

AVALONBAY COMMUNITIES INC

Form 424B5

December 06, 2012

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Filed pursuant to Rule 424(b)(5)
(File number 333-179720)

CALCULATION OF REGISTRATION FEE

Title of Securities Being Registered	Maximum Aggregate Offering Price	Amount of Registration Fee
2.85% Notes due 2023	\$250,000,000	\$34,100(1)

(1)

The registration fee of \$34,100 is calculated in accordance with Rules 457(o) and 457(r) under the Securities Act of 1933, as amended (the "Securities Act"). In accordance with Rules 456(b) and 457(r) under the Securities Act, the registrant initially deferred payment of all of the registration fee for Registration Statement No. 333-179720 filed by the registrant on February 27, 2012.

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Pricing Supplement No. 15 dated December 5, 2012
(To Prospectus dated February 27, 2012 and
Prospectus Supplement dated September 6, 2012)

Medium-Term Notes Fixed Rate

2.85% Notes due 2023

Principal Amount: \$250,000,000

Net Proceeds to Issuer: \$246,425,000

Stated Maturity Date: March 15, 2023

Original Issue Date: December 14, 2012

Interest Payment Dates: March 15 and September 15

Redemption:

Issue Price (Public Offering Price): 99.220%

Agents' Discount Commission: 0.650%

Interest Rate: 2.85%

CUSIP: 05348E AR0

First Interest Payment Date: March 15, 2013

☐

The Notes cannot be redeemed prior to the Stated Maturity Date at the option of the issuer.

☐

The Notes may be redeemed prior to the Stated Maturity Date at the option of the issuer.

Initial Redemption Date: See Additional/Other Terms of the Notes.

Initial Redemption Percentage/Redemption Price: See Additional/Other Terms of the Notes.

Annual Redemption Percentage Reduction: N/A

Optional Repayment:

☐

The Notes cannot be required to be repaid prior to the Stated Maturity Date at the option of the Holder of the Notes.

☐

The Notes can be repaid prior to the Stated Maturity Date at the option of the Holder of the Notes.

Optional Repayment Dates:

Repayment Price: %

Currency:

Specified Currency: U.S. Dollars (If other than U.S. Dollars, see attached)

Minimum Denominations:

(Applicable only if Specified Currency is other than U.S. Dollars)

Original Issue Discount ("OID"): ☐ Yes ☐ No

Total Amount of OID:

Yield to Maturity:

Initial Accrual Period:

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Form: ☒ Book-Entry ☐ Certificated

Agent: ☒ Goldman, Sachs & Co.
 ☒ UBS Securities LLC

☒ J.P. Morgan Securities LLC
☒ Other (names):
Barclays Capital Inc.
Deutsche Bank Securities Inc.
Merrill Lynch, Pierce, Fenner & Smith
Incorporated
Wells Fargo Securities, LLC
BNY Mellon Capital Markets, LLC
PNC Capital Markets LLC
SunTrust Robinson Humphrey, Inc.

Agent acting in the capacity as indicated below:

☐ Agent ☒ Principal

If as Principal:

☐

The Notes are being offered at varying prices related to prevailing market prices at the time of resale.

☒

The Notes are being offered at a fixed initial public offering price of 99.220% of principal amount.

If as Agent:

The Notes are being offered at a fixed initial public offering price of % of Principal Amount.

Exchange Rate Agent: N/A

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Additional/Other Terms of the Notes

Other Terms:

Reopening of Issue. We may, from time to time and without the consent of the noteholders, reopen an issue of notes and issue additional notes having the same terms and conditions (including maturity, interest payment terms and CUSIP number) as notes issued on an earlier date, except for the issue date, issue price and, if applicable, the first payment of interest. After such additional notes are issued, they will be fungible with the notes issued on such earlier date.

Optional Redemption. The Notes may be redeemed at any time at the option of AvalonBay, in whole or in part, upon notice of not more than 60 and not less than 30 days prior to the Redemption Date, at a Redemption Price equal to the sum of (i) the principal amount of the Notes being redeemed, plus accrued interest thereon to the Redemption Date and (ii) the Make-Whole Amount, if any, with respect to such Note. If the Notes are redeemed on or after 90 days prior to the Maturity Date, the Redemption Price will equal 100% of the principal amount of the Notes being redeemed plus accrued interest thereon to the Redemption Date.

Acceleration of Maturity; Make-Whole Amount. If an Event of Default with respect to the Notes that are then outstanding occurs and is continuing, and pursuant to Section 2.7 of the Amended and Restated Third Supplemental Indenture dated as of July 10, 2000 (the "Third Supplemental Indenture"), the Trustee or the Holders of not less than 25% in principal amount of the then outstanding Notes of this series shall have declared the principal amount (or, if the Notes of this series are Original Issue Discount Securities or Indexed Securities, such portion of the principal as may be specified in the terms hereof) of all the Notes of this series to be due and payable immediately, by a notice in writing to AvalonBay (and to the Trustee if given by the Holders), then upon any such declaration such principal, or specified portion thereof, plus accrued interest to the date the Notes of this series are paid, plus the Make-Whole Amount on the Notes, shall become immediately due and payable. With respect to the Notes of this series, if an Event of Default set forth in Section 501(6) of the Indenture, dated as of January 16, 1998, between AvalonBay and the Trustee (the "Indenture") occurs and is continuing, such that pursuant to Section 2.7 of the Third Supplemental Indenture all the Notes of this series are immediately due and payable, without notice to AvalonBay, at the principal amount thereof (or, if the Notes of this series are Original Issue Discount Securities or Indexed Securities, such portion of the principal as may be specified in the terms of the Notes), plus accrued interest to the date the Notes are paid, then the Make-Whole Amount on the Notes shall also be immediately due and payable.

Definitions. Terms used but not defined herein shall have the meanings set forth in the Indenture and the Third Supplemental Indenture. The following terms shall have the following meanings:

"Make-Whole Amount" means, in connection with any optional redemption or accelerated payment of any Note, the excess, if any, of (i) the aggregate present value as of the date of such redemption or accelerated payment of each dollar of principal being redeemed or paid and the amount of interest (exclusive of interest accrued to the date of redemption or accelerated payment) that would have been payable in respect of such dollar if such redemption or accelerated payment had not been made, determined by discounting, on a semi-annual basis, such principal and interest at the Reinvestment Rate (determined on the third Business Day preceding the date such notice of Redemption is given or declaration of acceleration is made) from the respective dates on which such principal and interest would have been payable if such redemption or accelerated payment had not been made, over (ii) the aggregate principal amount of the Notes being redeemed or paid.

"Reinvestment Rate" means twenty five (25) basis points plus the arithmetic mean of the yields under the respective headings "This Week" and "Last Week" published in the Statistical Release under the caption "Treasury Constant Maturities" for the maturity (rounded to the nearest month)

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corresponding to the remaining life to maturity, as of the payment date of the principal being redeemed or paid. If no maturity exactly corresponds to such maturity, yields for the two published maturities most closely corresponding to such maturity shall be calculated pursuant to the immediately preceding sentence and the Reinvestment Rate shall be interpolated or extrapolated from such yields on a straight-line basis, rounding in each of such relevant periods to the nearest month. For such purposes of calculating the Reinvestment Rate, the most recent Statistical Release published prior to the date of determination of the Make-Whole Amount shall be used.

"Statistical Release" means the statistical release designated "H.15(519)" or any successor publication which is published weekly by the Federal Reserve System and which establishes yields on actively traded United States government securities adjusted to constant maturities or, if such statistical release is not published at the time of any determination of the Make-Whole Amount, then such other reasonably comparable index which shall be designated by AvalonBay.

Recent Developments

On November 26, 2012, AvalonBay Communities, Inc., or the Company or AvalonBay, entered into an asset purchase agreement, or the Purchase Agreement, with (i) Equity Residential and its operating partnership, ERP Operating Partnership LP, or, collectively, Equity Residential, (ii) Lehman Brothers Holdings Inc., or Lehman, and (iii) Archstone Enterprise LP, or Archstone, pursuant to which we and Equity Residential will acquire, directly or indirectly, all of the assets and entities owned by, and all of the liabilities of, Archstone (other than certain excluded liabilities).

Pursuant to the Purchase Agreement and separate arrangements between us and Equity Residential governing the allocation of liabilities to be assumed under the Purchase Agreement, our portion of consideration under the Purchase Agreement is approximately \$6.9 billion, and consists of the following:

the issuance of 14,889,706 shares of our common stock to Archstone, valued at \$1.9 billion, using the closing price for our common stock on the New York Stock Exchange on November 23, 2012 of \$128.54;

\$669.0 million in cash;

the assumption of indebtedness with a fair value of approximately \$4.1 billion, consisting of \$3.7 billion principal amount for consolidated borrowings, \$238.3 million principal amount for our proportionate share of debt related to unconsolidated joint ventures, and \$197.5 million representing the amount by which the fair value of the aforementioned debt exceeds the principal face value;

an obligation to pay, when presented for redemption from time to time, approximately \$132.2 million in respect of the liquidation value of and accrued dividends on outstanding Archstone preferred units; and

the assumption of 40% of all other liabilities, known or unknown, of Archstone, other than certain excluded liabilities.

For this consideration, we will acquire a portfolio of direct and indirect interests in apartment communities and net other liabilities that we refer to as the Archstone Portfolio Acquisition.

The Archstone Portfolio Acquisition represents a rare opportunity for us to buy a large portfolio of high-quality apartment communities that is concentrated in our existing high barrier-to-entry markets and is consistent with our strategic objective of more deeply penetrating our chosen markets with a broader range of products and services. For the nine months ended September 30, 2012, 98% of the net operating income, or NOI, from the consolidated apartment communities we expect to acquire in the Archstone Portfolio Acquisition is generated in our existing markets.

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The Archstone Portfolio Acquisition consists of the following:

66 consolidated apartment communities, containing 22,222 apartment homes, of which six communities are under construction and are expected to contain 1,666 apartment homes upon completion;

three parcels of land, which are consolidated and if developed as expected will contain a total of 968 apartment homes;

interests in unconsolidated joint ventures in which we expect to be the general partner or managing member, which own 10 apartment communities containing 2,040 apartment homes, of which one community is under construction and is expected to contain 157 apartment homes upon completion; and

a 40% ownership interest in unconsolidated joint venture arrangements with Equity Residential which will hold assets that we will jointly manage, sell to third parties, and/or subsequently transfer to Equity Residential or to us.

The following table provides the approximate allocation of AvalonBay's investment in the Archstone Portfolio Acquisition:

Archstone Portfolio Acquisition	Acquisition Value(1) (in thousands)
Consolidated stabilized assets	\$ 6,140,323
Development communities under construction	308,819
Land held for future development	49,800
Net equity in unconsolidated joint ventures plus allocated joint venture debt	410,112
Total	\$ 6,909,054

(1) Value is based on the closing price of our common stock on November 23, 2012 and the fair market value of debt we expect to assume.

Under the Purchase Agreement, we will acquire 40% of the assets and liabilities of Archstone and Equity Residential will acquire the remaining 60% of the assets and liabilities of Archstone. We refer herein to 40% and 60% as our respective pro rata shares. We and Equity Residential are jointly and severally liable for most obligations to Lehman under the Purchase Agreement. The Purchase Agreement provides that the closing of the acquisition thereunder must occur within 120 days after execution of the Purchase Agreement. If we and Equity Residential fail to close the acquisition, then Equity Residential and we could be liable for payment of a termination fee of \$800.0 million (or \$650.0 million if the Purchase Agreement is terminated in the first 60 days after signing) as discussed under "Purchase Agreement and Related Arrangements." The Archstone Portfolio Acquisition is also subject to customary closing conditions, which do not include our and Equity Residential's ability to obtain the necessary financing or lender consents for the transaction. Neither we nor Equity Residential could terminate the Purchase Agreement because of a lack of financing or lender consents without incurring the termination fee.

Common Stock Offering

On November 28, 2012, we priced an offering of 14,500,000 shares of our common stock, or the Equity Offering, at a price of \$130 per share. In connection with the Equity Offering, we granted the underwriters a 30-day option to purchase 2,175,000 additional shares of our common stock, which the underwriters exercised in full on November 29, 2012. The offering closed on December 5, 2012, and we received approximately \$2.1 billion of net proceeds from the offering. We intend to use the net proceeds from the Equity Offering to repay a portion of the debt that we assume in connection with

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the Archstone Portfolio Acquisition, to fund the cash consideration due in connection with the Archstone Portfolio Acquisition, and to fund the fees, costs and expenses related thereto or, if the Archstone Portfolio Acquisition does not occur, for general corporate purposes. We cannot assure you that we will consummate the Archstone Portfolio Acquisition. This offering is not contingent on the closing of the Archstone Portfolio Acquisition.

The Archstone Portfolio

We believe the Archstone Portfolio Acquisition will create strategic, portfolio and financial benefits for us, including the following:

It will increase our ownership of high-quality apartment communities in our existing markets.

It will allow us to more closely align our portfolio allocation with our long-term geographic allocation goals.

It will expand our portfolio into complementary submarkets with more varied product offerings.

It will enable us to more rapidly implement our multi-branding strategy.

It will provide enhanced corporate efficiencies due to our increased scale.

High-Quality Portfolio Concentrated in Our Markets. The following table provides the percentage of NOI generated during the nine months ended September 30, 2012, by region for our consolidated apartment communities, as well as communities that were under construction, or for which substantial redevelopment is planned or that occurred during 2012, pro forma for the Archstone Portfolio Acquisition (dollars in thousands):

Region/Portfolio(1)	AvalonBay		Archstone Portfolio(3)		Pro Forma	
	NOI YTD 2012(2)	% of Total NOI	NOI YTD 2012(2)	% of Total NOI	NOI YTD 2012(2)	% of Total NOI
New England	\$ 99,277	19%	\$ 7,433	3%	\$ 106,710	14%
Metro NY/NJ	156,135	29%	31,336	14%	187,471	25%
Mid-Atlantic	71,401	14%	61,727	29%	133,128	18%
Pacific Northwest	27,241	5%	5,471	3%	32,712	4%
Northern California	102,335	19%	31,544	15%	133,879	18%
Southern California	74,287	14%	72,910	34%	147,197	20%
Non-Core and Other	447	0%	5,227	2%	5,674	1%
Total NOI	\$ 531,123	100%	\$ 215,648	100%	\$ 746,771	100%

-
- (1) NOI for the nine months ended September 30, 2012 for consolidated apartment communities, excluding NOI from apartment communities in joint ventures. NOI is a non-GAAP financial measure. For a description of how we define NOI and a reconciliation of NOI to net income, please see "Reconciliation of Non-GAAP Financial Measures."
- (2) GAAP net income for AvalonBay, the Archstone Portfolio Acquisition, and on a pro forma basis, assuming the acquisition of the portfolio, was \$301,178, \$43,425 and \$344,603, respectively, for the nine months ended September 30, 2012.
- (3) NOI for the nine months ended September 30, 2012 for this portfolio includes \$26 for communities for which construction is not complete but leasing activity has begun.

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For the nine months ended September 30, 2012, pro forma for the Archstone Portfolio Acquisition, 99% of the NOI from our apartment communities would be concentrated in our existing high barrier-to-entry markets.

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In connection with the Archstone Portfolio Acquisition, we will acquire interests in certain non-core assets or communities in non-core markets for us, including interests in assets in Texas, Florida and Germany. Some of these interests will be held and managed in a joint venture with Equity Residential, pending disposition or assignment to Equity Residential or us.

Achieving Geographic Portfolio Allocation Goals. We believe that the Archstone Portfolio Acquisition will allow us to bring our overall portfolio more closely in line with our long-term goals for regional allocation. In particular, our current Southern California portfolio is expected to grow from approximately 10,400 apartment homes at September 30, 2012 to approximately 19,200 apartment homes pro forma for the Archstone Portfolio Acquisition. Other geographic allocation adjustments expected to be achieved through the Archstone Portfolio Acquisition include a reduction in our relative concentration in the New England and Metro New York/New Jersey regions (where relatively few of the Archstone Portfolio Acquisition apartment communities to be acquired by us are located) and an increase in our Mid-Atlantic region presence.

Complementary Submarket and Product Positioning. Many of the apartment communities to be acquired by us in the Archstone Portfolio Acquisition are located in submarkets that are different than, but complementary to, the submarkets where our current apartment communities are located within each of our six main market regions. For example, in the Mid-Atlantic region, our existing apartment communities are more concentrated in suburban locations such as the Rockville/Gaithersburg corridor in suburban Maryland and the Tysons Corner and Fairfax submarkets in Northern Virginia. By contrast, the Archstone Portfolio Acquisition apartment communities in the Mid-Atlantic Region are concentrated in more urban, higher density submarkets such as the Rosslyn/Ballston corridor in Arlington, Virginia and the Wisconsin/Connecticut Avenue NW corridor in Washington D.C. We believe that many of the apartment communities to be acquired by us in the Archstone Portfolio Acquisition are also positioned to appeal to a somewhat different consumer segment than our existing assets based on the different characteristics of the Archstone Portfolio Acquisition apartment communities, which are generally more heavily weighted towards smaller apartments in high-rise buildings. We believe the Archstone Portfolio Acquisition will provide us with a more diversified portfolio with broader product offerings within each region where we currently do business.

Increased Scale Supports our Multi-Brand Strategy. We recently introduced a three brand strategy. We are currently in the process of rolling out our two new brands (*AVA* and *Eaves by Avalon*) at certain of our existing apartment communities and refining our core *Avalon* brand. We believe that the Archstone Portfolio Acquisition will allow us to extend our three brand platform across additional assets in an efficient manner, bringing these brands to a meaningful market presence sooner than we otherwise would be able to do so.

Enhanced Corporate Efficiencies Due to Increased Scale. We expect that the increased scale of our apartment community portfolio from the Archstone Portfolio Acquisition will require a lower proportionate increase in our corporate and property management overhead and general and administrative expenses. We believe that our corporate support functions, including our customer care center in Virginia Beach and our marketing, customer insight, and market research groups in our corporate headquarters in Arlington, Virginia, are positioned to allow for absorption of additional assets to provide additional operating leverage.

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The properties that will be part of the overall transaction involving Archstone and the assets and liabilities to be held by certain joint ventures we expect to form with Equity Residential are subject to final adjustment at closing between us and Equity Residential pursuant to arrangements separate from the Purchase Agreement. These arrangements are designed to account for ongoing changes in the status of the assets and liabilities up until closing. For example, some of the properties and other assets may be sold and liabilities may be settled before closing. As a result, the final allocation between us and Equity Residential of the properties, other assets and liabilities in connection with the overall transaction involving Archstone could change and impact the amount of consideration to be paid by us under the Purchase Agreement.

Assumed Indebtedness

We will assume approximately \$3.7 billion principal amount of consolidated indebtedness in connection with the Archstone Portfolio Acquisition. Of this amount, Fannie Mae and Freddie Mac (the Government Sponsored Enterprises or the GSEs) are the lenders in connection with approximately (i) \$2.8 billion of pooled debt, (ii) \$463.4 million of tax-exempt bond financing for which the GSEs provide credit enhancement and liquidity and (iii) \$104.4 million of other single asset loans (collectively, the GSE Indebtedness). We have entered into a commitment letter with each of Fannie Mae and Freddie Mac whereby they have provided us with their consents to the transaction contemplated by the Purchase Agreement and our and Equity Residential's assumption of the allocable portions of the loans made to Archstone. In connection with such consents, we have agreed to repay approximately \$200.0 million of the GSE Indebtedness owed to Fannie Mae at the closing of the Archstone Portfolio Acquisition. In addition, with the net proceeds of an equity offering which we priced on November 29, 2012, we also intend to repay \$753.0 million of GSE Indebtedness and other assumed indebtedness, bringing the total amount of assumed indebtedness that we expect to repay at the closing of the Archstone Portfolio Acquisition to \$953.0 million. See "Common Stock Offering." The following table sets forth the consolidated indebtedness we will assume as of September 30, 2012, and on a pro forma basis giving effect to the repayment of indebtedness as discussed above.

Community / Debt Facility	Stated Interest Rate	Principal Final Maturity Date	Balance Outstanding at 9/30/12(1) (in thousands)	Pro forma Balance Outstanding at 9/30/12(1) (in thousands)
Tax-exempt bonds				
<i>Fixed Rate</i>				
Meadowbrook	4.61%	Nov-2036	\$ 62,200	\$ 62,200
<i>Variable rate</i>				
Clinton (North)	SIFMA + 1.53%	Nov-2038	143,409	143,409
Clinton (South)	SIFMA + 1.53%	Nov-2038	118,532	118,532
Midtown West	SIFMA + 1.13%	May-2029	99,537	99,537
San Bruno	SIFMA + 1.35%	Dec-2037	61,875	61,875
Calabasas	SIFMA + 1.48%	Apr-2028	40,073	40,073
			463,426	463,426

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Community / Debt Facility	Stated Interest Rate	Principal Final Maturity Date	Balance Outstanding at 9/30/12(1) (in thousands)	Pro forma Balance Outstanding at 9/30/12(1) (in thousands)
Conventional loans				
<i>Fixed Rate</i>				
Fannie Mae Pool 6(2)	6.19%	Nov-2015	940,923	940,923
Fannie Mae Pool 2(2)	6.26%	Nov-2017	692,192	692,192
First and M	5.57%	May-2053	116,166	116,166
San Bruno II	5.37%	Apr-2021	31,700	31,700
Meadowbrook	4.70%	Nov-2036	22,493	22,493
Lexington	5.55%	Mar-2016	17,079	17,079
			1,820,553	1,820,553
<i>Variable rate</i>				
Fannie Mae Pool 9(2)	LIBOR + 1.27%	Nov-2014	636,756	
Freddie Mac Pool	LIBOR + 0.96%	Nov-2014	412,724	304,375
South San Francisco(3) Calabasas	DMBS + 1.00%	Apr-2013	76,706	