AVALONBAY COMMUNITIES INC
Form 10-K
February 27, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

Commission file number 1-12672

AVALONBAY COMMUNITIES, INC.

(Exact name of registrant as specified in its charter)

Maryland	**77-0404318**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

Ballston Tower

671 N. Glebe Rd, Suite 800

Arlington, Virginia 22203

(Address of principal executive office)

(703) 329-6300

(Registrant s telephone number, including area code)

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

Common Stock, par value $.01 per share	New York Stock Exchange
(Title of each class)	**(Name of each exchange on which registered)**

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

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

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

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

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

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of the registrant s Common Stock, par value $.01 per share, held by nonaffiliates of the registrant, as of June 30, 2011 was $11,277,881,945.

The number of shares of the registrant s Common Stock, par value $.01 per share, outstanding as of January 31, 2012 was 95,208,685.

Documents Incorporated by Reference

Portions of AvalonBay Communities, Inc. s Proxy Statement for the 2012 annual meeting of stockholders, a definitive copy of which will be filed with the SEC within 120 days after the year end of the year covered by this Form 10-K, are incorporated by reference herein as portions of Part III of this Form 10-K.

TABLE OF CONTENTS

		PAGE
	PART I	
ITEM 1.	BUSINESS	1
ITEM 1a.	RISK FACTORS	6
ITEM 1b.	UNRESOLVED STAFF COMMENTS	16
ITEM 2.	COMMUNITIES	16
ITEM 3.	LEGAL PROCEEDINGS	31
ITEM 4.	MINE SAFETY DISCLOSURES	31
	PART II	
ITEM 5.	MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES	32
ITEM 6.	SELECTED FINANCIAL DATA	33
ITEM 7.	MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	36
ITEM 7a.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	56
ITEM 8.	FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA	57
ITEM 9.	CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE	57
ITEM 9a.	CONTROLS AND PROCEDURES	57
ITEM 9b.	OTHER INFORMATION	58
	PART III	
ITEM 10.	DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE	59
ITEM 11.	EXECUTIVE COMPENSATION	59
ITEM 12.	SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS	59
ITEM 13.	CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE	60
ITEM 14.	PRINCIPAL ACCOUNTING FEES AND SERVICES	60
	PART IV	
ITEM 15.	EXHIBITS, FINANCIAL STATEMENT SCHEDULE	60
SIGNATURES		66

PART I

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

ITEM 1. BUSINESS

General

AvalonBay Communities, Inc. (the Company, which term, unless the context otherwise requires, refers to AvalonBay Communities, Inc. together with its subsidiaries) is a Maryland corporation that has elected to be treated as a real estate investment trust (REIT) for federal income tax purposes. We engage in the development, redevelopment, acquisition, ownership and operation of multifamily communities in high barrier to entry markets of the United States. These barriers to entry generally include a difficult and lengthy entitlement process with local jurisdictions and dense urban or suburban areas where zoned and entitled land is in limited supply. Our markets are located in the following regions of the United States: New England, the New York/New Jersey Metro area, the Washington DC Metro area, the Pacific Northwest, Northern and Southern California and currently the Midwest. We focus on these markets because we believe that, over the long-term, a limited new supply of apartment homes and lower housing affordability in these markets will result in higher growth in cash flows relative to other markets.

At January 31, 2012, we owned or held a direct or indirect ownership interest in:

- 180 operating apartment communities containing 53,090 apartment homes in ten states and the District of Columbia, of which 149 communities containing 43,948 apartment homes were consolidated for financial reporting purposes, four communities containing 1,194 apartment homes were held by joint ventures in which we hold an ownership and/or residual profits interest, and 27 communities containing 7,948 apartment homes were owned by the Funds (as defined below). 13 of the consolidated communities containing 3,338 apartment homes were under redevelopment, as discussed below;

- 19 wholly-owned communities under construction that are expected to contain an aggregate of 5,244 apartment homes when completed; and

- rights to develop an additional 32 communities that, if developed in the manner expected, will contain an estimated 9,012 apartment homes.

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

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

Our principal financial goal is to increase long-term stockholder value through the development, redevelopment, acquisition, operation, and when appropriate, disposition of apartments in our markets. To help meet this goal, we regularly (i) monitor our investment allocation by geographic market and product type, (ii) develop, redevelop and acquire an interest in apartment communities in high barrier to entry markets with growing or high potential for demand and high for-sale housing costs, (iii) selectively sell apartment communities that no longer meet our long-term strategy or when opportunities are presented to realize a portion of the value created through our investment and redeploy the

proceeds from those sales, and (iv) endeavor to maintain a capital structure that is aligned with our business risks with a view to maintaining continuous access to cost-effective capital. Our strategy is to be leaders in multifamily market research, consumer insight, and capital allocation, delivering a range of multifamily offerings

tailored to serve the needs of the most attractive customer segments in the best-performing U.S. submarkets. A substantial majority of our current communities are upscale, which generally command among the highest rents in their markets. However, we also pursue the ownership and operation of apartment communities that target a variety of customer segments and price points, consistent with our goal of offering a broad range of products and services.

In late 2011, we announced two new apartment community brands that will complement our traditional *Avalon* brand. We believe that this branding segmentation will allow us to better target our product offerings to multiple customer segments and submarkets within our existing geographic footprint. The *Avalon* brand will remain our core offering, focusing on upscale apartment living and high end amenities and services in urban and suburban markets. Our new *AVA* brand is designed for people who want to live in or near urban neighborhoods and in close proximity to public transportation, services, shopping and night-life. *AVA* apartments will generally be smaller, many engineered for roommate living, and will feature modern design and a technology focus. Our *Eaves by Avalon* brand is designed for renters who seek good quality apartment living, often in a suburban setting, with practical amenities and services at a more modest price point.

During the three years ended December 31, 2011, excluding activity for the Funds (as defined below), we acquired one apartment community. During the same three-year period, excluding dispositions in which we retained an ownership interest, we disposed of 11 apartment communities and completed the development of 19 apartment communities and the redevelopment of 16 apartment communities. In addition, we exchanged a portfolio of three communities and a parcel of land we owned for a portfolio of six communities and $26,000,000 in cash.

During this period, we also realized our pro rata share of the gain from the sale of two communities owned by AvalonBay Value Added Fund, L.P. (Fund I), an institutional discretionary real estate investment fund, which we manage and in which we own a 15.2% interest. Fund I acquired communities with the objective of either redeveloping or repositioning them, or taking advantage of market cycle timing and improved operating performance. From its inception in March 2005 through the close of its investment period in March 2008, Fund I acquired 20 communities. Fund I sold one community in 2008, two communities in 2011, and two communities in 2012, through the date this Form 10-K was filed.

In addition, during this period we obtained an investment interest in communities through AvalonBay Value Added Fund II, L.P. (Fund II), a second institutional discretionary real estate investment fund which we manage and in which we own a 31.3% interest. While the investment period for Fund II closed in August 2011, additional acquisitions may occur for active acquisition candidates identified prior to the end of the investment period. From the commencement of Fund II through December 31, 2011, Fund II acquired 12 operating communities. In 2012, the Company expects Fund II to acquire its final operating community, which was an active acquisition candidate at the end of the investment period for Fund II. A more detailed description of Fund I and Fund II (collectively, the Funds) and the related investment activity can be found in the discussion in Note 6, Investments in Real Estate Entities, of the Consolidated Financial Statements in Item 8 of this report.

Excluding the portfolio exchange discussed above, and including sales by unconsolidated entities, during 2011, we sold eight real estate assets, consisting of five operating communities and three land parcels, resulting in a gain in accordance with U.S. generally accepted accounting principles (GAAP) of $290,194,000.

A further discussion of our development, redevelopment, disposition, acquisition, property management and related strategies follows.

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

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

After selecting a target site, we usually negotiate for the right to acquire the site either through an option or a long-term conditional contract. Options and long-term conditional contracts generally allow us to acquire the target site shortly before the start of construction, which reduces development-related risks and preserves capital. However, as a result of competitive market conditions for land suitable for development, we have sometimes acquired and held land prior to construction for extended periods while entitlements are obtained, or acquired land zoned for uses other than residential with the potential for rezoning. For further discussion of our Development Rights, refer to Item 2. Communities in this report.

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

During periods where competition for development land is more intense, we may acquire improved land with existing commercial uses and rezone the site for multifamily residential use. During the period that we hold these buildings for future development, any net revenue from these operations, which we consider to be incidental, is accounted for as a reduction in our investment in the development pursuit and not as net income. We have also participated, and may in the future participate, in master planned or other large multi-use developments where we commit to build infrastructure (such as roads) to be used by other participants or commit to act as construction manager or general contractor in building structures or spaces for third parties (such as unimproved ground floor retail space, municipal garages or parks). Costs we incur in connection with these activities may be accounted for as additional invested capital in the community or we may earn fee income for providing these services. Particularly with large scale, urban in-fill developments, we may engage in significant environmental remediation efforts to prepare a site for construction.

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

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

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

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

Acquisition Strategy. Our core competencies in development and redevelopment discussed above allow us to be selective in the acquisitions we target. Acquisitions allow us to achieve rapid penetration into markets in which we desire an increased presence. Acquisitions (and dispositions) also help us achieve our desired product mix or rebalance our portfolio. We are not presently pursuing the formation of a new, third fund, preferring at this time to maintain flexibility in shaping our portfolio of wholly-owned assets through acquisitions and dispositions.

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

- strong focus on resident satisfaction;
- staggering lease terms such that lease expirations are better matched to traffic patterns;
- balancing high occupancy with premium pricing, and increasing rents as market conditions permit; and
- employing revenue management software to optimize the pricing and term of leases.

Constraining growth in operating expenses is another way in which we seek to increase earnings growth. Growth in our portfolio and the resulting increase in revenue allows for fixed operating costs to be spread over a larger volume of revenue, thereby increasing operating margins. We constrain growth in operating expenses in a variety of ways, which include, but are not limited to, the following:

- we use purchase order controls, acquiring goods and services from pre-approved vendors;
- we use national negotiated contracts and also purchase supplies in bulk where possible;
- we bid third-party contracts on a volume basis;
- we strive to retain residents through high levels of service in order to eliminate the cost of preparing an apartment home for a new resident and to reduce marketing and vacant apartment utility costs;
- we perform turnover work in-house or hire third parties, generally depending upon the least costly alternative;
- we undertake preventive maintenance regularly to maximize resident satisfaction and property and equipment life; and

we aggressively pursue real estate tax appeals.

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

We generally manage the operation and leasing activity of our communities directly (although we may use a wholly-owned subsidiary) both for ourselves and the joint ventures and partnerships of which we are a member or a partner.

From time to time we also pursue or arrange ancillary services for our residents to provide additional revenue sources or increase resident satisfaction. As a REIT, we generally cannot provide direct services to our tenants that are not customarily provided by a landlord, nor can we directly share in the income of a third party that provides such services. However, we can provide such non-customary services to residents or share in the revenue from such services if we do so through a taxable REIT subsidiary, which is a subsidiary that is treated as a C corporation subject to federal income taxes.

Financing Strategy. We maintain a capital structure that provides financial flexibility to ensure we can select cost effective capital market options that are well matched to our business risks. We estimate that our short-term liquidity needs will be met from cash on hand, borrowings under our $750,000,000 revolving variable rate unsecured credit facility (the Credit Facility), sales of current operating communities and/or issuance of additional debt or equity securities. A determination to engage in an equity or debt offering depends on a variety of factors such as general

market and economic conditions, our short and long-term liquidity needs, the relative costs of debt and equity capital and growth opportunities. A summary of debt and equity activity for the last three years is reflected on our Consolidated Statement of Cash Flows of the Consolidated Financial Statements set forth in Item 8 of this report.

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

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

Other Strategies and Activities. While we emphasize equity real estate investments in rental apartment communities, we have the ability to invest in other types of real estate, mortgages (including participating or convertible mortgages), securities of other REITs or real estate operating companies, or securities of technology companies that relate to our real estate operations or of companies that provide services to us or our residents, in each case consistent with our qualification as a REIT. In addition, we own and lease retail space at our communities when either (i) the highest and best use of the space is for retail (e.g., street level in an urban area); (ii) we believe the retail space will enhance the attractiveness of the community to residents or; (iii) some component of retail space is required to obtain entitlements to build apartment homes. As of December 31, 2011, we had a total of 530,604 square feet of rentable retail space, excluding retail space within communities currently under construction. Gross rental revenue provided by leased retail space in 2011 was $8,131,000 (0.8% of total revenue). We may also develop a property in conjunction with another real estate company that will own and operate the retail component of a mixed-use building that we help develop. If we secure a development right and believe that its best use, in whole or in part, is to develop the real estate with the intent to sell rather than hold the asset, we may, through a taxable REIT subsidiary, develop real estate for sale. Any investment in securities of other entities, and any development of real estate for sale, is subject to the percentage of ownership limitations, gross income tests, and other limitations that must be observed for REIT qualification.

We have not engaged in trading, underwriting or agency distribution or sale of securities of other issuers and do not intend to do so. At all times we intend to make investments in a manner so as to qualify as a REIT unless, because of circumstances or changes to the Internal Revenue Code of 1986 (or the Treasury Regulations), our Board of Directors determines that it is no longer in our best interest to qualify as a REIT.

Tax Matters

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

Competition

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

Environmental and Related Matters

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

We believe that more government regulation of energy use, along with a greater focus on environmental protection may, over time, have a significant impact on urban growth patterns. If changes in zoning to encourage greater density and proximity to mass transit do occur, such changes could benefit multifamily housing and those companies with a competency in high-density development. However, there can be no assurance as to whether or when such changes in regulations or zoning will occur or, if they do occur, whether the multifamily industry or the Company will benefit from such changes.

Other Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. You may call the SEC at 1-202-551-8090 for further information on the operation of the Public Reference Room. Our SEC filings are also available to the public from the SEC s website at www.sec.gov.

We maintain a website at www.avalonbay.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to the Securities Exchange Act of 1934 are available free of charge in the Investors section of our website as soon as reasonably practicable after the reports are filed with or furnished to the SEC. In addition, the charters of our Board s Nominating and Corporate Governance Committee, Audit Committee and Compensation Committee, as well as our Director Independence Standards, Corporate Governance Guidelines, Policy Regarding Shareholder Rights Agreement and Code of Conduct, are available free of charge in that section of our website or by writing to AvalonBay Communities, Inc., Ballston Tower, Suite 800, 671 N. Glebe Rd., Arlington, Virginia 22203, Attention: Chief Financial Officer. To the extent required by the rules of the SEC and the NYSE, we will disclose amendments and waivers relating to these documents in the same place on our website.

We were incorporated under the laws of the State of California in 1978. In 1995, we reincorporated in the State of Maryland and have been focused on the ownership and operation of apartment communities since that time. As of January 31, 2012, we had 2,095 employees.

ITEM 1a. RISK FACTORS

Our operations involve various risks that could have adverse consequences, including those described below. This Item 1a. includes forward-looking statements. You should refer to our discussion of the qualifications and limitations on forward-looking statements in this Form 10-K.

Development, redevelopment and construction risks could affect our profitability.

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

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

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

- we may be unable to obtain, or experience delays in obtaining, necessary zoning, occupancy, or other required governmental or third party permits and authorizations, which could result in increased costs or the delay or abandonment of opportunities;
- we may incur costs that exceed our original estimates due to increased material, labor or other costs;
- we may be unable to complete construction and lease-up of a community on schedule, resulting in increased construction and financing costs and a decrease in expected rental revenues;
- we may be unable to obtain financing with favorable terms, or at all, for the proposed development of a community, which may cause us to delay or abandon an opportunity;
- we may incur liabilities to third parties during the development process, for example, in connection with managing existing improvements on the site prior to tenant terminations and demolition (such as commercial space) or in connection with providing services to third parties (such as the construction of shared infrastructure or other improvements); and
- we may incur liability if our communities are not constructed and operated in compliance with the accessibility provisions of the Americans with Disabilities Acts, the Fair Housing Act or other federal, state or local requirements. Noncompliance could result in imposition of fines, an award of damages to private litigants, and a requirement that we undertake structural modifications to remedy the noncompliance.

We estimate construction costs based on market conditions at the time we prepare our budgets, and our projections include changes that we anticipate but cannot predict with certainty. Construction costs may increase, particularly for labor and certain materials and, for some of our Development Communities and Development Rights (as defined below), the total construction costs may be higher than the original budget. Total capitalized cost includes all capitalized costs incurred and projected to be incurred to develop or redevelop a community, determined in accordance with GAAP, including:

- land and/or property acquisition costs;
- fees paid to secure air rights and/or tax abatements;
- construction or reconstruction costs;
- costs of environmental remediation;
- real estate taxes;
- capitalized interest and insurance;
- loan fees;
- permits;

- professional fees;
- allocated development or redevelopment overhead; and
- other regulatory fees.

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

Unfavorable changes in market and economic conditions could adversely affect occupancy, rental rates, operating expenses, and the overall market value of our assets, including joint ventures and investments in the Funds.

Local conditions in our markets significantly affect occupancy, rental rates and the operating performance of our communities. The risks that may adversely affect conditions in those markets include the following:

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

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

We must develop, construct and operate our communities in compliance with numerous federal, state and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include zoning laws, building codes, landlord tenant laws and other laws generally applicable to business operations. Noncompliance with laws could expose us to liability.

Lower revenue growth or significant unanticipated expenditures may result from our need to comply with changes in (i) laws imposing remediation requirements and the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions, (ii) rent control or rent stabilization laws or other residential landlord/tenant laws, or (iii) other governmental rules and regulations or enforcement policies affecting the development, use and operation of our communities, including changes to building codes and fire and life-safety codes.

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

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

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

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

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

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

Capital and credit market conditions may adversely affect our access to various sources of capital and/or the cost of capital, which could impact our business activities, dividends, earnings, and common stock price, among other things.

In periods when the capital and credit markets experience significant volatility, the amounts, sources and cost of capital available to us may be adversely affected. We primarily use external financing to fund construction and to refinance indebtedness as it matures. If sufficient sources of external financing are not available to us on cost effective terms, we could be forced to limit our development and redevelopment activity and/or take other actions to fund our business activities and repayment of debt, such as selling assets, reducing our cash dividend or paying out less than 100% of our taxable income. To the extent that we are able and/or choose to access capital at a higher cost than we have experienced in recent years (reflected in higher interest rates for debt financing or a lower stock price for equity financing) our earnings per share and cash flows could be adversely affected. In addition, the price of our common stock may fluctuate significantly and/or decline in a high interest rate or volatile economic environment. We believe that the lenders under our Credit Facility will fulfill their lending obligations thereunder, but if economic conditions deteriorate, there can be no assurance that the ability of those lenders to fulfill their obligations would not be adversely impacted.

Insufficient cash flow could affect our debt financing and create refinancing risk.

We are subject to the risks associated with debt financing, including the risk that our cash flow will be insufficient to meet required payments of principal and interest. In this regard, we note that in order for us to continue to qualify as a REIT, we are required to annually distribute dividends generally equal to at least 90% of our REIT taxable income, computed without regard to the dividends paid deduction and our net capital gain. This requirement limits the amount of our cash flow available to meet required principal and interest payments. The principal outstanding balance on a portion of our debt will not be fully amortized prior to its maturity. Although we may be able to repay our debt by using our cash flows, we cannot assure you that we will have sufficient cash flows available to make all required principal payments. Therefore, we may need to refinance at least a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that a refinancing will not be done on as favorable terms; either of these outcomes could have a material adverse effect on our financial condition and results of operations.

Rising interest rates could increase interest costs and could affect the market price of our common stock.

We currently have, and may in the future incur, contractual variable interest rate debt, as well as effective variable interest rate debt achieved through the use of qualifying hedging relationships. In addition, we regularly seek access to both fixed and variable rate debt financing to repay maturing debt and to finance our development and redevelopment activity. Accordingly, if interest rates increase, our interest costs will also rise, unless we have made arrangements that hedge the risk of rising interest rates. In addition, an increase in market interest rates may lead purchasers of our common stock to demand a greater annual dividend yield, which could adversely affect the market price of our common stock.

Bond financing and zoning compliance requirements could limit our income, restrict the use of communities and cause favorable financing to become unavailable.

We have financed some of our apartment communities with obligations issued by local government agencies because the interest paid to the holders of this debt is generally exempt from federal income taxes and, therefore, the interest rate is generally more favorable to us. These obligations are commonly referred to as tax-exempt bonds and generally must be secured by mortgages on our communities. As a condition to obtaining tax-exempt financing, or on occasion as a condition to obtaining favorable zoning in some jurisdictions, we will commit to make some of the apartments in a community available to households whose income does not exceed certain thresholds (e.g., 50% or 80% of area median income), or who meet other qualifying tests. As of December 31, 2011, approximately 6.11% of our apartment homes at current operating communities were under income limitations such as these. These commitments, which may run without expiration or may expire after a period of time (such as 15 or 20 years) may limit our ability to raise rents and, in consequence, can also adversely affect the value of the communities subject to these restrictions.

In addition, some of our tax-exempt bond financing documents require us to obtain a guarantee from a financial institution of payment of the principal of, and interest on, the bonds. The guarantee may take the form of a letter of credit, surety bond, guarantee agreement or other additional collateral. If the financial institution defaults in its guarantee obligations, or if we are unable to renew the applicable guarantee or otherwise post satisfactory collateral, a default will occur under the applicable tax-exempt bonds and the community could be foreclosed upon if we do not redeem the bonds.

Risks related to indebtedness.

We have a Credit Facility with Bank of America, N.A., as administrative agent, swing lender, issuing bank and a bank, JPMorgan Chase Bank, N.A., as a bank and as syndication agent, Deutsche Bank Trust Company Americas, Morgan Stanley Bank and Wells Fargo Bank, N.A., each as a bank and as documentation agent, Barclays Bank PLC as a bank and as co-documentation agent, UBS Securities LLC as a co-documentation agent, The Bank of New York Mellon, BBVA Compass Bank, PNC Bank, National Association, and Suntrust Bank, each as a bank and as a managing agent, Branch Banking and Trust Company, Bank of Tokyo Mitsubishi UFJ, Ltd., and Citizens Bank, each as a bank and as a co-agent, and the other bank parties signatory thereto. Our organizational documents do not limit the amount or percentage of indebtedness that may be incurred. Accordingly, subject to compliance with outstanding debt covenants, we could incur more debt, resulting in an increased risk of default on our obligations and an increase in debt service requirements that could adversely affect our financial condition and results of operations.

The mortgages on those of our properties subject to secured debt, our Credit Facility and the indenture under which a substantial portion of our debt was issued contain customary restrictions, requirements and other limitations, as well as certain financial and operating covenants including maintenance of certain financial ratios. Maintaining compliance with these restrictions could limit our flexibility. A default in these requirements, if uncured, could result in a requirement that we repay indebtedness, which could severely affect our liquidity and increase our financing costs. Refer to Item 7., Management s Discussion and Analysis of Financial Condition and Results of Operations, for further discussion.

The mortgages on those of our properties subject to secured debt generally include provisions which stipulate a prepayment penalty or payment that we will be obligated to pay in the event that we elect to repay the mortgage note prior to the earlier of (i) the stated maturity of the note, or (ii) the date at which the mortgage note is prepayable without such penalty or payment. If we elect to repay some or all of the outstanding principal balance for our mortgage notes, we may incur prepayment penalties or payments under these provisions which could adversely affect our results of operations.

Failure to maintain our current credit ratings could adversely affect our cost of funds, related margins, liquidity and access to capital markets.

There are two major debt rating agencies that routinely evaluate and rate our debt. These ratings are based on a number of factors, which include their assessment of our financial strength, liquidity, capital structure, asset quality amount of real estate under development, and sustainability of cash flow and earnings, among other factors. If market conditions change, we may not be able to maintain our current credit ratings, which could adversely affect our cost of funds and related margins, liquidity, and access to capital markets.

We could be negatively impacted by the condition of Fannie Mae or Freddie Mac.

Fannie Mae and Freddie Mac are a major source of secured financing to the multifamily industry and we have used Fannie Mae and Freddie Mac for a portion of our financing needs. In February 2011, the Obama administration released a report calling for the winding down of the role that Fannie Mae and Freddie Mac play in the mortgage market. A final decision by the government to eliminate Fannie Mae or Freddie Mac or reduce their acquisitions or guarantees of multifamily community loans may adversely affect interest rates, capital availability, and the value of multifamily communities.

Failure to generate sufficient revenue or other liquidity needs could limit cash flow available for distributions to stockholders.

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

The form, timing and/or amount of dividend distributions in future periods may vary and be impacted by economic and other considerations.

The form, timing and/or amount of dividend distributions will be declared at the discretion of the Board of Directors and will depend on actual cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and other factors as the Board of Directors may consider relevant. The Board of Directors may modify our dividend policy from time to time.

We may choose to pay dividends in our own stock, in which case stockholders may be required to pay tax in excess of the cash they receive.

We may distribute taxable dividends that are payable in part in our stock, as we did in the fourth quarter of 2008. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of the cash received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, the trading price of our stock would experience downward pressure if a significant number of our stockholders sell shares of our stock in order to pay taxes owed on dividends.

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

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

Difficulty of selling apartment communities could limit flexibility.

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

Acquisitions may not yield anticipated results.

Our business strategy includes acquiring as well as developing communities. Our acquisition activities and their success may be exposed to the following risks:

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

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

We may from time to time commence development activity or make acquisitions outside of our existing market areas if appropriate opportunities arise. Our historical experience in our existing markets in developing, owning and operating rental communities does not ensure that we will be able to operate successfully in new markets, should we choose to enter them. We may be exposed to a variety of risks if we choose to enter new markets, including an inability to accurately evaluate local apartment market conditions; an inability to obtain land for development or to identify appropriate acquisition opportunities; an inability to hire and retain key personnel; and lack of familiarity with local governmental and permitting procedures.

Although we are primarily in the multifamily business, we also own and lease ancillary retail space when a retail component represents the best use of the space, as is often the case with large urban in-fill developments. We also may engage or have an interest in for-sale activity. We may be unsuccessful in owning and leasing retail space at our communities or in developing real estate with the intent to sell, which could have an adverse effect on our results of operations.

We are currently implementing two new brands of communities that target various customer preferences. We cannot assure that these brands will be successful or that our costs in developing and implementing these brands will result in incremental revenue and earnings.

Land we hold with no current intent to develop may be subject to future impairment charges.

We own parcels of land that we do not currently intend to develop. As discussed in Item 2., Communities Other Land and Real Estate Assets, in the event that the fair market value of a parcel changes such that we determine that the carrying basis of the parcel reflected in our financial statements is greater than the parcel s then current fair value, less costs to dispose, we would be subject to an impairment charge, which would reduce our net income.

Risks involved in real estate activity through joint ventures.

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

Risks associated with an investment in and management of discretionary real estate investment funds.

We formed Fund I and Fund II, in which we have an equity interest of 15.2% and 31.3%, respectively, which, through wholly-owned subsidiaries, we manage as the general partner and in which we have invested an aggregate of approximately $146,465,000, net of distributions to us at December 31, 2011. The investment period for both Funds is over. These Funds present risks, including the following:

- our subsidiaries that are the general partners of the Funds are generally liable, under partnership law, for the debts and obligations of the respective Funds, subject to certain exculpation and indemnification rights pursuant to the terms of the partnership agreement of the Funds;

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

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

- we may be liable and/or our status as a REIT may be jeopardized if either the Funds, or the REITs through which a number of investors have invested in the Funds and which we manage, fail to comply with various tax or other regulatory matters.

Risk of earthquake damage.

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

Insurance coverage for earthquakes can be costly due to limited industry capacity. As a result, we may experience shortages in desired coverage levels if market conditions are such that insurance is not available or the cost of insurance makes it, in management s view, economically impractical.

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

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

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

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

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

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

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

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

12

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

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

We are also aware that environmental agencies and third parties have, in the case of certain properties with on-site or nearby contamination, asserted claims for remediation or personal injury based on the alleged actual or potential intrusion into buildings of chemical vapors from soils or groundwater underlying or in the vicinity of those buildings or on nearby properties. We currently do not anticipate that we will incur any material liabilities as a result of vapor intrusion at our communities.

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

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

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

We cannot assure you that:

- the environmental assessments described above have identified all potential environmental liabilities;
- no prior owner created any material environmental condition not known to us or the consultants who prepared the assessments;
- no environmental liabilities have developed since the environmental assessments were prepared;

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

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

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

Our success depends on key personnel whose continued service is not guaranteed.

Our success depends in part on our ability to attract and retain the services of executive officers and other personnel. Our executive officers make important capital allocation decisions or recommendations to our Board of Directors from among the opportunities identified by our regional offices. There is substantial competition for qualified personnel in the real estate industry, and the loss of several of our key personnel could adversely affect the Company.

Breaches of our data security could materially harm our business and reputation.

We collect and retain certain personal information provided by our tenants and employees. While we have implemented a variety of security measures to protect the confidentiality of this information and periodically review and improve our security measures, there can be no assurance that we will be able to prevent unauthorized access to this information. Any breach of our data security measures and loss of this information may result in legal liability and costs (including damages and penalties), as well as damage to our reputation, that could materially and adversely affect our business and financial performance.

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

If we fail to qualify as a REIT for federal income tax purposes, we will be subject to federal income tax on our taxable income at regular corporate rates (subject to any applicable alternative minimum tax). In addition, unless we are entitled to relief under applicable statutory provisions, we would be ineligible to make an election for treatment as a REIT for the four taxable years following the year in which we lose our qualification. The additional tax liability resulting from the failure to qualify as a REIT would significantly reduce or eliminate the amount of funds available for distribution to our stockholders. Furthermore, we would no longer be required to make distributions to our stockholders. Thus, our failure to qualify as a REIT could also impair our ability to expand our business and raise capital, and would adversely affect the value of our common stock.

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

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

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

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

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

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

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

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

ITEM 1b. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. COMMUNITIES

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

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

Established Communities (also known as Same Store Communities) are consolidated communities where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year. For the year ended December 31, 2011, the Established Communities are communities that are consolidated for financial reporting purposes, had stabilized occupancy and operating expenses as of January 1, 2010, are not conducting or planning to conduct substantial redevelopment activities and are not held for sale or planned for disposition within the current year. A community is considered to have stabilized occupancy at the earlier of (i) attainment of 95% physical occupancy or (ii) the one-year anniversary of completion of development or redevelopment.

Other Stabilized Communities includes all other completed communities that we own or have a direct or indirect ownership interest in, and that have stabilized occupancy, as defined above. Other Stabilized Communities do not include communities that are conducting or planning to conduct substantial redevelopment activities within the current year.

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

Redevelopment Communities are communities where substantial redevelopment is in progress or is planned to begin during the current year. For communities that we wholly own, redevelopment is considered substantial when capital invested during the reconstruction effort is expected to exceed the lesser of $5,000,000 or 10% of the community s capitalized cost and is expected to have a material impact on the community s operations and future rental rates. The occupancy levels of Redevelopment Communities may also be impacted to the extent we take multiple apartment homes out of service for an extended period of time. The definition of substantial redevelopment may differ for communities owned through a joint venture arrangement, or by one of the Funds.

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

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

As of December 31, 2011, communities that we owned or held a direct or indirect interest in were classified as follows:

	Number of communities	Number of apartment homes
Current Communities		
Established Communities:		
New England	30	7,315
Metro NY/NJ	22	6,981
Mid-Atlantic/Midwest	14	5,298
Pacific Northwest	10	2,533
Northern California	15	4,829
Southern California	15	4,003
Total Established	106	30,959
Other Stabilized Communities:		
New England	7	1,608
Metro NY/NJ	11	3,945
Mid-Atlantic/Midwest	12	4,119
Pacific Northwest	3	828
Northern California	12	3,297
Southern California	19	5,898
Total Other Stabilized	64	19,695
Lease-Up Communities	3	273
Redevelopment Communities (1)	8	2,367
Total Current Communities	181	53,294
Development Communities	19	5,244
Development Rights	32	9,012

(1) In addition to the eight communities indicated, the Company commenced the redevelopment of five communities with an aggregate of 971 apartment homes during 2011, for which at December 31, 2011 the redevelopment activity is focused on the common area and is not impacting community operations, including occupancy or rental revenue. These communities are therefore included in the Established Community portfolio.

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

Current Communities

Our Current Communities include garden-style apartment communities consisting of multi-story buildings in landscaped settings, as well as mid and high rise apartment communities in urban settings. As of January 31, 2012, our current communities consisted of 126 garden-style (of which 16 are mixed communities and/or include town homes), 22 high-rise and 32 mid-rise apartment communities.

Our communities generally offer a variety of quality amenities and features, which may include:

- fully-equipped kitchens;
- lofts and vaulted ceilings;
- walk-in closets;
- fireplaces;
- patios/decks; and
- modern appliances.

Other features at various communities may include:

- swimming pools;
- fitness centers;
- tennis courts; and
- wi-fi lounges.

As described in Item 1, in late 2011 we announced the introduction of two new brands to supplement our core Avalon offering, which remains focused on upscale apartment living and high end amenities and services. *AVA* will target customers in high energy, transit-served urban neighborhoods and will feature smaller apartments, many of which are designed for roommate living with an emphasis on modern design and a technology focus. *Eaves by Avalon* is targeted to the cost conscious, value segment and will likely be concentrated in older assets in suburban areas. We believe that the addition of these new brands will allow us to further penetrate our existing markets, by segmenting our market by consumer preference and attitude as well as by location and price.

We also have an extensive and ongoing maintenance program to continually maintain and enhance our communities and apartment homes. The aesthetic appeal of our communities and a service-oriented property management team, focused on the specific needs of residents, enhances market appeal to discriminating residents. We believe our mission of *Enhancing the Lives of our Residents* helps us achieve higher rental rates and occupancy levels while minimizing resident turnover and operating expenses.

Our Current Communities are located in the following geographic markets:

	Number of communities at		Number of apartment homes at		Percentage of total apartment homes at	
	1-31-11	1-31-12	1-31-11	1-31-12	1-31-11	1-31-12
New England	**37**	**39**	**9,351**	**9,114**	**18.1%**	**17.2%**
Boston, MA	26	26	6,902	6,254	13.4%	11.8%
Fairfield County, CT	11	13	2,449	2,860	4.7%	5.4%
Metro NY/NJ	**33**	**34**	**11,250**	**11,430**	**21.8%**	**21.5%**
Long Island, NY	7	7	1,932	1,932	3.8%	3.6%
Northern New Jersey	5	5	1,618	1,618	3.1%	3.0%
Central New Jersey	7	8	3,034	3,214	5.9%	6.1%
New York, NY	14	14	4,666	4,666	9.0%	8.8%
Mid-Atlantic/Midwest	**29**	**26**	**10,344**	**9,557**	**20.0%**	**18.0%**
Washington, DC	24	23	9,087	8,696	17.6%	16.4%
Chicago, IL	5	3	1,257	861	2.4%	1.6%
Pacific Northwest	**12**	**14**	**2,964**	**3,443**	**5.7%**	**6.5%**
Seattle, WA	12	14	2,964	3,443	5.7%	6.5%
Northern California	**33**	**32**	**9,578**	**9,351**	**18.5%**	**17.6%**
Oakland-East Bay, CA	10	10	3,251	3,251	6.3%	6.1%
San Francisco, CA	12	11	2,749	2,522	5.3%	4.8%
San Jose, CA	11	11	3,578	3,578	6.9%	6.7%
Southern California	**29**	**35**	**8,206**	**10,195**	**15.9%**	**19.2%**
Los Angeles, CA	13	15	3,555	4,209	6.9%	7.9%
Orange County, CA	11	12	2,984	3,209	5.8%	6.1%
San Diego, CA	5	8	1,667	2,777	3.2%	5.2%
	173	180	51,693	53,090	100.0%	100.0%

We manage and operate substantially all of our Current Communities. During the year ended December 31, 2011, we completed construction of 1,161 apartment homes in six communities, sold 1,313 apartment homes in five communities, and exchanged three communities with 1,060 apartment homes for six communities with 1,418 apartment homes with another apartment owner. The average age of our Current Communities, on a weighted average basis according to number of apartment homes, is 17 years. When adjusted to reflect redevelopment activity, as if redevelopment were a new construction completion date, the average age of our Current Communities is 11 years.

Of the Current Communities, as of January 31, 2012, we owned:

- a full fee simple, or absolute, ownership interest in 146 operating communities, ten of which are on land subject to land leases expiring in October 2026, November 2028, December 2034, December 2061, April 2095, September 2105, April 2105, May 2105

and March 2142;

- a general partnership interest and an indirect limited partnership interest in both Fund I and Fund II. Subsidiaries of Fund I own a fee simple interest in 15 operating communities, and subsidiaries of Fund II own a fee simple interest in 12 operating communities;

- a general partnership interest in one partnership structured as a DownREIT, as described more fully below, that owns one community;

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

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

For some communities, a land lease is used to support tax advantaged structures that ultimately allow us to purchase the land upon lease expiration. We have options to purchase the underlying land for the leases that expire in October 2026, November 2028, December 2034 and April 2095. We also hold, directly or through wholly-owned subsidiaries, the full fee simple ownership interest in 16 of the 19 Development Communities and a leasehold interest in three of the Development Communities with the land leases expiring in July 2046, November 2106, and May 2041. Two of the three land leases (those expiring in 2041 and 2046) provide options for the Company to purchase the land at some point during the lease term.

In our partnership structured as a DownREIT, one of our wholly-owned subsidiaries is the general partner, and there are one or more limited partners whose interest in the partnership is represented by units of limited partnership interest. Limited partners are entitled to receive an initial distribution before any distribution is made to the general partner. Under the partnership agreement for the DownREIT, the distributions per unit paid to the holders of units of limited partnership interests are equal to our current common stock dividend amount. The holders of units of limited partnership interest have the right to present all or some of their units for redemption for a cash amount as determined by the partnership agreement and based on the fair value of our common stock. In lieu of a cash redemption by the partnership, we may elect to acquire any unit presented for redemption for one share of our common stock or for such cash amount. As of January 31, 2012, there were 7,500 DownREIT partnership units outstanding. The DownREIT partnership is consolidated for financial reporting purposes.

Profile of Current, Development and Unconsolidated Communities (1)

(Dollars in thousands, except per apartment home data)

	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Acres	Year of completion/ acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/11	Average economic occupancy 2011	Average economic occupancy 2010	Average rental rate $ per Apt (4)	Average rental rate $ per Sq. Ft.	Financial reporting cost (5)
CURRENT COMMUNITIES												
NEW ENGLAND												
Boston, MA												
Avalon at Lexington	Lexington, MA	198	230,039	16.1	1994	1,162	92.4%	96.3%	96.4%	1,854	1.54	17,270
Avalon Oaks	Wilmington, MA	204	229,752	22.5	1999	1,126	94.6%	96.4%	97.0%	1,567	1.34	21,732
Avalon Summit	Quincy, MA	245	224,538	8.0	1986/1996	916	95.5%	94.5% (2)	92.6% (2)	1,451	1.50	25,517
Avalon Essex	Peabody, MA	154	198,478	11.1	2000	1,289	96.1%	97.1%	97.8%	1,665	1.25	22,704
Avalon at Prudential Center	Boston, MA	780	732,610	1.0	1968/1998	939	93.7%	95.8%	95.2%	3,112	3.17	182,385
Avalon Oaks West	Wilmington, MA	120	133,376	27.0	2002	1,111	95.0%	96.4%	95.3%	1,493	1.29	17,266
Avalon Orchards	Marlborough, MA	156	175,505	23.0	2002	1,125	97.4%	96.7%	97.4%	1,585	1.36	21,914
Avalon at Newton Highlands (8)	Newton, MA	294	339,537	8.1	2003	1,155	90.8%	95.0%	96.6%	2,249	1.85	57,956
Avalon at The Pinehills I	Plymouth, MA	101	151,712	6.0	2004	1,502	95.0%	95.8%	97.9%	2,019	1.29	20,013
Essex Place	Peabody, MA	286	250,624	18.0	2004	876	95.5%	97.2%	96.6%	1,359	1.51	35,063
Avalon at Bedford Center	Bedford, MA	139	159,912	38.0	2005	1,150	95.7%	96.4%	96.1%	1,888	1.58	24,895
Avalon Chestnut Hill	Chestnut Hill, MA	204	270,956	5.0	2007	1,328	90.2%	95.6%	96.7%	2,566	1.85	60,737
Avalon Shrewsbury	Shrewsbury, MA	251	273,223	25.5	2007	1,089	95.6%	96.1%	95.9%	1,433	1.27	35,851
Avalon Danvers	Danvers, MA	433	492,222	75.0	2006	1,137	95.8%	96.1%	95.7%	1,570	1.33	84,052
Avalon at Lexington Hills	Lexington, MA	387	483,878	23.0	2007	1,250	96.1%	95.9%	96.2%	2,114	1.62	87,847
Avalon Acton	Acton, MA	380	374,888	50.3	2007	987	96.3%	96.6%	95.7%	1,421	1.39	63,072
Avalon Sharon	Sharon, MA	156	175,389	27.0	2007	1,124	95.5%	96.1%	96.1%	1,724	1.47	30,241
Avalon at Center Place (10)	Providence, RI	225	222,835	1.2	1991/1997	990	92.4%	96.0%	96.3%	2,157	2.09	31,450
Avalon at Hingham Shipyard	Hingham, MA	235	290,951	13.0	2009	1,238	93.6%	94.8%	96.6%	2,134	1.63	53,815
Avalon Northborough I	Northborough, MA	163	182,688	14.0	2009	1,121	93.9%	96.7%	95.9%	1,530	1.32	25,684
Avalon Blue Hills	Randolph, MA	276	269,333	23.1	2009	976	92.4%	96.1%	95.3%	1,467	1.44	45,810
Avalon Northborough II	Northborough, MA	219	271,031	17.7	2010	1,238	95.9%	95.5%	46.7% (3)	1,700	1.31	34,742
Avalon at Pinehills II	Plymouth, MA	91	103,519	4.5	2011	1,138	87.9%	47.6% (3)	N/A	1,345	0.56	17,331
Fairfield-New Haven, CT												
Avalon Gates	Trumbull, CT	340	379,002	37.0	1997	1,115	96.5%	96.7%	97.8%	1,708	1.48	38,098
Avalon Glen	Stamford, CT	238	222,165	4.1	1991	933	92.0%	97.0%	96.0%	1,924	2.00	33,000
Avalon Wilton	Wilton, CT	102	158,642	12.0	1996	1,555	90.2%	95.3%	95.6%	2,818	1.73	17,375
Avalon Valley	Danbury, CT	268	299,923	17.1	1999	1,119	95.1%	96.9%	97.1%	1,608	1.39	26,502
Avalon on Stamford Harbor	Stamford, CT	323	322,461	12.1	2003	998	96.3%	95.7%	95.8%	2,468	2.36	63,216
Avalon New Canaan (9)	New Canaan, CT	104	132,080	9.1	2002	1,270	92.3%	94.7%	96.2%	2,899	2.16	24,572
Avalon at Greyrock Place	Stamford, CT	306	315,380	3.0	2002	1,031	96.7%	96.6%	95.9%	2,198	2.06	71,036
Avalon Danbury	Danbury, CT	234	235,320	35.0	2005	1,006	94.4%	97.2%	97.0%	1,624	1.57	35,877
Avalon Darien	Darien, CT	189	242,675	30.0	2004	1,284	96.8%	96.4%	95.8%	2,616	1.96	41,772
Avalon Milford I	Milford, CT	246	217,085	22.0	2004	882	93.5%	97.5%	97.3%	1,535	1.70	31,595
Avalon Huntington	Shelton, CT	99	139,869	7.1	2008	1,413	96.0%	96.1%	96.5%	2,146	1.46	25,380
Avalon Norwalk	Norwalk, CT	311	310,629	4.4	2011	999	96.1%	86.5% (3)	32.8% (3)	2,054	1.78	74,054
Avalon Wilton II	Wilton, CT	100	129,276	6.0	2011	1,293	83.0%	43.8% (3)	N/A	1,767	0.60	30,031
METRO NY/NJ												
Long Island, NY												
Avalon Commons	Smithtown, NY	312	377,337	20.6	1997	1,209	94.6%	96.1% (2)	96.9% (2)	2,173	1.73	38,592

Profile of Current, Development and Unconsolidated Communities (1)

(Dollars in thousands, except per apartment home data)

	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Acres	Year of completion/ acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/11	Average economic occupancy 2011	Average economic occupancy 2010	Average rental rate $ per Apt (4)	Average rental rate $ per Sq. Ft.	Financial reporting cost (5)
Avalon Towers	Long Beach, NY	109	124,611	1.3	1990/1995	1,143	95.4%	96.3%	96.8%	3,579	3.02	21,774
Avalon Court	Melville, NY	494	596,809	35.4	1997/2000	1,208	92.7%	95.4%	95.7%	2,496	1.97	61,641
Avalon at Glen Cove South (10)	Glen Cove, NY	256	261,425	4.0	2004	1,021	95.7%	96.8%	95.4%	2,392	2.27	68,275
Avalon Pines I & II	Coram, NY	450	545,989	52.0	2005/2006	1,213	94.9%	96.3%	95.5%	2,075	1.65	71,712
Avalon at Glen Cove North (10)	Glen Cove, NY	111	100,754	1.3	2007	908	95.5%	96.1%	94.9%	2,225	2.35	39,971
Avalon Charles Pond	Coram, NY	200	208,532	41.0	2009	1,043	94.5%	96.4%	96.8%	1,876	1.73	48,355
Northern New Jersey												
Avalon Cove	Jersey City, NJ	504	574,339	11.0	1997	1,140	94.8%	95.5% (2)	96.3% (2)	2,781	2.33	109,015
Avalon at Edgewater	Edgewater, NJ	408	424,823	7.1	2002	1,041	95.8%	96.7%	96.5%	2,380	2.21	76,841
Avalon at Florham Park	Florham Park, NJ	270	330,410	41.9	2001	1,224	97.4%	96.5%	96.1%	2,595	2.05	42,585
Avalon Lyndhurst	Lyndhurst, NJ	328	330,588	5.8	2006	1,008	95.1%	96.3%	96.2%	2,113	2.02	78,653
Central New Jersey												
Avalon Run & Run East (7)	Lawrenceville, NJ	632	707,592	36.0	1994/1996	1,120	94.1%	95.7%	96.3%	1,527	1.31	77,181
Avalon Princeton Junction	West Windsor, NJ	512	486,069	64.0	1988	949	95.1%	93.8% (2)	94.5% (2)	1,516	1.50	48,462
Avalon at Freehold	Freehold, NJ	296	317,356	42.3	2002	1,072	95.6%	96.2%	96.5%	1,760	1.58	34,970
Avalon Run East II	Lawrenceville, NJ	312	341,320	70.0	2003	1,094	96.8%	96.1%	96.8%	1,844	1.62	52,634
Avalon at Tinton Falls	Tinton Falls, NJ	216	237,747	35.0	2007	1,101	93.5%	95.8%	95.6%	1,779	1.55	41,105
Avalon West Long Branch	West Long Branch, NJ	180	193,511	10.4	2011	1,075	97.2%	88.0% (3)	25.7% (3)	1,749	1.43	25,628
New York, NY												
Avalon Gardens	Nanuet, NY	504	608,842	54.0	1998	1,208	95.6%	96.4%	96.7%	2,109	1.68	56,356
Avalon Green	Elmsford, NY	105	113,538	16.9	1995	1,081	98.1%	95.7%	96.4%	2,346	2.08	14,044
Avalon Willow	Mamaroneck, NY	227	216,161	4.0	2000	952	92.5%	95.8%	96.5%	2,267	2.28	47,862
The Avalon	Bronxville, NY	110	118,952	1.5	1999	1,081	92.7%	94.5%	96.6%	3,712	3.24	31,786
Avalon Riverview I (10)	Long Island City, NY	372	332,991	1.0	2002	895	94.9%	96.2%	95.7%	3,238	3.48	95,790
Avalon Bowery Place I	New York, NY	206	152,744	1.1	2006	741	98.1%	97.1%	97.4%	4,356	5.71	95,574
Avalon Riverview North (10)	Long Island City, NY	602	477,240	1.8	2007	793	96.0%	96.0%	95.8%	2,962	3.59	167,612
Avalon on the Sound East (10)	New Rochelle, NY	588	562,499	2.0	2007	957	94.9%	95.8%	96.0%	2,315	2.32	187,126
Avalon Bowery Place II	New York, NY	90	73,705	1.1	2007	819	96.7%	97.2%	96.2%	3,940	4.68	56,896
Avalon White Plains	White Plains, NY	407	372,406	3.2	2009	915	95.8%	96.0%	93.7%	2,678	2.81	152,758
		295	245,320	0.8	2009	832	95.3%	95.9%	96.0%	3,061	3.53	114,533

Avalon Morningside Park (10)	New York, NY											
Avalon Fort Greene	Brooklyn, NY	631	498,651	1.0	2010	790	94.5%	95.4%	47.1% (3)	2,602	3.14	298,158
MID-ATLANTIC/MIDWEST												
Baltimore, MD												
Avalon at Fairway Hills I, II, & III (7)	Columbia, MD	720	724,027	44.0	1987/1996	1,006	94.2%	95.3%	96.2%	1,445	1.37	53,515
Avalon Symphony Woods (SGlen)	Columbia, MD	176	180,410	10.0	1986	1,025	96.6%	96.0%	96.4%	1,505	1.41	13,864
Avalon Symphony Woods (SGate)	Columbia, MD	216	215,450	12.7	1986/2006	997	94.9%	94.1%	96.1%	1,470	1.39	41,851
Washington, DC												
Avalon at Foxhall	Washington, DC	308	297,875	2.7	1982	967	95.1%	94.7%	93.8%	2,513	2.46	45,651
Avalon at Gallery Place I	Washington, DC	203	184,157	0.5	2003	907	93.1%	96.3%	95.7%	2,747	2.91	49,080
Avalon at Decoverly	Rockville, MD	564	551,136	46.0	1991/1995/2007	977	92.9%	95.0% (2)	95.7% (2)	1,539	1.50	70,443

Profile of Current, Development and Unconsolidated Communities (1)

(Dollars in thousands, except per apartment home data)

	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Acres	Year of completion/ acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/11	Average economic occupancy 2011	Average economic occupancy 2010	Average rental rate $ per Apt (4)	Average rental rate $ per Sq. Ft.	Financial reporting cost (5)
Avalon Fields I	Gaithersburg, MD	192	191,280	5.7	1996	996	97.4%	97.5%	97.6%	1,466	1.43	14,762
Avalon Fields II	Gaithersburg, MD	96	99,386	3.5	1998	1,035	92.7%	93.9%	96.2%	1,717	1.56	8,376
Avalon at Grosvenor Station	North Bethesda, MD	497	476,738	9.9	2004	959	95.8%	95.2%	96.1%	1,888	1.87	82,903
Avalon at Traville	North Potomac, MD	520	573,717	47.9	2004	1,103	95.4%	96.3%	96.8%	1,857	1.62	70,216
Avalon Fair Lakes	Fairfax, VA	420	355,228	24.2	1989/1996	846	95.5%	96.8%	96.5%	1,460	1.67	38,026
AVA Ballston	Arlington, VA	344	294,931	4.1	1990	857	89.0%	95.3% (2)	96.7%	1,967	2.19	41,523
Avalon at Providence Park	Fairfax, VA	141	148,282	4.0	1988/1997	1,052	94.3%	97.2%	97.0%	1,643	1.52	12,302
Avalon Crescent	McLean, VA	558	613,426	19.1	1996	1,099	96.2%	95.8%	96.6%	1,992	1.74	58,358
Avalon at Arlington Square	Arlington, VA	842	895,553	18.9	2001	1,064	96.8%	94.8%	95.9%	2,032	1.81	114,446
Fairfax Towers	Falls Church, VA	415	336,051	17.0	1978/2011	810	93.7%	94.3% (3)	N/A	1,691	1.97	90,048
Chicago, IL												
Avalon Arlington Heights	Arlington Heights, IL	409	346,416	2.8	1987/2000	847	94.4%	95.3%	96.1%	1,578	1.78	57,539
PACIFIC NORTHWEST												
Seattle, WA												
Avalon Redmond Place	Redmond, WA	222	211,450	8.4	1991/1997	952	95.0%	95.8%	95.7%	1,334	1.34	32,344
Avalon at Bear Creek	Redmond, WA	264	288,250	22.2	1998	1,092	94.7%	95.1%	94.6%	1,337	1.16	37,409
Avalon Bellevue	Bellevue, WA	200	163,801	1.7	2001	819	96.0%	95.0%	94.7%	1,461	1.69	31,696
Avalon RockMeadow	Bothell, WA	206	243,958	11.2	2000	1,184	96.1%	94.5%	94.4%	1,288	1.03	25,676
Avalon WildReed	Everett, WA	234	259,080	23.0	2000	1,107	97.4%	94.1%	95.8%	1,073	0.91	23,189
Avalon HighGrove	Everett, WA	391	422,482	19.0	2000	1,081	92.8%	94.5%	95.7%	1,073	0.94	40,136
Avalon ParcSquare	Redmond, WA	124	127,251	2.0	2000	1,026	96.0%	96.1%	95.5%	1,549	1.45	19,600
Avalon Brandemoor	Lynwood, WA	424	453,602	22.6	2001	1,070	95.8%	94.5%	94.6%	1,138	1.01	46,833
AVA Belltown	Seattle, WA	100	82,418	0.7	2001	824	98.0%	95.5%	94.3%	1,691	1.96	19,185
Avalon Meydenbauer	Bellevue, WA	368	331,945	3.6	2008	902	96.7%	94.8%	95.9%	1,591	1.67	88,919
Avalon Towers Bellevue (10)	Bellevue, WA	397	331,366	1.5	2011	835	92.9%	83.2% (3)	27.1% (3)	1,920	1.91	123,053
Avalon Brandemoor II	Lynwood, WA	82	93,320	3.8	2011	1,138	93.9%	61.6% (3)	N/A	1,013	0.55	13,872
NORTHERN CALIFORNIA												
Oakland-East Bay, CA												
Avalon Fremont	Fremont, CA	308	316,052	22.3	1994	1,026	95.1%	96.6%	96.8%	1,709	1.61	58,432
Avalon Dublin	Dublin, CA	204	179,004	13.0	1989/1997	877	96.1%	96.1%	96.5%	1,539	1.68	29,203
Avalon Pleasanton	Pleasanton, CA	456	366,062	14.7	1988/1994	803	90.6%	92.8%(2)	89.8% (2)	1,521	1.76	79,338
Avalon at Union Square	Union City, CA	208	150,225	8.5	1973/1996	722	96.2%	96.6%	96.1%	1,227	1.64	23,638
Waterford	Hayward, CA	544	452,005	11.1	1985/1986	831	95.8%	96.5%	94.9%	1,231	1.43	63,972
Avalon Warm Springs	Fremont, CA	235	191,935	13.5	1985/1994	817	95.7%	97.1%	93.5% (2)	1,519	1.81	43,050
Avalon at Dublin Station	Dublin, CA	305	299,335	4.4	2006	981	94.8%	95.3%	95.0%	1,808	1.76	84,431
Avalon Union City	Union City, CA	439	429,892	6.0	2009	979	96.4%	96.2%	94.7%	1,616	1.59	118,751
Avalon Walnut Creek (10)	Walnut Creek, CA	418	410,141	5.3	2010	981	95.2%	91.5% (3)	32.4% (3)	1,890	1.76	146,188
San Francisco, CA												
Avalon at Cedar Ridge	Daly City, CA	195	141,411	7.0	1972/1997	725	96.4%	97.2%	91.9% (2)	1,615	2.16	32,518
AVA Nob Hill	San Francisco, CA	185	108,962	1.4	1990/1995	589	97.3%	96.5% (2)	96.5%	1,964	3.22	33,735

Profile of Current, Development and Unconsolidated Communities (1)

(Dollars in thousands, except per apartment home data)

	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Acres	Year of completion/ acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/11	Average economic occupancy 2011	Average economic occupancy 2010	Average rental rate $ per Apt (4)	Average rental rate $ per Sq. Ft.	Financial reporting cost (5)
Crowne Ridge	San Rafael, CA	254	221,780	21.9	1973/1996	873	94.1%	88.6% (2)	95.9% (2)	1,588	1.61	45,035
Eaves Foster City	Foster City, CA	288	222,364	11.0	1973/1994	772	90.6%	96.4% (2)	96.5%	1,625	2.03	45,225
Avalon Pacifica	Pacifica, CA	220	186,800	21.9	1971/1995	849	93.2%	96.6%	95.6%	1,650	1.88	32,783
Avalon Sunset Towers	San Francisco, CA	243	171,836	16.0	1961/1996	707	99.2%	95.6% (2)	95.2% (2)	1,991	2.69	36,985
Avalon at Diamond Heights	San Francisco, CA	154	123,047	3.0	1972/1994	799	96.8%	97.0%	94.0% (2)	1,999	2.43	29,610
Avalon at Mission Bay North	San Francisco, CA	250	240,911	1.4	2003	964	94.4%	96.1%	96.0%	3,224	3.22	94,346
Avalon at Mission Bay III	San Francisco, CA	260	261,169	1.5	2009	1,004	95.0%	95.0%	92.4%	3,296	3.12	147,903
San Jose, CA												
Avalon Campbell	Campbell, CA	348	326,796	10.8	1995	939	95.1%	96.5%	95.7%	1,737	1.78	61,241
Eaves San Jose	San Jose, CA	360	322,992	14.0	1985/1996	897	96.4%	95.5% (2)	97.0%	1,519	1.62	53,042
Avalon on the Alameda	San Jose, CA	305	299,762	8.9	1999	983	93.8%	96.2%	96.7%	2,026	1.98	57,770
Avalon Rosewalk	San Jose, CA	456	448,512	16.6	1997/1999	984	92.1%	95.5%	95.1%	1,729	1.68	80,756
Avalon Silicon Valley	Sunnyvale, CA	710	653,929	13.6	1997	921	94.1%	95.5%	96.1%	1,993	2.07	124,571
Avalon Mountain View (9)	Mountain View, CA	248	211,552	10.5	1986	853	96.0%	96.2%	96.3%	2,107	2.38	58,951
Avalon at Creekside	Mountain View, CA	294	215,680	15.0	1962/1997	734	95.9%	97.1%	96.3%	1,577	2.09	43,806
Avalon at Cahill Park	San Jose, CA	218	218,177	3.8	2002	1,001	95.4%	95.9%	95.7%	2,049	1.96	52,854
Avalon Towers on the Peninsula	Mountain View, CA	211	218,392	1.9	2002	1,035	95.7%	96.1%	96.8%	2,778	2.58	66,472
Eaves San Jose II	San Jose, CA	80	64,428	3.6	2007	805	98.8%	96.2% (2)	97.3%	1,500	1.79	18,029
SOUTHERN CALIFORNIA												
Orange County, CA												
AVA Newport	Costa Mesa, CA	145	122,415	6.6	1956/1996	844	91.7%	96.6%	96.2%	1,620	1.85	10,538
Avalon Mission Viejo	Mission Viejo, CA	166	124,500	7.8	1984/1996	750	95.8%	97.1%	95.2%	1,242	1.61	14,202
Eaves South Coast	Costa Mesa, CA	258	207,672	8.9	1973/1996	805	91.1%	93.6% (2)	95.9% (2)	1,339	1.56	33,470
		301	229,593	20.0	1990/1997	763	94.4%	96.3%	95.2%	1,296	1.64	25,904

Eaves Santa Margarita	Rancho Santa Margarita, CA											
Avalon at Pacific Bay	Huntington Beach, CA	304	268,000	9.7	1971/1997	882	94.4%	95.5%	94.6%	1,491	1.62	33,424
Avalon Anaheim Stadium	Anaheim, CA	251	302,480	3.5	2009	1,205	94.0%	96.2%	94.8%	2,098	1.67	97,601
Avalon Irvine	Irvine, CA	279	243,157	4.5	2010	872	95.3%	95.5%	88.7% (3)	1,618	1.77	77,438
The Springs (6)	Corona, CA	320	241,440	13.3	1987/2006	755	92.2%	97.1%	96.4%	1,017	1.31	N/A
Arboretum at Lake Forest	Lake Forest, CA	225	215,319	8.2	1975/2011	957	93.8%	95.5% (3)	N/A	1,443	1.44	26,334
San Diego, CA												
Avalon at Mission Bay	San Diego, CA	564	402,285	12.9	1969/1997	713	94.3%	96.3%	95.2%	1,412	1.91	68,065
Avalon at Mission Ridge	San Diego, CA	200	208,075	4.0	1960/1997	1,040	96.0%	95.9%	93.5%	1,650	1.52	22,741
AVA Cortez Hill	San Diego, CA	294	226,140	1.2	1973/1998	769	93.2%	95.3% (2)	94.9%	1,521	1.88	35,564
Avalon Fashion Valley	San Diego, CA	161	183,802	1.8	2008	1,142	94.4%	94.5%	94.8%	2,380	1.73	64,608
Rancho Vallecitos	San Marcos, CA	184	161,352	10.8	1988/2011	877	93.5%	95.2% (3)	N/A	2,381	1.56	16,662
Milazzo	San Diego, CA	250	191,256	10.2	1986/2011	765	90.8%	94.1% (3)	N/A	2,382	1.73	33,835
Los Angeles, CA												
Avalon at Media Center	Burbank, CA	748	530,084	14.7	1961/1997	709	94.4%	95.7%	95.5%	1,415	1.91	79,397
Avalon Woodland Hills	Woodland Hills, CA	663	594,396	18.2	1989/1997	897	93.4%	95.8%	95.1%	1,581	1.69	110,658
Avalon at Warner Center	Woodland Hills, CA	227	191,443	6.8	1979/1998	843	96.5%	96.7%	96.1%	1,498	1.72	28,653

Profile of Current, Development and Unconsolidated Communities (1)

(Dollars in thousands, except per apartment home data)

	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Acres	Year of completion/ acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/11	Average economic occupancy 2011	Average economic occupancy 2010	Average rental rate $ per Apt (4)	Average rental rate $ per Sq. Ft.	Fina repo cos
n Glendale (10)	Burbank, CA	223	241,714	5.1	2003	1,084	94.6%	96.2%	95.0%	2,163	1.92	41
n Burbank	Burbank, CA	400	360,587	6.9	1988/2002	901	94.3%	95.2%	93.0% (2)	2,090	2.21	94
n Camarillo	Camarillo, CA	249	233,302	9.6	2006	937	94.4%	96.9%	96.5%	1,568	1.62	48
n Wilshire	Los Angeles, CA	123	125,093	1.7	2007	1,017	93.5%	94.7%	95.2%	2,502	2.33	47
n Encino	Los Angeles, CA	131	131,220	2.0	2008	1,002	96.2%	97.8%	95.5%	2,483	2.42	62
n Warner Place	Canoga Park, CA	210	186,402	3.3	2007	888	95.7%	96.4%	96.4%	1,593	1.73	52
rest at Phillips Ranch	Pomona, CA	501	498,036	32.2	1989/2011	994	91.6%	94.4% (3)	N/A	1,442	1.37	49
at Bonita	San Dimas, CA	102	94,200	5.1	1978/2011	924	99.0%	97.1% (3)	N/A	1,284	1.35	9
at San Dimas Canyon	San Dimas, CA	156	144,669	7.9	1981/2011	927	98.1%	96.3% (3)	N/A	1,377	1.43	15
ELOPMENT COMMUNITIES												
n Rockville Centre	Rockville Centre, NY	349	349,374	7.1	N/A	1,001	59.0%	27.7%	N/A	3,438	0.95	98
Queen Anne	Seattle, WA	203	164,633	1.0	N/A	811	14.8%	8.5%	N/A	1,140	0.12	51
n Green Phase II	Greenburgh, NY	444	533,628	68.5	N/A	1,202	20.3%	9.2%	N/A	2,650	0.20	81
n Cohasset	Cohasset, MA	220	278,756	62.0	N/A	1,267	31.4%	13.0%	N/A	1,979	0.20	46
n Ocean Avenue	San Francisco, CA	173	161,063	1.9	N/A	931	N/A	N/A	N/A	N/A	N/A	43
n North Bergen	North Bergen, NJ	164	145,066	2.2	N/A	885	N/A	N/A	N/A	N/A	N/A	27
n at Wesmont Station	Wood-Ridge, NJ	266	243,107	4.9	N/A	914	N/A	N/A	N/A	N/A	N/A	39
n Park Crest	Tysons Corner, VA	354	288,160	2.8	N/A	814	N/A	N/A	N/A	N/A	N/A	44
n Garden City	Garden City, NY	204	287,669	11.3	N/A	1,410	N/A	N/A	N/A	N/A	N/A	29
n Andover	Andover, MA	115	133,187	9.1	N/A	1,158	N/A	N/A	N/A	N/A	N/A	19
n Exeter (10)	Boston, MA	187	199,910	0.3	N/A	1,069	N/A	N/A	N/A	N/A	N/A	27
n Irvine II	Irvine, CA	179	163,218	2.8	N/A	912	N/A	N/A	N/A	N/A	N/A	13
Ballard	Seattle, WA	265	189,849	1.4	N/A	716	N/A	N/A	N/A	N/A	N/A	26
n Shelton III	Shelton, CT	251	250,282	4.3	N/A	997	N/A	N/A	N/A	N/A	N/A	11
n Hackensack (10)	Hackensack, NJ	226	228,260	4.2	N/A	1,010	N/A	N/A	N/A	N/A	N/A	7
H Street	Washington, DC	138	94,798	0.7	N/A	687	N/A	N/A	N/A	N/A	N/A	
n West Chelsea/AVA High Line (10)	New York, NY	715	496,749	1.5	N/A	695	N/A	N/A	N/A	N/A	N/A	52
n Natick	Natick, MA	407	369,827	6.5	N/A	909	N/A	N/A	N/A	N/A	N/A	17
n Somerset	Somerset, NJ	384	389,392	11.6	N/A	1,014	N/A	N/A	N/A	N/A	N/A	20
ONSOLIDATED COMMUNITIES												
n at Mission Bay North II (9)	San Francisco, CA	313	291,556	1.5	2006	931	94.6%	95.5%	94.5%	3,122	3.20	
n Del Rey (9)	Los Angeles, CA	309	283,183	4.5	2006	916	95.5%	95.9%	95.1%	1,939	2.03	
n Chrystie Place I (9)	New York, NY	361	266,940	1.3	2005	739	96.4%	95.9%	96.3%	4,248	5.51	
n Juanita Village (13)	Kirkland, WA	211	208,063	3.0	2005	986	94.3%	95.1%	93.6%	1,376	1.33	
n Sunset (6)	Los Angeles, CA	82	72,604	0.8	1987/2005	885	95.1%	96.0%	97.8%	1,866	2.02	
Center (6)	Norwalk, CA	192	173,568	8.5	1987/2005	904	98.4%	94.9%	96.6%	1,562	1.64	
n Paseo Place (6)	Fremont, CA	134	105,900	7.0	1987/2005	790	94.0%	96.3%	96.8%	1,458	1.78	
n Yerba Buena (6)	San Francisco, CA	160	125,866	0.9	2000/2006	787	96.9%	96.4%	95.2%	2,985	3.66	
n Skyway (6)	San Jose, CA	348	283,618	18.4	1994/2007	815	94.5%	96.4%	96.3%	1,516	1.79	
Hills Apartments (6)	West Covina, CA	85	104,600	5.3	1966/2007	1,231	91.8%	96.5%	97.2%	1,711	1.34	
n Lakeside (6)(12)	Chicago, IL	204	162,821	12.4	2004	798	95.1%	95.8%	96.3%	1,041	1.25	
n at Poplar Creek (6)(12)	Chicago, IL	196	178,490	12.8	1986/2005	911	93.9%	96.2%	96.7%	1,209	1.28	

Profile of Current, Development and Unconsolidated Communities (1)

(Dollars in thousands, except per apartment home data)

	City and state	Number of homes	Approx. rentable area (Sq. Ft.)	Acres	Year of completion/ acquisition	Average size (Sq. Ft.)	Physical occupancy at 12/31/11	Average economic occupancy 2011	Average economic occupancy 2010	Average rental rate $ per Apt (4)	Average rental rate $ per Sq. Ft.	Financial reporting cost (5)
Avalon Lombard (6)	Chicago, IL	256	201,924	13.2	1988/2006	789	97.3%	96.4%	96.9%	1,169	1.43	N/A
Middlesex Crossing (6)	Billerica, MA	252	188,915	13.0	2007	750	94.8%	97.2%	97.5%	1,301	1.69	N/A
Weymouth Place (6)	Weymouth, MA	211	154,957	7.7	1971/2007	734	94.8%	97.4%	96.1%	1,227	1.63	N/A
Avalon Cedar Place (6)	Columbia, MD	156	150,319	17.0	1972/2006	964	96.2%	96.1%	97.0%	1,299	1.30	N/A
Avalon Centerpoint (6)	Baltimore, MD	392	312,356	6.9	2005/2007	797	98.6%	96.8%	94.4%	890	1.87	N/A
Avalon at Aberdeen Station (6)	Aberdeen, NJ	290	296,017	16.8	2002/2006	1,021	95.9%	96.4%	96.3%	1,791	1.69	N/A
Avalon at Rutherford Station (6)	East Rutherford, NJ	108	112,709	1.5	2005/2007	1,044	93.5%	95.8%	97.3%	2,296	2.11	N/A
Avalon Crystal Hill (6)	Pomona, NY	168	215,203	12.1	2001/2007	1,281	92.3%	96.2%	95.5%	2,047	1.54	N/A
Avalon Fair Oaks (11)	Fairfax, VA	491	373,843	13.5	1987/2009	761	94.9%	96.4%	95.7%	1,400	4.00	N/A
Avalon Bellevue Park (11)	Bellevue, WA	220	165,865	1.8	1994/2009	754	95.9%	94.6%	95.5%	1,278	1.60	N/A
Creekside Meadows (11)	Tustin, CA	628	512,022	23.5	1968/2010	815	93.0%	96.0%	94.9% (3)	1,282	1.51	N/A
Canyonwoods (11)	Lake Forest, CA	140	126,480	9.1	1978/2010	903	94.3%	96.1%	90.5% (3)	1,305	1.39	N/A
Waterstone Carlsbad (11)	San Diego, CA	448	339,152	29.0	1985/2011	757	91.1%	93.4% (3)	N/A	1,317	1.62	N/A
Highlands at Rancho San Diego (11)	San Diego, CA	676	587,500	29.3	1985/2011	869	93.3%	95.4% (3)	N/A	1,409	1.55	N/A
Avalon Rothbury (11)	Gaithersburg, MD	203	226,626	11.8	2006/2010	1,116	95.6%	95.8%	94.6% (3)	1,496	1.28	N/A
The Apartments at Briarwood (11)	Owings Mills, MD	348	340,868	16.0	1999/2010	980	96.0%	95.6%	95.7% (3)	1,201	1.17	N/A
Grove Park Apartments (11)	Gaithersburg, MD	684	658,856	39.9	1974/2010	963	93.0%	94.2%	92.6% (3)	1,264	1.24	N/A
Yale Village (11)	Rockville, MD	210	403,912	14.5	1970/2011	1,923	91.9%	95.4% (3)	N/A	2,030	1.01	N/A
Fox Run Apartments (11)	Plainsboro, NJ	776	553,320	46.4	1973/2010	713	94.8%	95.3%	100.0% (3)	1,075	1.44	N/A
Captain Parker Arms (11)	Lexington, MA	94	88,680	9.0	1965/2011	943	93.6%	98.4% (3)	N/A	1,862	1.94	N/A

(1) We own a fee simple interest in the communities listed, excepted as noted below.
(2) Represents a community that was under redevelopment during the year, which could result in lower average economic occupancy and average rental rate per square foot for the year.
(3) Represents a community that completed development or was purchased during the year, which could result in lower average economic occupancy and average rental rate per square foot for the year.
(4) Represents the average rental revenue per occupied apartment home.
(5) Costs are presented in accordance with GAAP. For current Development Communities, cost represents total costs incurred through December 31, 2011. Financial reporting costs are excluded for unconsolidated communities, see Note 6, Investments in Real Estate Entities.
(6) We own a 15.2% combined general partnership and indirect limited partner equity interest in this community.
(7) We own a general partnership interest in a partnership that owns a fee simple interest in this community.
(8) We own a general partnership interest in a partnership structured as a DownREIT that owns this community.
(9) We own a membership interest in a limited liability company that holds a fee simple interest in this community.
(10) Community is located on land subject to a land lease.
(11) We own a 31.3% combined general partnership and indirect limited partner equity interest in this community.
(12) Fund I sold these communities in 2012.
(13) We own a residual profits interest in a LLC which owns this community.

Development Communities

As of December 31, 2011, we had 19 Development Communities under construction. We expect these Development Communities, when completed, to add a total of 5,244 apartment homes to our portfolio for a total capitalized cost, including land acquisition costs, of approximately $1,464,700,000. In addition, the land for three Development Communities that we control under long-term land lease agreements are subject to future minimum rental amounts of approximately $8,300,000 per year in aggregate. You should carefully review Item 1a., Risk Factors, for a discussion of the risks associated with development activity and our discussion under Item 7., Management s Discussion and Analysis of Financial Condition and Results of Operations, for further discussion of our 2012 outlook for development activity.

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

		Number of apartment homes	Total capitalized cost (1) ($ millions)	Construction start	Initial occupancy (2)	Estimated completion	Estimated stabilization (3)
1.	Avalon Rockville Centre *Rockville Centre, NY*	349	$ 109.7	Q1 2010	Q2 2011	Q3 2012	Q1 2013
2.	AVA Queen Anne *Seattle, WA*	203	54.7	Q3 2010	Q4 2011	Q2 2012	Q4 2012
3.	Avalon Green II *Greenburgh, NY*	444	107.8	Q3 2010	Q3 2011	Q4 2012	Q2 2013
4.	Avalon Cohasset *Cohasset, MA*	220	54.8	Q4 2010	Q3 2011	Q2 2012	Q4 2012
5.	Avalon at Wesmont Station I *Wood-Ridge, NJ*	266	62.5	Q4 2010	Q1 2012	Q4 2012	Q2 2013
6.	Avalon Ocean Avenue *San Francisco, CA*	173	61.1	Q4 2010	Q2 2012	Q4 2012	Q2 2013
7.	Avalon North Bergen *North Bergen, NJ*	164	44.0	Q4 2010	Q2 2012	Q3 2012	Q1 2013
8.	Avalon Park Crest *Tysons Corner, VA*	354	77.6	Q4 2010	Q3 2012	Q2 2013	Q4 2013
9.	Avalon Garden City *Garden City, NY*	204	68.0	Q2 2011	Q1 2012	Q4 2012	Q2 2013
10.	Avalon Andover *Andover, MA*	115	26.8	Q2 2011	Q2 2012	Q3 2012	Q1 2013
11.	Avalon Exeter (4) *Boston, MA*	187	114.0	Q2 2011	Q3 2013	Q1 2014	Q3 2014
12.	Avalon Irvine II *Irvine, CA*	179	46.2	Q3 2011	Q1 2013	Q2 2013	Q4 2013
13.	AVA Ballard *Seattle, WA*	265	68.8	Q3 2011	Q2 2013	Q3 2013	Q1 2014
14.	Avalon Shelton III *Shelton, CT*	251	47.9	Q3 2011	Q1 2013	Q3 2013	Q1 2014
15.	Avalon Hackensack (4) *Hackensack, NJ*	226	47.2	Q3 2011	Q2 2013	Q4 2013	Q2 2014
16.	AVA H Street *Washington, D.C.*	138	35.1	Q4 2011	Q4 2012	Q2 2013	Q4 2013
17.	Avalon West Chelsea/AVA High Line (4) *New York, NY*	715	276.1	Q4 2011	Q4 2013	Q1 2015	Q3 2015
18.	Avalon Natick *Natick, MA*	407	82.9	Q4 2011	Q2 2013	Q2 2014	Q4 2014
19.	Avalon Somerset *Somerset, NJ*	384	79.5	Q4 2011	Q3 2012	Q4 2013	Q2 2014
	Total	5,244	$ 1,464.7				

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

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

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

(4) Development Community subject to a long-term ground lease.

Redevelopment Communities

As of December 31, 2011, we had 13 consolidated communities, including two phases of a community being redeveloped under a single project, under redevelopment. We expect the total capitalized cost to redevelop these communities to be $126,700,000, excluding costs prior to redevelopment. We have found that the cost to redevelop an existing apartment community is more difficult to budget and estimate than the cost to develop a new community. Accordingly, for redevelopment communities we expect that actual costs may vary from our budget by a wider range than for a new development community. We cannot assure you that we will meet our schedule for reconstruction completion or restabilized operations, or that we will meet our budgeted costs, either individually or in the aggregate. We anticipate continuing our current level of redevelopment activity related to communities in our current operating portfolio. You should carefully review Item 1a., Risk Factors, for a discussion of the risks associated with redevelopment activity.

The following presents a summary of these Redevelopment Communities [1]:

		Number of apartment homes	Total cost ($ millions) Pre-redevelopment cost	Total capitalized cost (1)	Reconstruction Start	Estimated reconstruction completion	Estimated restabilized operations (2)
1.	Eaves San Rafael *San Rafael, CA*	254	$ 33.1	$ 46.8	Q4 2010	Q2 2012	Q4 2012
2.	Avalon Cove *Jersey City, NJ*	504	93.7	113.6	Q4 2010	Q2 2012	Q4 2012
3.	Avalon Sunset Towers *San Francisco, CA*	243	28.9	42.0	Q4 2010	Q3 2013	Q1 2014
4.	Eaves Foster City *Foster City, CA*	288	44.2	51.4	Q3 2011	Q4 2012	Q2 2013
5.	AVA Ballston *Arlington, VA*	344	39.2	53.1	Q3 2011	Q1 2013	Q3 2013
6.	Eaves Santa Margarita (3) *Rancho Santa Margarita, CA*	301	25.0	32.3	Q3 2011	Q1 2013	Q3 2013
7.	Avalon Wilton (3) *Wilton, CT*	102	17.3	22.9	Q4 2011	Q3 2012	Q1 2013
8.	Avalon at Lexington (3) *Lexington, MA*	198	17.1	25.0	Q4 2011	Q3 2012	Q1 2013
9.	AVA Newport (3) *Costa Mesa, CA*	145	10.4	16.0	Q4 2011	Q4 2012	Q2 2013
10.	Avalon at Center Place (3) *Providence, RI*	225	30.6	37.3	Q4 2011	Q4 2012	Q2 2013
11.	AVA Cortez Hill *San Diego, CA*	294	34.7	45.2	Q4 2011	Q4 2012	Q2 2013
12.	Eaves San Jose (4) *San Jose, CA*	440	71.0	86.3	Q4 2011	Q2 2013	Q4 2013
	Total	3,338	$ 445.2	$ 571.9			

(1) Total capitalized cost includes all capitalized costs projected to be or actually incurred to redevelop the respective Redevelopment Community, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees, all as determined in accordance with GAAP.

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

(3) The scope of the work completed during 2011 did not impact the occupancy or rental income therefore these communities are included in the Established Community portfolio.

(4) The scope of work includes 360 apartment homes at the first phase of this community and 80 apartment homes at the second phase.

Development Rights

At December 31, 2011, we had $325,918,000 in acquisition and related capitalized costs for land parcels we own, and $24,770,000 in capitalized costs (including legal fees, design fees and related overhead costs) related to Development Rights for which we control the land parcel, typically through an option to purchase or lease the land. Collectively, the land held for development and associated costs for deferred development rights relate to 32 Development Rights for which we expect to develop new apartment communities in the future. The cumulative

capitalized costs for land held for development as of December 31, 2011 includes $260,684,000 in original land acquisition costs. We also have $27,707,000 in future land acquisition costs under our Commitment, related to a Development Right in Brooklyn, NY, as discussed under Off-Balance Sheet Arrangements elsewhere within this Form 10-K. The original land acquisition cost per home, including our obligation under the Commitment, ranged from $9,000 per home in Connecticut to $149,000 per home in New York City. The Development Rights range from those beginning design and architectural planning to those that have completed site plans and drawings and can begin construction almost immediately. We estimate that the successful completion of all of these communities would ultimately add approximately 9,012 apartment homes to our portfolio. Substantially all of these apartment homes will offer features like those offered by the communities we currently own.

For 17 Development Rights, we control the land through an option to purchase or lease the parcel. While we generally prefer to hold Development Rights through options to acquire land, for the 15 remaining Development Rights we either currently own the land or have executed a long term land lease for the parcel of land on which a community would be built if we proceeded with development.

The properties comprising the Development Rights are in different stages of the due diligence and regulatory approval process. The decisions regarding the initial selection of a Development Right, and whether or not to continue to invest in a Development Right, are business judgments that we make after we perform financial, demographic and other analyses. In the event that we do not proceed with a Development Right, we generally would not recover capitalized costs incurred in the pursuit of those communities, unless we were to recover amounts in connection with the sale of land; however, we cannot guarantee a recovery. Initial 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 no longer probable, any capitalized pre-development costs are charged to expense. During 2011, we incurred a charge of approximately $1,957,000 of pre-development cost for development pursuits that were not yet probable of future development at the time incurred, or for pursuits that we determined would not likely be developed.

You should carefully review Section 1a., Risk Factors, for a discussion of the risks associated with Development Rights.

Location	Number of rights	Estimated number of homes	Total capitalized cost ($ millions) (1)
Boston, MA	3	1,032	$ 303
Fairfield-New Haven, CT	3	530	107
New York, NY (2)	3	1,443	595
New Jersey	8	1,938	416
Long Island, NY	1	303	76
Washington, DC Metro	3	1,108	272
Seattle, WA	3	765	163
San Jose, CA	1	250	76
Oakland-East Bay, CA	2	505	149
San Francisco, CA	2	455	202
Los Angeles, CA	2	479	167
San Diego, CA	1	204	55
Total	32	9,012	$ 2,581

(1) Total capitalized cost includes all capitalized costs incurred to date (if any) and projected to be incurred to develop the respective community, determined in accordance with GAAP, including land and related acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees.

(2) Includes development rights in Westchester County and Rockland County, NY

Land Acquisitions

We select land for development and follow established procedures that we believe minimize both the cost and the risks of development. During 2011, we acquired 14 land parcels for development, as shown in the table below, for an aggregate purchase price of approximately $212,256,000. For 13 of the 14 parcels construction has either started or will start within the next 12 months.

		Estimated number of apartment homes	Total capitalized cost (1) ($ millions)	Date acquired
1.	Avalon Green II	444	$ 107.8	January 2011
	Greenburgh, NY			
2.	Avalon Dublin Station II & III	505	149.5	April 2011
	Dublin, CA			
3.	Avalon Wesmont Station I	266	62.5	April 2011
	Wood-Ridge, NJ			
4.	Avalon Huntington Station	303	76.1	June 2011
	Huntington Station, NY			
5.	Avalon Shelton III	251	47.9	July 2011
	Shelton, CT			
6.	Avalon Natick	407	82.9	July 2011
	Natick, MA			
7.	Avalon East Norwalk	240	45.6	July 2011
	Norwalk, CT			
8.	Avalon Somerset	384	79.5	September 2011
	Somerset, NJ			
9.	Avalon Bloomingdale	174	30.4	September 2011
	Bloomingdale, NJ			
10.	Avalon University District	284	75.6	September 2011
	Seattle, WA			
11.	AVA H Street	138	35.1	October 2011
	Washington, DC			
12.	Avalon Willoughby Square	861	463.0	November 2011
	Brooklyn, NY			
13.	Avalon Mosaic	531	121.0	December 2011
	Merrifield, VA			
14.	Avalon Morrison Park	250	75.6	December 2011
	San Jose, CA			
	Total	5,038	$ 1,452.5	

(1) Total capitalized cost includes all capitalized costs incurred to date (if any) and projected to be incurred to develop the respective community, determined in accordance with GAAP, including land and related acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees.

Other Land and Real Estate Assets

We own land parcels with a carrying value of approximately $52,088,000 that we do not currently plan to develop. These parcels consist of land that we (i) originally planned to develop and (ii) ancillary parcels acquired in connection with Development Rights that we had not planned to develop, as more fully described below.

i) The land that we originally acquired for future development has an original cost of $60,821,000, and a current carrying value of $31,989,000, and is comprised of four parcels originally intended for the development of approximately 1,800 apartment homes. The current carrying value of these land parcels reflects impairment charges of $28,832,000 incurred in 2011 and prior periods.

ii) The out parcels and certain other land parcels that we acquired in connection with various development pursuits without a view to developing have a current carrying value of $20,099,000, which reflects impairment charges of $8,341,000 incurred in prior periods.

We believe that the current carrying value of $52,088,000 for all of these land parcels is such that there is no indication of impaired value, or further need to record a charge for impairment in the case of assets previously impaired. However we may be subject to the recognition of further charges for impairment in the event that there are indicators of such impairment, and we determine that the carrying value of the assets is greater than the current fair value, less costs to dispose.

Recent Disposition Activity

We (i) sell assets when they do not meet our long-term investment strategy or when capital and real estate markets allow us to realize a portion of the value created over the past business cycle and (ii) redeploy the proceeds from those sales to develop, redevelop and acquire communities. Pending such redeployment, we will generally use the proceeds from the sale of these communities to reduce amounts outstanding under our Credit Facility or retain the cash proceeds on our balance sheet until it is redeployed into development activity. On occasion, we will set aside the proceeds from the sale of communities into a cash escrow account to facilitate a tax deferred, like-kind exchange transaction. From January 1, 2011 to January 31, 2012, we sold our interest in three wholly-owned communities, containing 1,313 apartment homes. The aggregate gross sales price for these assets was $258,490,000.

Insurance and Risk of Uninsured Losses

We carry commercial general liability insurance and property insurance with respect to all of our communities. These policies, and other insurance policies we carry, have policy specifications, insured limits and deductibles that we consider commercially reasonable. There are, however, certain types of losses (such as losses arising from acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in management s view, economically impractical. You should carefully review the discussion under Item 1a., Risk Factors, of this Form 10-K for a discussion of risks associated with an uninsured property or liability loss.

Many of our West Coast communities are located in the general vicinity of active earthquake faults. Many of our communities are near, and thus susceptible to, the major fault lines in California, including the San Andreas Fault and the Hayward Fault. We cannot assure you that an earthquake would not cause damage or losses greater than insured levels. We have in place with respect to communities located in California and Washington, for any single occurrence and in the aggregate, $75,000,000 of coverage. Earthquake coverage outside of California and Washington is subject to a $100,000,000 limit for each occurrence and in the aggregate. In California the deductible for each occurrence is five percent of the insured value of each damaged building. Our earthquake insurance outside of California provides for a $100,000 deductible per occurrence except that the next $350,000 of loss per occurrence outside California will be treated as an additional self-insured retention until the total incurred self-insured retention exceeds $1,400,000.

On January 15, 2011, we elected to extend our property insurance policy for a new 16 month term in order to take advantage of market conditions. As a result, our property insurance premium decreased by approximately 10% with no material changes in coverage. Market conditions in 2012 are less favorable than when we last renewed our property insurance coverage and we expect an increase in insurance costs when we renew this policy in May 2012.

Just as with office buildings, transportation systems and government buildings, there have been reports that apartment communities could become targets of terrorism. In December 2007, Congress passed the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) which is designed to make terrorism insurance available through a federal back-stop program until 2014. In connection with this legislation, we have purchased insurance for property damage due to terrorism up to $250,000,000. Additionally, we have purchased insurance for certain terrorist acts, not covered under TRIPRA, such as domestic-based terrorism. This insurance, often referred to as non-certified terrorism insurance, is subject to deductibles, limits and exclusions. Our general liability policy provides TRIPRA coverage (subject to deductibles and insured limits) for liability to third parties that result from terrorist acts at our communities.

An additional consideration for insurance coverage and potential uninsured losses is mold growth. Mold growth may occur when excessive moisture accumulates in buildings or on building materials, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. If a significant mold problem arises at one of our communities, we could be required to undertake a costly remediation program to contain or remove the mold from the affected community and could be exposed to other liabilities. For further discussion of the risks and the Company s related prevention and remediation activities, please refer to the discussion under Item 1a., Risk Factors We may incur costs due to environmental contamination or non-compliance, elsewhere in this report. We cannot provide assurance that we will have coverage under our existing policies for property damage or liability to third parties arising as a result of exposure to mold or a claim of exposure to mold at one of our communities.

We also carry crime policies (also commonly referred to as a fidelity policy or employee dishonesty policy) that protect the Company, up to $5,000,000 per occurrence, from employee theft of money, securities or property.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various claims and/or administrative proceedings that arise in the ordinary course of our 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 its financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NYSE under the ticker symbol AVB. The following table sets forth the quarterly high and low sales prices per share of our common stock for the years 2011 and 2010, as reported by the NYSE. On January 31, 2012 there were 781 holders of record of an aggregate of 95,208,685 shares of our outstanding common stock. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one record holder.

	2011			2010		
	Sales Price		Dividends	Sales Price		Dividends
	High	Low	declared	High	Low	declared
Quarter ended March 31	$ 121.65	$ 108.21	$ 0.8925	$ 89.79	$ 71.75	$ 0.8925
Quarter ended June 30	$ 133.81	$ 117.59	$ 0.8925	$ 110.16	$ 85.08	$ 0.8925
Quarter ended September 30	$ 139.89	$ 113.27	$ 0.8925	$ 112.92	$ 88.85	$ 0.8925
Quarter ended December 31	$ 136.37	$ 107.58	$ 0.8925	$ 116.09	$ 103.17	$ 0.8925

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

In February 2012, we announced that our Board of Directors declared a dividend on our common stock for the first quarter of 2012 of $0.97 per share, an 8.7% increase over the previous quarterly dividend per share of $0.8925. The dividend will be payable on April 16, 2012 to all common stockholders of record as of March 30, 2012.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share (1)	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (2)	(d) Maximum Dollar Amount that May Yet be Purchased Under the Plans or Programs (in thousands) (2)
Month Ended October 31, 2011				$ 200,000
Month Ended November 30, 2011				$ 200,000
Month Ended December 31, 2011				$ 200,000

(1) Includes shares surrendered to the Company in connection with employee stock option exercises or vesting of restricted stock as payment of exercise price or as payment of taxes.

(2) As disclosed in our Form 10-Q for the quarter ended March 31, 2008, represents amounts outstanding under the Company s $500,000,000 Stock Repurchase Program. There is no scheduled expiration date to this program.

Information regarding securities authorized for issuance under equity compensation plans is included in the section entitled Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters in this Form 10-K.

32

ITEM 6. SELECTED FINANCIAL DATA

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

			For the year ended		
	12-31-11	12-31-10	12-31-09	12-31-08	12-31-07
Revenue:					
Rental and other income	$ 959,055	$ 866,651	$ 822,596	$ 786,038	$ 700,456
Management, development and other fees	9,656	7,354	7,328	6,568	6,142
Total revenue	968,711	874,005	829,924	792,606	706,598
Expenses:					
Operating expenses, excluding property taxes	265,886	254,776	246,251	233,447	207,182
Property taxes	95,515	91,145	81,493	71,705	65,174
Interest expense, net	168,179	170,349	145,462	111,238	92,168
(Gain) loss on extinguishment of debt, net	1,940		25,910	(1,839)	
Depreciation expense	246,666	227,878	204,481	178,593	152,720
General and administrative expense	29,371	26,846	28,748	42,781	28,494
Impairment loss - land holdings	14,052		21,152	57,899	
Total expenses	821,609	770,994	753,497	693,824	545,738
Equity in income of unconsolidated entities	5,120	762	1,441	4,566	59,169
Gain on sale of land	13,716		4,830		545
Income from continuing operations	165,938	103,773	82,698	103,348	220,574
Discontinued operations:					
Income from discontinued operations	(5,658)	(3,768)	7,689	22,497	32,684
Gain on sale of communities	281,090	74,074	63,887	284,901	106,487
Total discontinued operations	275,432	70,306	71,576	307,398	139,171
Net income	441,370	174,079	154,274	410,746	359,745
Net (income) loss attributable to noncontrolling interests	252	1,252	1,373	741	(1,585)
Net income attributable to the Company	441,622	175,331	155,647	411,487	358,160
Dividends attributable to preferred stock				(10,454)	(8,700)
Net income attributable to common stockholders	$ 441,622	$ 175,331	$ 155,647	$ 401,033	$ 349,460
Per Common Share and Share Information:					
Earnings per common share - basic:					
Income from continuing operations attributable to common stockholders (net of dividends attributable to preferred stock)	$ 1.84	$ 1.24	$ 1.05	$ 1.22	$ 2.67
Discontinued operations attributable to common stockholders	3.05	0.84	0.89	3.99	1.76
Net income attributable to common stockholders	$ 4.89	$ 2.08	$ 1.94	$ 5.21	$ 4.43

Weighted average shares outstanding - basic (1)	89,922,465	83,859,936	79,951,348	76,783,515	78,680,043
Earnings per common share - diluted:					
Income from continuing operations attributable to common stockholders (net of dividends attributable to preferred stock)	$ 1.84	$ 1.24	$ 1.04	$ 1.21	$ 2.64
Discontinued operations attributable to common stockholders	3.03	0.83	0.89	3.96	1.74
Net income attributable to common stockholders	$ 4.87	$ 2.07	$ 1.93	$ 5.17	$ 4.38
Weighted average shares outstanding - diluted (2)	90,777,462	84,632,869	80,599,657	77,578,852	79,856,927
Cash dividends declared (3)	$ 3.57	$ 3.57	$ 3.57	$ 3.57	$ 3.40

(1) Amounts do not include unvested restricted shares included in the calculation of Earnings per Share. Please refer to Note 1, Organization and Basis of Presentation Earnings per Common Share of the Consolidated Financial Statements set forth in Item 8 of this report for a discussion of the calculation of Earnings per Share.

(2) Weighted average common shares outstanding diluted for 2008 includes the impact of approximately 2.6 million common shares issued under the special dividend declared on December 17, 2008.

(3) Does not include the special dividend of $1.8075 per share, which was declared on December 17, 2008, and paid in the form of shares of the Company s common stock.

	For the year ended				
	12-31-11	12-31-10	12-31-09	12-31-08	12-31-07
Other Information:					
Net income attributable to the Company	$ 441,622	$ 175,331	$ 155,647	$ 411,487	$ 358,160
Depreciation - continuing operations	246,666	227,878	204,481	178,593	152,720
Depreciation - discontinued operations	3,603	5,064	13,805	20,859	29,005
Interest expense, net - continuing operations (1)	170,119	170,349	171,372	109,399	92,168
Interest expense, net - discontinued operations	4,443	4,860	5,542	6,969	6,064
EBITDA (2)	$ 866,453	$ 583,482	$ 550,847	$ 727,307	$ 638,117
Funds from Operations (3)	$ 414,482	$ 338,353	$ 315,841	$ 315,947	$ 368,057
Number of Current Communities (4)	181	172	165	164	163
Number of apartment homes	53,294	51,245	47,926	45,728	45,932
Balance Sheet Information:					
Real estate, before accumulated depreciation	$ 9,288,496	$ 8,661,211	$ 8,360,091	$ 8,002,487	$ 7,556,740
Total assets	$ 8,482,390	$ 7,821,488	$ 7,457,605	$ 7,174,353	$ 6,736,484
Notes payable and unsecured credit facilities	$ 3,632,296	$ 4,067,657	$ 3,974,872	$ 3,674,457	$ 3,208,202
Cash Flow Information:					
Net cash flows provided by operating activities	$ 429,391	$ 332,106	$ 376,581	$ 386,084	$ 454,874
Net cash flows used in investing activities	$ (443,141)	$ (298,936)	$ (333,559)	$ (266,309)	$ (809,247)
Net cash flows (used in) provided by financing activities	$ 326,233	$ 167,565	$ (4,285)	$ (75,111)	$ 366,360

Notes to Selected Financial Data

(1) Interest expense, net includes any loss or gain incurred from the extinguishment of debt.

(2) EBITDA is defined as net income before interest income and expense, income taxes, depreciation and amortization from both continuing and discontinued operations. Under this definition, EBITDA includes gains on sale of assets and gain on sale of partnership interests. Management generally considers EBITDA to be an appropriate supplemental measure to net income of our operating performance because it helps investors to understand our ability to incur and service debt and to make capital expenditures. EBITDA should not be considered as an alternative to net income (as determined in accordance with GAAP), as an indicator of our operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Our calculation of EBITDA may not be comparable to EBITDA as calculated by other companies.

(3) We generally consider Funds from Operations, or FFO, as defined below, to be an appropriate supplemental measure of our operating and financial performance because, by excluding gains or losses related to dispositions of previously depreciated property and excluding real estate depreciation, which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates, FFO can help one compare the operating performance of a real estate company between periods or as compared to different companies. We believe that in order to understand our operating results, FFO should be examined with net income as presented in the Consolidated Statements of Comprehensive Income included elsewhere in this report.

Consistent with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts® (NAREIT), we calculate FFO as net income or loss computed in accordance with GAAP, adjusted for:

gains or losses on sales of previously depreciated operating communities;

extraordinary gains or losses (as defined by GAAP);

cumulative effect of change in accounting principle;

impairment write-downs of depreciable real estate assets;

write-downs of investments in affiliates due to a decrease in the value of depreciable real estate assets held by those affiliates;

depreciation of real estate assets; and

adjustments for unconsolidated partnerships and joint ventures.

In January 2012, NAREIT modified the definition of FFO to exclude impairment write-downs of investments in affiliates due to a decrease in value of depreciable real estate assets held by those affiliates. Our 2009 FFO has been restated to reflect this new guidance, to include an adjustment of $2,600 related to our proportionate share of an impairment write down of an affiliate due to the decrease in value of depreciable real estate assets.

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

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

The following is a reconciliation of net income to FFO (dollars in thousands, except per share data):

	For the year ended				
	12-31-11	12-31-10	12-31-09	12-31-08	12-31-07
Net income attributable to the Company	$ 441,622	$ 175,331	$ 155,647	$ 411,487	$ 358,160
Dividends attributable to preferred stock				(10,454)	(8,700)
Depreciation - real estate assets, including discontinued operations and joint venture adjustments	256,986	237,041	221,415	203,082	184,731
Distributions to noncontrolling interests, including discontinued operations	27	55	66	216	280
Gain on sale of unconsolidated entities holding previously depreciated real estate assets	(3,063)			(3,483)	(59,927)
Write-down of investment in unconsolidated real estate entities			2,600		
Gain on sale of previously depreciated real estate assets	(281,090)	(74,074)	(63,887)	(284,901)	(106,487)
Funds from Operations attributable to common stockholders	$ 414,482	$ 338,353	$ 315,841	$ 315,947	$ 368,057
Weighted average shares outstanding - diluted	90,777,462	84,632,869	80,599,657	77,578,852	79,856,927
FFO per common share - diluted	$ 4.57	$ 4.00	$ 3.92	$ 4.07	$ 4.61

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

ITEM 7. 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 Consolidated Financial Statements and the accompanying Notes to 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. In addition, our actual results or developments could differ materially from those projected in such forward-looking statements as a result of the factors discussed under Forward-Looking Statements as well as the risk factors described in Item 1a, Risk Factors, of this report.

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

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. However, throughout the real estate cycle, apartment market fundamentals, and therefore operating cash flows, are affected by overall economic conditions. 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 pricing is attractive or when they no longer meet our long-term investment strategy. 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 a leader in multifamily market research, consumer insight, 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. 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 currently located in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Midwest, the Pacific Northwest, and the Northern and Southern California regions of the United States. At the present time, we are no longer pursuing development or acquisition opportunities in the Midwest region, and we are currently marketing for sale, or have executed a sales contract, for two apartment communities, which includes one for Fund I, and a land parcel located in that region. Should these assets sell during 2012, we would no longer have an investment interest in the Midwest region.

Financial Highlights and Outlook

For the year ended December 31, 2011, net income attributable to common stockholders was $441,622,000 compared to $175,331,000 for 2010, an increase of 151.9%. The increase was due primarily to increased gains on sale of communities in 2011 as compared to 2010 as well as from an increase in net operating income (NOI) from both Established and newly stabilized communities.

Apartment fundamentals improved throughout 2011 as compared to 2010, driven by a combination of a decline in the home ownership rate, modest employment growth and limited supply of new multifamily rental product. Full year 2011 Established Communities NOI increased 8.4% over the prior year across all of our markets as a result of an increase in rental revenue and a decrease in operating expenses.

We expect that Earnings per share diluted (EPS) will increase to between $4.90 and $5.20 for 2012 from $4.87 in 2011, driven primarily by expected gains from the disposition of real estate and the continued improvement in revenue and NOI from our Established Communities in 2012. This positive outlook is as of the date that this Form 10-K is filed and reflects our expectations for (i) moderate, but accelerated job growth and population growth, particularly in the age groups that have historically demonstrated a higher propensity to rent, (ii) the expected weak

but moderating conditions in the for-sale housing market during 2012, and (iii) constrained levels of new supply. Our current financial outlook for 2012 provides for growth in rental revenue of between 5.0% and 6.5% in our Established Community portfolio resulting in a projected NOI growth for our Established Communities of 6.0% to 8.0%. Expense growth also impacts growth in NOI, and we continue to monitor and manage operating expenses to constrain expense growth. We expect operating expenses to increase between 2.5% and 3.5% in 2012 over 2011. These projections are based on our outlook for employment conditions and apartment market fundamentals in 2012, both nationally and in the markets where we operate, the individual demand/supply characteristics of each submarket in which we operate and assessment of each community s potential performance for the upcoming year. We do not undertake a duty to update our outlook, and there can be no assurance that our outlook for economic conditions and/or their impact on our operating results will be accurate, and actual results could differ materially. Please see Risk Factors, Forward-Looking Statements and other discussions in this report on Form 10-K for a discussion of factors which could affect our results of operations.

During 2011, we successfully raised approximately $1,265,000,000 of capital through sales of common equity in the public markets and asset sales. Proceeds were used to fund current investment activities, prefund planned investment activity, and combined with cash already on hand, to repay higher cost secured and unsecured debt, while retaining substantial cash balances for general corporate purposes. We believe that our current capital structure will provide financial flexibility to access capital on attractive terms. The funds raised from dispositions consist of the proceeds from the sale of three communities and three land parcels for a gross sales price of $292,965,000. We expect to see continued strong investor demand for quality multifamily assets in 2012, due in part to the liquidity in the capital markets and constrained supply of quality multifamily assets resulting from the decline in development activity in 2008 and 2009 in all markets.

We increased development activity during 2011 from the prior year in anticipation of the further improvement in the economy and apartment fundamentals, and believe that our development activity will continue to create long-term value. During 2011, we completed the development of six communities for an aggregate total capitalized cost of $297,100,000 which represents a savings from the original budgeted capitalized cost of $12,100,000. We started the development of 11 communities, which are expected to be completed for an estimated total capitalized cost of $892,500,000. In addition, during 2011 we completed the redevelopment of seven communities for a total investment of $67,500,000, excluding costs incurred prior to the redevelopment.

During 2012, we expect to use our core competency in development to deliver new assets into the favorable market conditions expected in 2012 and 2013. We anticipate new development starts in 2012 with a total projected capitalized cost of $1,000,000,000 to $1,200,000,000. During 2012, we expect to invest between $750,000,000 and $850,000,000 related to the 19 communities under development at December 31, 2011, new development starts, and anticipated acquisitions of land for future development. Consistent with this view, we also expect to maintain our current level of redevelopment activity for our wholly-owned communities in 2012, during which we expect to start redevelopment of five wholly-owned communities, and invest between $100,000,000 and $150,000,000 in the redevelopment of communities.

We believe that our current level of indebtedness, our current ability to service interest and other fixed charges and our current limited use of financial encumbrances (such as secured financing) provides us with flexibility in our capital raising activities. We expect to meet our liquidity needs from the issuance of unsecured debt and/or common and preferred equity and/or secured debt, as well as from disposition proceeds, joint venture investments or from retained cash and that these sources will provide adequate access to the capital necessary to fund our development and redevelopment activities during 2012.

We also increase our direct and indirect interests in communities through acquisitions. In 2011, we completed an asset exchange with another apartment owner. Through this transaction, we exchanged three existing communities and a small land parcel for six operating communities and $26,000,000 in cash. The communities we provided to our exchange counterparty consisted of two properties and a small land parcel located in metropolitan Boston and one property located in San Francisco. In exchange we received six operating communities in Southern California (Los Angeles, Orange County and San Diego). This transaction is consistent with our desire to increase our presence in Southern California, providing us with a larger portfolio of assets in the region at multiple price points that we believe will perform better than other US markets over the current operating cycle.

Also in 2011, we acquired Fairfax Towers for our wholly-owned portfolio. Fairfax Towers is a high-rise community consisting of 415 apartment homes, located in Falls Church, VA, and was acquired for a purchase price of $89,200,000.

In February 2012, we acquired for our wholly-owned portfolio, The Mark Pasadena, located in Pasadena, CA. The Mark Pasadena contains 84 apartment homes and was acquired for $19,400,000.

During 2012, we expect to be active in both acquisition and disposition activity for our wholly-owned portfolio. While this activity pertains primarily to portfolio shaping and repositioning, and is currently expected to have a nominal impact on our net capital position, we expect the dispositions to occur largely in the first half of the year and the acquisitions are expected to be weighted more towards the second half of the year.

We established Fund I and Fund II to engage in acquisition programs through discretionary investment funds. We believe this investment format provides the following attributes: (i) third-party joint venture equity as an additional source of financing to expand and diversify our portfolio; (ii) additional sources of income in the form of property management and asset management fees and, potentially, incentive distributions if the performance of the Funds exceeds certain thresholds; and (iii) visibility into the transactions occurring in multifamily assets that helps us with other investment decisions related to our wholly-owned portfolio.

Fund I has nine institutional investors, including us. One of our wholly-owned subsidiaries is the general partner of Fund I and we have made an equity investment of approximately $42,100,000 in Fund I (net of distributions and excluding the purchase by us of a mortgage note secured by a Fund I community), representing a 15.15% combined general partner and limited partner equity interest. Fund I was our principal vehicle for acquiring apartment communities through the close of its investment period in March 2008. Fund I has a term that expires in March 2015, plus two one-year extension options.

During 2011, Fund I sold two communities:

- Avalon Columbia, located in Columbia, Maryland, for $34,650,000 and
- Avalon Redondo Beach, located in Redondo Beach, California, for $33,100,000.

Fund I recognized an aggregate gain under GAAP of $22,246,000 from the sale of these communities, of which our share was $3,063,000.

In addition, Fund I sold two communities in 2012. Avalon Lakeside, located in Chicago, Illinois, was sold for $20,500,000; and Avalon at Poplar Creek, also located in Chicago, Illinois, was sold for $27,200,000.

Fund II has six institutional investors, including us. One of our wholly-owned subsidiaries is the general partner of Fund II and we have total equity commitments of $125,000,000, representing a 31.25% combined general partner and limited partner equity interest. Fund II has a term that expires in August 2018, plus two one-year extension options. Fund II served as the exclusive vehicle, with some exceptions, through which we acquired investment interests in apartment communities until August 2011. While the investment period for Fund II closed in August 2011, additional acquisitions may occur for active acquisition candidates identified prior to the end of the investment period. In 2012, we expect Fund II to acquire its final operating community, which was an active acquisition candidate at the end of the investment period for Fund II.

We will receive, in addition to any returns on our invested equity, asset management fees, property management fees and redevelopment fees. We will also receive a promoted interest if certain return thresholds are met. During the year ended December 31, 2011, subsidiaries of Fund II acquired the following four operating communities:

- Waterstone Carlsbad, a garden-style community consisting of 448 apartment homes located in Carlsbad (San Diego County), CA was acquired for a purchase price of $78,100,000;
- Yale Village Townhomes, a garden-style community consisting of 210 townhomes located in Rockville, MD was acquired for a purchase price of $49,500,000;
- Captain Parker Arms, a garden-style community consisting of 94 apartment homes located in Lexington, MA was acquired for a purchase price of $20,850,000; and

Highlands at Rancho San Diego, consisting of 676 apartment homes located in San Diego, CA was acquired for a purchase price of $124,000,000. In conjunction with the acquisition, Fund II extinguished an outstanding mortgage note secured by the community, incurring a prepayment penalty, of which the Company s proportionate share was approximately $950,000.

We are not presently pursuing the formation of a new, third fund, preferring at this time to maintain flexibility in shaping our portfolio of wholly-owned assets through acquisitions and dispositions.

Communities Overview

As of December 31, 2011, we owned or held a direct or indirect ownership interest in 200 apartment communities containing 58,538 apartment homes in ten states and the District of Columbia, of which 19 communities were under construction and 13 communities were under reconstruction. Of these communities, 32 were owned by entities that were not consolidated for financial reporting purposes, including 16 owned by subsidiaries of Fund I and 12 owned by subsidiaries of Fund II. In addition, we owned a direct or indirect ownership interest in Development Rights to develop an additional 32 wholly-owned communities that, if developed in the manner expected, will contain an estimated 9,012 apartment homes.

Our real estate investments consist primarily of current operating apartment communities, Development Communities, and Development Rights. Our current operating communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities and Redevelopment Communities. Established Communities are generally operating communities that are consolidated for financial reporting purposes and were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year, which allows the performance of these communities and the markets in which they are located to be compared and monitored between years. Other Stabilized Communities are generally all other consolidated operating communities that have stabilized occupancy and operating expenses during the current year, but had not achieved stabilization as of the beginning of the prior year. Lease-Up Communities consist of communities where construction is complete but stabilization has not been achieved. Redevelopment Communities consist of communities where substantial redevelopment is in progress or is planned to begin during the current year. A more detailed description of our reportable segments and other related operating information can be found in Note 9, Segment Reporting, of our Consolidated Financial Statements.

Although each of these categories is important to our business, we generally evaluate overall operating, industry and market trends based on the operating results of Established Communities, for which a detailed discussion can be found in Results of Operations as part of our discussion of overall operating results. We evaluate our current and future cash needs and future operating potential based on acquisition, disposition, development, redevelopment and financing activities within Other Stabilized, Redevelopment and Development Communities. Discussions related to these segments of our business can be found in Liquidity and Capital Resources.

NOI of our current operating communities is one of the financial measures that we use to evaluate community performance. NOI is affected by the demand and supply dynamics within our markets, our rental rates and occupancy levels and our ability to control operating costs. Our overall financial performance is also impacted by the general availability and cost of capital and the performance of newly developed and acquired apartment communities.

Results of Operations

Our year-over-year operating performance is primarily affected by both overall and individual geographic market conditions and apartment fundamentals and 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 2011, 2010 and 2009 follows (dollars in thousands):

	2011	2010	$ Change	% Change	2010	2009	$ Change	% Change
Revenue:								
Rental and other income	$ 959,055	$ 866,651	$ 92,404	10.7%	$ 866,651	$ 822,596	$ 44,055	5.4%
Management, development and other fees	9,656	7,354	2,302	31.3%	7,354	7,328	26	0.4%
Total revenue	968,711	874,005	94,706	10.8%	874,005	829,924	44,081	5.3%
Expenses:								
Direct property operating expenses, excluding property taxes	217,580	210,924	6,656	3.2%	210,924	199,006	11,918	6.0%
Property taxes	95,515	91,145	4,370	4.8%	91,145	81,493	9,652	11.8%
Total community operating expenses	313,095	302,069	11,026	3.7%	302,069	280,499	21,570	7.7%
Corporate-level property management and other indirect operating expenses	40,213	37,287	2,926	7.8%	37,287	37,559	(272)	(0.7%)
Investments and investment management expense	5,126	3,824	1,302	34.0%	3,824	3,844	(20)	(0.5%)
Expensed development and other pursuit costs	2,967	2,741	226	8.2%	2,741	5,842	(3,101)	(53.1%)
Interest expense, net	168,179	170,349	(2,170)	(1.3%)	170,349	145,462	24,887	17.1%
Loss on extinguishment of debt, net	1,940		1,940	N/A		25,910	(25,910)	(100.0%)
Depreciation expense	246,666	227,878	18,788	8.2%	227,878	204,481	23,397	11.4%
General and administrative expense	29,371	26,846	2,525	9.4%	26,846	28,748	(1,902)	(6.6%)
Impairment loss	14,052		14,052	N/A		21,152	(21,152)	(100.0%)
Gain on sale of land	(13,716)		(13,716)	N/A		(4,830)	4,830	N/A
Total other expenses	494,798	468,925	25,873	5.5%	468,925	468,168	757	0.2%
Equity in income of unconsolidated entities	5,120	762	4,358	571.9%	762	1,441	(679)	(47.1%)
Income from continuing operations	165,938	103,773	62,165	59.9%	103,773	82,698	21,075	25.5%
Discontinued operations:								
Income from discontinued operations	(5,658)	(3,768)	(1,890)	50.2%	(3,768)	7,689	(11,457)	(149.0%)
Gain on sale of communities	281,090	74,074	207,016	279.5%	74,074	63,887	10,187	15.9%
Total discontinued operations	275,432	70,306	205,126	291.8%	70,306	71,576	(1,270)	(1.8%)
Net income	441,370	174,079	267,291	153.5%	174,079	154,274	19,805	12.8%
Net loss attributable to noncontrolling interests	252	1,252	(1,000)	(79.9%)	1,252	1,373	(121)	(8.8%)
Net income attributable to common stockholders	$ 441,622	$ 175,331	$ 266,291	151.9%	$ 175,331	$ 155,647	$ 19,684	12.6%

Net income attributable to common stockholders increased $266,291,000, or 151.9%, to $441,622,000 in 2011 primarily due to an increase in gain on sale of communities and increased NOI in 2011 over 2010. Net income attributable to common stockholders increased $19,684,000, or 12.6% in 2010 over 2009 due primarily to an increase in gains on sale of real estate in 2010 and impairment losses recognized in 2009, with no comparable activity in 2010, as well as an increase in NOI in 2010 over 2009.

NOI is considered by management to be an important and appropriate supplemental performance measure to net income because it helps both investors and management to understand the core operations of a community or communities prior to the allocation of any corporate-level or financing-related costs. NOI reflects the operating performance of a community and allows for an easy comparison of the operating performance of individual assets or groups of assets. In addition, because prospective buyers of real estate have different financing and overhead structures, with varying marginal impacts to overhead by acquiring real estate, NOI is considered by many in the real estate industry to be a useful measure for determining the value of a real estate asset or group of assets. We define NOI as total property revenue less direct property operating expenses, including property taxes.

NOI does not represent cash generated from operating activities in accordance with GAAP. Therefore, NOI should not be considered an alternative to net income as an indication of our performance. NOI should also not be considered an alternative to net cash flow from operating activities, as determined by GAAP, as a measure of liquidity, nor is NOI necessarily indicative of cash available to fund cash needs. Reconciliations of NOI for the years ended December 31, 2011, 2010 and 2009 to net income for each year, are as follows (dollars in thousands):

	For the year ended		
	12-31-11	12-31-10	12-31-09
Net income	$ 441,370	$ 174,079	$ 154,274
Indirect operating expenses, net of corporate income	30,550	30,246	30,315
Investments and investment management expense	5,126	3,824	3,844
Expensed development and other pursuit costs	2,967	2,741	5,842
Interest expense, net	168,179	170,349	145,462
Loss on extinguishment of debt, net	1,940		25,910
General and administrative expense	29,371	26,846	28,748
Equity in income of unconsolidated entities	(5,120)	(762)	(1,441)
Depreciation expense	246,666	227,878	204,481
Impairment loss - land holdings	14,052		21,152
Gain on sale of real estate assets	(294,806)	(74,074)	(68,717)
(Income) loss from discontinued operations	5,658	3,768	(7,689)
Net operating income	$ 645,953	$ 564,895	$ 542,181

The NOI increases for both 2011 and 2010, as compared to the prior year period, consist of changes in the following categories (dollars in thousands):

	Full Year 2011	Full Year 2010
Established Communities	$ 36,187	$ (11,896)
Other Stabilized Communities	21,580	24,154
Development and Redevelopment Communities	23,291	10,412
Total	$ 81,058	$ 22,670

The NOI increase for Established Communities in 2011 is due to a combination of increased rental revenues and decreased operating expenses. During 2011, we experienced sequential quarterly increases in rental rates, while maintaining occupancy of at least 95% in all regions. In addition, we experienced favorable trends in operating expenses, primarily property taxes and utilities.

Rental and other income increased in both 2011 and 2010 as compared to the prior years due to additional rental income generated from newly developed and acquired communities and increases in rental rates at our Established Communities.

Overall Portfolio The weighted average number of occupied apartment homes increased to 42,613 apartment homes for 2011 as compared to 40,489 homes for 2010 and 38,233 homes for 2009. The increase in 2011 over 2010 is due to homes available from newly developed and acquired communities, offset partially by communities sold during 2011. The weighted average monthly revenue per occupied apartment home increased to $1,911 for 2011 as compared to $1,823 in 2010 and $1,910 in 2009.

Established Communities Rental revenue increased $33,335,000, or 5.1%, for 2011 and decreased $6,137,000 or 0.9%, for 2010 as compared to the prior year. For 2011, the weighted average monthly revenue per occupied apartment home increased 5.1% to $1,939 compared to $1,845 in 2010 driven by an increase in rental rates. Average economic occupancy for 2011 remained at 96.0% consistent with 2010. Economic occupancy takes into account the fact that apartment homes of different sizes and locations within a community have different economic impacts on a community s gross revenue. Economic occupancy is defined as gross potential revenue less vacancy loss, as a percentage of gross potential

revenue. Gross potential revenue is determined by valuing occupied homes at leased rates and vacant homes at market rents.

We experienced increases in rental revenue for all of our Established Communities regions in 2011 as compared to the prior year as discussed in more detail below.

The Metro New York/New Jersey region, which accounted for approximately 28.3% of Established Community rental revenue for 2011, experienced an increase in rental revenue of 4.3% for 2011 as compared to 2010. Average rental rates increased 4.3% to $2,427 over 2010 and economic occupancy was unchanged at 96.1% during 2011. An improving economy, favorable demographic trends and a minimal amount of competitive new supply supported positive results in 2011 over the prior year. Despite concerns about the near-term recovery in the region s large financial services industry, the Metro New York/New Jersey region has experienced growth in other sectors (including technology) which has supported demand for rental housing. We anticipate the New York City market will continue to outperform suburban submarkets in 2012. New rental deliveries are expected to remain minimal in 2012 but we are anticipating completion and delivery of competitive new supply in certain New York City markets in 2013.

The New England region accounted for approximately 24.6% of the Established Community rental revenue for 2011 and experienced a rental revenue increase of 5.5% over the prior year. Average rental rates increased 5.6% to $2,014, offset partially by a decrease in economic occupancy of 0.1% to 96.1% for 2011, as compared to 2010. Job growth from the region s large technology sector and a low volume of new multifamily supply contributed to the improvement in apartment market conditions. Job growth in the Boston area was broad-based, but southwest Connecticut lagged given greater dependence on the financial services and manufacturing sectors. Similar conditions are expected in 2012. With large defense contractors headquartered in the region, the potential for job cutbacks in the defense sector may negatively impact market fundamentals in 2012.

The Mid-Atlantic/Midwest region, which represented approximately 15.9% of Established Community rental revenue during 2011, experienced an increase in rental revenue of 4.7% as compared to 2010. Average rental rates increased by 5.3% to $1,814, while economic occupancy decreased 0.6% to 95.5% for 2011 as compared to 2010. The Mid-Atlantic region s economy, which is highly dependent on government and government-contractors, is expected to underperform other regions as impacts from the current focus on controlling government spending take effect. At the same time, a significant amount of new rental supply is expected to be delivered in 2012 and 2013 in certain submarkets which will compete with existing product.

Northern California accounted for approximately 14.9% of the Established Community rental revenue for 2011 and experienced a rental revenue increase of 7.2% from the prior year. Average rental rates increased 7.0% to $1,849, and economic occupancy increased 0.2% to 96.1% for 2011 as compared to 2010. Strong renter demand is being fueled by job growth in the region s large high-tech sector, unaffordable home prices and a lack of competitive new rental supply. We expect the region s solid apartment market fundamentals will continue during 2012. We anticipate competitive new supply will be delivered in 2013 but will be limited to certain submarkets.

Southern California accounted for approximately 10.9% of the Established Community rental revenue for 2011 and experienced a rental revenue increase of 3.9% from the prior year. Average rental rates increased 3.1% to $1,626, and economic occupancy increased 0.8% to 96.1% for 2011 as compared to 2010. Apartment market conditions are improving in the region as job growth resumes in line with a strengthening U.S. economy. We anticipate that stronger job growth in the region during 2012, combined with minimal new supply, favorable demographics and a continued weak housing market will support stronger rental revenue growth.

The Pacific Northwest region accounted for approximately 5.4% of the Established Community rental revenue for 2011 and experienced a rental revenue increase of 5.1% from the prior year. Average rental rates increased 5.4% to $1,304, offset partially by a decrease in economic occupancy of 0.3% to 94.9% for 2011 as compared to 2010. Job growth in the region is broad-based, driven by improvement in both aerospace and technology. Population growth and limited competition from both new rental supply and home purchases are expected to support continued strong rental revenue growth. New rental deliveries will be modest in 2012 but we expect an increase in 2013 in certain submarkets.

Management, development and other fees increased $2,302,000, or 31.3%, in 2011 over 2010. The increase in 2011 was due primarily to increased asset management fees and property management fees from Fund II.

Direct property operating expenses, excluding property taxes increased $6,656,000, or 3.2% in 2011 and increased $11,918,000, or 6.0% for 2010 as compared to the prior years, primarily due to the addition of recently developed apartment homes.

For Established Communities, direct property operating expenses, excluding property taxes, decreased $2,514,000, or 1.6% to $154,237,000 for 2011 and increased $2,282,000 or 1.4% for 2010 as compared to the prior year periods. The decrease in 2011 from 2010 is due primarily to decreased administrative expenses from a decrease in bad debt expense. Savings in utilities driven by milder temperatures and more favorable negotiated rates also contributed to the decrease. The decrease in 2010 from 2009 was due primarily to decreased administrative and marketing costs, offset partially by higher community maintenance expenses, including costs for repairs from storm damage. The decreases in administrative expenses were primarily due to decreased bad debt.

Property taxes increased $4,370,000, or 4.8% and $9,652,000, or 11.8% in 2011 and 2010, respectively, due to the addition of newly developed and redeveloped apartment homes and overall higher assessments. Property tax increases are also impacted by the size and timing of successful tax appeals.

For Established Communities, property taxes decreased by $631,000, or 0.9% and increased $3,455,000 or 5.2% for 2011 and 2010, respectively as compared to the prior year. The decrease in 2011 from 2010 is due to successful appeals and settlements offset partially by a combination of rate increases and higher assessments throughout all regions. The increase in 2010 over 2009 is due to higher assessments as well as the size and timing of successful appeals. We expect property taxes in 2012 to increase over 2011 due primarily to higher tax rates and higher assessments. For communities in California, property tax changes are determined by the change in the California Consumer Price Index, with increases limited by law (Proposition 13). We evaluate property tax increases internally, and also engage third-party consultants to assist in our evaluations. We appeal property tax increases when appropriate.

Corporate-level property management and other indirect operating expenses increased by $2,926,000, or 7.8% in 2011 over the prior year. The increase in 2011 from 2010 is due primarily to increases in compensation costs, coupled with costs associated with the Company s development and introduction of the *AVA* and *Eaves by Avalon* brands.

Investments and investment management costs increased in 2011 by $1,302,000, or 34.0% from the prior year due primarily to increases in compensation costs.

Expensed development and other pursuit costs primarily reflect the costs incurred for abandoned pursuit costs, which include costs incurred for development pursuits not yet considered probable for development, as well as the abandonment of Development Rights and disposition pursuits. Expensed development and other pursuit costs decreased in 2011 and 2010 from the prior years due to decreases in abandoned development pursuits attributable to continued economic improvement. These costs can be volatile, particularly in periods of economic downturn or when there is limited access to capital, and the costs may vary significantly from period to period.

Interest expense, net decreased $2,170,000, or 1.3% and increased $24,887,000, or 17.1% in 2011 and 2010, respectively as compared to the prior years. This category includes interest expense offset by interest capitalized and interest income. The decrease in 2011 from 2010 is due to a decrease in outstanding debt coupled with lower interest rates and an increase in interest costs capitalized over 2010. The increase in 2010 is due primarily to a decrease in the amount of interest capitalized as compared to the prior year, coupled with increased interest expense in 2010 compared to the prior year from additional secured and unsecured debt issued. The decrease in interest capitalized in 2010 as compared to 2009 was due to the reduction in development activity in 2010 as compared to the prior year.

Loss on the extinguishment of debt, net reflects the impact from prepayment penalties and expensing of deferred financing costs from our debt repurchase and retirement activity, or payments above or below the carrying basis. In 2011 we recognized a loss on the extinguishment of debt of $1,940,000 due to early retirement of a secured note. The net loss in 2009 is due to the $310,100,000 in unsecured notes that we purchased prior to their scheduled maturity at a premium, offset by the gain recognized from our January 2009 tender offer.

Depreciation expense increased in 2011 and 2010 primarily due to the net increase in assets from the completion of development and redevelopment activities and acquisition activity, offset by a reduction in depreciation expense from assets sold during 2011 and 2010.

General and administrative expense (G&A) increased $2,525,000, or 9.4% in 2011 and decreased $1,902,000, or 6.6% in 2010 as compared to the prior years. The changes in both periods are attributable to changes in compensation expense.

Impairment loss for 2011 was due to an additional write down of two land parcels for which we changed our intent and determined we now intend to pursue the disposal of these assets. In addition, the impairment charge in 2011 includes the impairment of an investment in an unconsolidated joint venture. Impairment loss for 2009 was due to the write down of land parcels which we concluded that we did not plan to develop at the time of impairment. We did not recognize an impairment loss in 2010.

Gain on sale of land increased in 2011 and decreased in 2010 as compared to the prior years due to the sale of land parcels in 2011 and 2009, without comparable activity in 2010.

Equity in income of unconsolidated entities increased $4,358,000, or 571.9% in 2011 and decreased $679,000, or 47.1% in 2010 as compared to prior years. The increase in 2011 is due to the recognition of our proportionate share of the gain on sale of two communities by Fund I, offset partially by increased acquisition costs from Fund II over 2010. The decrease in 2010 is due to acquisition costs from Fund II which were not significant in 2009.

Income from discontinued operations represents the net income generated by communities sold or qualifying as discontinued operations during the period from January 1, 2009 through December 31, 2011. This income increased for 2011 and decreased for 2010 due to changes in the number of communities sold in each year as compared to the prior year period. See Note 7, Real Estate Disposition Activities, of our Consolidated Financial Statements.

Gain on sale of communities increased in 2011 and 2010 as compared to the prior years as a result of changes in the sales volume and associated gains in each respective year. The amount of gain realized upon disposition of a community depends on many factors, including the number of communities sold, the size and carrying value of those communities and the market conditions in the local area. The gain on sale of communities in 2011 includes $122,416,000 for the recapture of cumulative straight line rent expense charged in excess of cash payments for a community subject to a long-term ground lease.

Net loss attributable to noncontrolling interests resulted in income to us for the allocation of losses to the noncontrolling interests of $252,000 in 2011 and $1,252,000 in 2010. The decrease in income in 2011 relative to 2010 is due primarily to improved operating results of the Fund I community we consolidate. The conversion and redemption of limited partnership units in 2011 and 2010 also contributed to the decrease in 2011 from 2010, thereby reducing outside ownership interest and the allocation of net income to outside ownership interests.

Liquidity and Capital Resources

We believe our principal short-term liquidity needs are to fund:

- development and redevelopment activity in which we are currently engaged;
- the minimum dividend payments on our common stock required to maintain our REIT qualification under the Code;
- debt service and principal payments either at maturity or opportunistically prior to maturity; and
- normal recurring operating expenses.

Factors affecting our liquidity and capital resources are our cash flows from operations, financing activities and investing activities (including dispositions) as well as general economic and market conditions. Operating cash flow has historically been determined by: (i) the number of apartment homes currently owned, (ii) rental rates, (iii) occupancy levels and (iv) operating expenses with respect to apartment homes. The timing and type of capital markets activity in which we engage, as well as our plans for development, redevelopment, acquisition and disposition activity, are affected by changes in the capital markets environment, such as changes in interest rates or the availability of cost-effective capital. We regularly review our liquidity needs, the adequacy of cash flows from operations and other expected liquidity sources to meet these needs.

We continued to have cost effective access to the capital markets during the year ended December 31, 2011, raising net proceeds of approximately $971,925,000 in the form of public equity including amounts issued in an underwritten public offering of common stock in August 2011 and amounts issued under the CEP II discussed below. In 2012, we expect to meet all of our liquidity needs from a variety of internal and external sources, including cash balances on hand, asset sales and other public or private sources of liquidity as discussed below, as well as our operating activities. Our ability to obtain additional financing will depend on a variety of factors such as market conditions, the

general availability of credit, the overall availability of credit to the real estate industry, our credit ratings and credit capacity, as well as the perception of lenders regarding our long or short-term financial prospects. At December 31, 2011, we have unrestricted cash and cash equivalents of $616,890,000 available for both current liquidity needs as well as development activities.

Unrestricted cash and cash equivalents totaled $616,890,000 at December 31, 2011, an increase of $312,483,000 from $304,407,000 at December 31, 2010. The following discussion relates to changes in cash due to operating, investing and financing activities, which are presented in our Consolidated Statements of Cash Flows included elsewhere in this report.

Operating Activities Net cash provided by operating activities increased to $429,391,000 in 2011 from $332,106,000 in 2010. The increase was driven primarily by the timing of general corporate expenditures and increased cash flows from community operations in 2011 as compared to 2010.

Investing Activities Net cash used in investing activities of $443,141,000 in 2011 related to investments in assets through development, redevelopment, and acquisitions. In total, we invested $737,185,000 during 2011 in the following areas:

- We invested approximately $640,778,000 in the development and redevelopment of communities;
- We invested $46,275,000 in the acquisition of an apartment community;
- We had capital expenditures of $50,132,000 for real estate and non-real estate assets; and
- We made capital contributions to Fund II of $15,656,000.

These expenditures were offset by net proceeds of $310,228,000 from an asset exchange and the disposition of three operating communities and three unimproved land parcels.

Financing Activities Net cash provided by financing activities totaled $326,233,000 in 2011. The net cash provided is due primarily to the issuance of common stock, primarily through the underwritten common equity offering we executed in August 2011 and under CEP II, for aggregate net proceeds of $1,049,835,000 partially offset by the payment of cash dividends in the amount of $318,231,000, repayment of $189,900,000 principal amount of unsecured notes, and repayment of $200,166,000 of secured notes including prepayment penalties.

Variable Rate Unsecured Credit Facility

In September 2011, we entered into the Credit Facility which has an available borrowing capacity of $750,000,000 and a four-year term, plus a one year extension option. We may elect to expand the facility to $1,300,000,000, provided that one or more banks (whether or not part of the current syndicate of banks) voluntarily agree to provide the additional commitment. No member of the syndicate of banks can prohibit the increase, which will only be effective to the extent banks from the syndicate or otherwise choose to commit to lend additional funds. The Credit Facility was entered into with a syndicate of commercial banks to whom we pay an annual facility fee of approximately $1,313,000 and bears interest at varying levels based on the London Interbank Offered Rate (LIBOR), rating levels achieved on our unsecured notes and on a maturity schedule selected by us. The current stated pricing is LIBOR plus 1.075% per annum (1.34% on January 31, 2012). The stated spread over LIBOR can vary from LIBOR plus 1.00% to LIBOR plus 1.85% based on our credit ratings. In addition, the Credit Facility includes a competitive bid option, which allows banks that are part of the lender consortium to bid to make loans to us at a rate that is lower than the stated rate provided by the Credit Facility for up to $487,500,000. The competitive bid option may result in lower pricing than the stated rate if market conditions allow. We did not have any borrowings outstanding under the Credit Facility and had $49,883,000 outstanding in letters of credit that reduced our borrowing capacity as of January 31, 2012.

The Credit Facility replaced our previous variable rate unsecured credit facility which had a borrowing capacity of $1,000,000,000 (the Cancelled Credit Facility), which was scheduled to expire in November 2011.

Financial Covenants

We are subject to financial and other covenants contained in the Credit Facility and the indenture under which our unsecured notes were issued. The financial covenants include the following:

limitations on the amount of total and secured debt in relation to our overall capital structure;

limitations on the amount of our unsecured debt relative to the undepreciated basis of real estate assets that are not encumbered by property-specific financing; and

minimum levels of debt service coverage.

We were in compliance with these covenants at December 31, 2011.

In addition, our secured borrowings may include yield maintenance, defeasance, or prepayment penalty provisions, which would result in us incurring an additional charge in the event of a full or partial prepayment of outstanding principal before the scheduled maturity. These provisions in our secured borrowings are generally consistent with other similar types of debt instruments issued during the same time period in which our borrowings were secured.

Continuous Equity Offering Program (CEP II)

In November 2010, we commenced CEP II, under which we may sell up to $500,000,000 of our common stock from time to time during a 36-month period. Actual sales will depend on a variety of factors to be determined by us, including market conditions, the trading price of our common stock and determinations of the appropriate sources of funding. In conjunction with CEP II, we engaged sales agents who receive compensation of approximately 1.5% of the gross sales price for shares sold. For the year ended December 31, 2011 we sold 2,057,933 shares under CEP II at an average sales price of $121.39 per share, for aggregate net proceeds of $246,065,000. From program inception in November 2010 through December 31, 2011, we sold 2,490,765 shares at an average price of $119.84 per share, for aggregate net proceeds of $294,000,000.

Underwritten Public Offering of Common Stock

In August 2011, we issued 5,865,000 shares of our common stock for a net price of $128.25 per share before offering costs. Net proceeds of approximately $725,860,000 are being used for working capital, capital expenditures and other general corporate purposes, which may include development, redevelopment and acquisitions of apartment communities and repayment and refinancing of debt.

Future Financing and Capital Needs Debt and Derivative Maturities

One of our principal long-term liquidity needs is the repayment of long-term debt at the time that such debt matures. For unsecured notes, a portion of the principal of these notes may be repaid prior to maturity. Early retirement of our unsecured notes could result in gains or losses on extinguishment similar to those recognized in 2009. If we do not have funds on hand sufficient to repay our indebtedness as it becomes due, it will be necessary for us to refinance the debt. This refinancing may be accomplished by uncollateralized private or public debt offerings, additional debt financing that is secured by mortgages on individual communities or groups of communities, draws on our Credit Facility or by equity offerings. Although we believe we will have the capacity to meet our currently anticipated liquidity needs, we cannot assure you that additional debt financing or debt or equity offerings will be available or, if available, that they will be on terms we consider satisfactory.

We are also party to $430,000,000 of forward interest rate swap agreements, which were executed to reduce the impact of variability in interest rates on a portion of our expected debt issuance activity in 2012 and 2013. At maturity of the agreements, we will cash settle the contracts and either pay or receive cash for the then current fair value. Assuming that we issue the debt as expected, we will recognize in earnings the impact from settling these positions over the life of the issued debt as a yield adjustment. Our outlook for 2012 considered the expected impact for the settlement of the forward interest rate swap agreement that matures in 2012. At December 31, 2011 we had recorded a liability related to the value of these contracts of $85,467,000, approximately half of which relates to the contract expiring in 2012. The value of the contracts is subject to increase or decrease prior to their respective maturities, and the amount which we will pay or receive upon maturity will depend on market conditions at that time.

In addition to the proceeds received from the common equity offering we executed in August 2011 and under CEP II and the forward interest rate swap agreements discussed above, the following financing activity occurred during 2011:

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

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

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

In April 2011, we repaid all amounts due under a $93,440,000 variable-rate, tax-exempt bond financing using the original issue proceeds which were held in escrow.

In August 2011, we repaid a 7.25% fixed rate secured mortgage note in the amount of $7,191,000 at par in advance of its October 2011 scheduled maturity date.

In September 2011, we repaid $189,900,000 principal amount of our unsecured notes in accordance with their scheduled maturity. The notes had an all-in interest rate of 6.67%.

In October 2011, we repaid a 5.88% fixed rate secured mortgage note in the amount of $54,584,000 in advance of its January 2019 scheduled maturity. As part of this transaction, we incurred charges of $1,940,000 for a prepayment penalty and the write off of deferred financing fees which was recognized as loss on early retirement of debt.

In November 2011, we repaid a 4.95% fixed rate secured mortgage note in the amount of $94,572,000 in advance of its April 2013 scheduled maturity date. As part of this transaction, we incurred a charge of $3,880,000 for a prepayment penalty and the write off of deferred financing fees which was recognized as loss on early retirement of debt.

The following debt activity occurred subsequent to December 31, 2011 through the date this Form 10-K was filed:

In January 2012, we repaid $179,400,000 principal amount of 5.5% coupon unsecured notes pursuant to their scheduled maturity.

In February 2012, we repaid a variable rate secured mortgage note in the amount of $48,500,000 in advance of its November 2039 scheduled maturity date.

Also in February 2012, in conjunction with the acquisition of a wholly-owned operating community, we assumed a 4.61% $11,958,000 note maturing in June 2018.

The following table details debt maturities for the next five years, excluding our Credit Facility and amounts outstanding related to communities classified as held for sale, for debt outstanding at December 31, 2011 (dollars in thousands). We are not directly or indirectly (as borrower or guarantor) obligated in any material respect to pay principal or interest of the indebtedness of any unconsolidated entities in which we have any equity or other interest.

Community	All-In interest rate (1)	Principal maturity date	Balance Outstanding 12-31-10	12-31-11	Scheduled maturities 2012	2013	2014	2015	2016	Thereafter
Tax-exempt bonds										
Fixed rate										
Avalon Fields I	7.80%	May-2027	$ 9,419	$ 9,103	$ 339	$ 364	$ 390	$ 419	$ 449	$ 7,142
Avalon Oaks	7.49%	Feb-2041	16,637	16,468	182	195	209	223	240	15,419
Avalon Oaks West	7.54%	Apr-2043	16,519	16,367	162	173	185	198	211	15,438
Avalon at Chestnut Hill	6.15%	Oct-2047	41,150	40,781	390	411	434	457	482	38,607
Morningside Park	4.10%	May-2046	100,000	100,000(7)						100,000
			183,725	182,719	1,073	1,143	1,218	1,297	1,382	176,606
Variable rate (2)										
Waterford	1.00%	Jul-2014	33,100	33,100(3)			33,100			
Avalon at Mountain View	1.05%	Feb-2017	18,300	18,300(3)						18,300
Avalon at Mission Viejo	1.30%	Jun-2025	7,635	7,635(3)						7,635
Avalon at Nob Hill	1.22%	Jun-2025	20,800	20,800(3)						20,800
Avalon Campbell	1.52%	Jun-2025	38,800	38,800(3)						38,800
Avalon Pacifica	1.54%	Jun-2025	17,600	17,600(3)						17,600
Bowery Place I	3.07%	Nov-2037	93,800	93,800(3)						93,800
Bowery Place II	4.20%	Nov-2039	48,500	48,500(6)						48,500
Avalon Acton	1.69%	Jul-2040	45,000	45,000(3)						45,000
West Chelsea		May-2012	93,440	-- (8)						
Avalon Walnut Creek	2.52%	Mar-2046	116,000	116,000(4)						116,000
Avalon Walnut Creek	2.49%	Mar-2046	10,000	10,000(4)						10,000
			$ 542,975	$ 449,535	$	$	$ 33,100	$		$ 416,435
Conventional loans (5)										
Fixed rate										
$300 Million unsecured notes		Sep-2011	39,900	-- (10)						
$250 Million unsecured notes	5.74%	Jan-2012	104,400	104,400(12)	104,400					
$250 Million unsecured notes	6.26%	Nov-2012	201,601	201,601	201,601					
$100 Million unsecured notes	5.11%	Mar-2013	100,000	100,000		100,000				

$150 Million unsecured notes	5.52%	Apr-2014	150,000	150,000			150,000			
$250 Million unsecured notes	5.89%	Sep-2016	250,000	250,000					250,000	
$250 Million unsecured notes	5.82%	Mar-2017	250,000	250,000						250,000
$250 Million unsecured notes	6.19%	Mar-2020	250,000	250,000						250,000
$250 Million unsecured notes	4.04%	Jan-2021	250,000	250,000						250,000
Avalon at Twinbrook		Oct-2011	7,339	-- (11)						
Avalon at Tysons West	5.55%	Jul-2028	5,862	5,668	204	216	229	242	255	4,522
Avalon Orchards	7.78%	Jul-2033	18,678	18,321	384	412	441	472	506	16,106
Avalon at Arlington Square	4.81%	Apr-2013	170,125	170,125		170,125				
Avalon at Cameron Court		Apr-2013	94,572	-- (9)						
Avalon Crescent	5.59%	May-2015	110,600	110,600				110,600		
Avalon at Silicon Valley	5.74%	Jul-2015	150,000	150,000				150,000		
Avalon Darien	6.22%	Nov-2015	50,559	49,907	750	742	789	47,626		
Avalon Greyrock Place	6.12%	Nov-2015	60,935	60,133	843	905	962	57,423		
Avalon Commons		Jan-2019	55,100	-- (9)						
Avalon Walnut Creek	4.00%	Jul-2066	2,500	2,500						2,500
Avalon Shrewsbury	5.92%	May-2019	21,130	20,991	254	273	289	307	323	19,545
Avalon Gates	5.92%	May-2019	41,321	41,048	495	534	566	601	631	38,221
Avalon at Stamford Harbor	5.92%	May-2019	65,695	65,261	788	848	900	955	1,003	60,767
Avalon Freehold	5.94%	May-2019	36,630	36,388	440	473	502	532	559	33,882
Avalon Run East II	5.94%	May-2019	39,250	38,991	471	507	538	571	599	36,305
Avalon Gardens	6.06%	May-2019	66,237	65,800	796	855	907	963	1,011	61,268
Avalon Edgewater	5.94%	May-2019	78,565	78,046	945	1,014	1,076	1,142	1,199	72,670
Avalon Foxhall	6.05%	May-2019	59,010	58,620	709	762	808	858	901	54,582
Avalon Gallery Place I	6.05%	May-2019	45,850	45,547	550	592	628	667	700	42,410
Avalon Traville	5.91%	May-2019	77,700	77,187	933	1,003	1,065	1,130	1,186	71,870
	5.91%	May-2019	26,698	26,522	320	345	366	388	408	24,695

Avalon Bellevue										
Avalon on the Alameda	5.90%	May-2019	53,980	53,624	648	697	740	785	824	49,930
Avalon Mission Bay North	5.90%	May-2019	73,269	72,785	880	946	1,004	1,065	1,118	67,772
Avalon Woburn		May-2019	55,805							
Avalon Fairfax Towers	5.02%	Aug-2015		43,426	966	1,020	1,070	40,370		
The Crest at Phillips Ranch	5.71%	Jun-2013		54,574	1,226	53,348				
			3,063,311	2,902,065	318,603	335,617	162,880	416,697	261,223	1,407,045
Variable rate (2) (5)										
Avalon at Crane Brook		Mar-2011	29,185	-- (10)						
Avalon at Bedford Center	1.67%	May-2012	15,221	14,806(3)	14,806					
Avalon Walnut Creek	2.54%	Mar-2046	9,000	9,000(4)						9,000
$300 Million unsecured notes		Sep-2011	100,000	-- (10)						
$50 Million unsecured notes		Sep-2011	50,000	-- (10)						
$250 Million unsecured notes	4.48%	Jan-2012	75,000	75,000(12)	75,000					
			278,406	98,806	89,806					9,000
Total indebtedness - excluding unsecured credit facility			$ 4,068,417	$ 3,633,125	$ 409,482	$ 336,760	$ 197,198	$ 417,994	$ 262,605	$ 2,009,086

(1) Includes credit enhancement fees, facility fees, trustees fees and other fees.
(2) Variable rates are given as of December 31, 2011.
(3) Financed by variable rate debt, but interest rate is capped through an interest rate protection agreement.
(4) Represents full amount of the debt as of December 31, 2011. Actual amounts drawn on the debt as of December 31, 2011 are $117,939 for Walnut Creek.
(5) Balances outstanding represent total amounts due at maturity, and are net of $1,791 and $760 of debt discount and basis adjustments associated with the hedged unsecured notes as of December 31, 2011 and December 31, 2010, respectively, and $962 premium associated with secured notes as of December 31, 2011, as reflected on our Consolidated Balance Sheets included elsewhere in this report.

(6) In February 2012, we repaid a 4.20% variable rate secured mortgage note in the amount of $48,500,000 in advance of its November 2039 scheduled maturity date.
(7) In October 2010, we elected to fix the borrowing rate until June 2012, at which point we will select the updated term and mode for the bonds.
(8) In 2011, we elected to repay all amounts outstanding under this borrowing without penalty using the proceeds held in escrow.
(9) Borrowing was repaid in advance of its scheduled maturity.
(10) Borrowings were repaid in accordance with their scheduled maturity.
(11) Borrowing was repaid at par in advance of its scheduled maturity.
(12) Borrowings were repaid in January 2012, in accordance with their scheduled maturity.

Future Financing and Capital Needs Portfolio and Other Activity

As of December 31, 2011, we had 19 wholly-owned communities under construction, for which a total estimated cost of $804,231,000 remained to be invested. We also had 13 wholly-owned communities under reconstruction, for which a total estimated cost of $87,646,000 remained to be invested. Substantially all of the capital expenditures necessary to complete the communities currently under construction and reconstruction and fund development costs related to pursuing Development Rights will be funded from:

- our $750,000,000 Credit Facility until it expires in 2016, assuming execution of a one-year extension option;
- cash currently on hand, including cash in construction escrows, invested in highly liquid overnight money market funds and repurchase agreements, and short-term investment vehicles;
- retained operating cash;
- the net proceeds from sales of existing communities;
- the issuance of debt or equity securities; and/or
- private equity funding, including joint venture activity.

Before planned reconstruction activity, including reconstruction activity related to communities acquired by the Funds, or the construction of a Development Right begins, we intend to arrange adequate financing to complete these undertakings, although we cannot assure you that we will be able to obtain such financing. In the event that financing cannot be obtained, we may have to abandon Development Rights, write off associated pre-development costs that were capitalized and/or forego reconstruction activity. In such instances, we will not realize the increased revenues and earnings that we expected from such Development Rights or reconstruction activity and significant losses could be incurred.

From time to time we use joint ventures to hold or develop individual real estate assets. We generally employ joint ventures primarily to mitigate asset concentration or market risk and secondarily as a source of liquidity. We may also use joint ventures related to mixed-use land development opportunities where our partners bring specific development and operational expertise to the venture. Each joint venture or partnership agreement has been individually negotiated, and our ability to operate and/or dispose of a community in our sole discretion may be limited to varying degrees depending on the terms of the joint venture or partnership agreement. We cannot assure you that we will achieve our objectives through joint ventures.

In evaluating our allocation of capital within our markets, we sell assets that do not meet our long-term investment criteria or when capital and real estate markets allow us to realize a portion of the value created over the past business cycle and redeploy the proceeds from those sales to develop and redevelop communities. Because the proceeds from the sale of communities may not be immediately redeployed into revenue generating assets, the immediate effect of a sale of a community for a gain is to increase net income, but reduce future total revenues, total expenses and NOI. However, we believe that the absence of future cash flows from communities sold will have a minimal impact on our ability to fund future liquidity and capital resource needs.

Unconsolidated Real Estate Investments and Off-Balance Sheet Arrangements

Unconsolidated Investments

As of December 31, 2011, we had investments in the following unconsolidated real estate entities with ownership interest percentages ranging from 15.2% to 31.3%. We account for these investments in unconsolidated real estate entities under the equity method of accounting. Refer to Note 6 Investments in Real Estate Entities , of the Consolidated Financial Statements located elsewhere in this report, which includes information on the aggregate assets, liabilities and equity, as well as operating results, and our proportionate share of their operating results.

Detail of the real estate and associated funding underlying our unconsolidated investments is presented in the following table:

Unconsolidated Real Estate Investments	Company Ownership Percentage	# of Apartment Homes	Total Capitalized Cost (1)	Debt Amount (2)	Debt Type	Debt Interest Rate (3)	Debt Maturity Date
Fund I							
1. Avalon Lakeside - Chicago, IL (8)(9)		204	$ 18,584	$	N/A	N/A	N/A
2. Avalon Sunset - Los Angeles, CA		82	20,920	12,750	Fixed	5.41%	Mar 2014
3. Avalon at Poplar Creek - Chicago, IL (8)		196	28,133	16,500	Fixed	4.83%	Oct 2013
4. Avalon at Civic Center - Norwalk, CA		192	42,780	27,001	Fixed	5.38%	Aug 2013
5. Avalon Paseo Place - Fremont, CA		134	25,094	11,800	Fixed	5.74%	Nov 2014
6. Avalon at Yerba Buena - San Francisco, CA		160	66,812	41,500	Fixed	5.88%	Mar 2014
7. Avalon at Aberdeen Station - Aberdeen, NJ		290	58,614	39,842	Fixed	5.64%	Sep 2013
8. The Springs - Corona, CA (4)		320	29,954	23,763	Fixed	6.06%	Oct 2014
9. Avalon Lombard - Lombard, IL		256	35,350	17,243	Fixed	5.43%	Jan 2014
10. Avalon Cedar Place - Columbia, MD		156	24,505	12,000	Fixed	5.68%	Feb 2015
11. Avalon Centerpoint - Baltimore, MD (5)		392	80,318	45,000	Fixed	5.74%	Dec 2014
12. Middlesex Crossing - Billerica, MA		252	38,462	24,100	Fixed	5.49%	Dec 2014
13. Avalon Crystal Hill - Ponoma, NY		168	38,852	24,500	Fixed	5.43%	Dec 2014
14. Avalon Skyway - San Jose, CA		348	78,347	37,500	Fixed	6.11%	Mar 2014
15. Avalon Rutherford Station - East Rutherford, NJ		108	36,849	19,461	Fixed	6.13%	Sep 2016
16. South Hills Apartments - West Covina, CA		85	24,810	11,762	Fixed	5.92%	Oct 2014
17. Weymouth Place - Weymouth, MA		211	25,299	13,455	Fixed	5.12%	Mar 2015
Total Fund I	15.2%	3,554	$ 673,683	$ 378,177		5.7%	
Fund II							
1. Avalon Bellevue Park - Bellevue, WA		220	$ 33,993	$ 21,515	Fixed	5.52%	Jun 2019
2. Avalon Fair Oaks - Fairfax, VA		491	72,164	42,600	Fixed	5.26%	May 2017
3. Avalon Rothbury - Gaithersburg, MD		203	31,481	18,750	Variable	2.86%	Jun 2017
4. The Apartments at Briarwood - Owings Mills, MD		348	45,422	26,850	Fixed	3.64%	Nov 2017
5. Grove Park Apartments - Gaithersburg, MD (6)		684	102,040	63,200	Fixed	5.42%	Jan 2018
6. Creekside Meadows - Tustin, CA		628	100,462	59,100	Fixed	3.81%	Oct 2017
7. Canyonwoods - Lake Forest, CA		140	25,638		N/A	N/A	N/A
8. Fox Run Apartments - Plainsboro, NJ (6)		776	87,296	54,068	Fixed	4.56%	Nov 2014
9. Waterstone Carlsbad - Carlsbad, CA		448	78,946	46,141	Fixed	4.68%	Feb 2018
10 Yale Village - Rockville, MD		210	49,545	31,997	Fixed	4.26%	Aug 2019
11 Captain Parker Arms - Lexington, MA		94	21,066	13,500	Fixed	3.90%	Sep 2019
12 Highlands at Rancho San Diego - San Diego, CA		676	124,016	74,282	Fixed	3.45%	Nov 2018
Total Fund II	31.3%	4,918	$ 772,069	$ 452,003		4.4%	
Other Operating Joint Ventures							
1. Avalon Chrystie Place I - New York, NY (7)	20.0%	361	$ 136,635	$ 117,000	Variable	0.82%	Nov 2036
2. Avalon at Mission Bay North II - San Francisco, CA (7)	25.0%	313	124,082	105,000	Fixed	6.02%	Dec 2015
3. Avalon Del Rey - Los Angeles, CA	30.0%	309	70,170	44,153	Variable	3.61%	Apr 2016
Total Other Joint Ventures		983	$ 330,887	$ 266,153		3.4%	
Total Unconsolidated Investments		9,455	$ 1,776,639	$ 1,096,333		4.6%	

(1) Represents total capitalized cost as of December 31, 2011.
(2) The Company has not guaranteed the debt of its unconsolidated investees and bears no responsibility for the repayment, other than the construction and completion and related financing guarantee for Avalon Chrystie Place I associated with the construction completion and occupancy certificate.
(3) Represents weighted average rate on outstanding debt as of December 31, 2011.
(4) Beginning in the third quarter of 2010, the Company consolidated the net assets and results of operations of The Springs.
(5) Borrowing on this community is comprised of three mortgage loans.
(6) Borrowing on this community is comprised of two mortgage loans.
(7) After the venture makes certain threshold distributions to the third-party partner, the Company generally receives 50% of all further distributions.
(8) Fund I sold these communities in 2012.
(9) The mortgage note secured by this community was repaid prior to its disposition in advance of its scheduled maturity.

Off-Balance Sheet Arrangements

In addition to our investment interests in consolidated and unconsolidated real estate entities, we have certain off-balance sheet arrangements with the entities in which we invest. Additional discussion of these entities can be found in Note 6, Investments in Real Estate Entities, of our Consolidated Financial Statements located elsewhere in this report.

CVP I, LLC has outstanding tax-exempt, variable rate bonds maturing in November 2036 in the amount of $117,000,000, which have permanent credit enhancement. We have agreed to guarantee, under limited circumstances, the repayment to the credit enhancer of any advances it may make in fulfillment of CVP I, LLC s repayment obligations under the bonds. We have also guaranteed to the credit enhancer that CVP I, LLC will obtain a final certificate of occupancy for the project (Chrystie Place in New York City), which is expected in 2012. Our 80% partner in this venture has agreed that it will reimburse us its pro rata share of any amounts paid relative to these guaranteed obligations. The estimated fair value of, and our obligation under these guarantees, both at inception and as of December 31, 2011, were not significant. As a result we have not recorded any obligation associated with these guarantees at December 31, 2011.

Subsidiaries of Fund I have 18 loans, including one owned by us, secured by individual assets with amounts outstanding in the aggregate of $378,177,000. Fund I subsidiary loans have varying maturity dates (or dates after which the loans can be prepaid), ranging from August 2013 to September 2016. These mortgage loans are secured by the underlying real estate. The mortgage loans are payable by the subsidiaries of Fund I with operating cash flow or disposition proceeds from the underlying real estate. We have not guaranteed the debt of Fund I, nor do we have any obligation to fund this debt should Fund I be unable to do so.
In addition, as part of the formation of Fund I, we have provided to one of the limited partners a guarantee. The guarantee provides that if, upon final liquidation of Fund I, the total amount of all distributions to that partner during the life of Fund I (whether from operating cash flow or property sales) does not equal a minimum of the total capital contributions made by that partner, then we will pay the partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the partner (maximum of approximately $7,500,000 as of December 31, 2011). As of December 31, 2011, the expected realizable value of the real estate assets owned by Fund I is considered adequate to cover such potential payment to that partner under the expected Fund I liquidation scenario. The estimated fair value of, and our obligation under this guarantee, both at inception and as of December 31, 2011was not significant and therefore we have not recorded any obligation for this guarantee as of December 31, 2011.

Subsidiaries of Fund II have 12 loans secured by individual assets with amounts outstanding in the aggregate of $452,003,000 with maturity dates that vary from November 2014 to September 2019. The mortgage loans are payable by the subsidiaries of Fund II with operating cash flow or disposition proceeds from the underlying real estate. We have not guaranteed, nor do we have any obligation to fund this debt should Fund II be unable to do so.

In addition, as part of the formation of Fund II, we have provided to one of the limited partners a guarantee. The guarantee provides that if, upon final liquidation of Fund II, the total amount of all distributions to that partner during the life of Fund II (whether from operating cash flow or property sales) does not equal a minimum of the total capital contributions made by that partner, then we will pay the partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the partner (maximum of approximately $8,348,000 as of December 31, 2011). As of December 31, 2011, the expected realizable value of the real estate assets owned by Fund II is considered adequate to cover such potential payment to that partner under the expected Fund II liquidation scenario. The estimated fair value of, and our obligation under this guarantee, both at inception and as of December 31, 2011 was not significant and therefore we have not recorded any obligation for this guarantee as of December 31, 2011.

Each individual mortgage loan of Fund I or Fund II was made to a special purpose, single asset subsidiary of the Funds. Each mortgage loan provides that it is the obligation of the respective subsidiary only, except under exceptional circumstances (such as fraud or misapplication of funds) in which case the respective Fund could also have obligations with respect to the mortgage loan. In no event do the mortgage loans provide for recourse against investors in the Funds, including against us or our wholly-owned subsidiaries that invest in the Funds. A default by a Fund or a Fund subsidiary on any loan to it would not constitute a default under any of our loans or any loans of our other non-Fund subsidiaries or affiliates. If a Fund subsidiary or a Fund were unable to meet its obligations under a loan, the value of our investment in that

Fund would likely decline and we might also be more likely to be obligated under the guarantee we provided to one of the Fund partners in each Fund as described above. If a Fund subsidiary or a Fund were unable to meet its obligations under a loan, we and/or the other investors might evaluate whether it was in our respective interests to voluntarily support the Fund through additional equity contributions and/or take other actions to avoid a default under a loan or the consequences of a default (such as foreclosure of a Fund asset). However, we cannot predict at this time whether we would provide such voluntary support, or take such other action, as any such action would depend on a variety of factors, including the amount of support required and the possibility that such support could enhance the Fund s and/or our returns by providing time for performance to improve.

MVP I, LLC, the entity that owns Avalon at Mission Bay North II, has a loan secured by the underlying real estate assets of the community for $105,000,000. The loan is a fixed rate, interest-only note bearing interest at 6.02%, maturing in December 2015. We have not guaranteed the debt of MVP I, LLC, nor do we have any obligation to fund this debt should MVP I, LLC be unable to do so.

Avalon Del Rey Apartments, LLC has a variable rate loan secured by the underlying real estate assets of the community for $44,153,000 maturing in April 2016. We have not guaranteed the debt of Avalon Del Rey Apartments, LLC, nor do we have any obligation to fund this debt should Avalon Del Rey Apartments, LLC be unable to do so.

Aria at Hathorne Hill, LLC is a joint venture in which we have a non-managing member interest. The LLC was formed to develop for-sale town homes in Danvers, Massachusetts on an out parcel a