

AVALONBAY COMMUNITIES INC

Form 10-Q

August 08, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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.)

Ballston Tower

671 N. Glebe Rd, Suite 800

Arlington, Virginia 22203

(Address of principal executive offices, including zip code)

(703) 329-6300

(Registrant's telephone number, including area code)

(Former name, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days.

Yes No

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

Yes No

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

Large accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

131,186,540 shares of common stock, par value \$0.01 per share, were outstanding as of July 31, 2014

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

	6/30/2014 (unaudited)	12/31/2013
ASSETS		
Real estate:		
Land	\$3,417,425	\$3,299,686
Buildings and improvements	11,739,025	11,108,241
Furniture, fixtures and equipment	374,802	341,423
	15,531,252	14,749,350
Less accumulated depreciation	(2,695,462)	(2,482,409)
Net operating real estate	12,835,790	12,266,941
Construction in progress, including land	1,478,306	1,582,986
Land held for development	195,673	300,364
Operating real estate assets held for sale, net	—	133,918
Total real estate, net	14,509,769	14,284,209
Cash and cash equivalents	425,741	281,355
Cash in escrow	93,385	98,564
Resident security deposits	29,538	26,672
Investments in unconsolidated real estate entities	318,640	367,866
Deferred financing costs, net	40,928	40,677
Deferred development costs	34,810	31,592
Prepaid expenses and other assets	205,140	197,208
Total assets	\$15,657,951	\$15,328,143
LIABILITIES AND EQUITY		
Unsecured notes, net	\$2,695,112	\$2,594,709
Variable rate unsecured credit facility	—	—
Mortgage notes payable	3,559,762	3,539,642
Dividends payable	152,113	138,476
Payables for construction	96,021	94,632
Accrued expenses and other liabilities	227,917	242,418
Accrued interest payable	40,468	43,175
Resident security deposits	48,942	44,872
Liabilities related to real estate assets held for sale	—	13,172
Total liabilities	6,820,335	6,711,096
Redeemable noncontrolling interests	16,084	17,320
Equity:		
Preferred stock, \$0.01 par value; \$25 liquidation preference; 50,000,000 shares authorized at both June 30, 2014 and December 31, 2013; zero shares issued and outstanding at both June 30, 2014 and December 31, 2013	—	—
Common stock, \$0.01 par value; 280,000,000 shares authorized at both June 30, 2014 and December 31, 2013; 131,129,795 and 129,416,695 shares issued and outstanding	1,311	1,294

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at June 30, 2014 and December 31, 2013, respectively

Additional paid-in capital	9,213,433	8,988,723
Accumulated earnings less dividends	(347,592	) (345,254)
Accumulated other comprehensive loss	(45,620	) (48,631)
Total stockholders' equity	8,821,532	8,596,132
Noncontrolling interests	—	3,595
Total equity	8,821,532	8,599,727
Total liabilities and equity	\$15,657,951	\$15,328,143

See accompanying notes to Condensed Consolidated Financial Statements.

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AVALONBAY COMMUNITIES, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF
 COMPREHENSIVE INCOME

(unaudited)

(Dollars in thousands, except per share data)

	For the three months ended		For the six months ended	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Revenue:				
Rental and other income	\$411,134	\$375,294	\$808,131	\$674,379
Management, development and other fees	2,672	2,913	5,750	5,185
Total revenue	413,806	378,207	813,881	679,564
Expenses:				
Operating expenses, excluding property taxes	101,059	87,865	199,601	159,692
Property taxes	42,439	41,011	86,924	72,912
Interest expense, net	43,722	43,169	86,255	81,342
Loss on extinguishment of debt, net	412	—	412	—
Depreciation expense	110,395	189,977	216,762	295,536
General and administrative expense	10,220	11,345	19,456	21,384
Expensed acquisition, development and other pursuit costs	2,017	3,806	2,732	43,865
Total expenses	310,264	377,173	612,142	674,731
Equity in income (loss) of unconsolidated real estate entities	7,710	(940)	12,933	(19,503)
Gain on sale of land	—	240	—	240
Gain on sale of communities	60,945	—	60,945	—
Income (loss) from continuing operations	172,197	334	275,617	(14,430)
Discontinued operations:				
Income from discontinued operations	—	2,081	310	7,827
Gain on sale of discontinued operations	—	33,682	37,869	118,173
Total discontinued operations	—	35,763	38,179	126,000
Net income	172,197	36,097	313,796	111,570
Net (income) loss attributable to noncontrolling interests	(14,111 )	) 121	(13,971 )	) 78
Net income attributable to common stockholders	\$158,086	\$36,218	\$299,825	\$111,648
Other comprehensive income:				
Cash flow hedge losses reclassified to earnings	1,438	1,574	3,011	2,965
Comprehensive income	\$159,524	\$37,792	\$302,836	\$114,613
Earnings per common share - basic:				
Income (loss) from continuing operations attributable to common stockholders	\$1.22	\$—	\$2.02	\$(0.11)
Discontinued operations attributable to common stockholders	—	0.28	0.29	1.01

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Net income attributable to common stockholders	\$ 1.22	\$ 0.28	\$ 2.31	\$ 0.90
Earnings per common share - diluted:				
Income (loss) from continuing operations attributable to common stockholders	\$ 1.21	\$—	\$ 2.02	\$(0.11)
Discontinued operations attributable to common stockholders	—	0.28	0.29	1.00
Net income attributable to common stockholders	\$ 1.21	\$ 0.28	\$ 2.31	\$ 0.89
Dividends per common share	\$ 1.16	\$ 1.07	\$ 2.32	\$ 2.14

See accompanying notes to Condensed Consolidated Financial Statements.

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

	For the six months ended	
	6/30/2014	6/30/2013
Cash flows from operating activities:		
Net income	\$313,796	\$111,570
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation expense	216,762	295,536
Depreciation expense from discontinued operations	—	10,619
Amortization of deferred financing costs	3,164	3,658
Amortization of debt premium	(17,554)	(12,048)
Loss on extinguishment of debt, net	412	—
Amortization of stock-based compensation	6,190	3,581
Equity in (income) loss of, and return on, unconsolidated real estate entities and noncontrolling interests, net of eliminations	(1,363)	22,310
Abandonment of development pursuits	1,455	—
Cash flow hedge losses reclassified to earnings	3,011	2,965
Gain on sale of real estate assets	(98,814)	(118,413)
Decrease (increase) in cash in operating escrows	3,489	(8,291)
Increase in resident security deposits, prepaid expenses and other assets	(8,094)	(46,464)
(Decrease) increase in accrued expenses, other liabilities and accrued interest payable	(12,743)	2,188
Net cash provided by operating activities	409,711	267,211
Cash flows from investing activities:		
Development/redevelopment of real estate assets including land acquisitions and deferred development costs	(547,800)	(591,894)
Acquisition of real estate assets, including partnership interest	—	(749,275)
Capital expenditures - existing real estate assets	(20,617)	(1,986)
Capital expenditures - non-real estate assets	(5,187)	(2,721)
Proceeds from sale of real estate, net of selling costs	186,651	432,380
Mortgage note receivable repayment	21,748	—
Increase in payables for construction	1,389	31,307
Decrease (increase) in investments in unconsolidated real estate entities	52,300	(2,161)
Net cash used in investing activities	(311,516)	(884,350)
Cash flows from financing activities:		
Issuance of common stock	214,970	2,605
Dividends paid	(288,610)	(249,267)
Net borrowings under unsecured credit facility	—	142,000
Issuance of mortgage notes payable	53,000	71,210
Repayments of mortgage notes payable, including prepayment penalties	(24,768)	(1,786,130)
Settlement of interest rate contract	—	(51,000)
Issuance of unsecured notes	250,000	—
Repayment of unsecured notes	(150,000)	(100,000)
Payment of deferred financing costs	(3,414)	(524)
Acquisition of joint venture partner equity interest	—	(1,965)
Distributions to DownREIT partnership unitholders	(17)	(16)

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Distributions to joint venture and profit-sharing partners	(170) (159)
Redemption of preferred interest obligation	(4,800) (32,086)
Net cash provided by (used in) financing activities	46,191	(2,005,332)
Net increase (decrease) in cash and cash equivalents	144,386	(2,622,471)
Cash and cash equivalents, beginning of period	281,355	2,733,618	
Cash and cash equivalents, end of period	\$425,741	\$111,147	
Cash paid during the period for interest, net of amount capitalized	\$94,343	\$75,648	

See accompanying notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Supplemental disclosures of non-cash investing and financing activities:

During the six months ended June 30, 2014:

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

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

The Company recorded a decrease of \$626,000 in redeemable noncontrolling interest with a corresponding increase to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units. For further discussion of the nature and valuation of these items, see Note 11, "Fair Value."

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

The Company derecognized \$17,816,000 in noncontrolling interest in conjunction with the deconsolidation of a Fund I subsidiary. For further discussion see Note 6, "Investments in Real Estate Entities."

During the six months ended June 30, 2013:

The Company issued 14,889,706 shares of common stock valued at \$1,875,210,000 as partial consideration for the Archstone Acquisition (as defined in this Form 10-Q); 123,977 shares of common stock valued at \$16,019,000 were issued in connection with stock grants; 1,030 shares valued at \$140,000 were issued through the Company's dividend reinvestment plan; 44,222 shares valued at \$5,638,000 were withheld to satisfy employees' tax withholding and other liabilities; and 5,214 shares and options valued at \$516,000 previously issued in connection with employee compensation were forfeited. In addition, the Company granted 215,230 options for common stock at a value of \$5,768,000.

The Company recorded a decrease to other liabilities and a corresponding decrease to interest expense, net of \$2,484,000; and reclassified \$2,965,000 of cash flow hedge losses from other comprehensive income to interest expense, net to record the impact of the Company's derivative and hedge accounting activity.

Common dividends declared but not paid totaled \$138,456,000.

The Company recorded \$13,262,000 in redeemable noncontrolling interests associated with the acquisition of consolidated joint ventures as part of the Archstone Acquisition. The Company also recorded an increase of \$329,000 in redeemable noncontrolling interest with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put option held by a joint venture partner and DownREIT partnership units.

The Company assumed secured indebtedness with a principal amount of \$3,512,202,000 in conjunction with the Archstone Acquisition. The Company also assumed an obligation related to outstanding preferred interests of approximately \$67,500,000, included in accrued expenses and other liabilities.

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AVALONBAY COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Organization, Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

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

At June 30, 2014, the Company owned or held a direct or indirect ownership interest in 243 operating apartment communities containing 72,767 apartment homes in 11 states and the District of Columbia, of which six communities containing 2,094 apartment homes were under reconstruction. In addition, the Company owned or held a direct or indirect ownership interest in 32 communities under construction that are expected to contain an aggregate of 9,581 apartment homes when completed. The Company also owned or held a direct or indirect ownership interest in land or rights to land on which the Company expects to develop an additional 40 communities that, if developed as expected, will contain an estimated 11,350 apartment homes.

The interim unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements required by GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited financial statements should be read in conjunction with the financial statements and notes included in the Company’s 2013 Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2014 are not necessarily indicative of the operating results for the full year. Management believes the disclosures are adequate to ensure the information presented is not misleading. In the opinion of management, all adjustments and eliminations, consisting only of normal, recurring adjustments necessary for a fair presentation of the financial statements for the interim periods, have been included.

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

Earnings per Common Share

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

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	For the three months ended		For the six months ended	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Basic and diluted shares outstanding				
Weighted average common shares - basic	129,856,335	129,179,471	129,574,118	124,456,232
Weighted average DownREIT units outstanding	7,500	7,500	7,500	7,500
Effect of dilutive securities	384,486	408,428	356,614	415,931
Weighted average common shares - diluted	130,248,321	129,595,399	129,938,232	124,879,663
Calculation of Earnings per Share - basic				
Net income attributable to common stockholders	\$ 158,086	\$ 36,218	\$ 299,825	\$ 111,648
Net income allocated to unvested restricted shares	(254	) (59	) (487	) (193
Net income attributable to common stockholders, adjusted	\$ 157,832	\$ 36,159	\$ 299,338	\$ 111,455
Weighted average common shares - basic	129,856,335	129,179,471	129,574,118	124,456,232
Earnings per common share - basic	\$ 1.22	\$ 0.28	\$ 2.31	\$ 0.90
Calculation of Earnings per Share - diluted				
Net income attributable to common stockholders	\$ 158,086	\$ 36,218	\$ 299,825	\$ 111,648
Add: noncontrolling interests of DownREIT unitholders in consolidated partnerships, including discontinued operations	9	8	17	16
Adjusted net income available to common stockholders	\$ 158,095	\$ 36,226	\$ 299,842	\$ 111,664
Weighted average common shares - diluted	130,248,321	129,595,399	129,938,232	124,879,663
Earnings per common share - diluted	\$ 1.21	\$ 0.28	\$ 2.31	\$ 0.89

Certain options to purchase shares of common stock in the amounts of 243,326 and 606,318 were outstanding at June 30, 2014 and 2013, respectively, but were not included in the computation of diluted earnings per share because such options were anti-dilutive for the respective quarters.

The Company is required to estimate the forfeiture of stock options and recognize compensation cost net of the estimated forfeitures. The estimated forfeitures included in compensation cost are adjusted to reflect actual forfeitures at the end of the vesting period. The forfeiture rate at June 30, 2014 is based on the average forfeiture activity over a period equal to the estimated life of the stock options, and was 1.1%. The application of estimated forfeitures did not materially impact compensation expense for the three and six months ended June 30, 2014 or 2013.

Derivative Instruments and Hedging Activities

The Company enters into interest rate swap and interest rate cap agreements (collectively, "Hedging Derivatives") for interest rate risk management purposes and in conjunction with certain variable rate secured debt to satisfy lender requirements. The Company does not enter into Hedging Derivatives transactions for trading or other speculative purposes. The Company assesses both at inception, and on an on-going basis, the effectiveness of qualifying cash flow

and fair value hedges. Hedge ineffectiveness is reported as a component of general and administrative expenses. The fair values of Hedging Derivatives that are in an asset position are recorded in prepaid expenses and other assets. The fair value of Hedging Derivatives that are in a liability position are included in accrued expenses and other liabilities. Fair value changes for derivatives that are not in qualifying hedge relationships are reported as a component of interest expense, net. For Hedging Derivatives that the Company has determined qualify as effective cash flow hedges, the Company has recorded the effective portion of cumulative changes in the fair value of Hedging Derivatives in other comprehensive income. Amounts recorded in other comprehensive income will be reclassified into earnings in the periods in which earnings are affected by the hedged cash flow. The effective portion of the change in fair value of Hedging Derivatives

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that the Company has determined qualified as effective fair value hedges is reported as an adjustment to the carrying amount of the corresponding debt being hedged.

Legal and Other Contingencies

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

Acquisitions of Investments in Real Estate

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

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to amounts in prior years' financial statements to conform to current year presentations as a result of discontinued operations and changes in held for sale classification as described in Note 7, "Real Estate Disposition Activities."

Recently Adopted Accounting Standards

In April 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2014-08, guidance updating the accounting and reporting for discontinued operations. Under the recently issued guidance, only disposals representing a strategic shift in operations (e.g., a disposal of a major geographic area, a major line of business or a major equity method investment) will be presented as discontinued operations. Additionally, the final standard requires expanded disclosures about dispositions that will provide financial statement users with more information about the assets, liabilities, income and expenses of discontinued operations, as well as disposals of a significant part of an entity that does not qualify for discontinued operations reporting. The final standard is effective in the first quarter of 2015 and allows for early adoption. The Company adopted the guidance as of January 1, 2014, as discussed in Note 7, "Real Estate Disposition Activities."

In May 2014, the Financial Accounting Standards Board issued a revenue recognition standard that will result in companies recognizing revenue from contracts when control for the service or product that is the subject of the contract is transferred from the seller to the buyer. The Company will be required to apply the new standard in the first quarter of 2017 and is assessing whether the new standard will have a material effect on its financial position or results of operations.

2. Interest Capitalized

The Company capitalizes interest during the development and redevelopment of real estate assets. Capitalized interest associated with the Company's development or redevelopment activities totaled \$18,626,000 and \$16,824,000 for the three months ended June 30, 2014 and 2013, respectively, and \$38,305,000 and \$29,963,000 for the six months ended June 30, 2014 and 2013, respectively.

3. Notes Payable, Unsecured Notes and Credit Facility

The Company's mortgage notes payable, unsecured notes, Term Loan and Credit Facility, both as defined below, as of June 30, 2014 and December 31, 2013, are summarized below (dollars in thousands). The following amounts and discussion do not include the mortgage notes related to the communities classified as held for sale, if any, as of June 30, 2014 and December 31, 2013, as shown in the Condensed Consolidated Balance Sheets (dollars in

thousands) (see Note 7, "Real Estate Disposition Activities").

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	6/30/2014	12/31/2013
Fixed rate unsecured notes (1)	\$2,450,000	\$2,600,000
Term Loan	250,000	—
Fixed rate mortgage notes payable - conventional and tax-exempt (2)	2,408,940	2,418,389
Variable rate mortgage notes payable - conventional and tax-exempt	1,048,569	1,011,609
Total notes payable and unsecured notes	6,157,509	6,029,998
Credit Facility	—	—
Total mortgage notes payable, unsecured notes and Credit Facility	\$6,157,509	\$6,029,998

(1) Balances at June 30, 2014 and December 31, 2013 exclude \$4,889 and \$5,291 of debt discount, respectively, as reflected in unsecured notes, net on the Company's Condensed Consolidated Balance Sheets.

(2) Balances at June 30, 2014 and December 31, 2013 exclude \$102,254 and \$120,684 of debt premium, respectively, as reflected in mortgage notes payable on the Company's Condensed Consolidated Balance Sheets.

The following debt activity occurred during the six months ended June 30, 2014:

- In March 2014, the Company entered into a \$300,000,000 variable rate unsecured term loan that matures in March 2021 (the "Term Loan"). At June 30, 2014, the Company had drawn \$250,000,000 of the available \$300,000,000, with the option to draw the additional \$50,000,000 until March 2015.

In April 2014, in conjunction with certain requirements associated with the development of an apartment community, the Company entered into a \$53,000,000 secured mortgage loan maturing in 2019, with an option to extend the maturity to 2024. The mortgage is comprised of a \$15,000,000 fixed rate note with an interest rate of 2.99% and a \$38,000,000 variable rate note at the London Interbank Offered Rate ("LIBOR") plus 2.00%.

Pursuant to its scheduled maturity in April 2014, the Company repaid \$150,000,000 principal amount of unsecured notes with a stated coupon of 5.375%.

In June 2014, in conjunction with the disposition of an operating community, the Company repaid a fixed rate secured mortgage loan in the amount of \$10,427,000 with an interest rate of 6.19% in advance of its November 2015 maturity date. In accordance with the requirements of the master credit agreement governing this and certain other secured borrowings, the Company repaid an additional \$5,914,000 principal amount of secured borrowings for eight other operating communities. The Company incurred a charge for early debt extinguishment of \$412,000.

The Company has a \$1,300,000,000 revolving variable rate unsecured credit facility with a syndicate of banks (the "Credit Facility") which matures in April 2017. The Company has the option to extend the maturity by up to one year under two, six month extension options for an aggregate fee of \$1,950,000. The Credit Facility bears interest at varying levels based on the LIBOR rating levels achieved on the unsecured notes and on a maturity schedule selected by the Company. The current stated pricing is LIBOR plus 1.05% (1.21% at June 30, 2014), assuming a one month borrowing rate. The annual facility fee is approximately \$1,950,000 based on the \$1,300,000,000 facility size and based on the Company's current credit rating.

The Company had no borrowings outstanding under the Credit Facility and had \$49,434,000 and \$65,018,000 outstanding in letters of credit that reduced the borrowing capacity as of June 30, 2014 and December 31, 2013, respectively.

In the aggregate, secured notes payable mature at various dates from November 2015 through July 2066, and are secured by certain apartment communities and improved land parcels (with a net carrying value of \$4,467,166,000 excluding communities classified as held for sale, as of June 30, 2014).

As of June 30, 2014, the Company has guaranteed approximately \$258,224,000 of mortgage notes payable held by wholly-owned subsidiaries; all such mortgage notes payable are consolidated for financial reporting purposes. The weighted average interest rate of the Company's fixed rate mortgage notes payable (conventional and tax-exempt) was 4.5% at both June 30, 2014 and December 31, 2013. The weighted average interest rate of the Company's variable rate

mortgage notes payable (conventional and tax exempt), the Term Loan and its Credit Facility, including the effect of certain financing related fees, was 1.8% at both June 30, 2014 and December 31, 2013.

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Scheduled payments and maturities of mortgage notes payable and unsecured notes outstanding at June 30, 2014 are as follows (dollars in thousands):

Year	Secured notes payments	Secured notes maturities	Unsecured notes maturities	Stated interest rate of unsecured notes
2014	\$9,130	\$—	\$—	5.375 %
2015	17,871	586,703	—	—
2016	19,036	16,255	250,000	5.750 %
2017	20,257	710,491	250,000	5.700 %
2018	19,646	76,930	—	—
2019	7,145	658,475	—	—
2020	6,205	50,824	250,000	6.100 %
			400,000	3.625 %
2021	5,985	27,844	250,000	3.950 %
			250,000	LIBOR + 1.45%
2022	6,352	—	450,000	2.950 %
2023	6,596	—	350,000	4.200 %
			250,000	2.850 %
Thereafter	85,830	1,125,934	—	—
	\$204,053	\$3,253,456	\$2,700,000	

The Company was in compliance at June 30, 2014 with certain customary financial and other covenants under the Credit Facility, the Term Loan, and the Company's fixed-rate unsecured notes.

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4. Equity

The following summarizes the changes in equity for the six months ended June 30, 2014 (dollars in thousands):

	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total AvalonBay stockholders' equity	Noncontrolling interests	Total equity
Balance at December 31, 2013	\$1,294	\$8,988,723	\$ (345,254)	\$ (48,631)	\$8,596,132	\$ 3,595	\$8,599,727
Net income attributable to common stockholders	—	—	299,825	—	299,825	—	299,825
Cash flow hedge loss reclassified to earnings	—	—	—	3,011	3,011	—	3,011
Change in redemption value of redeemable noncontrolling interest	—	—	626	—	626	—	626
Noncontrolling interests income allocation	—	—	—	—	—	14,221	14,221
Noncontrolling interests derecognition	—	—	—	—	—	(17,816)	(17,816)
Dividends declared to common stockholders	—	—	(302,412)	—	(302,412)	—	(302,412)
Issuance of common stock, net of withholdings	17	209,535	(377)	—	209,175	—	209,175
Amortization of deferred compensation	—	15,175	—	—	15,175	—	15,175
Balance at June 30, 2014	\$1,311	\$9,213,433	\$ (347,592)	\$ (45,620)	\$8,821,532	\$ —	\$8,821,532

As of June 30, 2014 and December 31, 2013, the Company's charter had authorized for issuance a total of 280,000,000 shares of common stock and 50,000,000 shares of preferred stock.

During the six months ended June 30, 2014, the Company:

- (i) issued 1,418,959 common shares through public offerings under CEP III, discussed below;
- (ii) issued 224,771 common shares in connection with stock options exercised;
- (iii) issued 1,286 common shares through the Company's dividend reinvestment plan;
- (iv) issued 113,822 common shares in connection with stock grants and the conversion of restricted units to restricted shares;
- (v) issued 4,367 common shares through the Employee Stock Purchase Program; and
- (vi) withheld 50,105 common shares to satisfy employees' tax withholding and other liabilities.

Any deferred compensation related to the Company's stock option and restricted stock grants during the six months ended June 30, 2014 is not reflected on the Company's Condensed Consolidated Balance Sheet as of June 30, 2014, and will not be reflected until earned as compensation cost.

In August 2012, the Company commenced a third continuous equity program ("CEP III"), under which the Company may sell up to \$750,000,000 of shares of its common stock from time to time during a 36-month period. Actual sales

will depend on a variety of factors to be determined by the Company, including market conditions, the trading price of the Company's common stock and determinations by the Company of the appropriate sources of funding for the Company. In conjunction with CEP III, the Company engaged sales agents who receive compensation of approximately 1.5% of the gross sales price for shares sold. During the three and six months ended June 30, 2014, the Company sold 1,418,959 shares at an average sales price of \$140.94 per share, for net proceeds of \$196,984,000. As of June 30, 2014, the Company had \$446,286,000 of shares remaining authorized for issuance under this program.

5. Archstone Acquisition

On February 27, 2013, pursuant to an asset purchase agreement (the "Purchase Agreement") dated November 26, 2012, by and among the Company, Equity Residential and its operating partnership, ERP Operating Limited Partnership (together, "Equity Residential"), Lehman Brothers Holdings, Inc. ("Lehman", which term is sometimes used in this report to refer to Lehman Brothers Holdings, Inc., and/or its relevant subsidiary or subsidiaries), and Archstone Enterprise LP ("Archstone," which has since changed

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its name to Jupiter Enterprise LP), the Company, together with Equity Residential, acquired, directly or indirectly, all of Archstone's assets, including all of the ownership interests in joint ventures and other entities owned by Archstone, and assumed Archstone's liabilities, both known and unknown, with certain limited exceptions.

Under the terms of the Purchase Agreement, the Company acquired approximately 40% of Archstone's assets and liabilities and Equity Residential acquired approximately 60% of Archstone's assets and liabilities (the "Archstone Acquisition"). The Company accounted for the acquisition as a business combination and recorded the purchase price to acquired tangible assets consisting primarily of direct and indirect interests in land and related improvements, buildings and improvements and construction in progress and identified intangible assets and liabilities, consisting primarily of the value of above and below market leases, the value of in-places leases, and acquired management fees, at their fair values.

During the six months ended June 30, 2013, the Company recognized \$77,939,000 in acquisition related expenses associated with the Archstone Acquisition, with \$34,552,000 reported as a component of equity in income (loss) of unconsolidated real estate entities, and the balance in expensed acquisition, development, and other pursuit costs on the accompanying Condensed Consolidated Statements of Comprehensive Income.

Consideration

Pursuant to the Purchase Agreement and separate arrangements between the Company and Equity Residential governing the allocation of liabilities assumed under the Purchase Agreement, the Company's portion of consideration under the Purchase Agreement consisted of the following:

the issuance of 14,889,706 shares of the Company's common stock, valued at \$1,875,210,000 as of the market's close on the closing date, February 27, 2013;

cash payment of approximately \$760,000,000;

the assumption of consolidated indebtedness with a fair value of approximately \$3,732,980,000, as of February 27, 2013, consisting of \$3,512,202,000 principal amount of consolidated indebtedness and \$220,777,000 representing the amount by which fair value of the aforementioned debt exceeded the principal face value, \$70,479,000 of which excess related to \$1,477,720,000 principal amount of debt the Company repaid concurrent with the Archstone Acquisition;

the acquisition with Equity Residential of interests in entities that have preferred units outstanding, some of which may be presented for redemption from time to time. The Company's 40% share of the fair value of the collective obligations, including accrued dividends on these outstanding Archstone preferred units as of February 27, 2013, was approximately \$67,500,000; and

the assumption with Equity Residential of all other liabilities, known or unknown, of Archstone, other than certain excluded liabilities. The Company shares 40% of the responsibility for these liabilities.

The following table presents information for assets acquired in the Archstone Acquisition that are included in the Company's Condensed Consolidated Statement of Comprehensive Income from the closing date of the acquisition, February 27, 2013, through June 30, 2013 (in thousands):

	For the period including February 28, 2013 through June 30, 2013
Revenues	\$140,196
Loss attributable to common shareholders (1)	\$(91,137)

(1) Amounts exclude acquisition costs for the Archstone Acquisition.

Pro Forma Information

The following table presents the Company's supplemental consolidated pro forma information for the six months ended June 30, 2013, as if the acquisition had occurred on January 1, 2012 (unaudited) (in thousands):

	For the six months ended June 30, 2013
Revenues	\$771,547
Income from continuing operations	\$198,262

Earnings per common share - diluted (from continuing operations)	\$1.53
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The pro forma consolidated results are prepared for informational purposes only, and are based on assumptions and estimates considered appropriate by the Company's management. However, they are not necessarily indicative of what the Company's consolidated financial condition or results of operations actually would have been assuming the Archstone Acquisition had occurred on January 1, 2012, nor do they purport to represent the consolidated financial position or results of operations for future periods.

6. Investments in Real Estate Entities

Investment in unconsolidated real estate entities

As of June 30, 2014, the Company had investments in seven unconsolidated real estate entities, excluding an interest in the Residual JV (as defined in this Form 10-Q), with ownership interest percentages ranging from 15.2% to 31.3%. The Company accounts for its investments in unconsolidated real estate entities under the equity method of accounting. The significant accounting policies of the Company's unconsolidated real estate entities are consistent with those of the Company in all material respects.

During the six months ended June 30, 2014, AvalonBay Value Added Fund I, L.P. ("Fund I") sold Weymouth Place, located in Weymouth, MA, South Hills Apartments, located in West Covina, CA, and The Springs, located in Corona, CA. These communities have an aggregate of 616 apartment homes and were sold for \$90,750,000. The Company's share of the gain in accordance with GAAP for these dispositions was \$2,972,000.

The net assets and results of operations of The Springs were consolidated for financial reporting purposes. As a result, 100% of the gain recognized of \$16,656,000 is included in gain on sale of communities in the Condensed Consolidated Statements of Comprehensive Income, and the Company's joint venture partners' 84.8% interest in this gain of \$14,132,000 is reported as a component of net (income) loss attributable to noncontrolling interests.

Concurrent with the disposition of The Springs, Fund I repaid its obligation to the Company under a fixed rate secured mortgage loan in the amount of \$21,748,000 with an interest rate of 6.06% in advance of its October 2014 maturity date. Upon repayment the Company deconsolidated the net assets of The Springs.

During the three months ended June 30, 2014, the Company entered into a joint venture to acquire a land parcel and construct a mixed use building that will contain rental apartments, for-sale residential condominium units and related common elements. The Company will own a 70% interest in the venture and have all of the rights and obligations associated with the rental apartments, and the venture partner will own the remaining 30% interest and have all of the rights and obligations associated with the for-sale condominium units. The Company will also be responsible for the development and construction of the structure. Upon formation of the venture, the Company and its venture partner made capital contributions, with costs incurred subsequent to the initial contributions to be funded through a loan provided by the Company. At June 30, 2014, the Company had provided funding for the venture partner's share of costs in the amount of \$5,284,000 reported as a component of prepaid expenses and other assets on the Condensed Consolidated Balance Sheets. The loan provided to the venture partner will be repaid with the proceeds received from the sale of the residential condominium units. The venture is considered a variable interest entity, and the Company will consolidate its interest in the rental apartments and common areas, and account for the for-sale component of the venture as an unconsolidated investment.

As of June 30, 2014, the Residual JV completed the disposition of substantially all of its indirect interest in German multifamily real estate assets and the associated property management company. The Company's proportionate share of the gains from dispositions and results of operations for the three and six months ended June 30, 2014 was \$6,658,000 and \$7,548,000, respectively, recorded as a component of equity in income (loss) of unconsolidated real estate entities in the Condensed Consolidated Statements of Comprehensive Income. The Company received proceeds of \$43,112,000 during the six months ended June 30, 2014 from the Residual JV, primarily associated with the dispositions of the venture's interest in German multifamily real estate assets.

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

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	6/30/2014 (unaudited)	12/31/2013 (unaudited)
Assets:		
Real estate, net	\$1,854,887	\$1,905,005
Other assets	132,356	164,183
Total assets	\$1,987,243	\$2,069,188
Liabilities and partners' capital:		
Mortgage notes payable and credit facility	\$1,225,047	\$1,251,067
Other liabilities	32,712	32,257
Partners' capital	729,484	785,864
Total liabilities and partners' capital	\$1,987,243	\$2,069,188

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

	For the three months ended		For the six months ended	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013
	(unaudited)		(unaudited)	
Rental and other income	\$52,270	\$57,497	\$104,646	\$101,325
Operating and other expenses	(20,483)	(23,076)	(41,691)	(40,816)
Gain on sale of communities	5,682	11,216	5,682	65,267
Interest expense, net	(13,523)	(15,829)	(27,413)	(31,098)
Depreciation expense	(13,863)	(17,783)	(28,280)	(30,933)
Net income	\$10,083	\$12,025	\$12,944	\$63,745

In conjunction with the formation of Fund I and AvalonBay Value Added Fund II, L.P. ("Fund II"), the Company incurred costs in excess of its equity in the underlying net assets of the respective investments. These costs represent \$4,929,000 at June 30, 2014 and \$5,439,000 at December 31, 2013 of the respective investment balances.

As part of the formation of Fund II, the Company provided a guarantee to one of the limited partners that provides if, upon final liquidation of Fund II, the total amount of all distributions to the guaranteed partner during the life of Fund II (whether from operating cash flow or property sales) does not equal the total capital contributions made by that partner, then the Company will pay the guaranteed partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the guaranteed partner (maximum of approximately \$8,910,000 for Fund II as of June 30, 2014). As of June 30, 2014, the expected realizable value of the real estate assets owned by Fund II is considered adequate to cover the guaranteed distribution amount under a liquidation scenario. The estimated fair value of, and the Company's obligation under, this guarantee, both at inception and as of June 30, 2014, was not significant and therefore the Company has not recorded any obligation for this guarantee as of June 30, 2014.

Expensed Acquisition, Development and Other Pursuit Costs and Impairment of Long-Lived Assets
The Company capitalizes pre-development costs incurred in pursuit of new development opportunities for which the Company currently believes future development is probable ("Development Rights"). Future development of these Development Rights is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and the availability of capital. Initial pre-development costs incurred for pursuits for which future development is not yet considered probable are expensed as incurred. In addition, if the status of a Development Right changes, making future development by the Company no longer probable, any capitalized pre-development costs are written off with a charge to expense. The Company expensed costs related to the abandonment of Development Rights as well as costs incurred in pursuing the acquisition of assets or costs incurred pursuing the disposition of assets for which such disposition activity did not occur, in the amounts of \$2,017,000 and

\$195,000 for the three months ended June 30, 2014 and 2013, respectively, and \$2,732,000 and \$440,000 for the six months ended June 30, 2014 and 2013. Amounts for the three and six months ended June 30, 2013 do not include costs associated with the Archstone Acquisition. For or further discussion of these costs, see Note 5, "Archstone Acquisition." These costs are included

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in expensed acquisition, development, and other pursuit costs on the accompanying Condensed Consolidated Statements of Comprehensive Income. These costs can vary greatly, and the costs incurred in any given period may be significantly different in future periods.

The Company evaluates its real estate and other long-lived assets for impairment when potential indicators of impairment exist. Such assets are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the Company assesses its recoverability by comparing the carrying amount of the long-lived asset to its estimated undiscounted future cash flows. If the carrying amount exceeds the aggregate undiscounted future cash flows, the Company recognizes an impairment loss to the extent the carrying amount exceeds the estimated fair value of the long-lived asset. Based on periodic tests of recoverability of long-lived assets, the Company did not record any impairment losses for the three and six months ended June 30, 2014 and 2013.

The Company assesses its portfolio of land held for both development and investment for impairment if the intent of the Company changes with respect to either the development of, or the expected holding period for, the land. The Company did not recognize any impairment charges on its investment in land for the three and six months ended June 30, 2014 and 2013.

The Company also evaluates its unconsolidated investments for impairment, considering both the carrying value of the investment, estimated as the expected proceeds that it would receive if the entity were dissolved and the net assets were liquidated at their current GAAP basis, as well as the Company's proportionate share of any impairment of assets held by unconsolidated investments. There were no impairment losses recognized by any of the Company's investments in unconsolidated entities during the three and six months ended June 30, 2014 and 2013, respectively.

7. Real Estate Disposition Activities

During the six months ended June 30, 2014, the Company sold three wholly-owned operating communities.

Avalon Valley, located in Danbury, CT containing 268 homes, was sold for \$53,325,000. The Company's gain in accordance with GAAP for the disposition was \$37,869,000, reported in gain on sale of discontinued operations on the accompanying Condensed Consolidated Statements of Comprehensive Income.

Oakwood Philadelphia, acquired as part of the Archstone Acquisition and located in Philadelphia, PA containing 80 homes, was sold for \$28,875,000. The Company's gain in accordance with GAAP for the disposition was \$3,268,000, reported in gain on sale of communities on the accompanying Condensed Consolidated Statements of Comprehensive Income.

Avalon Danvers, located in Danvers, MA containing 433 homes, was sold for \$108,500,000. The Company's gain in accordance with GAAP for the disposition was \$41,021,000, reported in gain on sale of communities on the accompanying Condensed Consolidated Statements of Comprehensive Income.

The results of operations for Oakwood Philadelphia and Avalon Danvers are included in income (loss) from continuing operations on the accompanying Condensed Consolidated Statements of Comprehensive Income.

The operations for any real estate assets sold from January 1, 2013 through June 30, 2014, which includes Avalon Valley, and which were classified as held for sale and discontinued operations as of and for the period ended December 31, 2013, and thus not subject to the new guidance for discontinued operations presentation and disclosure, as discussed in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies", have been presented as income from discontinued operations in the accompanying Condensed Consolidated Statements of Comprehensive Income. Accordingly, certain reclassifications have been made to prior years to reflect discontinued operations consistent with current year presentation.

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

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	For the three months ended		For the six months ended	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013
	(unaudited)		(unaudited)	
Rental income	\$—	\$11,924	\$579	\$25,926
Operating and other expenses	—	(3,494)	(269)	(7,480)
Depreciation expense	—	(6,349)	—	(10,619)
Income from discontinued operations	\$—	\$2,081	\$310	\$7,827

During the six months ended June 30, 2014, Fund I sold The Springs, which was consolidated for financial reporting purposes, as discussed in Note 6, "Investments in Real Estate Entities".

At June 30, 2014, the Company had no real estate assets that qualified as held for sale.

8. Segment Reporting

The Company's reportable operating segments include Established Communities, Other Stabilized Communities, and Development/Redevelopment Communities. Annually as of January 1st, the Company determines which of its communities fall into each of these categories and generally maintains that classification throughout the year for the purpose of reporting segment operations, unless disposition or redevelopment plans regarding a community change. At April 1, 2014, the Company updated its reportable operating segments, primarily to include communities acquired as part of the Archstone Acquisition, as described in Note 5, "Archstone Acquisition," in its Established Community portfolio.

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

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

A reconciliation of NOI to net income for the three and six months ended June 30, 2014 and 2013 is as follows (dollars in thousands):

	For the three months ended		For the six months ended	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Net income	\$172,197	\$36,097	\$313,796	\$111,570
Indirect operating expenses, net of corporate income	12,343	10,852	23,161	19,894
Investments and investment management expense	1,137	1,096	2,116	2,110
Expensed acquisition, development and other pursuit costs	2,017	3,806	2,732	43,865
Interest expense, net (1)	43,722	43,169	86,255	81,342
Loss on extinguishment of debt, net	412	—	412	—
General and administrative expense	10,220	11,345	19,456	21,384
Equity in (income) loss of unconsolidated real estate entities	(7,710)	940	(12,933)	19,503
Depreciation expense (1)	110,395	189,977	216,762	295,536
Gain on sale of real estate assets	(60,945)	(240)	(60,945)	(240)

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Gain on sale of discontinued operations	—	(33,682)	(37,869)	(118,173)	
Income from discontinued operations	—	(2,081)	(310)	(7,827)	
Net operating income from real estate assets sold or held for sale, not classified as discontinued operations	(2,030)	(2,308)	(4,314)	(4,178)
Net operating income	\$281,758		\$258,971		\$548,319		\$464,786	

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

	For the three months ended		For the six months ended	
	6/30/2014	6/30/2013	6/30/2014	6/30/2013
Rental income from real estate assets sold or held for sale, not classified as discontinued operations	\$3,400	\$3,574	\$7,012	\$6,813
Operating expenses real estate assets sold or held for sale, not classified as discontinued operations	(1,370	) (1,266	) (2,698	) (2,635
Net operating income from real estate assets sold or held for sale, not classified as discontinued operations	\$2,030	\$2,308	\$4,314	\$4,178

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

The following table provides details of the Company's segment information as of the dates specified (dollars in thousands). The segments are classified based on the individual community's status at either the beginning of the given calendar year, or April 1, 2014, when the Company updated its operating segments. Therefore, each year the composition of communities within each business segment is adjusted. Accordingly, the amounts between years are not directly comparable. Segment information for the three and six months ended June 30, 2014 and 2013 has been adjusted to exclude amounts for the real estate assets that were both sold between January 1, 2013 and June 30, 2014, or qualified as held for sale as of June 30, 2014, as described in Note 7, "Real Estate Disposition Activities."

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	For the three months ended			For the six months ended			
	Total revenue	NOI	% NOI change from prior year	Total revenue	NOI	% NOI change from prior year	Gross real estate (1)
For the period ended June 30, 2014 (2)							
Established							
New England	\$47,903	\$30,759	(0.9)%	\$92,845	\$58,590	(1.2)%	\$1,420,125
Metro NY/NJ	94,471	66,054	0.9 %	157,171	109,353	1.6 %	2,373,214
Mid-Atlantic	46,990	32,531	(6.7)%	49,260	34,784	(3.9)%	645,172
Pacific Northwest	16,458	11,554	5.9 %	26,683	18,591	4.8 %	499,383
Northern California	62,319	47,498	13.7 %	85,305	65,364	9.6 %	1,400,573
Southern California	61,852	41,607	5.0 %	68,658	47,198	4.5 %	1,218,170
Total Established	329,993	230,003	2.8 %	479,922	333,880	2.5 %	7,556,637
Other Stabilized	46,001	32,589	N/A	248,887	170,159	N/A	6,091,177
Development / Redevelopment	31,740	19,166	N/A	72,310	44,280	N/A	3,318,362
Land Held for Future Development	N/A	N/A	N/A	N/A	N/A	N/A	195,673
Non-allocated (3)	2,672	N/A	N/A	5,750	N/A	N/A	43,382
Total	\$410,406	\$281,758	8.8 %	\$806,869	\$548,319	18.0 %	\$17,205,231
For the period ended June 30, 2013							
Established							
New England	\$42,113	\$28,080	4.8 %	\$83,386	\$54,660	3.6 %	\$1,280,776
Metro NY/NJ	62,549	43,449	5.1 %	123,794	85,888	5.3 %	1,917,740
Mid-Atlantic	25,312	18,330	2.8 %	50,346	36,518	2.2 %	631,578
Pacific Northwest	11,603	7,937	10.5 %	22,979	15,787	10.5 %	443,641
Northern California	34,880	26,295	12.5 %	68,945	51,904	12.0 %	1,232,282
Southern California	29,542	20,375	6.9 %	58,872	40,475	6.2 %	1,055,368
Total Established	205,999	144,466	6.5 %	408,322	285,232	6.1 %	6,561,385
Other Stabilized	139,141	96,169	N/A	211,909	146,866	N/A	6,670,671
Development / Redevelopment	26,580	18,336	N/A	47,335	32,688	N/A	2,183,928
Land Held for Future Development	N/A	N/A	N/A	N/A	N/A	N/A	409,930
Non-allocated (3)	2,913	N/A	N/A	5,185	N/A	N/A	50,120
Total	\$374,633	\$258,971	58.1 %	\$672,751	\$464,786	44.0 %	\$15,876,034

(1) Does not include gross real estate assets held for sale of \$566,344 as of June 30, 2013.

(2) Results for the three months ended June 30, 2014 reflect the operating segments updated as of April 1, 2014, which include most stabilized communities acquired as part of the Archstone Acquisition in the Established Communities

segment. Results for the six months ended June 30, 2014 reflect the operating segments determined as of January 1, 2014, which include stabilized communities acquired as part of the Archstone Acquisition in the Other Stabilized segment.

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

9. Stock-Based Compensation Plans

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

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	2009 Plan shares	Weighted average exercise price per share	1994 Plan shares	Weighted average exercise price per share
Options Outstanding, December 31, 2013	501,568	\$120.77	691,526	\$106.19
Exercised	(68,222	) 107.92	(156,549	) 78.41
Forfeited	(1,182	) 131.05	(76,381	) 142.66
Options Outstanding, June 30, 2014	432,164	\$122.77	458,596	\$109.59
Options Exercisable June 30, 2014	271,988	\$118.60	458,596	\$109.59

The Company granted 135,501 restricted stock units net of forfeitures, with an estimated aggregate compensation cost of \$15,912,000, as part of its stock-based compensation plan, during the six months ended June 30, 2014. The amount of restricted stock ultimately earned is based on the total shareholder return metrics related to the Company's common stock for 59,875 restricted units and financial metrics related to operating performance and leverage metrics of the Company for 75,626 restricted units. For the portion of the grant for which the award is determined by the total shareholder return of the Company's common stock, the Company used a Monte Carlo model to assess the compensation cost associated with the restricted stock units. The estimated compensation cost was derived using the following assumptions: baseline share value of \$128.97; dividend yield of approximately 3.6%; estimated volatility figures ranging from 17.6% to 18.6% over the life of the plan for the Company using 50% historical volatility and 50% implied volatility; and risk free rates over the life of the plan ranging from 0.04% to 0.72%, resulting in an average estimated fair value per restricted stock unit of \$102.86. For the portion of the grant for which the award is determined by financial metrics, the estimated compensation cost was based on the baseline share value of \$128.97 and the Company's estimate of corporate achievement for the financial metrics.

During the six months ended June 30, 2014, the Company also issued 113,822 shares of restricted stock, of which 16,193 shares related to the conversion of restricted units to restricted shares, and the remaining 97,629 shares were new grants with a fair value of \$12,607,000.

At June 30, 2014, the Company had 199,138 outstanding unvested restricted shares granted under the Company's equity compensation plans. Restricted stock vesting during the six months ended June 30, 2014 totaled 93,941 shares of which 4,504 shares related to the conversion of restricted stock units and 89,437 shares related to restricted stock awards which had fair values at the grant date ranging from \$74.20 to \$149.05 per share. The total grant date fair value of shares vested under restricted stock awards was \$10,712,000 and \$13,685,000 for the six months ended June 30, 2014 and 2013, respectively.

Total employee stock-based compensation cost recognized in income was \$5,890,000 and \$11,793,000 for the six months ended June 30, 2014 and 2013, respectively, and total capitalized stock-based compensation cost was \$3,247,000 and \$3,922,000 for the six months ended June 30, 2014 and 2013, respectively. At June 30, 2014, there was a total unrecognized compensation cost of \$1,862,000 for unvested stock options and \$27,589,000 for unvested restricted stock and restricted stock units, which does not include estimated forfeitures. The unrecognized compensation cost for unvested stock options, and restricted stock and restricted stock units is expected to be recognized over a weighted average period of 1.4 years and 4.0 years, respectively.

10. Related Party Arrangements

Unconsolidated Entities

The Company manages unconsolidated real estate entities for which it receives asset management, property management, development and redevelopment fee revenue. From these entities, the Company earned fees of \$2,672,000 and \$2,913,000 during the three months ended June 30, 2014 and 2013, respectively, and \$5,750,000 and \$5,185,000 during the six months ended June 30, 2014 and 2013, respectively. These fees are included in

management, development and other fees on the accompanying Condensed Consolidated Statements of Comprehensive Income. In addition, the Company has outstanding receivables associated with its management role of \$7,869,000 and \$7,004,000 as of June 30, 2014 and December 31, 2013, respectively.

Director Compensation

The Company recorded non-employee director compensation expense relating to restricted stock grants and deferred stock awards in the amount of \$500,000 and \$493,000, in the six months ended June 30, 2014 and 2013, respectively, as a component of general and administrative expense. Deferred compensation relating to restricted stock grants and deferred stock awards to non-employee directors was \$917,000 and \$417,000 on June 30, 2014 and December 31, 2013, respectively.

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11. Fair Value

Financial Instruments Carried at Fair Value

Derivative Financial Instruments

Currently, the Company uses interest rate cap agreements to manage its interest rate risk. These instruments are carried at fair value in the Company's financial statements. In adjusting the fair value of its derivative contracts for the effect of counterparty nonperformance risk, the Company has considered the impact of its net position with a given counterparty, as well as any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. The Company minimizes its credit risk on these transactions by dealing with major, creditworthy financial institutions which have an A or better credit rating by the Standard & Poor's Ratings Group. As part of its on-going control procedures, the Company monitors the credit ratings of counterparties and the exposure of the Company to any single entity, thus reducing credit risk concentration. The Company believes the likelihood of realizing losses from counterparty nonperformance is remote. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives use Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. As of June 30, 2014, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined it is not significant. As a result, the Company has determined that its derivative valuations are classified in Level 2 of the fair value hierarchy. Hedge ineffectiveness did not have a material impact on earnings of the Company for the three months ended June 30, 2014, or any prior period, and the Company does not anticipate that it will have a material effect in the future. The following table summarizes the consolidated Hedging Derivatives at June 30, 2014, excluding derivatives executed to hedge debt on communities classified as held for sale (dollars in thousands):

	Non-designated Hedges	Cash Flow Hedges	
Notional balance	\$609,960	\$171,691	
Weighted average interest rate (1)	1.7	% 2.0	%
Weighted average capped interest rate	5.9	% 5.1	%
Earliest maturity date	Aug 2014	Apr 2015	
Latest maturity date	Aug 2018	Apr 2019	

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

Excluding derivatives executed to hedge secured debt on communities classified as held for sale, the Company had four derivatives designated as cash flow hedges and 14 derivatives not designated as hedges at June 30, 2014. Fair value changes for derivatives not in qualifying hedge relationships for the three and six months ended at June 30, 2014 were not material. Fair value changes for derivatives not in qualifying hedge relationships for the three and six months ended June 30, 2013 resulted in an unrecognized gain of approximately \$1,069,000 and \$2,484,000, respectively, in interest expense, net in the Condensed Consolidated Statements of Comprehensive Income. The Company reclassified \$1,438,000 and \$3,011,000 of deferred losses from accumulated other comprehensive income as a charge to earnings, for the three and six months ended June 30, 2014, respectively. The Company reclassified \$1,574,000 and \$2,965,000 of deferred losses from accumulated other comprehensive income as a charge to earnings, for the three and six months ended June 30, 2013, respectively. The Company anticipates reclassifying approximately \$5,493,000 of hedging losses from accumulated other comprehensive income into earnings within the next 12 months to offset the variability of cash flows of the hedged items during this period.

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Redeemable Noncontrolling Interests

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

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

Financial Instruments Not Carried at Fair Value

Cash and Cash Equivalents

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

Other Financial Instruments

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

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

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

Description	Total Fair Value 6/30/2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-Designated Hedges				
Interest Rate Caps	\$ 14	\$ —	\$ 14	\$ —
Cash Flow Hedges				
Interest Rate Caps	99	—	99	—
Puts	(14,582)	—	—	(14,582)
DownREIT units	(1,067)	(1,067)	—	—
Indebtedness	(6,195,397)	(3,607,341)	(2,588,056)	—
Total	\$ (6,210,933)	\$ (3,608,408)	\$(2,587,943)	\$(14,582)

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12. Subsequent Events

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

In July 2014:

• Fund I sold its final apartment community, Avalon Rutherford Station, located in East Rutherford, NJ, containing 108 apartment homes, for \$34,250,000; and

• Fund II sold Avalon Fair Oaks, located in Fairfax, VA, containing 491 apartment homes, for \$108,200,000.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help provide an understanding of our business and results of operations. This MD&A should be read in conjunction with our Condensed Consolidated Financial Statements and the accompanying Notes to Condensed Consolidated Financial Statements included elsewhere in this report. This report, including the following MD&A, contains forward-looking statements regarding future events or trends that should be read in conjunction with the factors described under "Forward-Looking Statements" included in this report. Actual results or developments could differ materially from those projected in such statements as a result of the factors described under "Forward-Looking Statements" as well as the risk factors described in Item 1A, "Risk Factors," of our Form 10-K for the year ended December 31, 2013 (the "Form 10-K").

Capitalized terms have the meanings provided elsewhere in this Form 10-Q.

Executive Overview

Business Description

We are primarily engaged in developing, acquiring, owning and operating apartment communities in high barrier to entry markets of the United States. We believe that apartment communities are an attractive long-term investment opportunity compared to other real estate investments because a broad potential resident base should help reduce demand volatility over a real estate cycle. We seek to create long-term shareholder value by accessing capital on cost effective terms; deploying that capital to develop, redevelop and acquire apartment communities in high barrier to entry markets; operating apartment communities; and selling communities when they no longer meet our long-term investment strategy or when pricing is attractive. Barriers to entry in our markets generally include a difficult and lengthy entitlement process with local jurisdictions and dense urban or suburban areas where zoned and entitled land is in limited supply.

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

Second Quarter 2014 Highlights

We continued to experience favorable operating performance in the second quarter of 2014:

Net income attributable to common stockholders for the three months ended June 30, 2014 was \$158,086,000 an increase of \$121,868,000, or 336.5%, over the prior year period. The increase is primarily attributable to increased NOI from newly developed and acquired communities, a decrease in depreciation expense related to in-place leases acquired as part of the Archstone Acquisition and an increase in gain on sale of communities.

For the quarter ended June 30, 2014, Established Communities NOI, which includes the impact of communities acquired as part of the Archstone Acquisition, increased by \$6,314,000, or 2.8%, over the prior year period. This increase was primarily driven by an increase in rental revenue of 3.1%, partially offset by an increase in operating expenses of 3.6% as compared to the prior year period.

Our consolidated operating results for the quarter ended June 30, 2014 include operations from the communities acquired as part of the Archstone Acquisition, as described in Note 5, "Archstone Acquisition," and reflect year-over-year revenue growth, as well as continued sequential rental revenue growth. The overall increase in revenues was driven by both favorable operating performance from our stabilized operating communities and strong leasing activity for new development, which we expect to continue for the balance of 2014.

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During the three months ended June 30, 2014, we completed the construction of three communities with an aggregate of 701 apartment homes for a total capitalized cost of \$191,100,000. We also started construction of four communities expected to contain 1,080 apartment homes with an expected aggregate total capitalized cost of \$421,400,000. At June 30, 2014, 32 communities were under construction with a projected total capitalized cost of approximately \$3,239,200,000. In addition, as of June 30, 2014, we held a direct or indirect ownership interest in land or rights to land on which we expect to develop an additional 40 apartment communities that, if developed as expected, will contain an estimated 11,350 apartment homes, and will be developed for an aggregate total capitalized cost of \$3,245,000,000, a decline of \$368,000,000 from our position as of March 31, 2014.

During the three months ended June 30, 2014, we started the redevelopment of two communities containing 407 apartment homes, which are expected to be redeveloped for a total capitalized cost of \$14,800,000, excluding costs incurred prior to redevelopment. At June 30, 2014, there were six communities under redevelopment, with an expected investment of approximately \$80,300,000, excluding costs incurred prior to the start of redevelopment.

During the three months ended June 30, 2014, we sold two wholly-owned operating communities. Oakwood Philadelphia, acquired as part of the Archstone Acquisition and located in Philadelphia, PA containing 80 homes, was sold for \$28,875,000, and Avalon Danvers, located in Danvers, MA containing 433 homes, was sold for \$108,500,000. The Company's aggregate gain in accordance with GAAP for the dispositions was \$44,289,000, and is reported in gain on sale of communities on the accompanying Condensed Consolidated Statements of Comprehensive Income. The results of operations for these communities prior to the respective sales are included in income (loss) from continuing operations on the accompanying Condensed Consolidated Statements of Comprehensive Income. We believe that our balance sheet strength, as measured by our current level of indebtedness, our current ability to service interest and other fixed charges, and our current moderate use of financial encumbrances (such as secured financing) provide us with adequate access to liquidity from the capital markets. We expect to be able to meet our reasonably foreseeable liquidity needs, as they arise, through a combination of one or more of the following sources: existing cash on hand, operating cash flows; borrowings under our Credit Facility; secured debt; the issuance of corporate securities (which could include unsecured debt, preferred equity and/or common equity); the sale of apartment communities; available remaining capacity under the Term Loan, or through the formation of joint ventures. See the discussion under Liquidity and Capital Resources.

Communities Overview

Our real estate investments consist primarily of current operating apartment communities, communities in various stages of development ("Development Communities") and Development Rights (as defined below). Our current operating communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities and Redevelopment Communities, and exclude communities owned by the Residual JV. While we generally establish the classification of communities on an annual basis, we intend to update the classification of communities during the calendar year to the extent that our plans with regard to the disposition or redevelopment of a community change during the year.

Effective April 1, 2014, the Company updated its operating segments primarily to include communities acquired as part of the Archstone Acquisition in the results of operations of our Established Community portfolio for the balance of the year. For the April 1, 2014 operating segment update, we added 45 stabilized communities to the Established Communities portfolio, primarily those acquired as part of the Archstone Acquisition. In addition, we removed one community from our Established Communities portfolio effective January 1, 2014, due to a reclassification to the Redevelopment Community portfolio. We remove a community from our Established Communities portfolio if we believe that planned activity for a community will result in the community's expected operations not being comparable to the prior year period, which is the case for communities undergoing significant redevelopment.

The following is a description of each category:

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

Established Communities (also known as Same Store Communities) are consolidated communities where a comparison of operating results from the prior year to the current year is meaningful, as these communities were

owned and had stabilized occupancy as of the beginning of the respective prior year period. For the six month periods ended June 30, 2014 and 2013, the Established Communities are communities that are consolidated for financial reporting purposes, had stabilized occupancy as of January 1, 2013, are not conducting or planning to conduct substantial redevelopment activities and are not held for sale or planned for disposition within the current year. For the three month periods ended June 30, 2014 and 2013, the Established Communities are communities that are consolidated for financial reporting purposes, had stabilized occupancy as of April 1, 2013, are not conducting or planning to conduct substantial redevelopment activities and are not held for sale or planned for disposition within

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the current year. Our Established Communities for the three month periods ended June 30, 2014 and 2013 include the stabilized operating communities acquired as part of the Archstone Acquisition. A community is considered to have stabilized occupancy at the earlier of (i) attainment of 95% physical occupancy or (ii) the one-year anniversary of completion of development or redevelopment.

Other Stabilized Communities are all other completed communities that we own or have a direct or indirect ownership interest in, and that have stabilized occupancy, as defined above. Other Stabilized Communities do not include communities that are conducting or planning to conduct substantial redevelopment activities within the current year. Our Other Stabilized Communities for the six month period ended June 30, 2014 include the stabilized operating communities acquired as part of the Archstone Acquisition.

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

Redevelopment Communities are communities where substantial redevelopment is in progress or is planned to begin during the current year. Redevelopment is considered substantial when capital invested during the reconstruction effort is expected to exceed the lesser of \$5,000,000 or 10% of the community's pre-redevelopment basis and is expected to have a material impact on the operations of the community, including occupancy levels and future rental rates.

Development Communities are communities that are under construction and for which a 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 control the land through a ground lease or own land to develop a new community. We capitalize related pre-development costs incurred in pursuit of new developments for which we currently believe future development is probable.

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

As of June 30, 2014, communities that we owned or held a direct or indirect interest in were classified as follows:

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	Number of communities	Number of apartment homes
Current Communities		
Established Communities:		
New England	34	7,702
Metro NY/NJ	35	11,825
Mid-Atlantic	23	7,950
Pacific Northwest	13	3,179
Northern California	30	9,229
Southern California	42	11,639
Total Established	177	51,524
Other Stabilized Communities:		
New England	10	2,780
Metro NY/NJ	11	3,026
Mid-Atlantic	12	4,532
Pacific Northwest	3	616
Northern California	5	1,377
Southern California	12	4,613
Non Core	3	1,030
Total Other Stabilized	56	17,974
Lease-Up Communities	4	1,175
Redevelopment Communities	6	2,094
Total Current Communities	243	72,767
Development Communities	32	9,581
Development Rights	40	11,350

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Results of Operations

Our year-over-year operating performance is primarily affected by both overall and individual geographic market conditions and apartment fundamentals and is reflected in changes in NOI of our Established Communities; NOI derived from acquisitions and development completions; the loss of NOI related to disposed communities; and capital market and financing activity. A comparison of our operating results for the three and six months ended June 30, 2014 and 2013 follows (unaudited, dollars in thousands):

	For the three months ended				For the six months ended				
	6/30/2014	6/30/2013	\$ Change	% Change	6/30/2014	6/30/2013	\$ Change	% Change	
Revenue:									
Rental and other income	\$411,134	\$375,294	\$35,840	9.5 %	\$808,131	\$674,379	\$133,752	19.8 %	
Management, development and other fees	2,672	2,913	(241)	(8.3)%	5,750	5,185	565	10.9 %	
Total revenue	413,806	378,207	35,599	9.4 %	813,881	679,564	134,317	19.8 %	
Expenses:									
Direct property operating expenses, excluding property taxes	84,875	72,995	11,880	16.3 %	168,509	132,486	36,023	27.2 %	
Property taxes	42,439	41,011	1,428	3.5 %	86,924	72,912	14,012	19.2 %	
Total community operating expenses	127,314	114,006	13,308	11.7 %	255,433	205,398	50,035	24.4 %	
Corporate-level property management and other indirect operating expenses	15,047	13,774	1,273	9.2 %	28,976	25,096	3,880	15.5 %	
Investments and investment management expense	1,137	1,096	41	3.7 %	2,116	2,110	6	0.3 %	
Expensed acquisition, development and other pursuit costs	2,017	3,806	(1,789)	(47.0)%	2,732	43,865	(41,133)	(93.8)%	
Interest expense, net	43,722	43,169	553	1.3 %	86,255	81,342	4,913	6.0 %	
Loss on extinguishment of debt, net	412	—	412	100.0 %	412	—	412	100.0 %	
Depreciation expense	110,395	189,977	(79,582)	(41.9)%	216,762	295,536	(78,774)	(26.7)%	
General and administrative expense	10,220	11,345	(1,125)	(9.9)%	19,456	21,384	(1,928)	(9.0)%	
Total other expenses	182,950	263,167	(80,217)	(30.5)%	356,709	469,333	(112,624)	(24.0)%	
Equity in income (loss) of unconsolidated real estate entities	7,710	(940)	8,650	N/A (1)	12,933	(19,503)	32,436	N/A (1)	
Gain on sale of land	—	240	(240)	(100.0)%	—	240	(240)	(100.0)%	
Gain on sale of communities	60,945	—	60,945	100.0 %	60,945	—	60,945	100.0 %	

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Income (loss) from continuing operations	172,197	334	171,863	N/A (1)	275,617	(14,430)	290,047	N/A (1)
Discontinued operations:								
Income from discontinued operations	—	2,081	(2,081)	(100.0)%	310	7,827	(7,517)	(96.0)%
Gain on sale of discontinued operations	—	33,682	(33,682)	(100.0)%	37,869	118,173	(80,304)	(68.0)%
Total discontinued operations	—	35,763	(35,763)	(100.0)%	38,179	126,000	(87,821)	(69.7)%
Net income	172,197	36,097	136,100	377.0 %	313,796	111,570	202,226	181.3 %