sell assets that do not meet our long-term investment criteria when market conditions are favorable, and to redeploy the proceeds. When we decide to sell a community, we generally solicit competing bids from unrelated parties for these individual assets and consider the sales price and tax ramifications of each proposal. We intend to actively seek buyers for communities that we determine to hold for sale. We expect to accelerate our disposition program during 2003 in response to current and anticipated real estate and capital markets conditions. However, we cannot assure you that assets can be sold on terms that we consider satisfactory or that market conditions will continue to make the sale of assets an appealing strategy. Because the proceeds from the sale of communities may not be immediately redeployed into revenue generating assets, the immediate effect of a sale of a community is to reduce total revenues, total expenses and funds from operations. Therefore, an acceleration of our disposition program in 2003 may adversely impact total revenues and funds from operations. During the period January 1, 2003 through March 31, 2003, we sold one community and reclassified six communities as held for sale under GAAP. We are actively pursuing the disposition of these held for sale communities and expect to close during the second quarter of 2003. However, we cannot assure you that these communities will be sold as planned.

We have minority interest investments in three technology companies, including Constellation Real Technologies LLC, ( Constellation ), an entity formed by a number of real estate investment trusts and real estate operating companies for the purpose of investing in multi-sector real estate technology opportunities. Our original commitment to Constellation was \$4,000,000 but, as a result of an agreement among the members reducing the commitment due from each member, our commitment is currently \$2,600,000, of which we have contributed \$959,000 to date. The remaining unfunded commitment of \$1,641,000 is expected to be funded over the next five years. In January 2002, we invested an additional \$2,300,000 in Realeum, Inc., ( Realeum ), a company involved in the development and deployment of a property management and leasing automation system. Pursuant to an agreement with Realeum, we utilize the property management and leasing automation system in exchange for payments under a licensing arrangement. Realeum is negotiating licensing arrangements with other real estate companies that we are unaffiliated with. If unsuccessful in negotiating additional licensing agreements, Realeum may be required to obtain additional sources of funding. Our third technology investment is in Rent.com, an internet-based rental housing information provider. We have no obligation to contribute additional funds to these technology investments, other than the commitment to Constellation as previously described.



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Debt Maturities

The following table details debt maturities for the next five years, excluding the unsecured credit facility for debt outstanding at December 31, 2002 (dollars in thousands):

| Community                     | All-In<br>interest<br>rate (1) | Principal<br>maturity<br>date | Balance outstanding |               |
|-------------------------------|--------------------------------|-------------------------------|---------------------|---------------|
|                               |                                |                               | 12-31-01            | 12-31-02      |
| <b>Tax-exempt Bonds</b>       |                                |                               |                     |               |
| <i>Fixed rate</i>             |                                |                               |                     |               |
| Avalon at Foxchase I          | 5.88%                          | Nov-2007                      | \$ 16,800           | \$ 16,800 (2) |
| Avalon at Foxchase II         | 5.88%                          | Nov-2007                      | 9,600               | 9,600 (2)     |
| Fairway Glen                  | 5.88%                          | Nov-2007                      | 9,580               | 9,580 (2)     |
| CountryBrook                  | 6.30%                          | Mar-2012                      | 18,577              | 18,124        |
| Waterford                     | 5.88%                          | Aug-2014                      | 33,100              | 33,100 (2)    |
| Avalon at Mountain View       | 5.88%                          | Mar-2017                      | 18,300              | 18,300 (2)    |
| Avalon at Dulles              | 7.04%                          | Jul-2024                      | 12,360              | 12,360        |
| Avalon at Symphony Glen       | 7.00%                          | Jul-2024                      | 9,780               | 9,780         |
| Avalon View                   | 7.55%                          | Aug-2024                      | 18,115              | 17,743        |
| Avalon at Lexington           | 6.56%                          | Feb-2025                      | 14,073              | 13,784        |
| Avalon at Nob Hill            | 5.80%                          | Jun-2025                      | 19,745              | 19,457 (2)    |
| Avalon Campbell               | 6.48%                          | Jun-2025                      | 36,386              | 35,749 (2)    |
| Avalon Pacifica               | 6.48%                          | Jun-2025                      | 16,505              | 16,216 (2)    |
| Avalon Knoll                  | 6.95%                          | Jun-2026                      | 13,193              | 12,978        |
| Avalon Landing                | 6.85%                          | Jun-2026                      | 6,525               | 6,417         |
| Avalon Fields                 | 7.05%                          | May-2027                      | 11,454              | 11,286        |
| Avalon West                   | 7.73%                          | Dec-2036                      | 8,522               | 8,461         |
| Avalon Oaks                   | 7.45%                          | Feb-2041                      | 17,718              | 17,628        |
|                               |                                |                               | 290,333             | 287,363       |
| <i>Variable rate (4)</i>      |                                |                               |                     |               |
| Avalon at Laguna Niguel       | 2.52%                          | Mar-2009                      | 10,400              | 10,400        |
| The Promenade                 | 2.95%                          | Jan-2010                      |                     | 33,670        |
| Avalon at Mission Viejo       | 2.45%                          | Jun-2025                      | 7,256               | 7,151 (3)     |
| Avalon Devonshire (5)         | 2.71%                          | Dec-2025                      | 27,305              | 27,305        |
| Avalon Greenbriar             | 2.37%                          | May-2026                      | 18,755              | 18,755        |
| Avalon at Fairway Hills I     | 2.29%                          | Jun-2026                      | 11,500              | 11,500        |
|                               |                                |                               | 75,216              | 108,781       |
| <b>Conventional loans (6)</b> |                                |                               |                     |               |
| <i>Fixed rate</i>             |                                |                               |                     |               |
| \$100 Million unsecured notes | 7.375%                         | Sep-2002                      | 100,000             |               |
| \$50 Million unsecured notes  | 6.25%                          | Jan-2003                      | 50,000              | 50,000        |
| \$100 Million unsecured notes | 6.50%                          | Jul-2003                      | 100,000             | 100,000       |
| \$125 Million unsecured notes | 6.58%                          | Feb-2004                      | 125,000             | 125,000       |
| \$100 Million unsecured notes | 6.625%                         | Jan-2005                      | 100,000             | 100,000       |
| \$50 Million unsecured notes  | 6.50%                          | Jan-2005                      | 50,000              | 50,000        |
| \$150 Million unsecured notes | 6.80%                          | Jul-2006                      | 150,000             | 150,000       |
| \$150 Million unsecured notes | 5.00%                          | Aug-2007                      |                     | 150,000       |
| \$110 Million unsecured notes | 6.875%                         | Dec-2007                      | 110,000             | 110,000       |
| \$50 Million unsecured notes  | 6.625%                         | Jan-2008                      | 50,000              | 50,000        |
| \$150 Million unsecured notes | 8.25%                          | Jul-2008                      | 150,000             | 150,000       |
| \$150 Million unsecured notes | 7.50%                          | Aug-2009                      | 150,000             | 150,000       |
| \$200 Million unsecured notes | 7.50%                          | Dec-2010                      | 200,000             | 200,000       |
| \$300 Million unsecured notes | 6.625%                         | Sep-2011                      | 300,000             | 300,000       |
| \$50 Million unsecured notes  | 6.625%                         | Sep-2011                      |                     | 50,000        |

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|   |        |          |                    |                    |
|---|--------|----------|--------------------|--------------------|
| \$250 Million unsecured notes                               | 6.125% | Nov-2012 |                    | 250,000            |
| Avalon at Pruneyard   | 7.25%  | May-2004 | 12,870             | 12,870             |
| Avalon Walk II  | 8.93%  | Aug-2004 | 12,036             | 11,748             |
|   |        |          | <u>1,659,906</u>   | <u>2,009,618</u>   |
| <i>Variable rate (4)</i>                                    |        |          |                    |                    |
| Avalon on the Sound   | 2.93%  | 2003     | 57,314             | 36,089             |
|   |        |          | <u>57,314</u>      | <u>36,089</u>      |
| Total indebtedness -<br>excluding unsecured credit facility |        |          | <u>\$2,082,769</u> | <u>\$2,441,851</u> |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| Community                     | Scheduled maturities |              |              |              |               |                |
|-------------------------------|----------------------|--------------|--------------|--------------|---------------|----------------|
|                               | 2003                 | 2004         | 2005         | 2006         | 2007          | Thereafter     |
| <b>Tax-exempt Bonds</b>       |                      |              |              |              |               |                |
| <i>Fixed rate</i>             |                      |              |              |              |               |                |
| Avalon at Foxchase I          | \$                   | \$           | \$           | \$           | \$ 16,800     | \$             |
| Avalon at Foxchase II         |                      |              |              |              | 9,600         |                |
| Fairway Glen                  |                      |              |              |              | 9,580         |                |
| CountryBrook                  | 496                  | 528          | 562          | 599          | 638           | 15,301         |
| Waterford                     |                      |              |              |              |               | 33,100         |
| Avalon at Mountain View       |                      |              |              |              |               | 18,300         |
| Avalon at Dulles              |                      |              |              |              |               | 12,360         |
| Avalon at Symphony Glen       |                      |              |              |              |               | 9,780          |
| Avalon View                   | 398                  | 425          | 455          | 485          | 518           | 15,462         |
| Avalon at Lexington           | 307                  | 326          | 347          | 368          | 391           | 12,045         |
| Avalon at Nob Hill            | 308                  | 331          | 355          | 380          | 408           | 17,675         |
| Avalon Campbell               | 684                  | 733          | 786          | 843          | 904           | 31,799         |
| Avalon Pacifica               | 310                  | 332          | 356          | 382          | 410           | 14,426         |
| Avalon Knoll                  | 229                  | 246          | 263          | 282          | 302           | 11,656         |
| Avalon Landing                | 116                  | 124          | 132          | 142          | 152           | 5,751          |
| Avalon Fields                 | 181                  | 193          | 207          | 222          | 239           | 10,244         |
| Avalon West                   | 65                   | 70           | 75           | 80           | 85            | 8,086          |
| Avalon Oaks                   | 98                   | 104          | 112          | 120          | 128           | 17,066         |
|                               | <u>3,192</u>         | <u>3,412</u> | <u>3,650</u> | <u>3,903</u> | <u>40,155</u> | <u>233,051</u> |
| <i>Variable rate (4)</i>      |                      |              |              |              |               |                |
| Avalon at Laguna Niguel       |                      |              |              |              |               | 10,400         |
| The Promenade                 | 485                  | 522          | 562          | 605          | 652           | 30,844         |
| Avalon at Mission Viejo       | 112                  | 121          | 129          | 139          | 149           | 6,501          |
| Avalon Devonshire (5)         |                      |              |              |              |               | 27,305         |
| Avalon Greenbriar             |                      |              |              |              |               | 18,755         |
| Avalon at Fairway Hills I     |                      |              |              |              |               | 11,500         |
|                               | <u>597</u>           | <u>643</u>   | <u>691</u>   | <u>744</u>   | <u>801</u>    | <u>105,305</u> |
| <b>Conventional loans (6)</b> |                      |              |              |              |               |                |
| <i>Fixed rate</i>             |                      |              |              |              |               |                |
| \$100 Million unsecured notes |                      |              |              |              |               |                |
| \$50 Million unsecured notes  | 50,000               |              |              |              |               |                |
| \$100 Million unsecured notes | 100,000              |              |              |              |               |                |

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|   |            |            |            |            |            |              |
|---|------------|------------|------------|------------|------------|--------------|
| \$125 Million unsecured notes                               |            | 125,000    |            |            |            |              |
| \$100 Million unsecured notes                               |            |            | 100,000    |            |            |              |
| \$50 Million unsecured notes                                |            |            | 50,000     |            |            |              |
| \$150 Million unsecured notes                               |            |            |            | 150,000    |            |              |
| \$150 Million unsecured notes                               |            |            |            |            | 150,000    |              |
| \$110 Million unsecured notes                               |            |            |            |            | 110,000    |              |
| \$50 Million unsecured notes                                |            |            |            |            |            | 50,000       |
| \$150 Million unsecured notes                               |            |            |            |            |            | 150,000      |
| \$150 Million unsecured notes                               |            |            |            |            |            | 150,000      |
| \$200 Million unsecured notes                               |            |            |            |            |            | 200,000      |
| \$300 Million unsecured notes                               |            |            |            |            |            | 300,000      |
| \$50 Million unsecured notes                                |            |            |            |            |            | 50,000       |
| \$250 Million unsecured notes                               |            |            |            |            |            | 250,000      |
| Avalon at Pruneyard   |            | 12,870     |            |            |            |              |
| Avalon Walk II  | 315        | 11,433     |            |            |            |              |
|   |            |            |            |            |            |              |
|   | 150,315    | 149,303    | 150,000    | 150,000    | 260,000    | 1,150,000    |
| <i>Variable rate (4)</i>                                    |            |            |            |            |            |              |
| Avalon on the Sound   | 36,089     |            |            |            |            |              |
|   |            |            |            |            |            |              |
| Total indebtedness -<br>excluding unsecured credit facility | \$ 190,193 | \$ 153,358 | \$ 154,341 | \$ 154,647 | \$ 300,956 | \$ 1,488,356 |

- (1) Includes credit enhancement fees, facility fees, trustees' fees, etc.
- (2) Financed by variable rate tax-exempt debt, but interest rate is effectively fixed at the rate indicated through a swap agreement. The weighted average maturity of these swap agreements is 3.6 years.
- (3) Financed by variable rate tax-exempt debt, but interest rate is capped through an interest rate cap agreement. The remaining term of this interest rate cap agreement is 4.7 years.
- (4) Variable rates are given as of December 31, 2002.
- (5) Included in liabilities related to real estate assets held for sale on our Consolidated Balance Sheets included elsewhere in this report.
- (6) Balances outstanding do not include \$342 as of December 31, 2002 of debt premium reflected in unsecured notes on our Consolidated Balance Sheets included elsewhere in this report.

Stock Repurchase Program

In July 2002 we announced that our Board of Directors had authorized a common stock repurchase program. Under this program, we may acquire shares of our common stock in open market or negotiated transactions up to an aggregate purchase price of \$100,000,000. Actual purchases of stock will vary with market conditions. The size of the stock repurchase program was designed so that retained cash flow, as well as the proceeds from sales of existing apartment communities and a reduction in planned acquisitions, will provide the source of funding for the program, with our unsecured credit facility providing temporary funding as needed. Through February 28, 2003, we have acquired 2,042,600 shares at an aggregate cost of \$77,381,000 under this program.

Redemption of Preferred Stock

In July 2002, we redeemed all 2,300,000 outstanding shares of our 8.50% Series C Cumulative Redeemable Preferred Stock at a price of \$25.00 per share, plus \$0.1417 in accrued and unpaid dividends, for an aggregate redemption price of \$57,826,000, including accrued dividends of \$326,000. The redemption price was funded in part by the sale on July 11, 2002 of 592,000 shares of Series I Cumulative Redeemable Preferred Stock through a private placement to an institutional investor for a net purchase price of \$14,504,000. The dividend rate on such shares was initially equal to 3.36% per annum (three month LIBOR plus 1.5%) of the liquidation preference. As permitted under the terms of such preferred stock, we redeemed all of the Series I Cumulative Redeemable Preferred Stock on August 29, 2002 for an aggregate redemption price of \$14,609,000 including accrued dividends of \$68,000.

As of February 1, 2003, we have the following series of redeemable preferred stock outstanding at an aggregate stated value of \$181,692,500. These series have no stated maturity and are not subject to any sinking fund or mandatory redemptions. As these series become redeemable, we will evaluate the requirements necessary for such redemptions as well as the cost-effectiveness based on the existing market conditions.

| Series | Shares outstanding<br>February 1, 2003 | Payable<br>quarterly                | Annual<br>rate | Liquidation<br>preference | Non-redeemable<br>prior to                |
|--------|--|-------------------------------------|----------------|---------------------------|---|
| D      | 3,267,700                              | March, June, September,<br>December | 8.00%          | \$ 25                     | December 15, 2002<br>Currently Redeemable |
| H      | 4,000,000                              | March, June, September,<br>December | 8.70%          | \$ 25                     | October 15, 2008                          |

On February 18, 2003, we gave notice of our intent to redeem all 3,267,700 outstanding shares of our 8.00% Series D Cumulative Redeemable Preferred Stock. We anticipate closing this redemption on March 20, 2003 at a price of \$25.00 per share, plus \$0.0167 in accrued and unpaid dividends, for an aggregate redemption price of \$81,747,000, including accrued dividends of \$55,000. This redemption will be funded by the sale of shares of Series J Cumulative Redeemable Preferred Stock through a private placement to an institutional investor. The dividend rate on such shares will initially be based on three month LIBOR plus 1.5%. The Series J Cumulative Redeemable Preferred Stock will be redeemable at any time at our option.

### Inflation and Deflation

Substantially all of our apartment leases are for a term of one year or less. In the event of significant inflation, this may enable 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 without penalty and therefore expose us to the effect of a decline in market rents. In a deflationary rent environment, as is currently being experienced, we are exposed to declining rents more quickly under these shorter-term leases.

### Critical Accounting Policies

Our accounting policies are in conformity with GAAP. The preparation of financial statements in conformity with GAAP requires management to use judgment in the application of accounting policies, including making estimates and assumptions. These judgments 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. If our judgment or interpretation of the facts and circumstances relating to various transactions had been different, it is possible that different accounting policies would have been applied resulting in a different presentation of our financial statements. Below is a discussion of accounting policies which we consider critical in that they may require complex judgment in their application or require estimates about matters which are inherently uncertain. Additional discussion of accounting policies which we consider significant, including further discussion of the critical accounting policies described below, can be found in the Notes to our Consolidated Financial Statements.

#### *Real Estate Development Rights*

We capitalize pre-development costs incurred in pursuit of Development Rights for which we currently believe future development is probable. These costs include legal fees, design fees and related overhead costs. The accompanying Consolidated Financial Statements include a charge to expense to provide an allowance for potentially unrecoverable capitalized pre-development costs. The determination of the charge to expense involves management judgement, based on historical experience, regarding the probability that a Development Right will not proceed to development.

#### *Revenue Recognition*

Rental income related to leases is recognized on an accrual basis when due from residents in accordance with SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements. In accordance with our standard lease terms, rental payments are generally due on a monthly basis. Any cash concessions given at the inception of the lease are amortized over the approximate life of the lease generally one year.

#### *Real Estate*

If there is an event or change in circumstance that indicates an impairment in the value of a community, our policy is to assess the impairment by making a comparison of the current and projected operating cash flows of the community over its remaining useful life, on an undiscounted basis, to the carrying amount of the community. If the carrying amount is in excess of the estimated projected operating cash flows of the community, we would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value.

*Discontinued Operations*

On January 1, 2002, we adopted Statement of Financial Accounting Standards ( SFAS ) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which requires that the assets and liabilities and the results of operations of any communities which have been sold since January 1, 2002, or otherwise qualify as held for sale, be presented as discontinued operations in our Consolidated Financial Statements in both current and prior periods presented. The community specific components of net income that are presented as discontinued operations include net operating income, depreciation and interest expense. In addition, the net gain or loss (including any impairment loss) on the eventual disposal of communities held for sale is presented as discontinued operations when recognized. Real estate assets held for sale are measured at the lower of the carrying amount or the fair value less the cost to sell, and are presented separately in our Consolidated Balance Sheets. Subsequent to classification of a community as held for sale, no further depreciation is recorded on the assets.

*Investments in Technology Companies*

We account for our investments in technology companies in accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. If there is an event or change in circumstance that indicates a loss in the value of an investment, our policy is to record the loss and reduce the value of the investment to its fair value. A loss in value would be indicated if we could not recover the carrying value of the investment or if the investee could not sustain an earnings capacity that would justify the carrying amount of the investment. Due to the nature of these investments, an impairment in value can be difficult to determine.

*Stock-Based Compensation*

During the periods presented in this report, we applied APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, in accounting for our employee stock options. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. See Note 10, Stock-Based Compensation Plans, in our Consolidated Financial Statements for information regarding the effect on net income and earnings per share if we had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

*Legal Contingencies*

We are subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are frequently covered by insurance. While the resolution of these matters cannot be predicted with certainty, we believe the final outcome of such matters will not have a material adverse effect on our financial position or the results of operations. Once it has been determined that a loss is probable to occur, the estimated amount of the loss is recorded in the financial statements. Both the amount of the loss and the point at which its occurrence is considered probable can be difficult to determine.

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

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

Our operating results are affected by changes in interest rates as a result of borrowings under our variable rate unsecured credit facility as well as outstanding bonds with variable interest rates. We had

\$173,840,000 and \$125,274,000 in variable rate debt outstanding as of December 31, 2002 and 2001, respectively. If interest rates on the variable rate debt had been 100 basis points higher throughout 2002 and 2001, our annual interest costs would have increased by approximately \$2,557,000 and \$1,500,000, respectively, based on balances outstanding during the applicable years.

We currently use interest rate swap agreements to reduce the impact of interest rate fluctuations on certain variable rate indebtedness. Under swap agreements,

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

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

As of December 31, 2002, the effect of swap agreements is to fix the interest rate on approximately \$166,000,000 of our variable rate tax-exempt debt. Furthermore, a swap agreement to fix the interest rate on approximately \$22,500,000 of unconsolidated variable rate debt exists as of December 31, 2002. The swap agreements on the consolidated variable rate tax-exempt debt were not electively entered into by us but, rather, were a requirement of either the bond issuer or the credit enhancement provider related to certain of our tax-exempt bond financings. Because the counterparties providing the swap agreements are major financial institutions which have an A+ or better credit rating by the Standard & Poor's Ratings Group and the interest rates fixed by the swap agreements are significantly higher than current market rates for such agreements, we do not believe there is exposure at this time to a default by a counterparty provider. Had these swap agreements not been in place during 2002 and 2001, our annual interest costs would have been approximately \$5,674,000 and \$4,227,000 lower, respectively, based on balances outstanding and reported interest rates during the applicable years. However, if the variable interest rates on this debt had been 100 basis points higher throughout 2002 and 2001 and these swap agreements had not been in place, our annual interest costs would have been approximately \$4,024,000 and \$2,535,000 lower, respectively.

In addition, changes in interest rates affect the fair value of our fixed rate debt, which impacts the fair value of our aggregate indebtedness. Debt securities and notes payable (excluding our variable rate unsecured credit facility) with an aggregate carrying value of \$2,441,851,000 at December 31, 2002 had an estimated aggregate fair value of \$2,639,341,000 at December 31, 2002. Fixed rate debt represented \$2,296,981,000 of the carrying value and \$2,494,471,000 of the fair value at December 31, 2002. If interest rates had been 100 basis points higher as of December 31, 2002, the fair value of this fixed rate debt would have decreased by \$111,595,000.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The response to this Item 8 is included as a separate section of this Annual Report on Form 10-K/A.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

As discussed more fully in the registrant's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K/A with respect to the Annual Meeting of Stockholders to be held on May 14, 2003, during 2002 the Company dismissed Arthur Andersen LLP and engaged Ernst & Young LLP to be the Company's principal independent public accountant.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF REGISTRANT**

Information pertaining to directors and executive officers of the registrant is incorporated herein by reference to the registrant's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K/A with respect to the Annual Meeting of Stockholders to be held on May 14, 2003.

**ITEM 11. EXECUTIVE COMPENSATION**

Information pertaining to executive compensation is incorporated herein by reference to the registrant's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K/A with respect to the Annual Meeting of Stockholders to be held on May 14, 2003.

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

Information pertaining to security ownership of management and certain beneficial owners of the registrant's Common Stock is incorporated herein by reference to the registrant's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K/A with respect to the Annual Meeting of Stockholders to be held on May 14, 2003.

The Company maintains the 1994 Stock Incentive Plan (the "1994 Plan") and the 1996 Non-Qualified Employee Stock Purchase Plan (the "ESPP"), pursuant to which common stock or other equity awards may be issued or granted to eligible persons.



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The following table gives information about equity awards under the Company's 1994 Plan and ESPP as of December 31, 2002:

| Plan category   | (a)<br>Number of securities to be issued upon exercise of outstanding options, warrants and rights | (b)<br>Weighted-average exercise price of outstanding options, warrants and rights | (c)<br>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---|--|--|--|
| Equity compensation plans approved by security holders <sup>(1)</sup>     | 3,245,145 <sup>(2)(3)</sup>  | \$ 39.05 <sup>(3)(4)</sup>   | 1,415,862 <sup>(5)</sup>   |
| Equity compensation plans not approved by security holders <sup>(6)</sup> |  | n/a  | 702,342  |
| <b>Total</b>  | <b>3,245,145</b>   | <b>\$ 39.05<sup>(3)(4)</sup></b>   | <b>2,118,204</b>   |

(1) Consists of the 1994 Plan.

(2) Includes 79,138 deferred units granted under the 1994 Plan, which, subject to vesting requirements, will convert in the future to common stock on a one-for-one basis, but does not include 199,127 shares of restricted stock that are outstanding and that are already reflected in the Company's outstanding shares.

(3) Does not include outstanding options to acquire 640,506 shares, at a weighted-average exercise price of \$35.27 per share, that were assumed, in connection with the 1998 merger of Avalon Properties, Inc. with and into the Company, under the Avalon Properties, Inc. 1995 Equity Incentive Plan and the Avalon Properties, Inc. 1993 Stock Option and Incentive Plan.

(4) Excludes deferred units granted under the 1994 Plan, which, subject to vesting requirements, will convert in the future to common stock on a one-for-one basis.

(5) The 1994 Plan incorporates an evergreen formula pursuant to which the aggregate number of shares reserved for issuance under the 1994 Plan will increase annually. On each January 1, the aggregate number of shares reserved for issuance under the 1994 Plan will increase by a number of shares equal to a percentage (ranging from 0.48% to 1.00%) of all outstanding shares of Common Stock at the end of the year. The exact percentage used is determined based on the percentage of all awards made under the 1994 Plan during the calendar year that were in the form of stock options with an exercise price equal to the fair market value of a share of Common Stock on the date of the grant. In accordance with this procedure, on January 1, 2003, the maximum number of shares remaining available for future issuance under the 1994 Plan was increased by 664,115 to 2,079,977.

(6) Consists of the ESPP.

The ESPP, which was adopted by the Board of Directors on October 29, 1996, has not been approved by our shareholders. A further description of the ESPP appears in Note 10, "Stock-Based Compensation Plans," of our Consolidated Financial Statements included in this report.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information pertaining to certain relationships and related transactions is incorporated herein by reference to the registrant's Proxy Statement to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K/A with respect to the Annual Meeting of Stockholders to be held on May 14, 2003.



**ITEM 14. CONTROLS AND PROCEDURES**

(a) Evaluation of Disclosure Controls and Procedures.

Within the 90 days prior to the date of this report, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in the reports it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. We continue to review and document our disclosure controls and procedures, including our internal controls and procedures for financial reporting, and may from time to time make changes aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

(b) Changes in Internal Controls.

There were no significant changes in the Company's internal controls or in other factors that could significantly affect these controls, subsequent to the date of their evaluation.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE AND REPORTS ON FORM 8-K**

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

**Index to Financial Statements**

Consolidated Financial Statements and Financial Statement Schedule:

|   |     |
|---|-----|
| Report of Independent Auditors  | F-1 |
| Consolidated Balance Sheets as of December 31, 2002 and 2001  | F-2 |
| Consolidated Statements of Operations and Other Comprehensive Income for the years ended December 31, 2002, 2001 and 2000 | F-3 |
| Consolidated Statements of Stockholders' Equity for the years ended December 31, 2002, 2001 and 2000                      | F-4 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000                                | F-5 |
| Notes to Consolidated Financial Statements  | F-7 |

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

|   |      |
|---|------|
| Schedule III Real Estate and Accumulated Depreciation | F-30 |
|---|------|

**15(a)(3) Exhibits**

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

**15(b) Reports on Form 8-K**

None.

## INDEX TO EXHIBITS

| EXHIBIT<br>NO. | DESCRIPTION   |
|----------------|---|
| 3(i).1         | Articles of Amendment and Restatement of Articles of Incorporation of the Company, dated as of June 4, 1998. (Incorporated by reference to Exhibit 3(i).1 to Form 10-Q of the Company filed August 14, 1998.)                                   |
| 3(i).2         | Articles of Amendment, dated as of October 2, 1998. (Incorporated by reference to Exhibit 3.1(ii) to the Company's Current Report on Form 8-K filed October 6, 1998.)   |
| 3(i).3         | Articles Supplementary, dated as of October 13, 1998, relating to the 8.70% Series H Cumulative Redeemable Preferred Stock. (Incorporated by reference to Exhibit 1 to Form 8-A of the Company filed October 14, 1998.)                         |
| 3(i).4         | Articles Supplementary of the Company relating to its Series I Cumulative Redeemable Preferred Stock. (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed July 15, 2002.)                               |
| 3(ii)          | Amended and Restated Bylaws of the Company, as adopted by the Board of Directors on February 13, 2003. (Incorporated by reference to Exhibit 3(ii) to Form 10-K of the Company filed March 11, 2003.)   |
| 4.1            | Indenture of Avalon Properties, Inc. (hereinafter referred to as "Avalon Properties") dated as of September 18, 1995. (Incorporated by reference to Avalon Properties' Registration Statement on Form S-3 (33-95412), filed on August 4, 1995.) |
| 4.2            | First Supplemental Indenture of Avalon Properties dated as of September 18, 1995. (Incorporated by reference to Exhibit 4.2 to Form 10-K of the Company filed March 26, 2002.)  |
| 4.3            | Second Supplemental Indenture of Avalon Properties dated as of December 16, 1997. (Incorporated by reference to Exhibit 4.3 to Form 10-K of the Company filed March 11, 2003.)  |
| 4.4            | Third Supplemental Indenture of Avalon Properties dated as of January 22, 1998. (Incorporated by reference to Exhibit 4.4 to Form 10-K of the Company filed March 11, 2003.)  |
| 4.5            | Indenture, dated as of January 16, 1998, between the Company and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to Exhibit 4.5 to Form 10-K of the Company filed March 11, 2003.)                                  |
| 4.6            | First Supplemental Indenture, dated as of January 20, 1998, between the Company and the Trustee. (Incorporated by reference to Exhibit 4.6 to Form 10-K of the Company filed March 11, 2003.)   |
| 4.7            | Second Supplemental Indenture, dated as of July 7, 1998, between the Company and the Trustee. (Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed July 9, 1998.)  |

| EXHIBIT<br>NO. | DESCRIPTION  |
|----------------|--|
| 4.8            | Amended and Restated Third Supplemental Indenture, dated as of July 10, 2000 between the Company and the Trustee, including forms of Floating Rate Note and Fixed Rate Note. (Incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed July 11, 2000.)   |
| 4.9            | Dividend Reinvestment and Stock Purchase Plan of the Company filed September 14, 1999. (Incorporated by reference to Form S-3 of the Company, File No. 333-87063.)   |
| 4.10           | Amendment to the Company's Dividend Reinvestment and Stock Purchase Plan filed on December 17, 1999. (Incorporated by reference to the Prospectus Supplement filed pursuant to Rule 424(b)(2) of the Securities Act of 1933 on December 17, 1999.)   |
| 4.11           | Shareholder Rights Agreement (Expired), dated March 9, 1998 (the "Rights Agreement"), between the Company and First Union National Bank (as successor to American Stock Transfer and Trust Company) as Rights Agent (including the form of Rights Certificate as Exhibit B) (Incorporated by reference to Exhibit 4.1 to Form 8-A of the Company filed March 11, 1998); Amendment No. 1 to the Rights Agreement, dated as of February 28, 2000, between the Company and the Rights Agent (Incorporated by reference to Exhibit 4.2 to Form 8-A/A of the Company filed February 28, 2000); Amendment No. 2 to the Rights Agreement, dated January 4, 2002, between the Company and the Rights Agent (Incorporated by reference to Exhibit 4.3 to Form 8-K of the Company filed January 7, 2000). The Shareholder Rights Agreement, as amended, expired on March 31, 2002. |
| 10.1           | Distribution Agreement, dated December 21, 1998, among AvalonBay Communities, Inc. (the "Company") and the Agents, including Administrative Procedures, relating to the MTNs. (Incorporated by reference to Exhibit 4.4 to the Company's Current Report on Form 8-K filed December 21, 1998.)  |
| 10.2           | First Amendment, dated as of June 27, 2000, to Distribution Agreement, dated December 21, 1998, among the Company and the Agents. (Incorporated by reference to Exhibit 1.2 to the Company's Current Report on Form 8-K filed July 11, 2000.)  |
| 10.3           | Second Amendment, dated as of August 31, 2001, to Distribution Agreement, dated December 21, 1998, among the Company and the Agents. (Incorporated by reference to Exhibit 1.3 to the Company's Current Report on Form 8-K filed September 4, 2001.)   |
| 10.4+          | Employment Agreement, dated as of March 9, 1998, between the Company and Thomas J. Sargeant. (Incorporated by reference to Exhibit 10.4 to Form 10-Q of the Company filed August 14, 1998.)  |
| 10.5+          | Employment Agreement, dated as of January 10, 2003, between the Company and Bryce Blair. (Incorporated by reference to Exhibit 10.5 to Form 10-K of the Company filed March 11, 2003.)   |
| 10.6+          | Employment Agreement, dated as of February 26, 2001, between the Company and Timothy J. Naughton. (Incorporated by reference to Exhibit 10.5 to Form 10-K of the Company filed March 29, 2001.)  |
| 10.7+          | Employment Agreement, dated as of September 10, 2001, between the Company and Leo S. Horey. (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed November 14, 2001.)   |

| EXHIBIT<br>NO. | DESCRIPTION   |
|----------------|---|
| 10.8+          | Employment Agreement, dated as of December 31, 2001, between the Company and Samuel B. Fuller. (Incorporated by reference to Exhibit 10.9 to Form 10-K of the Company filed March 26, 2002.)  |
| 10.9+          | Letter Agreement regarding departure, dated February 26, 2001, by and between the Company and Robert H. Slater. (Incorporated by reference to Exhibit 10.8 to Form 10-K of the Company filed March 29, 2001.)   |
| 10.10+         | Mutual Release and Separation Agreement, dated as of March 24, 2000, between the Company and Gilbert M. Meyer. (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed May 15, 2000.)  |
| 10.11+         | Retirement Agreement, dated as of March 24, 2000, between the Company and Gilbert M. Meyer. (Incorporated by reference to Exhibit 10.2 to Form 10-Q of the Company filed May 15, 2000.)   |
| 10.12+         | Consulting Agreement, dated as of March 24, 2000, between the Company and Gilbert M. Meyer. (Incorporated by reference to Exhibit 10.3 to Form 10-Q of the Company filed May 15, 2000.)   |
| 10.13+         | Avalon Properties, Inc. 1993 Stock Option and Incentive Plan. (Incorporated by reference to Exhibit 10.14 to Form 10-K of the Company filed March 29, 2001.)  |
| 10.14+         | Avalon Properties, Inc. 1995 Equity Incentive Plan. (Incorporated by reference to Exhibit 10.15 to Form 10-K of the Company filed March 29, 2001.)  |
| 10.15+         | Amendment, dated May 6, 1999, to the Avalon Properties Amended and Restated 1995 Equity Incentive Plan. (Incorporated by reference to Exhibit 10.7 to Form 10-Q of the Company filed August 16, 1999.)  |
| 10.16+         | AvalonBay Communities, Inc. 1994 Stock Incentive Plan, as amended and restated in full on May 8, 2001. (Incorporated by reference to Exhibit B to the Company's Schedule 14A filed March 30, 2001.)   |
| 10.17+         | 1996 Non-Qualified Employee Stock Purchase Plan, dated June 26, 1997, as amended and restated. (Incorporated by reference to Exhibit 99.1 to Post-effective Amendment No. 1 to Form S-8 of the Company filed June 26, 1997, File No. 333-16837.)  |
| 10.18+         | 1996 Non-Qualified Employee Stock Purchase Plan Plan Information Statement dated June 26, 1997. (Incorporated by reference to Exhibit 99.2 to Form S-8 of the company, File No. 333-16837.)   |
| 10.19+         | Indemnification Agreements between the Company and the Directors of the Company. (Incorporated by reference to Exhibit 10.39 to Form 10-K of the Company filed March 31, 1999.)   |
| 10.20+         | The Company's Officer Severance Plan. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed July 11, 2000.)  |
| 10.21          | Revolving Loan Agreement, dated as of May 24, 2001, among the Company, as Borrower, The Chase Manhattan Bank, as a Bank, Co-Agent and Syndication Agent, Fleet National Bank, as a Bank and Co-Agent, Bank of America, N.A., First Union National Bank and Citicorp Real Estate, Inc., each as a Bank and Documentation Agent, the other banks signatory thereto, each as a Bank, J.P. Morgan Securities, Inc., as Sole Bookrunner and Lead Arranger, and Fleet National Bank, as |

| EXHIBIT<br>NO. | DESCRIPTION  |
|----------------|--|
|                | Administrative Agent. (Incorporated by reference to Exhibit 10.1 to Form 10-Q of the Company filed August 14, 2001.)   |
| 12.1           | Statements re: Computation of Ratios. (Filed herewith.)  |
| 21.1           | Schedule of Subsidiaries of the Company. (Incorporated by reference to Exhibit 21.1 to Form 10-K of the Company filed March 11, 2003.)   |
| 23.1           | Consent of Ernst & Young LLP. (Filed herewith.)  |
| 99.1           | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Executive Officer). (Filed herewith.)   |
| 99.2           | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Chief Financial Officer). (Filed herewith.)   |
| +              | Management contract or compensatory plan or arrangement required to be filed or incorporated by reference as an exhibit to this Form 10-K/A pursuant to Item 14(c) of Form 10-K. |



SIGNATURE

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**AvalonBay Communities, Inc.**

Date: July 23, 2003

By: /s/ Thomas J. Sargeant

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Thomas J. Sargeant, Executive Vice President  
and Chief Financial Officer  
(Principal Executive Officer)

**Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

**CERTIFICATION**

I, Bryce Blair, certify that:

1. I have reviewed this annual report on Form 10-K/A of AvalonBay Communities, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

Date: July 23, 2003

/s/ Bryce Blair

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Bryce Blair  
Chairman of the Board, Chief Executive Officer and President

**CERTIFICATION**

I, Thomas J. Sargeant, certify that:

1. I have reviewed this annual report on Form 10-K/A of AvalonBay Communities, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: July 23, 2003

/s/ Thomas J. Sargeant

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Thomas J. Sargeant  
Executive Vice President    Chief Financial Officer

**Report of Independent Auditors**

To the Board of Directors and Stockholders of  
AvalonBay Communities, Inc.:

We have audited the accompanying consolidated balance sheets of AvalonBay Communities, Inc. (the Company) as of December 31, 2002 and 2001, and the related consolidated statements of operations and other comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15(a)(2). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AvalonBay Communities, Inc. at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects, the information set forth therein.

As discussed in Note 1 to the consolidated financial statements, in 2002 the Company adopted Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. In addition, as discussed in Note 5 to the consolidated financial statements, in 2001 the Company changed its method of accounting for derivative instruments and hedging activities.

/s/ Ernst & Young LLP

McLean, Virginia  
January 21, 2003, except as to the last paragraph of Note 1,  
Note 7 and Note 9, for which the date is June 26, 2003

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

|  | <u>12-31-02</u>  | <u>12-31-01</u>  |
|--|------------------|------------------|
| <b>ASSETS</b>  |                  |                  |
| Real estate:   |                  |                  |
| Land, including land held for development  | \$ 895,506       | \$ 787,917       |
| Buildings and improvements   | 3,853,100        | 3,286,477        |
| Furniture, fixtures and equipment  | 122,647          | 107,417          |
|  | <u>4,871,253</u> | <u>4,181,811</u> |
| Less accumulated depreciation  | (558,991)        | (420,931)        |
|  | <u>4,312,262</u> | <u>3,760,880</u> |
| Construction in progress (including land)  | 312,425          | 433,756          |
| Real estate assets held for sale, net  | 160,744          | 196,207          |
|  | <u>4,785,431</u> | <u>4,390,843</u> |
|  |                  |                  |
| Cash and cash equivalents  | 12,934           | 72,912           |
| Cash in escrow   | 10,239           | 49,935           |
| Resident security deposits   | 21,839           | 20,370           |
| Investments in unconsolidated real estate entities   | 14,591           | 15,066           |
| Deferred financing costs, net  | 20,312           | 20,199           |
| Deferred development costs, net  | 31,461           | 26,038           |
| Participating mortgage notes   | 21,483           | 21,483           |
| Prepaid expenses and other assets  | 32,545           | 47,443           |
|  | <u>4,950,835</u> | <u>4,664,289</u> |
|  |                  |                  |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                  |                  |
| Unsecured notes  | \$ 1,985,342     | \$ 1,635,000     |
| Variable rate unsecured credit facility  | 28,970           |                  |
| Mortgage notes payable   | 429,546          | 420,464          |
| Dividends payable  | 51,553           | 49,007           |
| Payables for construction  | 29,768           | 43,656           |
| Accrued expenses and other liabilities   | 50,641           | 50,017           |
| Accrued interest payable   | 42,924           | 38,807           |
| Resident security deposits   | 30,696           | 27,639           |
| Liabilities related to real estate assets held for sale  | 29,412           | 29,951           |
|  | <u>2,678,852</u> | <u>2,294,541</u> |
|  |                  |                  |
| Minority interest of unitholders in consolidated partnerships  | 77,443           | 55,193           |
|  |                  |                  |
| Commitments and contingencies  |                  |                  |
| Stockholders equity:   |                  |                  |
| Preferred stock, \$.01 par value; \$25 liquidation preference; 50,000,000 shares authorized at both December 31, 2002 and 2001; 7,267,700 and 9,567,700 shares issued and outstanding at December 31, 2002 and December 31, 2001, respectively | 73               | 96               |
| Common stock, \$.01 par value; 140,000,000 shares authorized at both December 31, 2002 and 2001; 68,202,926 and 68,713,384 shares issued and outstanding at December 31, 2002 and December 31, 2001, respectively                              | 682              | 687              |

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|   |                   |                   |
|---|-------------------|-------------------|
| Additional paid-in capital                  | 2,266,130         | 2,333,241         |
| Deferred compensation                       | (7,855)           | (7,489)           |
| Dividends in excess of accumulated earnings | (51,850)          | (3,497)           |
| Accumulated other comprehensive loss        | (12,640)          | (8,483)           |
|   | <u>          </u> | <u>          </u> |
| Total stockholders' equity                  | 2,194,540         | 2,314,555         |
|   | <u>          </u> | <u>          </u> |
|   | <u>          </u> | <u>          </u> |
| Total liabilities and stockholders' equity  | \$4,950,835       | \$4,664,289       |
|   | <u>          </u> | <u>          </u> |

See accompanying notes to Consolidated Financial Statements.

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

|   | For the year ended |                   |                   |
|---|--------------------|-------------------|-------------------|
|   | 12-31-02           | 12-31-01          | 12-31-00          |
| <b>Revenue:</b>                                     |                    |                   |                   |
| Rental income                                       | \$604,411          | \$602,916         | \$539,269         |
| Management fees                                     | 1,355              | 1,325             | 1,051             |
| Other income  | 7,110              | 2,953             | 401               |
|   | <u>          </u>  | <u>          </u> | <u>          </u> |
| Total revenue                                       | 612,876            | 607,194           | 540,721           |
|   | <u>          </u>  | <u>          </u> | <u>          </u> |
| <b>Expenses:</b>                                    |                    |                   |                   |
| Operating expenses, excluding property taxes        | 169,268            | 152,593           | 133,857           |
| Property taxes                                      | 53,790             | 48,742            | 43,607            |
| Interest expense                                    | 120,559            | 102,069           | 81,973            |
| Depreciation expense                                | 138,080            | 123,007           | 115,338           |
| General and administrative expense                  | 14,332             | 15,224            | 13,013            |
| Impairment loss                                     | 6,800              |                   |                   |
|   | <u>          </u>  | <u>          </u> | <u>          </u> |
| Total expenses                                      | 502,829            | 441,635           | 387,788           |
|   | <u>          </u>  | <u>          </u> | <u>          </u> |
| Equity in income of unconsolidated entities         | 55                 | 856               | 2,428             |
| Interest income                                     | 3,978              | 6,823             | 4,764             |
| Minority interest in consolidated partnerships      | (1,771)            | 161               | (1,086)           |
|   | <u>          </u>  | <u>          </u> | <u>          </u> |
| Income before gain on sale of communities           | 112,309            | 173,399           | 159,039           |
| Gain on sale of communities                         |                    | 62,852            | 40,779            |
|   | <u>          </u>  | <u>          </u> | <u>          </u> |
| Income from continuing operations                   | 112,309            | 236,251           | 199,818           |
|   | <u>          </u>  | <u>          </u> | <u>          </u> |
| <b>Discontinued operations:</b>                     |                    |                   |                   |
| Income from discontinued operations                 | 12,416             | 12,746            | 10,786            |
| Gain on sale of communities                         | 48,893             |                   |                   |
|   | <u>          </u>  | <u>          </u> | <u>          </u> |
| Total discontinued operations                       | 61,309             | 12,746            | 10,786            |
|   | <u>          </u>  | <u>          </u> | <u>          </u> |
| Net income  | 173,618            | 248,997           | 210,604           |
| Dividends attributable to preferred stock           | (17,896)           | (32,497)          | (39,779)          |
|   | <u>          </u>  | <u>          </u> | <u>          </u> |
| Net income available to common stockholders         | \$155,722          | \$216,500         | \$170,825         |
|   | <u>          </u>  | <u>          </u> | <u>          </u> |
| <b>Other comprehensive loss:</b>                    |                    |                   |                   |
| Cumulative effect of change in accounting principle |                    | (6,412)           |                   |
| Unrealized loss on cash flow hedges                 | (4,157)            | (2,071)           |                   |
|   | <u>          </u>  | <u>          </u> | <u>          </u> |
| Other comprehensive loss                            | (4,157)            | (8,483)           |                   |
|   | <u>          </u>  | <u>          </u> | <u>          </u> |
| Comprehensive income                                | \$151,565          | \$208,017         | \$170,825         |
|   | <u>          </u>  | <u>          </u> | <u>          </u> |

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Earnings per common share basic:

|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Income from continuing operations (net of dividends attributable to preferred stock) | \$ 1.37           | \$ 3.00           | \$ 2.42           |
| Discontinued operations  | 0.89              | 0.19              | 0.16              |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income available to common stockholders  | \$ 2.26           | \$ 3.19           | \$ 2.58           |
|  | <u>          </u> | <u>          </u> | <u>          </u> |

Earnings per common share diluted:

|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Income from continuing operations (net of dividends attributable to preferred stock) | \$ 1.35           | \$ 2.93           | \$ 2.36           |
| Discontinued operations  | 0.88              | 0.19              | 0.17              |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income available to common stockholders  | \$ 2.23           | \$ 3.12           | \$ 2.53           |
|  | <u>          </u> | <u>          </u> | <u>          </u> |

See accompanying notes to Consolidated Financial Statements.



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

|  | Shares issued      |                 | Amount             |                 | Additional<br>paid-in<br>capital | Deferred<br>compensation | Dividends in<br>excess of<br>accumulated<br>earnings | Accumulated<br>other<br>comprehensive<br>loss | Stockholders'<br>equity |
|--|--------------------|-----------------|--------------------|-----------------|----------------------------------|--------------------------|--|---|-------------------------|
|  | Preferred<br>stock | Common<br>stock | Preferred<br>stock | Common<br>stock |                                  |                          |  |   |                         |
| Balance at<br>December 31, 1999                                  | 18,322,700         | 65,758,009      | \$ 183             | \$ 658          | \$2,442,510                      | \$ (3,559)               | \$ (69,507)  | \$  | \$2,370,285             |
| Net income   |                    |                 |                    |                 |                                  |                          | 210,604  |   | 210,604                 |
| Dividends declared<br>to common and<br>preferred<br>stockholders |                    |                 |                    |                 |                                  |                          | (188,942)  |   | (188,942)               |
| Issuance of common<br>stock                                      |                    | 1,433,533       |                    | 14              | 50,523                           | (3,408)                  |  |   | 47,129                  |
| Amortization of<br>deferred<br>compensation                      |                    |                 |                    |                 |                                  | 3,417                    |  |   | 3,417                   |
| Balance at<br>December 31, 2000                                  | 18,322,700         | 67,191,542      | 183                | 672             | 2,493,033                        | (3,550)                  | (47,845)   |   | 2,442,493               |
| Cumulative effect of<br>change in accounting<br>principle        |                    |                 |                    |                 |                                  |                          |  | (6,412)                                       | (6,412)                 |
| Net income   |                    |                 |                    |                 |                                  |                          | 248,997  |   | 248,997                 |
| Unrealized loss on<br>cash flow hedges                           |                    |                 |                    |                 |                                  |                          |  | (2,071)                                       | (2,071)                 |
| Dividends declared<br>to common and<br>preferred<br>stockholders |                    |                 |                    |                 |                                  |                          | (204,649)  |   | (204,649)               |
| Issuance of common<br>stock                                      |                    | 1,521,842       |                    | 15              | 59,116                           | (7,545)                  |  |   | 51,586                  |
| Redemption of<br>preferred stock                                 | (8,755,000)        |                 | (87)               |                 | (218,908)                        |                          |  |   | (218,995)               |
| Amortization of<br>deferred<br>compensation                      |                    |                 |                    |                 |                                  | 3,606                    |  |   | 3,606                   |
| Balance at<br>December 31, 2001                                  | 9,567,700          | 68,713,384      | 96                 | 687             | 2,333,241                        | (7,489)                  | (3,497)  | (8,483)                                       | 2,314,555               |
| Net income   |                    |                 |                    |                 |                                  |                          | 173,618  |   | 173,618                 |
| Unrealized loss on<br>cash flow hedges                           |                    |                 |                    |                 |                                  |                          |  | (4,157)                                       | (4,157)                 |
| Dividends declared<br>to common and<br>preferred<br>stockholders |                    |                 |                    |                 |                                  |                          | (209,996)  |   | (209,996)               |
| Issuance of common<br>stock, net of<br>withholdings              |                    | 771,142         |                    | 8               | 28,795                           | (4,463)                  | (508)  |   | 23,832                  |
| Repurchase of<br>common stock,                                   |                    | (1,281,600)     |                    | (13)            | (38,281)                         |                          | (11,467)   |   | (49,761)                |

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|   |             |            |       |        |              |            |             |             |              |
|---|-------------|------------|-------|--------|--------------|------------|-------------|-------------|--------------|
| including repurchase costs of \$39                          |             |            |       |        |              |            |             |             |              |
| Issuance of preferred stock, net of offering costs of \$407 | 592,000     |            | 6     |        | 14,387       |            |             |             | 14,393       |
| Redemption of preferred stock                               | (2,892,000) |            | (29)  |        | (72,012)     |            |             |             | (72,041)     |
| Amortization of deferred compensation                       |             |            |       |        |              | 4,097      |             |             | 4,097        |
| Stockholders equity, December 31, 2002                      | 7,267,700   | 68,202,926 | \$ 73 | \$ 682 | \$ 2,266,130 | \$ (7,855) | \$ (51,850) | \$ (12,640) | \$ 2,194,540 |

See accompanying notes to Consolidated Financial Statements.

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

|  | For the year ended |                  |                  |
|--|--------------------|------------------|------------------|
|  | 12-31-02           | 12-31-01         | 12-31-00         |
| <b>Cash flows from operating activities:</b>   |                    |                  |                  |
| Net income   | \$ 173,618         | \$ 248,997       | \$ 210,604       |
| Adjustments to reconcile net income to cash provided by operating activities:                              |                    |                  |                  |
| Depreciation expense   | 138,080            | 123,007          | 115,338          |
| Depreciation expense from discontinued operations  | 6,397              | 7,072            | 7,272            |
| Amortization of deferred financing costs   | 3,913              | 3,716            | 2,924            |
| Amortization of deferred compensation  | 4,097              | 3,606            | 3,417            |
| Income allocated to minority interest in consolidated partnerships including discontinued operations       | 2,570              | 597              | 1,908            |
| Gain on sale of communities, net of impairment loss on planned dispositions                                | (42,093)           | (62,852)         | (40,779)         |
| Decrease (increase) in cash in operating escrows   | (134)              | 41               | 1,144            |
| Decrease (increase) in resident security deposits, prepaid expenses and other assets                       | 18,311             | (8,581)          | (15,438)         |
| Increase in accrued expenses, other liabilities and accrued interest payable                               | 3,051              | 4,925            | 15,693           |
|  | <u>307,810</u>     | <u>320,528</u>   | <u>302,083</u>   |
| <b>Cash flows used in investing activities:</b>  |                    |                  |                  |
| Development/redevelopment of real estate assets including land acquisitions and deferred development costs | (426,830)          | (353,351)        | (171,985)        |
| Acquisition of real estate assets  | (106,300)          | (129,300)        | (252,400)        |
| Capital expenditures - current real estate assets  | (10,930)           | (9,649)          | (15,209)         |
| Capital expenditures - non-real estate assets  | (1,142)            | (4,183)          | (1,359)          |
| Proceeds from sale of communities, net of selling costs  | 78,454             | 238,545          | 156,086          |
| Increase (decrease) in payables for construction   | (13,888)           | 23,656           | 1,123            |
| Decrease (increase) in cash in construction escrows  | 39,830             | (33,273)         | (9,076)          |
| Decrease (increase) in investments in unconsolidated real estate entities                                  | 475                | (2,851)          | 34,665           |
|  | <u>(440,331)</u>   | <u>(270,406)</u> | <u>(258,155)</u> |
| <b>Cash flows from financing activities:</b>   |                    |                  |                  |
| Issuance of common stock   | 22,296             | 50,912           | 36,203           |
| Repurchase of common stock   | (49,761)           |                  |                  |
| Issuance of preferred stock, net of related costs  | 14,393             |                  |                  |
| Redemption of preferred stock and related costs  | (72,041)           | (218,995)        |                  |
| Dividends paid   | (207,450)          | (203,214)        | (185,509)        |
| Net borrowings (repayments) under unsecured credit facility  | 28,970             |                  | (178,600)        |
| Issuance of mortgage notes payable   |                    | 75,110           |                  |
| Repayments of mortgage notes payable   | (24,818)           | (22,265)         | (35,123)         |
| Proceeds from sale of unsecured notes, net of repayments   | 350,342            | 300,000          | 350,000          |
| Payment of deferred financing costs  | (4,026)            | (8,808)          | (4,428)          |
| Redemption of units for cash by minority partners  | (1,663)            | (864)            |                  |
| Contributions from (distributions to) minority partners  | 16,301             | (6,320)          | 23,142           |
|  | <u>22,296</u>      | <u>22,296</u>    | <u>22,296</u>    |

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|   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|
| Net cash provided by (used in) financing activities           | 72,543            | (34,444)          | 5,685             |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Net increase (decrease) in cash and cash equivalents          | (59,978)          | 15,678            | 49,613            |
| Cash and cash equivalents, beginning of year                  | 72,912            | 57,234            | 7,621             |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Cash and cash equivalents, end of year                        | \$ 12,934         | \$ 72,912         | \$ 57,234         |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Cash paid during year for interest, net of amount capitalized | \$ 108,903        | \$ 88,996         | \$ 72,712         |
|   | <u>          </u> | <u>          </u> | <u>          </u> |

See accompanying notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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

During the year ended December 31, 2002:

The Company issued 102,756 units of limited partnership interest in DownREIT partnerships valued at \$5,000 in connection with the formation of a DownREIT partnership and the acquisition by that partnership of land. See Note 1, Organization and Significant Accounting Policies, of the Consolidated Financial Statements for a description of DownREIT partnerships.

As described in Note 4, Stockholders' Equity, of the Consolidated Financial Statements, 144,718 shares of common stock were issued, 34,876 shares were withheld to satisfy employees' tax withholding and other liabilities and 2,818 shares were forfeited, for a net value of \$5,999.

The Company assumed \$33,900 in variable rate, tax-exempt debt related to the acquisition of one community.

The Company recorded a liability and a corresponding charge to other comprehensive loss of \$4,157 to adjust the Company's Hedged Derivatives (as defined in Note 5, Derivative Instruments and Hedging Activities, of the Consolidated Financial Statements) to their fair value.

Common and preferred dividends declared but not paid totaled \$51,553.

During the year ended December 31, 2001:

762 units of limited partnership, valued at \$36, were presented for redemption to the DownREIT partnership that issued such units and were acquired by the Company in exchange for an equal number of shares of the Company's common stock.

The Company issued 619 units of limited partnership in DownREIT partnerships valued at \$30 as consideration for acquisitions of apartment communities that were acquired pursuant to the terms of a forward purchase contract agreed to in 1997 with an unaffiliated party. In addition, the Company issued 256,940 units of limited partnership in a DownREIT partnership valued at \$12,274 in connection with the formation of a DownREIT partnership and the acquisition by that partnership of land.

186,877 shares of common stock were issued at a value of \$8,570 and 19,646 shares were forfeited at a value of \$235.

\$67 of deferred stock units were converted into 1,803 shares of common stock.

The Company recorded a liability and a corresponding charge to other comprehensive loss of \$8,483 to adjust the Company's Hedged Derivatives to their fair value.

Common and preferred dividends declared but not paid were \$49,007.

During the year ended December 31, 2000:

1,520 units of limited partnership in DownREIT partnerships, valued at \$60, were issued in connection with an acquisition for cash and units pursuant to a forward purchase contract agreed to in 1997 with an unaffiliated party.

304,602 units of limited partnership in DownREIT partnerships, valued at \$10,926, were exchanged for an equal number of shares of the Company's common stock.

139,336 shares of common stock were issued at a value of \$4,703 and 50,310 shares were forfeited at a value of \$1,668.

Real estate assets valued at \$5,394 were contributed to a limited liability company in exchange for a 25% membership interest.

Common and preferred dividends declared but not paid totaled \$47,572.

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

1. Organization and Significant Accounting Policies

*Organization*

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

At December 31, 2002, the Company owned or held a direct or indirect ownership interest in 137 operating apartment communities containing 40,179 apartment homes in eleven states and the District of Columbia, of which two communities containing 1,089 apartment homes were under reconstruction. In addition, the Company owned or held a direct or indirect ownership interest in 12 communities under construction that are expected to contain an aggregate of 3,429 apartment homes when completed. The Company also owned a direct or indirect ownership interest in rights to develop an additional 38 communities that, if developed in the manner expected, will contain an estimated 9,950 apartment homes.

*Principles of Consolidation*

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

The Company accounts for joint venture partnerships and subsidiary partnerships structured as DownREITS in accordance with Statement of Position ( SOP ) 78-9, Accounting for Investments in Real Estate Ventures. Under SOP 78-9, the Company generally consolidates joint venture and DownREIT partnerships when the Company controls the major operating and financial policies of the partnership through majority ownership or in its capacity as general partner. The accompanying Consolidated Financial Statements include the accounts of the Company and its wholly-owned partnerships and certain joint venture partnerships in addition to subsidiary partnerships structured as DownREITS. All significant intercompany balances and transactions have been eliminated in consolidation.

In each of the partnerships structured as DownREITs, either the Company or one of the Company s wholly-owned subsidiaries is the general partner, and there are one or more limited partners whose interest in the partnership is represented by units of limited partnership interest. For each DownREIT partnership, limited partners are entitled to receive an initial distribution before any distribution is made to the general partner. Although the partnership agreements for each of the DownREITs are different, generally the distributions per unit paid to the holders of units of limited partnership interests have approximated the Company s current common stock dividend per share. Each DownREIT partnership has been structured so that it is unlikely the limited partners will be entitled to a distribution greater than the initial distribution provided for in the partnership agreement. The holders of units of limited partnership interest have the right to present each unit of limited partnership interest for redemption for cash equal to the fair market value of a share of the Company s common stock on the date of redemption. In lieu of a cash redemption of a limited partner s unit, the Company may elect to acquire any unit presented for redemption for one share of common stock.

The Company accounts for investments in unconsolidated entities in accordance with SOP 78-9 and Accounting Principles Board ( APB ) Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock. The Company uses the equity method to account for investments in which it owns greater than 20% of the equity value or has significant and disproportionate influence over that entity. Investments in which the Company owns 20% or less of the equity value and does not have significant and disproportionate influence are accounted for using the cost method. If there is an event or change in circumstance that indicates a loss in the value of an investment, the Company's policy is to record the loss and reduce the value of the investment to its fair value. A loss in value would be indicated if the Company could not recover the carrying value of the investment or if the investee could not sustain an earnings capacity that would justify the carrying amount of the investment. The Company did not recognize an impairment loss on any of its investments in unconsolidated entities during the year ended December 31, 2002. However, during the year ended December 31, 2001, the Company recorded an impairment loss of \$934 related to a technology investment in which the Company no longer owns an equity interest.

#### *Revenue Recognition*

Rental income related to leases is recognized on an accrual basis when due from residents in accordance with SEC Staff Accounting Bulletin No. 101, Revenue Recognition in Financial Statements. In accordance with the Company's standard lease terms, rental payments are generally due on a monthly basis. Any cash concessions given at the inception of the lease are amortized over the approximate life of the lease, which is generally one year.

#### *Real Estate*

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

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

The capitalization of costs during the development of assets (including interest and related loan fees, property taxes and other direct and indirect costs) begins when active development commences and ends when the asset, or a portion of an asset, is delivered and is ready for its intended use, which is generally indicated by the issuance of a certificate of occupancy. Cost capitalization during redevelopment of apartment homes (including interest and related loan fees, property taxes and other direct and indirect costs) begins when an apartment home is taken out-of-service for redevelopment and ends when the apartment home redevelopment is completed and the apartment home is placed in-service.

In accordance with Statement of Financial Accounting Standards ( SFAS ) No. 67, Accounting for Costs and Initial Rental Operations of Real Estate Projects, the Company capitalizes pre-development costs incurred in pursuit of new development opportunities for which the Company currently believes future development is probable ( Development Rights ). Future development of these Development Rights is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and availability of capital. A charge to expense is included in operating expenses, excluding property taxes on the accompanying Consolidated Statements of Operations and Other Comprehensive Income to provide an allowance for potentially unrecoverable pre-development costs.

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

Lease terms for apartment homes are generally one year or less. Rental income and operating costs incurred during the initial lease-up or post-redevelopment lease-up period are fully recognized as they accrue.

If there is an event or change in circumstance that indicates an impairment in the value of an operating community, the Company's policy is to assess any impairment in value by making a comparison of the current and projected operating cash flows of the community over its remaining useful life, on an undiscounted basis, to the carrying amount of the community. If such carrying amounts are in excess of the estimated projected operating cash flows of the community, the Company would recognize an impairment loss equivalent to an amount required to adjust the carrying amount to its estimated fair market value. The Company has not recognized an impairment loss in 2002, 2001 or 2000 on any of its operating communities. However, the Company recognized an impairment loss in 2002 related to land planned for disposition as of December 31, 2002. See Note 7, "Discontinued Operations - Real Estate Assets Held for Sale" of the Consolidated Financial Statements.

#### *Income Taxes*

The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, for the year ended December 31, 1994 and has not revoked such election. A corporate REIT is a legal entity which holds real estate interests and must meet a number of organizational and operational requirements, including a requirement that it currently distribute at least 90% of its adjusted taxable income to stockholders. As a REIT, the Company generally will not be subject to corporate level federal income tax on taxable income it distributes currently to its stockholders. Management believes that all such conditions for the avoidance of income taxes have been met for the periods presented. Accordingly, no provision for federal and state income taxes has been made. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Company qualifies for taxation as a REIT, the Company may be subject to certain state and local taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income. In addition, taxable income from non-REIT activities managed through taxable REIT subsidiaries is subject to federal, state and local income taxes.

The following reconciles net income available to common stockholders to taxable net income for the years ended December 31, 2002, 2001 and 2000:

|  | <b>2002<br/>Estimate</b> | <b>2001<br/>Actual</b> | <b>2000<br/>Actual</b> |
|--|--------------------------|------------------------|------------------------|
| Net income available to common stockholders                        | \$ 155,722               | \$ 216,500             | \$ 170,825             |
| Dividends attributable to Preferred Stock, not deductible for tax  | 17,896                   | 32,497                 | 39,779                 |
| GAAP gain on sale of communities less than (in excess of) tax gain | 5,164                    | (21,223)               | (15,146)               |
| Depreciation/Amortization timing differences on real estate        | (5,893)                  | (4,899)                | (826)                  |
| Tax compensation expense in excess of GAAP                         | (8,568)                  | (11,129)               | (5,873)                |
| Other adjustments  | 1,395                    | (124)                  | (1,157)                |
| <b>Taxable net income</b>  | <b>\$ 165,716</b>        | <b>\$ 211,622</b>      | <b>\$ 187,602</b>      |



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The following summarizes the tax components of the Company's common and preferred dividends declared for the years ended December 31, 2002, 2001 and 2000:

|                         | <u>2002</u> | <u>2001</u> | <u>2000</u> |
|-------------------------|-------------|-------------|-------------|
| Ordinary income         | 74%         | 80%         | 86%         |
| 20% capital gain        | 23%         | 14%         | 9%          |
| Unrecaptured §1250 gain | 3%          | 6%          | 5%          |

### *Deferred Financing Costs*

Deferred financing costs include fees and costs incurred to obtain debt financing and are amortized on a straight-line basis, which approximates the effective interest method, over the shorter of the term of the loan or the related credit enhancement facility, if applicable. Unamortized financing costs are written-off when debt is retired before the maturity date. Accumulated amortization of deferred financing costs was \$15,765 and \$11,916 at December 31, 2002 and 2001, respectively.

### *Cash, Cash Equivalents and Cash in Escrow*

Cash and cash equivalents include all cash and liquid investments with an original maturity of three months or less from the date acquired. The majority of the Company's cash, cash equivalents and cash in escrows is held at major commercial banks.

### *Interest Rate Contracts*

The Company utilizes derivative financial instruments to manage interest rate risk and has designated these financial instruments as hedges under the guidance of SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and SFAS No. 138, *Accounting for Certain Instruments and Certain Hedging Activities*, an Amendment of Statement No. 133. For fair value hedge transactions, changes in the fair value of the derivative instrument and changes in the fair value of the hedged item due to the risk being hedged are recognized in current period earnings. For cash flow hedge transactions, changes in the fair value of the derivative instrument are reported in other comprehensive income. For cash flow hedges where the changes in the fair value of the derivative exceeds the change in fair value of the hedged item, the ineffective portion is recognized in current period earnings. Derivatives which are not part of a hedge relationship are recorded at fair value through earnings. As of December 31, 2002, the Company has approximately \$166,000 in variable rate tax-exempt debt subject to cash flow hedges. See Note 5, *Derivative Instruments and Hedging Activities*, of the Consolidated Financial Statements.

### *Comprehensive Income*

Comprehensive income, which is defined as all changes in equity during each period except for those resulting from investments by or distributions to shareholders, is displayed in the accompanying Consolidated Statements of Stockholders' Equity. Accumulated other comprehensive loss reflects the changes in the fair value of effective cash flow hedges.

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*Earnings per Common Share*

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

|   | For the year ended |                   |                   |
|---|--------------------|-------------------|-------------------|
|   | 12-31-02           | 12-31-01          | 12-31-00          |
| <u>Basic and Diluted shares outstanding</u>                                 |                    |                   |                   |
| Weighted average common shares basic  | 68,772,139         | 67,842,752        | 66,309,707        |
| Weighted average DownREIT units outstanding                                 | 988,747            | 682,134           | 861,755           |
| Effect of dilutive securities   | 913,325            | 1,256,833         | 969,536           |
|   | <u>70,674,211</u>  | <u>69,781,719</u> | <u>68,140,998</u> |
| <u>Calculation of Earnings per Share Basic</u>                              |                    |                   |                   |
| Net income available to common stockholders                                 | \$ 155,722         | \$ 216,500        | \$ 170,825        |
|   | <u>68,772,139</u>  | <u>67,842,752</u> | <u>66,309,707</u> |
| Earnings per common share basic   | \$ 2.26            | \$ 3.19           | \$ 2.58           |
| <u>Calculation of Earnings per Share Diluted</u>                            |                    |                   |                   |
| Net income available to common stockholders                                 | \$ 155,722         | \$ 216,500        | \$ 170,825        |
| Add: Minority interest of DownREIT unitholders in consolidated partnerships | 1,601              | 1,559             | 1,759             |
|   | <u>157,323</u>     | <u>218,059</u>    | <u>172,584</u>    |
| Adjusted net income available to common stockholders                        | \$ 157,323         | \$ 218,059        | \$ 172,584        |
|   | <u>70,674,211</u>  | <u>69,781,719</u> | <u>68,140,998</u> |
| Earnings per common share diluted   | \$ 2.23            | \$ 3.12           | \$ 2.53           |

For each of the years presented, certain options to purchase shares of common stock were outstanding, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares for the period. The number of options not included totaled 1,410,397, 18,269 and 7,500 in 2002, 2001 and 2000, respectively.

In 2002, 42,697 units of limited partnership ( DownREIT units ) were presented for redemption and were purchased by the Company for \$1,663. In addition, the Company issued 102,756 DownREIT units valued at \$5,000 in connection with the acquisition of land. In 2001, 762 DownREIT units, valued at \$36, were exchanged for an equal number of shares of the Company's common stock, and 22,076 DownREIT units were presented for redemption and purchased by the Company for \$864. The Company also issued 257,559 DownREIT units valued at \$12,304 as consideration for acquisitions of apartment communities and land. In 2000, 1,520 DownREIT units, valued at \$60, were issued as partial consideration for the acquisition of an apartment community. In addition, 304,602 DownREIT units, valued at \$10,926, were exchanged for an equal number of shares of the Company's common stock.

*Stock-Based Compensation*

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During the years ended December 31, 2002, 2001 and 2000, the Company applied the intrinsic value method as provided in APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, in accounting for its employee stock options. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. See Note 10, Stock-Based Compensation Plans, for information regarding the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

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*Business Interruption Insurance*

During 2000, a fire occurred at one of the Company's development communities, which was under construction and unoccupied at the time. The Company had property damage and business interruption insurance which covered this event. Business interruption insurance proceeds of \$5,800 and \$2,500 are included in other income in the accompanying Consolidated Statements of Operations and Other Comprehensive Income for the years ended December 31, 2002 and 2001, respectively. This settlement was finalized in 2002.

*Executive Separation Costs*

In February 2001, the Company announced certain management changes including the departure of a senior executive who became entitled to severance benefits in accordance with the terms of his employment agreement with the Company. The Company recorded a charge of approximately \$2,500 in the first quarter of 2001 related to the costs associated with such departure.

In December 2001, a senior executive of the Company retired from his management position. Upon retirement, the Company recognized compensation expense of approximately \$784, relating to the accelerated vesting of restricted stock grants.

*Recently Issued Accounting Standards*

In May 2002, SFAS No. 145, *Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections* was issued. SFAS No. 145, among other items, rescinds SFAS No. 4, *Reporting Gains and Losses from Extinguishments of Debt*, which provided that gains and losses from early debt retirements be treated as extraordinary items. Under SFAS No. 145, gains and losses from early debt retirements will only be treated as extraordinary items if they meet the criteria for extraordinary items under APB No. 30. This statement is effective for fiscal years beginning after May 15, 2002. The Company will adopt this pronouncement effective January 1, 2003, but does not expect it to have a material impact on its financial condition or results of operations.

In June 2002, SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* was issued. This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force Issue No. 94-3, *Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity*. Under SFAS No. 146, a liability for costs associated with exit or disposal activities is only to be recognized when the liability is incurred and the definition of a liability under Concepts Statement No. 6 is met, rather than at the date of an entity's commitment to an exit or disposal plan. This statement is effective for exit or disposal activities that are initiated after December 31, 2002. The Company will adopt this pronouncement effective January 1, 2003, but does not expect it to have a material impact on its financial condition or results of operations.

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. (FIN) 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Direct Guarantees of Indebtedness of Others*. FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under certain guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The Company will apply the initial recognition and initial measurement provisions of FIN 45 on a prospective basis for any guarantees issued or modified after December 31, 2002, but does not expect the adoption of FIN 45 to have a material impact on its financial condition or results of operations.

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation: Transition and Disclosure*, which amends SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 on both an annual and interim basis to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002 while the interim disclosure provisions are effective for interim periods beginning after December 15, 2002.

In January 2003, the FASB issued FIN 46, Consolidation of Variable Interest Entities, which changes the guidelines for consolidation of and disclosure related to unconsolidated entities, if those unconsolidated entities qualify as variable interest entities, as defined in FIN 46. The provisions of FIN 46 are to be applied effective immediately for variable interest entities created after January 31, 2003, and effective July 1, 2003 for variable interest entities created prior to February 1, 2003. If it is reasonably possible that an enterprise will consolidate or disclose information about a variable interest entity when FIN 46 becomes effective, the enterprise should make certain disclosures in all financial statements initially issued after January 31, 2003, regardless of the date on which the variable interest entity was created. The Company does not believe that it is reasonably possible that the adoption of FIN 46 will result in the consolidation of any previously unconsolidated entities. The adoption of FIN 46 may result in additional disclosure about a limited number of investments in variable interest entities, but such disclosure is not expected to be material.

#### *Use of Estimates*

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

#### *Reclassifications*

Certain reclassifications have been made to amounts in prior years' financial statements to conform with current year presentations.

#### *Discontinued Operations*

On January 1, 2002, the Company adopted SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets which requires that the assets and liabilities and the results of operations of any communities which have been sold since January 1, 2002, or otherwise qualify as held for sale, be presented as discontinued operations in the Company's Consolidated Financial Statements in both current and prior periods presented. The community specific components of net income that are presented as discontinued operations include net operating income, depreciation and interest expense. In addition, the net gain or loss (including any impairment loss) on the eventual disposal of communities held for sale will be presented as discontinued operations when recognized. This change in presentation will not have any impact on the Company's financial condition or results of operations. Real estate assets held for sale will continue to be measured at the lower of the carrying amount or the fair value less the cost to sell, and are presented separately in the accompanying Consolidated Balance Sheets. Subsequent to classification of a community as held for sale, no further depreciation is recorded on the assets.

## 2. Interest Capitalized

Capitalized interest associated with communities under development or redevelopment totaled \$29,937, \$27,635 and \$18,328 for the years ended December 31, 2002, 2001 and 2000, respectively.

3. Notes Payable, Unsecured Notes and Credit Facility

The Company's mortgage notes payable, unsecured notes and variable rate unsecured credit facility as of December 31, 2002 and 2001 are summarized as follows:

|   | <u>12-31-02</u>  | <u>12-31-01</u>  |
|---|------------------|------------------|
| Fixed rate unsecured notes (1)                                      | \$ 1,985,342     | \$ 1,635,000     |
| Fixed rate mortgage notes payable - conventional and tax-exempt (2) | 311,981          | 322,495          |
| Variable rate mortgage notes payable - tax-exempt (3)               | 108,781          | 67,960           |
|   | <u>2,406,104</u> | <u>2,025,455</u> |
| Variable rate secured short-term construction loan                  | 36,089           | 57,314           |
| Variable rate unsecured credit facility                             | 28,970           |                  |
|   | <u>2,471,163</u> | <u>2,082,769</u> |

(1) Balance at December 31, 2002 includes \$342 of debt premium received at issuance of unsecured notes.

(2) Includes approximately \$166,000 of variable rate notes in both years effectively fixed through Hedged Derivatives, as described in Note 5, Derivative Instruments and Hedging Activities, of the Consolidated Financial Statements.

(3) Balances at both December 31, 2002 and 2001 include \$27,305 related to a real estate asset held for sale.

During the year ended December 31, 2002, the Company assumed \$33,900 in variable rate, tax-exempt debt related to a community acquisition and repaid \$21,225 related to a short-term construction loan, in addition to normal monthly principal and interest payments. In the aggregate, mortgage notes payable, excluding the short-term construction loan, mature at various dates from May 2004 through February 2041 and are collateralized by certain apartment communities. As of December 31, 2002, the Company has guaranteed approximately \$149,000 of mortgage notes payable held by subsidiaries; all such mortgage notes payable are consolidated for financial reporting purposes. The weighted average interest rate of the Company's fixed rate mortgage notes payable (conventional and tax-exempt) was 6.6% and 6.7% at December 31, 2002 and 2001, respectively. The weighted average interest rate of the Company's variable rate mortgage notes payable and its unsecured credit facility (as discussed below), including the effect of certain financing related fees, was 3.5% and 3.1% at December 31, 2002 and 2001, respectively.

During the year ended December 31, 2002, the Company issued \$450,000 in additional unsecured notes. The Company repaid \$100,000 of previously issued unsecured notes pursuant to their scheduled maturity, and no prepayment fees were incurred. The Company's unsecured notes contain a number of financial and other covenants with which the Company must comply, including, but not limited to, limits on the aggregate amount of total and secured indebtedness the Company may have on a consolidated basis and limits on the Company's required debt service payments.

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Scheduled payments and maturities of mortgage notes payable, including a mortgage note payable in the amount of \$27,305 relating to a real estate asset held for sale, and unsecured notes outstanding at December 31, 2002 are as follows:

| Year       | Secured notes payments | Secured notes maturities | Unsecured notes maturities | Interest rate of unsecured notes |
|------------|------------------------|--------------------------|----------------------------|----------------------------------|
| 2003       | \$ 4,104               | \$ 36,089                | \$ 50,000                  | 6.250%                           |
|            |                        |                          | 100,000                    | 6.500%                           |
| 2004       | 4,252                  | 24,106                   | 125,000                    | 6.580%                           |
| 2005       | 4,341                  |                          | 100,000                    | 6.625%                           |
|            |                        |                          | 50,000                     | 6.500%                           |
| 2006       | 4,647                  |                          | 150,000                    | 6.800%                           |
| 2007       | 4,976                  | 35,980                   | 110,000                    | 6.875%                           |
|            |                        |                          | 150,000                    | 5.000%                           |
| 2008       | 5,327                  |                          | 50,000                     | 6.625%                           |
|            |                        |                          | 150,000                    | 8.250%                           |
| 2009       | 5,704                  | 10,400                   | 150,000                    | 7.500%                           |
| 2010       | 5,293                  | 29,388                   | 200,000                    | 7.500%                           |
| 2011       | 5,664                  |                          | 300,000                    | 6.625%                           |
|            |                        |                          | 50,000                     | 6.625%                           |
| 2012       | 5,401                  | 12,095                   | 250,000                    | 6.125%                           |
| Thereafter | 123,228                | 135,856                  |                            |                                  |
|            | <u>\$ 172,937</u>      | <u>\$ 283,914</u>        | <u>\$ 1,985,000</u>        |                                  |

The Company has a \$500,000 revolving variable rate unsecured credit facility with J.P. Morgan Chase and Fleet National Bank serving as co-agents for a syndicate of commercial banks, which had \$28,970 and \$0 outstanding and \$79,999 and \$85,420 in letters of credit on December 31, 2002 and 2001, respectively. Under the terms of the unsecured credit facility, if the Company elects to increase the facility up to \$650,000, and one or more banks (from the syndicate or otherwise) voluntarily agree to provide the additional commitment, then the Company will be able to increase the facility up to \$650,000, and no member of the syndicate of banks can prohibit such increase; such an increase in the facility will only be effective to the extent banks (from the syndicate or otherwise) choose to commit to lend additional funds. The Company pays participating banks, in the aggregate, an annual facility fee of approximately \$750 in quarterly installments. The unsecured credit facility bears interest at varying levels based on the London Interbank Offered Rate ( LIBOR ), rating levels achieved on the Company's unsecured notes and on a maturity schedule selected by the Company. The current stated pricing is LIBOR plus 0.60% per annum (1.98% on December 31, 2002). Pricing could vary if there is a change in rating by either of the two leading national rating agencies; a change in rating of one level would impact the unsecured credit facility pricing by 0.05% to 0.15%. In addition, the unsecured credit facility includes a competitive bid option, which allows banks that are part of the lender consortium to bid to make loans to the Company at a rate that is lower than the stated rate provided by the unsecured credit facility for up to \$400,000. The Company is subject to (i) certain customary covenants under the unsecured credit facility, including, but not limited to, maintaining certain maximum leverage ratios, a minimum fixed charges coverage ratio and minimum unencumbered assets and equity levels, and (ii) prohibitions on paying dividends in amounts that exceed 95% of the Company's Funds from Operations, as defined therein, except as may be required to maintain the Company's REIT status. The existing facility matures in May 2005 assuming exercise of a one-year renewal option by the Company.

#### 4. Stockholders Equity

As of both December 31, 2002 and 2001, the Company had authorized for issuance 140,000,000 and 50,000,000 shares of common and preferred stock, respectively. Dividends on all series of issued preferred stock are cumulative from the date of original issue and are payable quarterly in arrears on or before the 15th day of each month as stated in the table below. None of the series of preferred stock are redeemable prior to the date stated in the table below, but on or after the stated date, may be redeemed for cash at the option of the Company in whole or in part at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends, if any. In July 2002, the Company redeemed all 2,300,000 outstanding shares of its 8.50% Series C Cumulative Redeemable Preferred Stock at a price of \$25.00 per share, plus \$0.1417 in accrued and unpaid dividends, for an aggregate redemption price of \$57,826, including accrued dividends of \$326. The redemption price was funded in part by the sale on July 11, 2002 of 592,000 shares of Series I Cumulative Redeemable Preferred Stock through a private placement to an institutional investor for a net purchase price of \$14,504. The dividend rate on such shares was initially equal to 3.36% per annum (three month LIBOR plus 1.5%) of the liquidation preference. As permitted under the terms of such preferred stock, the Company redeemed all of the Series I Cumulative Redeemable Preferred Stock on August 29, 2002 for an aggregate redemption price of \$14,609 including accrued dividends of \$68. The series of preferred stock outstanding have no stated maturity and are not subject to any sinking fund or mandatory redemptions. Preferred stock outstanding as of December 31, 2002 were as follows:

| <u>Series</u> | <u>Shares outstanding<br/>December 31, 2002</u> | <u>Payable<br/>quarterly</u>        | <u>Annual<br/>rate</u> | <u>Liquidation<br/>preference</u> | <u>Non-redeemable<br/>prior to</u>        |
|---------------|---|-------------------------------------|------------------------|-----------------------------------|---|
| D             | 3,267,700                                       | March, June, September,<br>December | 8.00%                  | \$ 25                             | December 15, 2002<br>Currently Redeemable |
| H             | 4,000,000                                       | March, June, September,<br>December | 8.70%                  | \$ 25                             | October 15, 2008                          |

During the year ended December 31, 2002, the Company (i) issued 664,118 shares of common stock in connection with stock options exercised, (ii) issued 144,718 common shares in connection with stock grants to employees of which 80% are restricted, (iii) had forfeitures of 2,818 shares of restricted stock grants to employees and (iv) withheld 34,876 shares to satisfy employees tax withholding and other liabilities.

In addition, the Company announced in July 2002 that its Board of Directors had authorized a common stock repurchase program. Under this program, the Company may acquire shares of its common stock in open market or negotiated transactions up to an aggregate purchase price of \$100,000. Actual purchases of stock will vary with market conditions. The size of the stock repurchase program was designed so that retained cash flow, as well as the proceeds from sales of existing apartment communities and a reduction in planned acquisitions, will provide the source of funding for the program, with the Company's unsecured credit facility providing temporary funding as needed. As of December 31, 2002, the Company had repurchased 1,281,600 shares of common stock at an aggregate cost of \$49,722 through this program.

Dividends per common share for the years ended December 31, 2002, 2001 and 2000 were \$2.80, \$2.56 and \$2.24 per share, respectively. In 2002, dividends for preferred shares redeemed during the year were \$0.92 per share and dividends for all non-redeemed preferred shares were \$2.10 per share. In 2001, dividends for preferred shares redeemed during the year were \$1.41 per share and dividends for all non-redeemed preferred shares were \$2.10 per share. Dividends were \$2.17 per preferred share in 2000.

#### 5. Derivative Instruments and Hedging Activities

The Company has historically used interest rate swap and cap agreements (collectively, the Hedged Derivatives) to reduce the impact of interest rate fluctuations on its variable rate tax-exempt bonds. The Company has not entered into any interest rate hedge agreements or treasury locks for its conventional unsecured debt and does not hold interest rate hedge agreements for trading or other speculative purposes. As of December 31, 2002, the effect of Hedged Derivatives is to fix approximately \$166,000 of the Company's tax-exempt debt at a weighted average interest rate of 5.9% with an average maturity of 3.7 years. In addition, one of the Company's unconsolidated real estate



investments (see Note 6, Investments in Unconsolidated Entities ) has \$22,500 of variable rate debt outstanding that is subject to an interest rate swap. This debt is not recourse to or guaranteed by the Company. The Hedged Derivatives are accounted for in accordance with SFAS No. 133, which as amended, was adopted by the Company on January 1, 2001. SFAS No. 133 requires that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value, with changes in fair value recognized currently in earnings unless specific hedge accounting criteria are met.

The Company has determined that its Hedged Derivatives qualify as effective cash-flow hedges under SFAS No. 133, resulting in the Company recording all changes in the fair value of the Hedged Derivatives in other comprehensive income. Amounts recorded in other comprehensive income will be reclassified into earnings in the period in which earnings are affected by the hedged cash flows. At January 1, 2001, in accordance with the transition provisions of SFAS No. 133, the Company recorded a cumulative effect adjustment of \$6,412 to other comprehensive loss to recognize at fair value all of the derivatives that are designated as cash flow hedging instruments. During the years ended December 31, 2002 and 2001, the Company recorded additional unrealized losses to other comprehensive loss of \$4,157 and \$2,599, respectively, to adjust the Hedged Derivatives to their fair value. In addition, a Swap Agreement with a fair value of \$528 was transferred in connection with the sale of a community during the first quarter of 2001. The estimated amount, included in accumulated other comprehensive loss as of December 31, 2002, expected to be reclassified into earnings within the next twelve months to offset the variability of cash flows during this period is not material.

The Company assesses, both at inception and on an on-going basis, the effectiveness of all hedges in offsetting cash flows of hedged items. Hedge ineffectiveness did not have a material impact on earnings and the Company does not anticipate that it will have a material effect in the future. The fair values of the obligations under the Hedged Derivatives are included in accrued expenses and other liabilities on the accompanying Consolidated Balance Sheets.

By using derivative financial instruments to hedge exposures to changes in interest rates, the Company exposes itself to credit risk and market risk. The credit risk is the risk of a counterparty not performing under the terms of the Hedged Derivatives. The counterparties to these Hedged Derivatives are major financial institutions which have an A+ or better credit rating by the Standard & Poor's Ratings Group. The Company monitors the credit ratings of counterparties and the amount of the Company's debt subject to Hedged Derivatives with any one party. Therefore, the Company believes the likelihood of realizing material losses from counterparty non-performance is remote. Market risk is the adverse effect of the value of financial instruments that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by the establishment and monitoring of parameters that limit the types and degree of market risk that may be undertaken. These risks are managed by the Company's Chief Financial Officer and Vice President of Finance.

#### 6. Investments in Unconsolidated Entities

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

As of December 31, 2002, the Company had investments in the following unconsolidated real estate entities, which are accounted for under the equity method of accounting, except as described below:

*Falkland Partners, LLC* was formed as a general partnership in July 1985 to own and operate Falkland Chase, a 450 apartment-home community located in Silver Spring, Maryland. In 1993, Avalon acquired a 50% ownership and economic interest in the partnership for an investment of \$2,200. The Company, as successor by merger to Avalon in 1998, became the managing member of the limited liability company in 2000 after conversion from a general partnership. The Company has responsibility for the day-to-day operations of the Falkland Chase community and is the management agent subject to the terms of a management agreement. As of December 31, 2002, Falkland Chase has \$24,695 of tax-exempt floating rate debt outstanding (1.0% as of December 31, 2002), which matures in December 2030.

*Town Run Associates* was formed as a general partnership in November 1994 to develop, own and operate Avalon Run, a 426 apartment-home community located in Lawrenceville, New Jersey. Since formation of this venture, the Company has invested \$1,803 and, following a preferred return on all contributed equity (which was achieved in 2002), has a 40% ownership and cash flow interest with a 49% residual economic interest. The Company is responsible for the day-to-day operations of the Avalon Run community and is the management agent subject to the terms of a management agreement. The development of Avalon Run was funded entirely through equity contributions from Avalon as well as the other venture partner, and therefore Avalon Run is not subject to any outstanding debt as of December 31, 2002.

*Town Grove, LLC* was formed as a limited liability corporation in December 1997 to develop, own and operate Avalon Grove, a 402 apartment-home community located in Stamford, Connecticut. Since formation of this venture, the Company has invested \$14,653 and, following a preferred return on all contributed equity (which was achieved in 2002), has a 50% ownership and a 50% cash flow and residual economic interest. The Company is responsible for the day-to-day operations of the Avalon Grove community and is the management agent subject to the terms of a management agreement. The development of Avalon Grove was funded through contributions from the Company and the other venture partner, and therefore Avalon Grove is not subject to any outstanding debt as of December 31, 2002.

*Avalon Terrace, LLC* The Company acquired Avalon Bedford, a 388 apartment-home community located in Stamford, Connecticut in December 1998. In May 2000, the Company transferred Avalon Bedford to Avalon Terrace, LLC and subsequently admitted a joint venture partner, while retaining a 25% ownership interest in this limited liability company for an investment of \$5,394 and a right to 50% of cash flow distributions after achievement of a threshold return (which was not achieved in 2002). The Company is responsible for the day-to-day operations of the Avalon Bedford community and is the management agent subject to the terms of a management agreement. As of December 31, 2002, Avalon Bedford has \$22,500 in variable rate debt outstanding, which came due in November 2002, but was extended until November 2005. The interest rate on this debt is fixed through a Hedged Derivative as discussed in Note 5, Derivative Instruments and Hedging Activities.

*Arna Valley View Limited Partnership* In connection with the municipal approval process for the development of two consolidated communities, the Company agreed to participate in the formation of a limited partnership in February 1999 to develop, finance, own and operate Arna Valley View, a 101 apartment-home community located in Arlington, Virginia. This community has affordable rents for 100% of apartment homes related to the tax-exempt bond financing and tax credits used to finance construction of the community. A subsidiary of the Company is the general partner of the partnership with a 0.01% ownership interest. The Company is responsible for the day-to-day operations of the community, and is the management agent subject to the terms of a management agreement. As of December 31, 2002, Arna Valley View has \$6,150 of variable rate tax-exempt bonds outstanding, which mature in June 2032. In addition, Arna Valley View has \$4,134 of 4% fixed rate county bonds outstanding that mature in December 2030. Due to the Company's limited ownership and investment in this venture, it is accounted for using the cost method.

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

|  | (Unaudited)       |                   |
|--|-------------------|-------------------|
|  | 12-31-02          | 12-31-01          |
| Assets:                                |                   |                   |
| Real estate, net                       | \$ 136,096        | \$ 136,679        |
| Other assets                           | 5,323             | 10,886            |
|  | <u>          </u> | <u>          </u> |
| Total assets                           | \$ 141,419        | \$ 147,565        |
|  | <u>          </u> | <u>          </u> |
| Liabilities and partners' equity:      |                   |                   |
| Mortgage notes payable                 | \$ 47,195         | \$ 47,195         |
| Other liabilities                      | 3,820             | 5,172             |
| Partners' equity                       | 90,404            | 95,198            |
|  | <u>          </u> | <u>          </u> |
| Total liabilities and partners' equity | \$ 141,419        | \$ 147,565        |
|  | <u>          </u> | <u>          </u> |

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

|                              | For the year ended<br>(unaudited) |                   |                   |
|------------------------------|-----------------------------------|-------------------|-------------------|
|                              | 12-31-02                          | 12-31-01          | 12-31-00          |
| Rental income                | \$ 27,678                         | \$ 28,746         | \$ 22,653         |
| Operating and other expenses | (9,604)                           | (9,098)           | (6,295)           |
| Interest expense, net        | (2,125)                           | (2,402)           | (1,209)           |
| Depreciation expense         | (4,988)                           | (4,253)           | (3,287)           |
|                              | <u>          </u>                 | <u>          </u> | <u>          </u> |
| Net income                   | \$ 10,961                         | \$ 12,993         | \$ 11,862         |
|                              | <u>          </u>                 | <u>          </u> | <u>          </u> |

The financial position and operating results in the preceding tables reflect reclassifications made to amounts in prior years' financial statements to conform with current year presentations. The Company also holds a 25% limited liability company membership interest in the limited liability company that owns Avalon on the Sound, which is presented on a consolidated basis in the Consolidated Financial Statements in accordance with GAAP as a result of a purchase option held by the Company.

*Investments in Unconsolidated Non-Real Estate Entities*

At December 31, 2002, the Company holds minority interest investments in five non-real estate entities, three of which are technology companies. Based on ownership and control criteria, the Company accounts for two of these investments using the equity method, with the remaining non-real estate investments accounted for at cost. During the years ended December 31, 2002, 2001 and 2000, the Company recorded losses of \$3,166, \$1,730 and \$719, respectively, related to Realeum, Inc., one of the two investments accounted for under the equity method, bringing the carrying value of this investment to zero as of December 31, 2002. The aggregate carrying value of the Company's investment in unconsolidated non-real estate entities was \$1,855 and \$2,737 as of December 31, 2002 and 2001, respectively.

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

|   | For the year ended |               |                 |
|---|--------------------|---------------|-----------------|
|   | 12-31-02           | 12-31-01      | 12-31-00        |
| Town Grove, LLC                               | \$ 1,391           | \$ 1,977      | \$ 1,977        |
| Falkland Partners, LLC                        | 1,058              | 924           | 577             |
| Town Run Associates                           | 481                | 606           | 555             |
| Avalon Terrace, LLC                           | 253                | (3)           | 38              |
| Realeum, Inc.                                 | (3,166)            | (1,730)       | (719)           |
| Other unconsolidated non-real estate entities | 38                 | (918)         |                 |
| <b>Total</b>                                  | <b>\$ 55</b>       | <b>\$ 856</b> | <b>\$ 2,428</b> |

7. Discontinued Operations - Real Estate Assets Held for Sale

The Company has a policy of disposing of assets that are not consistent with its long-term investment criteria when market conditions are favorable. In connection with this strategy, the Company generally solicits competing bids from unrelated parties for individual assets, and considers the sales price and tax ramifications of each proposal. During the year ended December 31, 2002, the Company sold one community, as summarized below:

| Community Name                | Location      | Period of sale | Apartment homes | Debt      | Gross sales price | Net proceeds |
|-------------------------------|---------------|----------------|-----------------|-----------|-------------------|--------------|
| Longwood                      | Brookline, MA | 4Q02           | 277             | \$        | \$ 80,100         | \$ 78,454    |
| Total of all 2002 asset sales |               |                | 277             | \$        | \$ 80,100         | \$ 78,454    |
| Total of all 2001 asset sales |               |                | 2,551           | \$ 8,145  | \$ 241,130        | \$ 230,400   |
| Total of all 2000 asset sales |               |                | 1,932           | \$ 31,694 | \$ 160,085        | \$ 124,392   |

As of December 31, 2002, the Company did not have any communities that qualified as held for sale under the provisions of SFAS No. 144. However, during the three months ended March 31, 2003, the Company sold one community and reclassified six communities to held for sale. Therefore, as required under SFAS No. 144, the operations for communities sold from January 1, 2002 through March 31, 2003 and communities held for sale as of March 31, 2003 have been presented as discontinued operations in the accompanying Consolidated Financial Statements for the years ended December 31, 2002, 2001 and 2000. The following is a summary of income from discontinued operations for the years presented:

|                              | For the year ended<br>(unaudited) |           |           |
|------------------------------|-----------------------------------|-----------|-----------|
|                              | 12-31-02                          | 12-31-01  | 12-31-00  |
| Total revenue                | \$ 32,797                         | \$ 34,463 | \$ 32,674 |
| Operating and other expenses | (12,362)                          | (12,753)  | (12,158)  |

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|                                     |                   |                   |                   |
|-------------------------------------|-------------------|-------------------|-------------------|
| Interest expense, net               | (823)             | (1,134)           | (1,636)           |
| Minority interest                   | (799)             | (758)             | (822)             |
| Depreciation expense                | (6,397)           | (7,072)           | (7,272)           |
| Gain on sale                        | 48,893            |                   |                   |
|                                     | <u>          </u> | <u>          </u> | <u>          </u> |
| Income from discontinued operations | \$ 61,309         | \$ 12,746         | \$ 10,786         |
|                                     | <u>          </u> | <u>          </u> | <u>          </u> |

The Company's Consolidated Balance Sheets include other assets (excluding net real estate) of \$1,464 and \$1,086, mortgage notes payable of \$27,305 and \$27,305 and other liabilities of \$2,107 and \$2,646 as of December 31, 2002 and 2001, respectively, relating to real estate assets sold or held for sale. The estimated proceeds less anticipated

costs to sell for assets held for sale as of March 31, 2003 are greater than the carrying values as of December 31, 2002, and therefore no provision for possible losses have been recorded.

As of December 31, 2002, the Company has determined that two land parcels with an aggregate carrying value (prior to adjustment) of \$26,739 would not likely proceed to development and are planned for disposition. Although these assets do not qualify as held for sale under the provisions of SFAS No. 144, the Company performed an analysis of the carrying value of these assets in connection with this change in anticipated use. As a result, the Company recorded an impairment loss of \$6,800 during the year ended December 31, 2002 to reflect these parcels at fair market value (based on their entitlement status as of December 31, 2002.) See Note 14, Subsequent Events, of the Consolidated Financial Statements.

## 8. Commitments and Contingencies

### *Employment Agreements and Arrangements*

As of December 31, 2002, the Company has employment agreements with six executive officers. The employment agreements provide for severance payments and generally also provide for accelerated vesting of stock options and restricted stock in the event of a termination of employment (except for a termination by the Company with cause or a voluntary termination by the employee). The current term of these agreements ends on dates that vary between December 2003 and December 2006. The employment agreements provide for one-year automatic renewals (two years in the case of the CEO) after the initial term unless an advance notice of non-renewal is provided by either party. Under five of the agreements, upon a notice of non-renewal by the Company, the officer may terminate his employment and receive a severance payment. Upon a change in control, the agreements provide for an automatic extension of up to three years from the date of the change in control. The employment agreements provide for base salary and incentive compensation in the form of cash awards, stock options and stock grants subject to the discretion of, and attainment of performance goals established by, the Compensation Committee of the Board of Directors.

During the fourth quarter of 1999, the Company adopted an Officer Severance Program (the Program) for the benefit of those officers of the Company who do not have employment agreements. Under the Program, in the event an officer who is not otherwise covered by a severance arrangement is terminated (other than for cause) within two years of a change in control (as defined) of the Company, such officer will generally receive a cash lump sum payment equal to the sum of such officer's base salary and cash bonus, as well as accelerated vesting of stock options and restricted stock.

### *Legal Contingencies*

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

## 9. 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 throughout the year for the purpose of reporting segment operations.

*Established Communities* (also known as Same Store Communities) are communities where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had stabilized occupancy and costs as of the beginning of the prior year. These communities are divided into geographic regions. For the year 2002, the Established Communities were

communities that had stabilized occupancy and costs as of January 1, 2001 and are not conducting or planning to conduct substantial redevelopment activities 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. Established Communities do not include communities that are currently held for sale or planned for disposition during the current year.

*Other Stabilized Communities* includes all other completed communities that have stabilized occupancy, as defined above, and are not conducting or planning to conduct substantial redevelopment activities within the current year. Other Stabilized Communities do not include communities that are currently held for sale.

*Development/Redevelopment Communities* consists of communities that are under construction and have not received a final certificate of occupancy, communities where substantial redevelopment is in progress or is planned to begin during the current year and communities under lease-up, that have not reached stabilized occupancy, as defined above, as of January 1, 2002.

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

SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, requires that segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing such segments' performance. The Company's chief operating decision maker is comprised of several members of its executive management team who use Net Operating Income (NOI) as the primary financial measure for Established and Other Stabilized Communities. NOI is defined by the Company as total revenue less direct property operating expenses, including property taxes, and excludes corporate-level property management and other indirect operating expenses, interest income and expense, general and administrative expense, equity in income of unconsolidated entities, minority interest in consolidated partnerships, depreciation expense, gain on sale of communities, impairment losses and income from discontinued operations. Although the Company considers NOI a useful measure of 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. A reconciliation of NOI to net income for the years ended December 31, 2002, 2001 and 2000 is as follows:

|   | For the year ended |                   |                   |
|---|--------------------|-------------------|-------------------|
|   | 12-31-02           | 12-31-01          | 12-31-00          |
| Net income  | \$ 173,618         | \$ 248,997        | \$ 210,604        |
| Corporate-level property management and other indirect operating expenses | 32,163             | 32,967            | 28,111            |
| Interest income   | (3,978)            | (6,823)           | (4,764)           |
| Interest expense  | 120,559            | 102,069           | 81,973            |
| General and administrative expense  | 14,332             | 15,224            | 13,013            |
| Equity in income of unconsolidated entities                               | (55)               | (856)             | (2,428)           |
| Minority interest in consolidated partnerships                            | 1,771              | (161)             | 1,086             |
| Depreciation expense  | 138,080            | 123,007           | 115,338           |
| Gain on sale of communities   | (48,893)           | (62,852)          | (40,779)          |
| Impairment loss   | 6,800              |                   |                   |
| Income from discontinued operations                                       | (12,416)           | (12,746)          | (10,786)          |
| Net operating income  | <u>\$ 421,981</u>  | <u>\$ 438,826</u> | <u>\$ 391,368</u> |

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

The table on the following page provides details of the Company's segment information as of the dates specified.

|   | Total<br>revenue | NOI        | % NOI<br>change from prior<br>year | Gross<br>real estate (1) |
|---|------------------|------------|------------------------------------|--------------------------|
| <b>For the year ended December 31, 2002</b> |                  |            |                                    |                          |
| Established                                 |                  |            |                                    |                          |
| Northeast                                   | \$ 151,565       | \$ 104,782 | (8.5%)                             | \$ 840,939               |
| Mid-Atlantic                                | 77,811           | 55,695     | (3.6%)                             | 423,229                  |
| Midwest                                     | 17,222           | 10,321     | (8.2%)                             | 140,248                  |
| Pacific Northwest                           | 10,664           | 6,550      | (12.2%)                            | 96,738                   |
| Northern California                         | 151,619          | 110,845    | (17.5%)                            | 1,340,846                |
| Southern California                         | 42,765           | 30,561     | 2.5%                               | 303,464                  |
| Total Established                           | 451,646          | 318,754    | (10.3%)                            | 3,145,464                |
| Other Stabilized                            | 82,184           | 55,953     | n/a                                | 794,113                  |
| Development / Redevelopment                 | 76,728           | 44,956     | n/a                                | 1,143,623                |
| Land Held for Future Development            | n/a              | n/a        | n/a                                | 78,688                   |
| Non-allocated (2)                           | 2,318            | 2,318      | n/a                                | 21,790                   |
| Total                                       | \$ 612,876       | \$ 421,981 | (3.8%)                             | \$ 5,183,678             |
| <b>For the year ended December 31, 2001</b> |                  |            |                                    |                          |
| Established                                 |                  |            |                                    |                          |
| Northeast                                   | \$ 113,564       | \$ 81,777  | 8.4%                               | \$ 570,551               |
| Mid-Atlantic                                | 81,976           | 60,256     | 8.4%                               | 438,010                  |
| Midwest                                     | 7,922            | 5,428      | (1.6%)                             | 60,299                   |
| Pacific Northwest                           | 6,784            | 4,985      | 3.3%                               | 60,426                   |
| Northern California                         | 157,736          | 121,923    | 6.9%                               | 1,216,489                |
| Southern California                         | 36,846           | 26,144     | 9.6%                               | 257,499                  |
| Total Established                           | 404,828          | 300,513    | 7.6%                               | 2,603,274                |
| Other Stabilized                            | 141,611          | 99,795     | n/a                                | 933,366                  |
| Development / Redevelopment                 | 59,269           | 37,032     | n/a                                | 991,667                  |
| Land Held for Future Development            | n/a              | n/a        | n/a                                | 66,608                   |
| Non-allocated (2)                           | 1,486            | 1,486      | n/a                                | 20,652                   |
| Total                                       | \$ 607,194       | \$ 438,826 | 12.1%                              | \$ 4,615,567             |
| <b>For the year ended December 31, 2000</b> |                  |            |                                    |                          |
| Established                                 |                  |            |                                    |                          |
| Northeast                                   | \$ 84,764        | \$ 60,297  | 6.5%                               | \$ 444,158               |
| Mid-Atlantic                                | 68,646           | 49,694     | 9.2%                               | 392,758                  |
| Midwest                                     | 7,772            | 5,515      | 5.4%                               | 60,101                   |
| Pacific Northwest                           | 3,778            | 2,751      | 17.1%                              | 34,382                   |
| Northern California                         | 107,342          | 82,126     | 15.9%                              | 938,630                  |
| Southern California                         | 18,223           | 12,848     | 12.7%                              | 121,148                  |
| Total Established                           | 290,525          | 213,231    | 11.1%                              | 1,991,177                |



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|                                  |                   |                   |                   |                   |
|----------------------------------|-------------------|-------------------|-------------------|-------------------|
| Other Stabilized                 | 189,597           | 135,224           | n/a               | 1,386,868         |
| Development / Redevelopment      | 59,178            | 41,492            | n/a               | 882,043           |
| Land Held for Future Development | n/a               | n/a               | n/a               | 33,161            |
| Non-allocated (2)                | 1,421             | 1,421             | n/a               | 16,184            |
|                                  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Total                            | \$540,721         | \$391,368         | 19.0%             | \$4,309,433       |
|                                  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

- (1) Does not include real estate assets held for sale of \$160,744 and \$196,207 as of December 31, 2002 and 2001, respectively.
- (2) Revenue and NOI amounts represent third-party management, accounting and developer fees which are not allocated to a reportable segment.

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The segments are classified based on the individual community's status as of the beginning of the given calendar year. Therefore, each year the composition of communities within each business segment is adjusted. Accordingly, the amounts between years are not directly comparable. The accounting policies applicable to the operating segments described above are the same as those described in the summary of significant accounting policies.

Segment information for the years ending December 31, 2002, 2001 and 2000 has been adjusted for the communities that were designated as held for sale as of March 31, 2003 or sold from January 1, 2002 through March 31, 2003 as described in Note 7, "Discontinued Operations - Real Estate Assets Held for Sale," of the Consolidated Financial Statements.

#### 10. Stock-Based Compensation Plans

The Company adopted the 1994 Stock Incentive Plan, as amended and restated on March 31, 2001 (the "1994 Plan"), for the purpose of encouraging and enabling the Company's officers, associates and directors to acquire a proprietary interest in the Company and as a means of aligning management and stockholder interests and as a retention incentive for key associates. Individuals who are eligible to participate in the 1994 Plan include officers, other associates, outside directors and other key persons of the Company and its subsidiaries who are responsible for or contribute to the management, growth or profitability of the Company and its subsidiaries. The 1994 Plan authorizes (i) the grant of stock options that qualify as incentive stock options under Section 422 of the Internal Revenue Code ("ISOs"), (ii) the grant of stock options that do not so qualify, (iii) grants of shares of restricted and unrestricted common stock, (iv) grants of deferred stock awards, (v) performance share awards entitling the recipient to acquire shares of common stock and (vi) dividend equivalent rights.

As of December 31, 2002, under the 1994 Plan a maximum of 1,415,862 shares of common stock were available for issuance. On each January 1, the maximum number available for issuance under the 1994 Plan is increased by between 0.48% and 1.00% of the total number of shares of common stock and DownREIT units actually outstanding on such date. On January 1, 2003, the maximum number available for issuance was increased by 664,115 to 2,079,977. Notwithstanding the foregoing, the maximum number of shares of stock for which ISOs may be issued under the 1994 Plan shall not exceed 2,500,000 and no awards shall be granted under the 1994 Plan after May 11, 2011. For purposes of this limitation, shares of common stock which are forfeited, canceled and reacquired by the Company, satisfied without the issuance of common stock or otherwise terminated (other than by exercise) shall be added back to the shares of common stock available for issuance under the 1994 Plan. Stock options with respect to no more than 300,000 shares of stock may be granted to any one individual participant during any one calendar year period. Options granted to officers and employees under the 1994 Plan vest over periods (and may be subject to accelerated vesting under certain circumstances) as determined by the Compensation Committee of the Board of Directors and must expire no later than ten years from the date of grant. Options granted to non-employee directors under the 1994 Plan are subject to accelerated vesting under certain limited circumstances, become exercisable on the first anniversary of the date of grant, and expire ten years from the date of grant. Restricted stock granted to officers and employees under the 1994 Plan vest over periods (and may be subject to accelerated vesting under certain circumstances) as determined by the Compensation Committee of the Board of Directors. Generally, the restricted stock grants that have been awarded to officers and employees vest over four years, with 20% vesting immediately on the grant date and the remaining 80% vesting equally over the next four years from the date of grant. Restricted stock granted to non-employee directors vests 20% on the date of issuance and 20% on each of the first four anniversaries of the date of issuance. Options to purchase 1,497,504, 2,780,757, and 3,123,713 shares of common stock were available for grant under the 1994 Plan at December 31, 2002, 2001 and 2000, respectively.

Before the Merger, Avalon had adopted its 1995 Equity Incentive Plan (the "Avalon 1995 Incentive Plan"). Under the Avalon 1995 Incentive Plan, a maximum number of 3,315,054 shares (or 2,546,956 shares as adjusted for the Merger) of common stock were issuable, plus any shares of common stock represented by awards under Avalon's 1993 Stock Option and Incentive Plan (the "Avalon 1993 Plan") that were forfeited, canceled, reacquired by Avalon, satisfied without the issuance of common stock or otherwise terminated (other than by exercise). Options

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granted to officers, non-employee directors and associates under the Avalon 1995 Incentive Plan generally vested over a three-year term, expire ten years from the date of grant and are exercisable at the market price on the date of grant.

In connection with the Merger, the exercise prices and the number of options under the Avalon 1995 Incentive Plan and the Avalon 1993 Plan were adjusted to reflect the equivalent Bay shares and exercise prices based on the 0.7683 share conversion ratio used in the Merger. Officers, non-employee directors and associates with Avalon 1995 Incentive Plan or Avalon 1993 Plan options may exercise their adjusted number of options for the Company's common stock at the adjusted exercise price. As of June 4, 1998, the date of the Merger, options and other awards ceased to be granted under the Avalon 1993 Plan or the Avalon 1995 Incentive Plan. Accordingly, there were no options to purchase shares of common stock available for grant under the Avalon 1995 Incentive Plan or the Avalon 1993 Plan at December 31, 2002, 2001 or 2000.

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

|  | 1994 Plan<br>shares | Weighted<br>average<br>exercise<br>price<br>per share | Avalon 1995<br>and Avalon<br>1993 Plan<br>shares | Weighted<br>average<br>exercise<br>price<br>per share |
|--|---------------------|---|--|---|
| Options outstanding, December 31, 1999 | 2,033,274           | \$ 32.63  | 1,828,337  | \$ 34.63  |
| Exercised                              | (172,376)           | 34.78   | (327,582)  | 28.65   |
| Granted                                | 631,795             | 34.56   |  |   |
| Forfeited                              | (66,736)            | 33.50   | (16,410)   | 35.84   |
| Options outstanding, December 31, 2000 | 2,425,957           | \$ 32.96  | 1,484,345  | \$ 35.94  |
| Exercised                              | (367,652)           | 33.05   | (487,312)  | 35.79   |
| Granted                                | 946,612             | 45.90   |  |   |
| Forfeited                              | (111,639)           | 40.34   | (4,836)  | 36.61   |
| Options outstanding, December 31, 2001 | 2,893,278           | \$ 36.91  | 992,197  | \$ 36.03  |
| Exercised                              | (281,206)           | 31.65   | (350,157)  | 37.39   |
| Granted                                | 719,198             | 45.63   |  |   |
| Forfeited                              | (165,263)           | 42.72   | (1,534)  | 39.86   |
| Options outstanding, December 31, 2002 | 3,166,007           | \$ 39.05  | 640,506  | \$ 35.27  |
| Options exercisable:                   |                     |   |  |   |
| December 31, 2000                      | 1,183,551           | \$ 32.05  | 1,313,219  | \$ 35.71  |
| December 31, 2001                      | 1,537,194           | \$ 33.58  | 976,830  | \$ 35.99  |
| December 31, 2002                      | 2,003,395           | \$ 35.95  | 640,506  | \$ 35.27  |

For options outstanding at December 31, 2002 under the 1994 Plan, 170,600 options had exercise prices ranging between \$18.37 and \$29.99 and a weighted average contractual life of 2.2 years, 1,473,010 options had exercise prices ranging between \$30.00 and \$39.99 and a weighted average contractual life of 6.2 years, and 1,522,397 options had exercise prices ranging between \$40.00 and \$49.90 and a weighted average contractual life of 8.6 years. Options outstanding at December 31, 2002 for the Avalon 1993 and Avalon 1995 Plans had exercise prices ranging from \$26.68 to \$39.70 and a weighted average contractual life of 4.1 years.

The Company applies the intrinsic value method as provided in APB Opinion No. 25 and related interpretations in accounting for its Plans. Accordingly, no compensation expense has been recognized for the stock option portion of the stock-based compensation plan.

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The following table illustrates the effect on the Company's net income available to common stockholders and earnings per share if the Company had applied the fair value recognition provisions as prescribed under SFAS No. 123, Accounting for Stock-Based Compensation, to the Plans (unaudited):

|   | For the year ended |            |            |
|---|--------------------|------------|------------|
|   | 12-31-02           | 12-31-01   | 12-31-00   |
| Net income available to common stockholders, as reported  | \$ 155,722         | \$ 216,500 | \$ 170,825 |
| Deduct: Total compensation expense determined under fair value based method, net of related tax effects | (2,904)            | (3,576)    | (2,767)    |
| Pro forma net income available to common stockholders   | \$ 152,818         | \$ 212,924 | \$ 168,058 |
| Earnings per share:   |                    |            |            |
| Basic as reported   | \$ 2.26            | \$ 3.19    | \$ 2.58    |
| Basic pro forma   | \$ 2.22            | \$ 3.14    | \$ 2.53    |
| Diluted as reported   | \$ 2.23            | \$ 3.12    | \$ 2.53    |
| Diluted pro forma   | \$ 2.18            | \$ 3.07    | \$ 2.49    |

The fair value of the options granted during 2002 is estimated at \$4.52 per share on the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 6.15%, volatility of 18.9%, risk-free interest rates of 4.81%, actual number of forfeitures, and an expected life of approximately 7 years. The fair value of the options granted during 2001 is estimated at \$4.83 per share on the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 5.58%, volatility of 16.47%, risk-free interest rates of 5.07%, actual number of forfeitures, and an expected life of approximately 3 years. The fair value of the options granted during 2000 is estimated at \$3.76 per share on the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 6.51%, volatility of 15.93%, risk-free interest rates of 6.61%, actual number of forfeitures, and an expected life of approximately 3 years.

In October 1996, the Company adopted the 1996 Non-Qualified Employee Stock Purchase Plan (as amended, the ESPP). Initially 1,000,000 shares of common stock were reserved for issuance under this plan. There are currently 702,342 shares remaining available for issuance under the plan. Full-time employees of the Company generally are eligible to participate in the ESPP if, as of the last day of the applicable election period, they have been employed by the Company for at least one month. All other employees of the Company are eligible to participate provided that as of the applicable election period they have been employed by the Company for twelve months. Under the ESPP, eligible employees are permitted to acquire shares of the Company's common stock through payroll deductions, subject to maximum purchase limitations. The ESPP provides for a series of purchase periods. Prior to 2000, there were two purchase periods per year of six months each. Since 2000, there has been one purchase period per year. Beginning in 2003, the purchase period will be a period of seven months beginning each May 1 and ending each November 30. The purchase price for common stock purchased under the plan is 85% of the lesser of the fair market value of the Company's common stock on the first day of the applicable purchase period or the last day of the applicable purchase period. The offering dates, purchase dates and duration of purchase periods may be changed by the Board of Directors, if the change is announced prior to the beginning of the affected date or purchase period. The Company issued 29,345, 14,917 and 34,055 shares under the ESPP for 2002, 2001 and 2000, respectively.

#### 11. Fair Value of Financial Instruments

Cash and cash equivalent balances are held with various financial institutions and may at times exceed the applicable Federal Deposit Insurance Corporation limit. The Company monitors credit ratings of these financial institutions and the concentration of cash and cash equivalent balances with any one financial institution and believes the likelihood of realizing material losses from the excess of cash and cash equivalent balances over insurance limits is remote.



The following estimated fair values of financial instruments were determined by management using available market information and established valuation methodologies, including discounted cash flows. Accordingly, the estimates presented are not necessarily indicative of the amounts the Company could realize on disposition of the financial instruments. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

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

Bond indebtedness and notes payable with an aggregate carrying value of approximately \$2,442,000 and \$2,083,000 had an estimated aggregate fair value of \$2,639,000 and \$2,191,000 at December 31, 2002 and 2001, respectively.

## 12. Related Party Arrangements

### *Purchase of Mortgage Loan*

The Company's Chairman and CEO, and the Company's former Chairman and CEO, are partners of an entity that is the general partner of Arbor Commons Associates Limited Partnership ( Arbor Commons Associates ). Arbor Commons Associates owns Avalon Arbor, a 302 apartment home community in Shrewsbury, Massachusetts. Concurrently with its initial public offering in November 1993, Avalon purchased an existing participating mortgage loan made to Arbor Commons Associates that was originated by CIGNA Investments, Inc. The mortgage loan is secured by Arbor Commons Associates' interest in Avalon Arbor. This loan accrues interest at a fixed rate of 10.2% per annum, payable at 9.0% per annum. The balance of the note receivable at both December 31, 2002 and 2001 was \$21,483. The balance of accrued interest on the note receivable as of December 31, 2002 and 2001, respectively, was \$4,965 and \$5,231, and is included in other assets on the accompanying Consolidated Balance Sheets. Related interest income of \$3,091, \$3,081 and \$3,009 was recorded for the years ended December 31, 2002, 2001 and 2000, respectively. Under the terms of the loan, the Company (as successor to Avalon) receives (as contingent interest) 50% of the cash flow after the 10.2% accrual rate is paid and 50% of the residual profits upon the sale of the community.

### *Unconsolidated entities*

The Company manages several unconsolidated real estate joint venture entities for which it receives management fee revenue. From these entities the Company received management fee revenue of \$1,019, \$1,011 and \$691 in the years ended December 31, 2002, 2001 and 2000, respectively.

### *Indebtedness of Management*

The Company has a recourse loan program under which the Company lends amounts to or on behalf of employees ( Stock Loans ) equivalent to the estimated employees' tax withholding liabilities related to the vesting of restricted stock under the 1994 Stock Incentive Plan, as amended and restated on March 31, 2001. In accordance with the Sarbanes-Oxley Act of 2002, no loans to senior officers will be renewed and the Company intends to phase out the Stock Loan program for all other participants over a period of approximately one year. The principal balance outstanding under the Stock Loans to employees was \$1,133 at both December 31, 2002 and 2001. The balance of accrued interest on the notes receivable was \$45 and \$100 as of December 31, 2002 and 2001, respectively. Interest income on the notes of \$61, \$62 and \$76 was recorded for the years ended December 31, 2002, 2001 and 2000, respectively. Each Stock Loan is made for a one-year term, is a full personal recourse obligation of the borrower

and is secured by a pledge to the Company of the stock that vested and gave rise to the tax withholding liability for which the loan was made. In addition, dividends on the pledged stock are automatically remitted to the Company and applied toward repayment of the Stock Loan.

*Consulting Agreement with Mr. Meyer*

In March 2000, the Company and Gilbert M. Meyer announced that Mr. Meyer would retire as Executive Chairman of the Company in May 2000. Although Mr. Meyer ceased his day-to-day involvement with the Company as an executive officer, he continues to serve as a director. In addition, pursuant to a consulting agreement which terminates in May 2003, Mr. Meyer agreed to serve as a consultant to the Company for three years following his retirement for an annual fee of \$1,395. In such capacity he responds to requests for assistance or information concerning business matters with which he became familiar while employed and he provides business advice and counsel to the Company with respect to business strategies and acquisitions, dispositions, development and redevelopment of multifamily rental properties.

*Director Compensation*

The Company's Stock Incentive Plan provides that directors of the Company who are also employees receive no additional compensation for their services as a director. Under the Stock Incentive Plan, on the fifth business day following each annual meeting of stockholders, each of the Company's non-employee directors automatically receives options to purchase 7,000 shares of common stock at the last reported sale price of the common stock on the NYSE on such date, and a restricted stock (or deferred stock award) grant of 2,500 shares of common stock. The Company recorded compensation expense relating to these deferred stock awards in the amount of \$743, \$624 and \$525 in the years ended December 31, 2002, 2001 and 2000, respectively. Deferred compensation relating to these deferred stock awards was \$757 and \$688 on December 31, 2002 and 2001, respectively.

*Investment in Realeum, Inc.*

As an employee incentive and retention mechanism, the Company arranged for officers of the Company to hold direct or indirect economic interest in Realeum, Inc. Realeum, Inc. is a company involved in the development and deployment of a property management and leasing automation system, in which the Company invested \$2,300 in January 2002. The Company currently utilizes this property management and leasing automation system and has paid \$480, \$80 and \$0 to Realeum, Inc. under the terms of its licensing arrangements during the years ended December 31, 2002, 2001 and 2000, respectively.

13. Quarterly Financial Information (Unaudited)

The following summary represents the quarterly results of operations for the years ended December 31, 2002 and 2001:

|   | <b>For the three months ended</b> |                |                |                 |
|---|-----------------------------------|----------------|----------------|-----------------|
|   | <b>3-31-02</b>                    | <b>6-30-02</b> | <b>9-30-02</b> | <b>12-31-02</b> |
| Total revenue                               | \$ 151,766                        | \$ 152,368     | \$ 153,865     | \$ 154,876      |
| Net income available to common stockholders | \$ 35,690                         | \$ 32,315      | \$ 24,685      | \$ 63,033       |
| Net income per common share basic           | \$ 0.52                           | \$ 0.47        | \$ 0.36        | \$ 0.92         |
| Net income per common share diluted         | \$ 0.51                           | \$ 0.46        | \$ 0.35        | \$ 0.91         |

|   | <b>For the three months ended</b> |                |                |                 |
|---|-----------------------------------|----------------|----------------|-----------------|
|   | <b>3-31-01</b>                    | <b>6-30-01</b> | <b>9-30-01</b> | <b>12-31-01</b> |
| Total revenue                               | \$ 147,235                        | \$ 153,673     | \$ 154,524     | \$ 151,762      |
| Net income available to common stockholders | \$ 41,654                         | \$ 39,131      | \$ 79,229      | \$ 56,486       |
| Net income per common share basic           | \$ 0.62                           | \$ 0.58        | \$ 1.16        | \$ 0.83         |
| Net income per common share diluted         | \$ 0.61                           | \$ 0.57        | \$ 1.14        | \$ 0.81         |

14. Subsequent Events (Unaudited)

For the period January 1, 2003 through February 28, 2003, the Company has repurchased an additional 761,000 shares of common stock at an aggregate cost of \$27,659 through its common stock repurchase program.

On January 15, 2003, \$50,000 in unsecured notes matured and was paid, including the balance of accrued interest.

On February 18, 2003, the Company gave notice of its intent to redeem all 3,267,700 outstanding shares of its 8.00% Series D Cumulative Redeemable Preferred Stock. The closing of this redemption is anticipated on March 20, 2003 at a price of \$25.00 per share, plus \$0.0167 in accrued and unpaid dividends, for an aggregate redemption price of \$81,747, including accrued dividends of \$55. This redemption will be funded by the sale of shares of Series J Cumulative Redeemable Preferred Stock through a private placement to an institutional investor. The dividend rate on such shares will initially be based on three month LIBOR plus 1.5%. The Series J Cumulative Redeemable Preferred Stock will be redeemable at any time at the Company's option.

In February 2003, the Company won an appeal regarding the entitlement status of one of the two land parcels planned for disposition as of December 31, 2002. If the Company decides to continue with the planned disposition, this change in entitlement status may increase the potential value of the land and therefore decrease the previously estimated loss that would be recognized at the date of disposal. However, the Company is currently reevaluating the planned disposal of this parcel, which may result in 2003 in the partial recovery of the impairment loss recognized in 2002, if the Company decides to hold the land for development.



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AVALONBAY COMMUNITIES, INC.  
 REAL ESTATE AND ACCUMULATED DEPRECIATION  
 December 31, 2002  
 (Dollars in thousands)

|                             | Initial Cost |   |   | Total Cost |   |           |
|-----------------------------|--------------|---|---|------------|---|-----------|
|                             | Land         | Building /<br>Construction in<br>Progress &<br>Improvements | Costs<br>Subsequent to<br>Acquisition /<br>Construction | Land       | Building /<br>Construction in<br>Progress &<br>Improvements | Total     |
| <b>Current Communities</b>  |              |   |   |            |   |           |
| Avalon at Center Place      | \$           | \$ 26,816   | \$ 502  | \$         | \$ 27,318   | \$ 27,318 |
| Avalon at Faxon Park        | 1,136        | 14,019  | 76  | 1,136      | 14,095  | 15,231    |
| Avalon at Lexington         | 2,124        | 12,599  | 624   | 2,124      | 13,223  | 15,347    |
| Avalon at Prudential Center | 25,811       | 103,233   | 22,769  | 25,811     | 126,002   | 151,813   |
| Avalon Essex                | 5,230        | 15,483  | 824   | 5,230      | 16,307  | 21,537    |
| Avalon Estates              | 1,972        | 18,167  | 77  | 1,972      | 18,244  | 20,216    |
| Avalon Ledges               | 2,627        | 32,900  |   | 2,627      | 32,900  | 35,527    |
| Avalon Oaks                 | 2,129        | 18,640  | 54  | 2,129      | 18,694  | 20,823    |
| Avalon Oaks West            | 3,303        | 13,316  |   | 3,303      | 13,316  | 16,619    |
| Avalon Orchards             | 2,975        | 17,860  |   | 2,975      | 17,860  | 20,835    |
| Avalon Summit               | 1,743        | 14,654  | 351   | 1,743      | 15,005  | 16,748    |
| Avalon West                 | 943          | 9,881   | 97  | 943        | 9,978   | 10,921    |
| Avalon at Greyrock Place    | 13,819       | 55,846  | 8   | 13,819     | 55,854  | 69,673    |
| Avalon Corners              | 6,305        | 24,179  | 1,294   | 6,305      | 25,473  | 31,778    |
| Avalon Gates                | 4,414        | 31,305  | 381   | 4,414      | 31,686  | 36,100    |
| Avalon Glen                 | 5,956        | 23,993  | 1,346   | 5,956      | 25,339  | 31,295    |
| Avalon Haven                | 1,264        | 11,762  | 724   | 1,264      | 12,486  | 13,750    |
| Avalon Lake                 | 3,314        | 13,139  | 542   | 3,314      | 13,681  | 16,995    |
| Avalon New Canaan           | 8,874        | 23,176  |   | 8,874      | 23,176  | 32,050    |
| Avalon Springs              | 2,116        | 14,512  | 245   | 2,116      | 14,757  | 16,873    |
| Avalon Valley               | 2,277        | 22,424  | 1,358   | 2,277      | 23,782  | 26,059    |
| Avalon Walk I & II          | 9,102        | 48,796  | 1,146   | 9,102      | 49,942  | 59,044    |
| Avalon Commons              | 4,679        | 28,552  | 62  | 4,679      | 28,614  | 33,293    |
| Avalon Court                | 9,228        | 48,920  | 1,124   | 9,228      | 50,044  | 59,272    |
| Avalon Towers               | 3,118        | 12,709  | 1,086   | 3,118      | 13,795  | 16,913    |
| Avalon at Edgewater         | 14,529       | 60,061  |   | 14,529     | 60,061  | 74,590    |
| Avalon at Florham Park      | 6,647        | 34,639  | 283   | 6,647      | 34,922  | 41,569    |
| Avalon Cove                 | 8,760        | 82,356  | 837   | 8,760      | 83,193  | 91,953    |
| Avalon Crest                | 11,468       | 44,035  | 559   | 11,468     | 44,594  | 56,062    |
| The Tower at Avalon Cove    | 3,738        | 45,755  | 166   | 3,738      | 45,921  | 49,659    |
| Avalon at Freehold          | 4,116        | 30,191  |   | 4,116      | 30,191  | 34,307    |
| Avalon Run East             | 1,579        | 14,669  | 24  | 1,579      | 14,693  | 16,272    |

[Additional columns below]

[Continued from above table, first column(s) repeated]

|                            | Accumulated<br>Depreciation | Total Cost, Net<br>of Accumulated<br>Depreciation | Encumbrances | Year of<br>Completion /<br>Acquisition |
|----------------------------|-----------------------------|---|--------------|--|
| <b>Current Communities</b> |                             |   |              |  |

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|                             |          |           |        |           |
|-----------------------------|----------|-----------|--------|-----------|
| Avalon at Center Place      | \$ 5,308 | \$ 22,010 | \$     | 1997      |
| Avalon at Faxon Park        | 2,447    | 12,784    |        | 1998      |
| Avalon at Lexington         | 3,766    | 11,581    | 13,784 | 1994      |
| Avalon at Prudential Center | 16,904   | 134,909   |        | 1968/98   |
| Avalon Essex                | 1,624    | 19,913    |        | 2000      |
| Avalon Estates              | 1,385    | 18,831    |        | 2001      |
| Avalon Ledges               | 640      | 34,887    |        | 2002      |
| Avalon Oaks                 | 2,567    | 18,256    | 17,628 | 1999      |
| Avalon Oaks West            | 479      | 16,140    |        | 2002      |
| Avalon Orchards             | 495      | 20,340    |        | 2002      |
| Avalon Summit               | 3,488    | 13,260    |        | 1996      |
| Avalon West                 | 2,198    | 8,723     | 8,461  | 1996      |
| Avalon at Greyrock Place    | 1,156    | 68,517    |        | 2002      |
| Avalon Corners              | 2,931    | 28,847    |        | 2000      |
| Avalon Gates                | 6,164    | 29,936    |        | 1997      |
| Avalon Glen                 | 7,415    | 23,880    |        | 1991      |
| Avalon Haven                | 1,153    | 12,597    |        | 2000      |
| Avalon Lake                 | 1,772    | 15,223    |        | 1999      |
| Avalon New Canaan           | 338      | 31,712    |        | 2002      |
| Avalon Springs              | 2,969    | 13,904    |        | 1996      |
| Avalon Valley               | 3,067    | 22,992    |        | 1999      |
| Avalon Walk I & II          | 14,246   | 44,798    | 11,748 | 1992/94   |
| Avalon Commons              | 5,451    | 27,842    |        | 1997      |
| Avalon Court                | 6,901    | 52,371    |        | 1997/2000 |
| Avalon Towers               | 3,423    | 13,490    |        | 1995      |
| Avalon at Edgewater         | 2,448    | 72,142    |        | 2002      |
| Avalon at Florham Park      | 2,758    | 38,811    |        | 2001      |
| Avalon Cove                 | 16,720   | 75,233    |        | 1997      |
| Avalon Crest                | 5,607    | 50,455    |        | 1998      |
| The Tower at Avalon Cove    | 5,723    | 43,936    |        | 1999      |
| Avalon at Freehold          | 1,107    | 33,200    |        | 2002      |
| Avalon Run East             | 3,266    | 13,006    |        | 1996      |

AVALONBAY COMMUNITIES, INC.  
REAL ESTATE AND ACCUMULATED DEPRECIATION  
December 31, 2002  
(Dollars in thousands)

|  | Initial Cost |  |   | Total Cost |  |        |
|--|--------------|--|---|------------|--|--------|
|  | Land         | Building /<br>Construction<br>in<br>Progress &<br>Improvements | Costs<br>Subsequent<br>to<br>Acquisition<br>/<br>Construction | Land       | Building /<br>Construction<br>in<br>Progress &<br>Improvements | Total  |
| Avalon Watch                               | 5,585        | 22,394   | 1,618   | 5,585      | 24,012   | 29,597 |
| Avalon Riverview I                         | 3,959        | 90,086   |   | 3,959      | 90,086   | 94,045 |
| Avalon Gardens                             | 8,428        | 45,706   | 131   | 8,428      | 45,837   | 54,265 |
| Avalon Green                               | 1,820        | 10,525   | 258   | 1,820      | 10,783   | 12,603 |
| Avalon on the Sound                        | 717          | 89,501   | 1,396   | 717        | 90,897   | 91,614 |
| Avalon View                                | 3,529        | 14,140   | 621   | 3,529      | 14,761   | 18,290 |
| Avalon Willow                              | 6,207        | 39,852   | 941   | 6,207      | 40,793   | 47,000 |
| The Avalon                                 | 2,889        | 28,273   | 66  | 2,889      | 28,339   | 31,228 |
| Avalon at Fairway Hills I & II             | 8,612        | 34,463   | 1,780   | 8,612      | 36,243   | 44,855 |
| Avalon at Symphony Glen                    | 1,594        | 6,384  | 1,194   | 1,594      | 7,578  | 9,172  |
| Avalon Landing                             | 1,849        | 7,409  | 533   | 1,849      | 7,942  | 9,791  |
| 4100 Massachusetts Avenue                  | 6,848        | 27,614   | 1,566   | 6,848      | 29,180   | 36,028 |
| AutumnWoods                                | 6,096        | 24,400   | 432   | 6,096      | 24,832   | 30,928 |
| Avalon at Arlington Square I               | 13,453       | 55,918   | 307   | 13,453     | 56,225   | 69,678 |
| Avalon at Arlington Square II              | 8,588        | 33,817   |   | 8,588      | 33,817   | 42,405 |
| Avalon at Ballston Vermont & Quincy Towers | 9,340        | 37,360   | 469   | 9,340      | 37,829   | 47,169 |
| Avalon at Ballston Washington Towers       | 7,291        | 29,177   | 891   | 7,291      | 30,068   | 37,359 |
| Avalon at Cameron Court                    | 10,292       | 32,931   | 23  | 10,292     | 32,954   | 43,246 |
| Avalon at Decoverly                        | 6,157        | 24,800   | 815   | 6,157      | 25,615   | 31,772 |
| Avalon at Dulles                           | 2,302        | 9,212  | 650   | 2,302      | 9,862  | 12,164 |
| Avalon at Fair Lakes                       | 4,334        | 19,127   | 15  | 4,334      | 19,142   | 23,476 |
| Avalon at Fox Mill                         | 2,713        | 16,678   | 122   | 2,713      | 16,800   | 19,513 |
| Avalon at Providence Park                  | 2,152        | 8,907  | 240   | 2,152      | 9,147  | 11,299 |
| Avalon Crescent                            | 13,851       | 43,401   | 31  | 13,851     | 43,432   | 57,283 |
| Avalon Crossing                            | 2,207        | 11,683   | 5   | 2,207      | 11,688   | 13,895 |
| Avalon Fields I & II                       | 4,047        | 18,611   | 42  | 4,047      | 18,653   | 22,700 |
| Avalon Knoll                               | 1,528        | 6,136  | 945   | 1,528      | 7,081  | 8,609  |
| 200 Arlington Place                        | 9,728        | 39,527   | 707   | 9,728      | 40,234   | 49,962 |
| Avalon at Danada Farms                     | 7,535        | 30,444   | 444   | 7,535      | 30,888   | 38,423 |
| Avalon at Stratford Green                  | 4,326        | 17,569   | 54  | 4,326      | 17,623   | 21,949 |
| Avalon at West Grove                       | 5,149        | 20,657   | 4,109   | 5,149      | 24,766   | 29,915 |
| Avalon at Devonshire                       | 7,250        | 29,641   | 795   | 7,250      | 30,436   | 37,686 |
| Avalon at Edinburgh                        | 3,541        | 14,758   | 260   | 3,541      | 15,018   | 18,559 |

[Additional columns below]

[Continued from above table, first column(s) repeated]

|  |   |                                 |
|--|---|---------------------------------|
|  | <b>Total Cost,<br/>Net<br/>of<br/>Accumulated</b> | <b>Year of<br/>Completion /</b> |
|--|---|---------------------------------|

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|  | <u>Depreciation</u> | <u>Depreciation</u> | <u>Encumbrances</u> | <u>Acquisition</u> |
|--|---------------------|---------------------|---------------------|--------------------|
| Avalon Watch                               | 7,489               | 22,108              |                     | 1999               |
| Avalon Riverview I                         | 1,229               | 92,816              |                     | 2002               |
| Avalon Gardens                             | 8,018               | 46,247              |                     | 1998               |
| Avalon Green                               | 2,843               | 9,760               |                     | 1995               |
| Avalon on the Sound                        | 4,632               | 86,982              | 36,089              | 2001               |
| Avalon View                                | 4,460               | 13,830              | 17,743              | 1993               |
| Avalon Willow                              | 4,533               | 42,467              |                     | 2000               |
| The Avalon                                 | 3,444               | 27,784              |                     | 1999               |
| Avalon at Fairway Hills I & II             | 8,936               | 35,919              | 11,500              | 1987/96            |
| Avalon at Symphony Glen                    | 2,409               | 6,763               | 9,780               | 1986               |
| Avalon Landing                             | 2,128               | 7,663               | 6,417               | 1995               |
| 4100 Massachusetts Avenue                  | 8,257               | 27,771              |                     | 1982               |
| AutumnWoods                                | 5,304               | 25,624              |                     | 1996               |
| Avalon at Arlington Square I               | 3,301               | 66,377              |                     | 2001               |
| Avalon at Arlington Square II              | 670                 | 41,735              |                     | 2002               |
| Avalon at Ballston Vermont & Quincy Towers | 7,649               | 39,520              |                     | 1997               |
| Avalon at Ballston Washington Towers       | 8,846               | 28,513              |                     | 1990               |
| Avalon at Cameron Court                    | 5,716               | 37,530              |                     | 1998               |
| Avalon at Decoverly                        | 6,391               | 25,381              |                     | 1995               |
| Avalon at Dulles                           | 2,993               | 9,171               | 12,360              | 1986               |
| Avalon at Fair Lakes                       | 3,408               | 20,068              |                     | 1998               |
| Avalon at Fox Mill                         | 1,975               | 17,538              |                     | 2000               |
| Avalon at Providence Park                  | 1,803               | 9,496               |                     | 1997               |
| Avalon Crescent                            | 8,684               | 48,599              |                     | 1996               |
| Avalon Crossing                            | 2,596               | 11,299              |                     | 1996               |
| Avalon Fields I & II                       | 4,176               | 18,524              | 11,286              | 1998               |
| Avalon Knoll                               | 2,517               | 6,092               | 12,978              | 1985               |
| 200 Arlington Place                        | 2,837               | 47,125              |                     | 1987/2000          |
| Avalon at Danada Farms                     | 5,320               | 33,103              |                     | 1997               |
| Avalon at Stratford Green                  | 3,051               | 18,898              |                     | 1997               |
| Avalon at West Grove                       | 4,344               | 25,571              |                     | 1967               |
| Avalon at Devonshire                       | 5,364               | 32,322              | 27,305              | 1988               |
| Avalon at Edinburgh                        | 2,483               | 16,076              |                     | 1992               |

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AVALONBAY COMMUNITIES, INC.  
 REAL ESTATE AND ACCUMULATED DEPRECIATION  
 December 31, 2002  
 (Dollars in thousands)

|                           | Initial Cost |  |   | Total Cost |  |        |
|---------------------------|--------------|--|---|------------|--|--------|
|                           | Land         | Building /<br>Construction<br>in<br>Progress &<br>Improvements | Costs<br>Subsequent to<br>Acquisition /<br>Construction | Land       | Building /<br>Construction<br>in<br>Progress &<br>Improvements | Total  |
| Avalon at Town Centre     | 3,450        | 14,449   | 315   | 3,450      | 14,764   | 18,214 |
| Avalon at Town Square     | 2,099        | 8,642  | 157   | 2,099      | 8,799  | 10,898 |
| Avalon at Woodbury        | 5,034        | 20,857   | 94  | 5,034      | 20,951   | 25,985 |
| Avalon at Bear Creek      | 6,786        | 27,035   | 616   | 6,786      | 27,651   | 34,437 |
| Avalon Bellevue           | 6,664        | 23,908   | 61  | 6,664      | 23,969   | 30,633 |
| Avalon Belltown           | 5,644        | 12,453   | 182   | 5,644      | 12,635   | 18,279 |
| Avalon Brandemoor         | 8,630        | 36,679   |   | 8,630      | 36,679   | 45,309 |
| Avalon Greenbriar         | 3,808        | 21,239   | 11,212  | 3,808      | 32,451   | 36,259 |
| Avalon HighGrove          | 7,569        | 32,035   | 16  | 7,569      | 32,051   | 39,620 |
| Avalon ParcSquare         | 3,789        | 15,093   | 113   | 3,789      | 15,206   | 18,995 |
| Avalon Redmond Place      | 4,558        | 17,504   | 3,980   | 4,558      | 21,484   | 26,042 |
| Avalon RockMeadow         | 4,777        | 19,671   | 9   | 4,777      | 19,680   | 24,457 |
| Avalon WildReed           | 4,253        | 18,676   | 27  | 4,253      | 18,703   | 22,956 |
| Avalon WildWood           | 6,268        | 26,597   |   | 6,268      | 26,597   | 32,865 |
| Avalon Wynhaven           | 11,412       | 41,142   |   | 11,412     | 41,142   | 52,554 |
| Avalon at Union Square    | 4,249        | 16,820   | 822   | 4,249      | 17,642   | 21,891 |
| Avalon at Willow Creek    | 6,581        | 26,583   | 1,094   | 6,581      | 27,677   | 34,258 |
| Avalon Dublin             | 5,276        | 19,642   | 1,824   | 5,276      | 21,466   | 26,742 |
| Avalon Fremont            | 15,016       | 60,681   | 1,473   | 15,016     | 62,154   | 77,170 |
| Avalon Pleasanton         | 11,610       | 46,552   | 2,360   | 11,610     | 48,912   | 60,522 |
| Waterford                 | 11,324       | 45,717   | 2,025   | 11,324     | 47,742   | 59,066 |
| Avalon at Cedar Ridge     | 4,230        | 9,659  | 11,641  | 4,230      | 21,300   | 25,530 |
| Avalon at Diamond Heights | 4,726        | 19,130   | 542   | 4,726      | 19,672   | 24,398 |
| Avalon at Nob Hill        | 5,403        | 21,567   | 530   | 5,403      | 22,097   | 27,500 |
| Avalon at Sunset Towers   | 3,561        | 21,321   | 3,289   | 3,561      | 24,610   | 28,171 |
| Avalon Foster City        | 7,852        | 31,445   | 3,555   | 7,852      | 35,000   | 42,852 |
| Avalon Pacifica           | 6,125        | 24,796   | 377   | 6,125      | 25,173   | 31,298 |
| Avalon Towers by the Bay  | 9,155        | 57,630   | 97  | 9,155      | 57,727   | 66,882 |
| Crowne Ridge              | 5,982        | 16,885   | 8,183   | 5,982      | 25,068   | 31,050 |
| Avalon at Blossom Hill    | 11,933       | 48,313   | 640   | 11,933     | 48,953   | 60,886 |
| Avalon at Cahill Park     | 4,760        | 47,354   |   | 4,760      | 47,354   | 52,114 |
| Avalon at Creekside       | 6,546        | 26,301   | 10,119  | 6,546      | 36,420   | 42,966 |
| Avalon at Foxchase I & II | 11,340       | 45,532   | 1,950   | 11,340     | 47,482   | 58,822 |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| Accumulated<br>Depreciation | Total Cost, Net<br>of Accumulated<br>Depreciation | Encumbrances | Year of<br>Completion /<br>Acquisition |
|-----------------------------|---|--------------|--|
|-----------------------------|---|--------------|--|

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|                           |        |        |        |         |
|---------------------------|--------|--------|--------|---------|
| Avalon at Town Centre     | 2,610  | 15,604 |        | 1986    |
| Avalon at Town Square     | 1,583  | 9,315  |        | 1986    |
| Avalon at Woodbury        | 2,550  | 23,435 |        | 1999    |
| Avalon at Bear Creek      | 4,430  | 30,007 |        | 1998    |
| Avalon Bellevue           | 1,653  | 28,980 |        | 2001    |
| Avalon Belltown           | 610    | 17,669 |        | 2001    |
| Avalon Brandemoor         | 2,321  | 42,988 |        | 2001    |
| Avalon Greenbriar         | 5,024  | 31,235 | 18,755 | 1987/88 |
| Avalon HighGrove          | 2,409  | 37,211 |        | 2000    |
| Avalon ParcSquare         | 1,387  | 17,608 |        | 2000    |
| Avalon Redmond Place      | 3,877  | 22,165 |        | 1991/97 |
| Avalon RockMeadow         | 1,816  | 22,641 |        | 2000    |
| Avalon WildReed           | 1,659  | 21,297 |        | 2000    |
| Avalon WildWood           | 1,662  | 31,203 |        | 2001    |
| Avalon Wynhaven           | 2,674  | 49,880 |        | 2001    |
| Avalon at Union Square    | 2,844  | 19,047 |        | 1973/96 |
| Avalon at Willow Creek    | 4,480  | 29,778 |        | 1985/94 |
| Avalon Dublin             | 3,446  | 23,296 |        | 1989/97 |
| Avalon Fremont            | 10,102 | 67,068 |        | 1992/94 |
| Avalon Pleasanton         | 7,990  | 52,532 |        | 1988/94 |
| Waterford                 | 7,948  | 51,118 | 33,100 | 1985/86 |
| Avalon at Cedar Ridge     | 3,608  | 21,922 |        | 1975/97 |
| Avalon at Diamond Heights | 3,191  | 21,207 |        | 1972/94 |
| Avalon at Nob Hill        | 3,518  | 23,982 | 19,457 | 1990/95 |
| Avalon at Sunset Towers   | 4,375  | 23,796 |        | 1961/96 |
| Avalon Foster City        | 5,389  | 37,463 |        | 1973/94 |
| Avalon Pacifica           | 4,020  | 27,278 | 16,216 | 1971/95 |
| Avalon Towers by the Bay  | 6,619  | 60,263 |        | 1999    |
| Crowne Ridge              | 4,070  | 26,980 |        | 1973/96 |
| Avalon at Blossom Hill    | 7,911  | 52,975 |        | 1995    |
| Avalon at Cahill Park     | 723    | 51,391 |        | 2002    |
| Avalon at Creekside       | 5,238  | 37,728 |        | 1962/97 |
| Avalon at Foxchase I & II | 7,718  | 51,104 | 26,400 | 1986/87 |

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AVALONBAY COMMUNITIES, INC.  
 REAL ESTATE AND ACCUMULATED DEPRECIATION  
 December 31, 2002  
 (Dollars in thousands)

|                                | Initial Cost     |   |   | Total Cost       |   |                    |
|--------------------------------|------------------|---|---|------------------|---|--------------------|
|                                | Land             | Building /<br>Construction in<br>Progress &<br>Improvements | Costs<br>Subsequent to<br>Acquisition /<br>Construction | Land             | Building /<br>Construction in<br>Progress &<br>Improvements | Total              |
| Avalon at Parkside             | 7,406            | 29,823  | 624   | 7,406            | 30,447  | 37,853             |
| Avalon at Pruneyard            | 3,414            | 15,469  | 12,967  | 3,414            | 28,436  | 31,850             |
| Avalon at River Oaks           | 8,904            | 35,126  | 975   | 8,904            | 36,101  | 45,005             |
| Avalon Campbell                | 11,830           | 47,828  | 351   | 11,830           | 48,179  | 60,009             |
| Avalon Cupertino               | 9,099            | 39,926  | 73  | 9,099            | 39,999  | 49,098             |
| Avalon Mountain View           | 9,755            | 39,393  | 1,364   | 9,755            | 40,757  | 50,512             |
| Avalon on the Alameda          | 6,119            | 50,164  | 143   | 6,119            | 50,307  | 56,426             |
| Avalon Rosewalk I & II         | 15,814           | 62,028  | 368   | 15,814           | 62,396  | 78,210             |
| Avalon Silicon Valley          | 20,713           | 99,304  | 834   | 20,713           | 100,138   | 120,851            |
| Avalon Sunnyvale               | 6,786            | 27,388  | 723   | 6,786            | 28,111  | 34,897             |
| Avalon Towers on the Peninsula | 9,560            | 56,021  |   | 9,560            | 56,021  | 65,581             |
| CountryBrook                   | 9,384            | 34,794  | 3,614   | 9,384            | 38,408  | 47,792             |
| Fairway Glen                   | 3,341            | 13,338  | 449   | 3,341            | 13,787  | 17,128             |
| San Marino                     | 6,607            | 26,673  | 785   | 6,607            | 27,458  | 34,065             |
| Avalon at Media Center         | 22,483           | 28,104  | 24,921  | 22,483           | 53,025  | 75,508             |
| Avalon at Warner Center        | 7,045            | 12,986  | 6,383   | 7,045            | 19,369  | 26,414             |
| Avalon Westside Terrace        | 5,878            | 23,708  | 7,655   | 5,878            | 31,363  | 37,241             |
| Avalon Woodland Hills          | 23,828           | 40,372  | 7,390   | 23,828           | 47,762  | 71,590             |
| The Promenade                  | 14,052           | 56,820  | 124   | 14,052           | 56,944  | 70,996             |
| Amberway                       | 10,285           | 7,249   | 3,866   | 10,285           | 11,115  | 21,400             |
| Avalon Laguna Niguel           | 656              | 16,588  | 3,713   | 656              | 20,301  | 20,957             |
| Avalon at Pacific Bay          | 4,871            | 19,745  | 7,325   | 4,871            | 27,070  | 31,941             |
| Avalon at South Coast          | 4,709            | 16,063  | 3,824   | 4,709            | 19,887  | 24,596             |
| Avalon Huntington Beach        | 6,663            | 21,647  | 8,882   | 6,663            | 30,529  | 37,192             |
| Avalon Mission Viejo           | 2,517            | 9,257   | 1,393   | 2,517            | 10,650  | 13,167             |
| Avalon Newport                 | 1,975            | 3,814   | 4,323   | 1,975            | 8,137   | 10,112             |
| Avalon Santa Margarita         | 4,607            | 16,911  | 2,117   | 4,607            | 19,028  | 23,635             |
| Avalon at Cortez Hill          | 2,768            | 20,134  | 11,466  | 2,768            | 31,600  | 34,368             |
| Avalon at Mission Bay          | 9,922            | 40,633  | 15,505  | 9,922            | 56,138  | 66,060             |
| Avalon at Mission Ridge        | 2,710            | 10,924  | 7,991   | 2,710            | 18,915  | 21,625             |
| Avalon at Penasquitos Hills    | 2,760            | 9,391   | 2,172   | 2,760            | 11,563  | 14,323             |
|                                | <u>\$836,084</u> | <u>\$3,763,217</u>  | <u>\$267,642</u>  | <u>\$836,084</u> | <u>\$4,030,859</u>  | <u>\$4,866,943</u> |

[Additional columns below]

[Continued from above table, first column(s) repeated]

| Accumulated<br>Depreciation | Total Cost, Net<br>of Accumulated<br>Depreciation | Encumbrances | Year of<br>Completion /<br>Acquisition |
|-----------------------------|---|--------------|--|
|-----------------------------|---|--------------|--|

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|                                |                  |                    |                  |           |
|--------------------------------|------------------|--------------------|------------------|-----------|
| Avalon at Parkside             | 4,857            | 32,996             |                  | 1991/96   |
| Avalon at Pruneyard            | 4,521            | 27,329             | 12,870           | 1966/97   |
| Avalon at River Oaks           | 5,704            | 39,301             |                  | 1990/96   |
| Avalon Campbell                | 7,672            | 52,337             | 35,749           | 1995      |
| Avalon Cupertino               | 6,645            | 42,453             |                  | 1999      |
| Avalon Mountain View           | 6,523            | 43,989             | 18,300           | 1986      |
| Avalon on the Alameda          | 6,828            | 49,598             |                  | 1999      |
| Avalon Rosewalk I & II         | 9,434            | 68,776             |                  | 1997      |
| Avalon Silicon Valley          | 15,853           | 104,998            |                  | 1997      |
| Avalon Sunnyvale               | 4,483            | 30,414             |                  | 1987/1995 |
| Avalon Towers on the Peninsula | 1,666            | 63,915             |                  | 2002      |
| CountryBrook                   | 6,207            | 41,585             | 18,124           | 1985/96   |
| Fairway Glen                   | 2,256            | 14,872             | 9,580            | 1986      |
| San Marino                     | 4,401            | 29,664             |                  | 1984/88   |
| Avalon at Media Center         | 7,228            | 68,280             |                  | 1969/97   |
| Avalon at Warner Center        | 3,440            | 22,974             |                  | 1979/98   |
| Avalon Westside Terrace        | 4,961            | 32,280             |                  | 1966/97   |
| Avalon Woodland Hills          | 8,610            | 62,980             |                  | 1989/97   |
| The Promenade                  | 1,041            | 69,955             | 33,670           | 1988/2002 |
| Amberway                       | 2,025            | 19,375             |                  | 1983/98   |
| Avalon Laguna Niguel           | 3,494            | 17,463             | 10,400           | 1988/98   |
| Avalon at Pacific Bay          | 4,204            | 27,737             |                  | 1971/97   |
| Avalon at South Coast          | 3,334            | 21,262             |                  | 1973/96   |
| Avalon Huntington Beach        | 5,480            | 31,712             |                  | 1972/97   |
| Avalon Mission Viejo           | 1,741            | 11,426             | 7,151            | 1984/96   |
| Avalon Newport                 | 1,343            | 8,769              |                  | 1956/96   |
| Avalon Santa Margarita         | 3,147            | 20,488             |                  | 1990/97   |
| Avalon at Cortez Hill          | 4,470            | 29,898             |                  | 1973/98   |
| Avalon at Mission Bay          | 8,240            | 57,820             |                  | 1969/97   |
| Avalon at Mission Ridge        | 3,142            | 18,483             |                  | 1960/97   |
| Avalon at Penasquitos Hills    | 1,895            | 12,428             |                  | 1982/97   |
|                                | <u>\$568,022</u> | <u>\$4,298,921</u> | <u>\$456,851</u> |           |



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AVALONBAY COMMUNITIES, INC.  
 REAL ESTATE AND ACCUMULATED DEPRECIATION  
 December 31, 2002  
 (Dollars in thousands)

|                                | Initial Cost     |   |   | Total Cost       |   |                    |
|--------------------------------|------------------|---|---|------------------|---|--------------------|
|                                | Land             | Building /<br>Construction in<br>Progress &<br>Improvements | Costs<br>Subsequent to<br>Acquisition /<br>Construction | Land             | Building /<br>Construction in<br>Progress &<br>Improvements | Total              |
| <b>Development Communities</b> |                  |   |   |                  |   |                    |
| Avalon at Flanders Hill        | 2,981            | 32,874  |   | 2,981            | 32,874  | 35,855             |
| Avalon at Gallery Place I      |                  | 41,414  |   |                  | 41,414  | 41,414             |
| Avalon at Glen Cove South      |                  | 16,777  |   |                  | 16,777  | 16,777             |
| Avalon at Grosvenor Station    |                  | 40,146  |   |                  | 40,146  | 40,146             |
| Avalon at Mission Bay North    | 461              | 71,009  |   | 461              | 71,009  | 71,470             |
| Avalon at Newton Highlands     |                  | 27,629  |   |                  | 27,629  | 27,629             |
| Avalon at Rock Spring          | 264              | 36,523  |   | 264              | 36,523  | 36,787             |
| Avalon at Steven s Pond        |                  | 23,230  |   |                  | 23,230  | 23,230             |
| Avalon Darien                  |                  | 13,537  |   |                  | 13,537  | 13,537             |
| Avalon Glendale                |                  | 17,132  |   |                  | 17,132  | 17,132             |
| Avalon on Stamford Harbor      | 9,348            | 51,798  |   | 9,348            | 51,798  | 61,146             |
| Avalon Traville Phase I        |                  | 8,882   |   |                  | 8,882   | 8,882              |
|                                | <u>\$ 13,054</u> | <u>\$ 380,951</u>   | <u>\$</u>   | <u>\$ 13,054</u> | <u>\$ 380,951</u>   | <u>\$ 394,005</u>  |
| Land held for development      | 78,688           |   |   | 78,688           |   | 78,688             |
| Corporate overhead             | 1,571            | 8,242   | 20,004  | 1,571            | 28,246  | 29,817             |
|                                | <u>\$929,397</u> | <u>\$4,152,410</u>  | <u>\$287,646</u>  | <u>\$929,397</u> | <u>\$4,440,056</u>  | <u>\$5,369,453</u> |

[Additional columns below]

[Continued from above table, first column(s) repeated]

|                                | Accumulated<br>Depreciation | Total Cost, Net                |              | Year of<br>Completion<br>/<br>Acquisition |
|--------------------------------|-----------------------------|--------------------------------|--------------|---|
|                                |                             | of Accumulated<br>Depreciation | Encumbrances |   |
| <b>Development Communities</b> |                             |                                |              |   |
| Avalon at Flanders Hill        | 359                         | 35,496                         |              | N/A                                       |
| Avalon at Gallery Place I      |                             | 41,414                         |              | N/A                                       |
| Avalon at Glen Cove South      |                             | 16,777                         |              | N/A                                       |
| Avalon at Grosvenor Station    |                             | 40,146                         |              | N/A                                       |
| Avalon at Mission Bay North    | 46                          | 71,424                         |              | N/A                                       |
| Avalon at Newton Highlands     |                             | 27,629                         |              | N/A                                       |
| Avalon at Rock Spring          | 58                          | 36,729                         |              | N/A                                       |
| Avalon at Steven s Pond        |                             | 23,230                         |              | N/A                                       |
| Avalon Darien                  |                             | 13,537                         |              | N/A                                       |
| Avalon Glendale                |                             | 17,132                         |              | N/A                                       |

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|                           |                   |                   |                   |     |
|---------------------------|-------------------|-------------------|-------------------|-----|
| Avalon on Stamford Harbor | 721               | 60,425            |                   | N/A |
| Avalon Traville Phase I   |                   | 8,882             |                   | N/A |
|                           | <u>          </u> | <u>          </u> | <u>          </u> |     |
|                           | \$ 1,184          | \$ 392,821        | \$                |     |
|                           | <u>          </u> | <u>          </u> | <u>          </u> |     |
| Land held for development |                   | 78,688            |                   |     |
| Corporate overhead        | 14,816            | 15,001            |                   |     |
|                           | <u>          </u> | <u>          </u> | <u>          </u> |     |
|                           | \$584,022         | \$4,785,431       | \$456,851         |     |
|                           | <u>          </u> | <u>          </u> | <u>          </u> |     |

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**AVALONBAY COMMUNITIES, INC.**  
**REAL ESTATE AND ACCUMULATED DEPRECIATION**

December 31, 2002  
(Dollars in thousands)

Amounts include real estate assets held for sale.

Depreciation of AvalonBay Communities, Inc. building, improvements, upgrades and furniture, fixtures and equipment (FF&E) is calculated over the following useful lives, on a straight line basis:

Building - 30 years

Improvements, upgrades and FF&E - not to exceed 7 years

The aggregate cost of total real estate for Federal income tax purposes was approximately \$5,400,000 at December 31, 2002.

The changes in total real estate assets for the years ended December 31, 2002, 2001 and 2000 are as follows:

|   | Years ended December 31, |             |             |
|---|--------------------------|-------------|-------------|
|   | 2002                     | 2001        | 2000        |
| Balance, beginning of period                                    | \$4,837,869              | \$4,535,969 | \$4,235,938 |
| Acquisitions, Construction Costs and Improvements               | 575,879                  | 496,908     | 393,359     |
| Dispositions, including impairment loss on planned dispositions | (44,295)                 | (195,008)   | (123,816)   |
|   | \$5,369,453              | \$4,837,869 | \$4,535,969 |

The changes in accumulated depreciation for the years ended December 31, 2002, 2001 and 2000, are as follows:

|   | Years ended December 31, |           |           |
|---|--------------------------|-----------|-----------|
|   | 2002                     | 2001      | 2000      |
| Balance, beginning of period                    | \$447,026                | \$336,010 | \$225,103 |
| Depreciation, including discontinued operations | 144,477                  | 126,984   | 119,416   |
| Dispositions                                    | (7,481)                  | (15,968)  | (8,509)   |
|   | \$584,022                | \$447,026 | \$336,010 |