AVALONBAY COMMUNITIES INC
Form 10-Q
August 06, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2010
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 offices, including zip code)
(703) 329-6300
(Registrant s telephone number, including area code)
(Former name, if changed since last report)

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

Yes þ No o

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

Yes þ No o

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

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

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

Yeso No þ

APPLICABLE ONLY TO CORPORATE ISSUERS

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

85,162,865 shares of common stock, par value $0.01 per share, were outstanding as of July 31, 2010

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

	6-30-10 (unaudited)	12-31-09
ASSETS		
Real estate:		
Land	$ 1,294,929	$ 1,250,679
Buildings and improvements	6,213,711	5,988,330
Furniture, fixtures and equipment	194,434	186,301
	7,703,074	7,425,310
Less accumulated depreciation	(1,590,901)	(1,477,772)
Net operating real estate	6,112,173	5,947,538
Construction in progress, including land	492,156	531,299
Land held for development	237,529	237,095
Operating real estate assets held for sale, net		117,555
Total real estate, net	6,841,858	6,833,487
Cash and cash equivalents	373,721	105,691
Cash in escrow	188,267	210,676
Resident security deposits	21,787	23,646
Investments in unconsolidated real estate entities	71,467	74,570
Deferred financing costs, net	33,905	34,531
Deferred development costs	87,611	87,763
Prepaid expenses and other assets	86,228	87,241
Total assets	$ 7,704,844	$ 7,457,605
LIABILITIES AND STOCKHOLDERS EQUITY		
Unsecured notes, net	$ 1,659,621	$ 1,658,029
Mortgage notes payable	2,288,913	2,316,843
Dividends payable	75,944	72,773
Payables for construction	43,443	49,623
Accrued expenses and other liabilities	228,314	233,029
Accrued interest payable	30,723	35,069
Resident security deposits	33,596	33,646
Liabilities related to real estate assets held for sale		2,669
Total liabilities	4,360,554	4,401,681
Redeemable noncontrolling interests	9,381	5,797
Stockholders equity:		

Preferred stock, $0.01 par value; $25 liquidation preference; 50,000,000 shares authorized at both June 30, 2010 and December 31, 2009; zero shares issued and outstanding at June 30, 2010 and December 31, 2009		
Common stock, $0.01 par value; 140,000,000 shares authorized at both June 30, 2010 and December 31, 2009; 85,078,734 and 81,528,957 shares issued and outstanding at June 30, 2010 and December 31, 2009, respectively	851	815
Additional paid-in capital	3,515,189	3,200,367
Accumulated earnings less dividends	(179,929)	(149,988)
Accumulated other comprehensive loss	(1,202)	(1,067)
Total stockholders equity	3,334,909	3,050,127
Total liabilities and stockholders equity	$ 7,704,844	$ 7,457,605

See accompanying notes to Condensed Consolidated Financial Statements.

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

	For the three months ended		For the six months ended	
	6-30-10	6-30-09	6-30-10	6-30-09
Revenue:				
Rental and other income	$ 218,784	$ 210,182	$ 432,522	$ 418,447
Management, development and other fees	1,684	2,077	3,533	3,545
Total revenue	220,468	212,259	436,055	421,992
Expenses:				
Operating expenses, excluding property taxes	65,885	66,001	130,916	128,781
Property taxes	23,175	19,945	46,347	40,831
Interest expense, net	41,458	36,880	83,999	67,010
Gain on extinguishment of debt, net				(1,062)
Depreciation expense	57,479	51,174	113,574	101,247
General and administrative expense	4,041	5,390	12,936	12,637
Impairment loss land holdings		20,302		20,302
Total expenses	192,038	199,692	387,772	369,746
Equity in income of unconsolidated entities	463	492	689	3,949
Income from continuing operations	28,893	13,059	48,972	56,195
Discontinued operations:				
Income from discontinued operations	244	3,664	2,240	7,629
Gain on sale of communities	21,929		72,220	
Total discontinued operations	22,173	3,664	74,460	7,629
Net income	51,066	16,723	123,432	63,824
Net loss attributable to redeemable noncontrolling interests	59	951	216	1,275
Net income attributable to common stockholders	$ 51,125	$ 17,674	$ 123,648	$ 65,099
Other comprehensive income:				
Unrealized (loss) gain on cash flow hedges	(677)	421	(135)	797

Comprehensive income	$ 50,448	$ 18,095	$ 123,513	$ 65,896
Earnings per common share basic:				
Income from continuing operations attributable to common stockholders	$ 0.35	$ 0.17	$ 0.59	$ 0.72
Discontinued operations attributable to common stockholders	0.26	0.05	0.90	0.10
Net income attributable to common stockholders	$ 0.61	$ 0.22	$ 1.49	$ 0.82
Earnings per common share diluted:				
Income from continuing operations attributable to common stockholders	$ 0.35	$ 0.17	$ 0.59	$ 0.72
Discontinued operations attributable to common stockholders	0.26	0.05	0.90	0.10
Net income attributable to common stockholders	$ 0.61	$ 0.22	$ 1.49	$ 0.82
Dividends per common share:	$ 0.8925	$ 0.8925	$ 1.7850	$ 1.7850

See accompanying notes to Condensed Consolidated Financial Statements.

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

	For the six months ended 6-30-10	6-30-09
Cash flows from operating activities:		
Net income	$ 123,432	$ 63,824
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation expense	113,574	101,247
Depreciation expense from discontinued operations		5,130
Amortization of deferred financing costs and debt premium/discount	3,908	3,598
Amortization of stock-based compensation	3,409	3,638
Equity in loss (income) of unconsolidated entities, net of eliminations	120	(4,288)
Impairment loss land holdings		20,302
Gain on sale of real estate assets	(72,220)	
Gain on extinguishment of debt, net		(1,062)
Decrease (increase) in cash in operating escrows	1,185	(775)
Decrease (increase) in resident security deposits, prepaid expenses and other assets	3,009	(5,843)
(Decrease) increase in accrued expenses, other liabilities and accrued interest payable	(4,693)	3,957
Net cash provided by operating activities	171,724	189,728
Cash flows from investing activities:		
Development/redevelopment of real estate assets including land acquisitions and deferred development costs	(233,994)	(311,577)
Capital expenditures existing real estate assets	(4,872)	(1,708)
Capital expenditures non-real estate assets	(524)	(383)
Proceeds from sale of real estate, net of selling costs	187,587	
Decrease in payables for construction	(6,180)	(9,100)
Decrease in cash in construction escrows	21,224	47,413
Decrease (increase) in investments in unconsolidated real estate entities	2,781	(702)
Net cash used in investing activities	(33,978)	(276,057)
Cash flows from financing activities:		
Issuance of common stock	306,817	1,114
Dividends paid	(146,258)	(139,928)
Payments under unsecured credit facility		(124,000)
Issuance of mortgage notes payable and draws on construction loans		741,140
Repayments of mortgage notes payable	(27,930)	(27,774)
Repayment of unsecured notes		(206,173)
Payment of deferred financing costs	(2,218)	(7,727)
Redemption of units for cash by minority partners		(202)
Distributions to DownREIT partnership unitholders	(27)	(39)

Distributions to joint venture and profit-sharing partners	(100)	
Net cash provided by financing activities	130,284	236,411
Net increase in cash and cash equivalents	268,030	150,082
Cash and cash equivalents, beginning of period	105,691	65,706
Cash and cash equivalents, end of period	$ 373,721	$ 215,788
Cash paid during the period for interest, net of amount capitalized	$ 78,009	$ 57,402

See accompanying notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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

During the six months ended June 30, 2010:

As described in Note 4, Stockholders Equity, 102,984 shares of common stock valued at $7,777 were issued in connection with stock grants, 3,609 shares valued at $308 were issued through the Company s dividend reinvestment plan, 45,165 shares valued at $3,812 were withheld to satisfy employees tax withholding and other liabilities, 1,300 shares valued at $38 were forfeited, 61,055 shares valued at $3,322 were issued to members of the board of directors in fulfillment of deferred stock awards for a net value of $7,556. In addition, the Company granted 126,484 options for common stock at a value of $2,460.

The Company recorded an increase to other liabilities and a corresponding decrease to other comprehensive income of $135 and recorded an increase to prepaid expenses and other assets of $1,412, with a corresponding offset to the basis of unsecured notes, net to record the impact of the Company s hedge accounting activity (as described in Note 5, Derivative Instruments and Hedging Activities).

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

The Company recorded an increase of $3,928 in redeemable noncontrolling interests with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units. For further discussion of the nature and valuation of these items, see Note 11, Fair Value .

During the six months ended June 30, 2009:

2,624,641 shares of common stock valued at $139,058 were issued as part of the special dividend declared in the fourth quarter of 2008, 169,851 shares of common stock valued at $8,360 were issued in connection with stock grants, 5,623 shares valued at $307 were issued through the Company s dividend reinvestment plan, 30,612 shares valued at $1,327 were withheld to satisfy employees tax withholding and other liabilities and 1,031 shares valued at $147 were forfeited, for a net value of $146,251. In addition, the Company granted 344,801 options for common stock at a value of $2,252.

The Company recorded a decrease to other liabilities and a corresponding increase to other comprehensive income of $797 to record the impact of the Company s hedge accounting activity.

Common dividends declared but not paid totaled $71,346.

The Company recorded a decrease of $2,827 in redeemable noncontrolling interests with a corresponding increase to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units.

In May 2009, the Company obtained $93,440 in variable rate tax-exempt bond financing related to a Development Right (as defined elsewhere in this Form 10-Q), the proceeds of which will be held in escrow until requisitioned for construction funding. This loan provides an option for the Company to request an additional construction loan of up to $83,560 subject to the lender s discretion.

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

1. Organization, Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

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

At June 30, 2010, the Company owned or held a direct or indirect ownership interest in 164 operating apartment communities containing 47,401 apartment homes in ten states and the District of Columbia, of which seven communities containing 2,197 apartment homes were under reconstruction. In addition, the Company owned or held a direct or indirect ownership interest in seven communities under construction that are expected to contain an aggregate of 2,509 apartment homes when completed. The Company also owned or held a direct or indirect ownership interest in rights to develop an additional 28 communities that, if developed as expected, will contain an estimated 7,329 apartment homes.

The interim unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements required by GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited financial statements should be read in conjunction with the financial statements and notes included in the Company s 2009 Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the operating results for the full year. Management believes the disclosures are adequate to ensure the information presented is not misleading. In the opinion of management, all adjustments and eliminations, consisting only of normal, recurring adjustments necessary for a fair presentation of the financial statements for the interim periods, have been included.

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

Earnings per Common Share

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

	For the three months ended		For the six months ended	
	6-30-10	6-30-09	6-30-10	6-30-09
Basic and diluted shares outstanding				
Weighted average common shares basic	83,517,908	79,662,223	82,583,638	79,210,349
Weighted average DownREIT units outstanding	15,351	15,888	15,351	17,648
Effect of dilutive securities	711,846	364,183	649,006	670,290
Weighted average common shares diluted	84,245,105	80,042,294	83,247,995	79,898,287
Calculation of Earnings per Share basic				
Net income attributable to common stockholders	$ 51,125	$ 17,674	$ 123,648	$ 65,099
Net income allocated to unvested restricted shares	(143)	(56)	(368)	(206)
Net income attributable to common stockholders, adjusted	$ 50,982	$ 17,618	$ 123,280	$ 64,893
Weighted average common shares basic	83,517,908	79,662,223	82,583,638	79,210,349
Earnings per common share basic	$ 0.61	$ 0.22	$ 1.49	$ 0.82
Calculation of Earnings per Share diluted				
Net income attributable to common stockholders	$ 51,125	$ 17,674	$ 123,648	$ 65,099
Add: noncontrolling interests of DownREIT unitholders in consolidated partnerships, including discontinued operations	14	14	27	39
Adjusted net income attributable to common stockholders	$ 51,139	$ 17,688	$ 123,675	$ 65,138
Weighted average common shares diluted	84,245,105	80,042,294	83,247,995	79,898,287
Earnings per common share diluted	$ 0.61	$ 0.22	$ 1.49	$ 0.82

Certain options to purchase shares of common stock in the amounts of 1,176,293 and 2,368,642 were outstanding at June 30, 2010 and 2009, respectively, but were not included in the computation of diluted earnings per share because such options were anti-dilutive.

The Company is required to estimate the forfeiture of stock options and recognize compensation cost net of the estimated forfeitures. The estimated forfeitures included in compensation cost are adjusted to reflect actual forfeitures at the end of the vesting period. The forfeiture rate at June 30, 2010 is based on the average forfeiture activity over a period equal to the estimated life of the stock options, and was 1.4%. The application of estimated forfeitures did not materially impact compensation expense for the three and six months ended June 30, 2010 or 2009.

Abandoned Pursuit Costs and Impairment of Long-Lived Assets

The Company capitalizes pre-development costs incurred in pursuit of new development opportunities for which the Company currently believes future development is probable (Development Rights). Future development of these Development Rights is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and the availability of capital. Initial pre-development costs incurred for pursuits for which future development is not yet considered probable are expensed as incurred. In addition, if the status of a Development Right changes, making future development by the Company no longer probable, any capitalized pre-development costs are written off with a charge to expense. The Company expensed costs related to abandoned pursuits, which includes the abandonment of Development Rights as well as costs incurred in pursuing the disposition of assets for which the disposition did not occur, in the amounts of $443 and $2,281 for the three months ended June 30, 2010 and 2009, respectively and $947 and $3,375 for the six months ended June 30, 2010 and 2009, respectively. These costs are included in operating expenses, excluding property taxes on the accompanying Condensed Consolidated Statements of Operations and Other Comprehensive Income. Abandoned pursuit costs can vary greatly, and the costs incurred in any given period may be significantly different in future years.

The Company evaluates its real estate and other long-lived assets for impairment when potential indicators of impairment exist. Such assets are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the Company assesses its recoverability by comparing the carrying amount of the long-lived asset to its estimated undiscounted future cash flows. If the carrying amount exceeds the aggregate undiscounted future cash flows, the Company recognizes an impairment loss to the extent the carrying amount exceeds the estimated fair value of the long-lived asset. Based on periodic tests of recoverability of long-lived assets, the Company did not record any impairment losses for the three and six months ended June 30, 2010. In the second quarter of 2009, the Company concluded that the economic downturn and the related decline in employment levels did not support the development and construction of certain new apartment communities previously in planning. As a result the Company recognized a charge of $20,302 related to the impairment of two land parcels for which the Company decided not to pursue development. The Company looked to third-party pricing estimates to determine the fair values of the land parcels considered to be impaired. Given the heterogeneous nature of multifamily real estate, the third-party values incorporated the use of estimated rates of return, investment time horizons and sales prices for land parcels considered to be market comparables, adjusted for known differences in critical areas including the existing entitlements (such as zoning and state of infrastructure readiness), all of which are considered significant other unobservable inputs and are therefore classified as Level 3 prices in the fair value hierarchy. In 2009, the Company also recognized a charge for severance related costs associated with this reduction in planned development activity of approximately $2,000, reported as a component of general and administrative expense. However, as a result of improved economic conditions, the Company expects to increase its investment activity for the balance of 2010, allowing the Company to retain staff previously expected to depart. Therefore certain planned terminations are no longer expected to take place, resulting in a decline of $1,550 in accrued severance recorded as a reduction in general and administrative expenses in the three and six months ended June 30, 2010.

Legal and Other Contingencies

As previously reported, on August 13, 2008 the U.S. Attorney s Office for the Southern District of New York filed a civil lawsuit against the Company and the joint venture in which it has an interest that owns Avalon Chrystie Place. The lawsuit alleges that Avalon Chrystie Place was not designed and constructed in accordance with the accessibility requirements of the Fair Housing Act (FHA). The Company designed and constructed Avalon Chrystie Place with a view to compliance with New York City s Local Law 58, which for more than 20 years has been New York City s code regulating the accessible design and construction of apartments. After the filing of its answer and affirmative defenses, during the fourth quarter of 2009 the plaintiff served the Company with discovery requests relating to communities owned by the Company nationwide. The Company objected to these discovery requests as being overly broad, as the plaintiff s complaint made factual allegations with regard to Avalon Chrystie Place only. A magistrate judge agreed with the Company and limited discovery to Avalon Chrystie Place. The plaintiff is appealing the magistrate judge s ruling. Due to the preliminary nature of this matter, including whether the scope of the suit will be extended to other properties, the Company cannot predict or determine the outcome of this matter, nor is it reasonably possible to estimate the amount of loss, if any, that would be associated with an adverse decision or settlement.

The Company accounts for recoveries from legal matters as a reduction in the legal and related costs incurred associated with the matter, with recoveries in excess of these costs reported as a gain or, where appropriate, a reduction in the basis of a community to which the suit related. During the second quarter of 2010, the Company recognized receipt of settlement proceeds of $3,300 related to environmental contamination matters pursued by the Company. The Company reported $1,200 of these recoveries as a reduction in the legal and professional fees related to costs incurred in pursuit of the matters during 2010 and years prior as a component of general and administrative expense, with the remainder of the recovery reported as a reduction in the associated capitalized basis of the related communities.

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

Use of Estimates

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

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

2. Interest Capitalized

The Company capitalizes interest during the development and redevelopment of real estate assets. Capitalized interest associated with the Company s development or redevelopment activities totaled $9,655 and $13,677 for the three months ended June 30, 2010 and 2009, respectively and $19,491 and $26,045 for the six months ended June 30, 2010 and 2009, respectively.

3. Notes Payable, Unsecured Notes and Credit Facility

The Company s mortgage notes payable, unsecured notes and Credit Facility, as defined below, as of June 30, 2010 and December 31, 2009, are summarized below. The following amounts and discussion do not include the mortgage notes related to the communities classified as held for sale, if any, as of June 30, 2010 and December 31, 2009, as shown in the Condensed Consolidated Balance Sheets (see Note 7, Real Estate Disposition Activities).

	6-30-10	12-31-09
Fixed rate unsecured notes [(1)]	$ 1,358,437	$ 1,358,257
Variable rate unsecured notes [(2)]	301,184	299,772
Fixed rate mortgage notes payable conventional and tax-exempt	1,562,463	1,632,605
Variable rate mortgage notes payable conventional and tax-exempt	726,450	684,238
Total notes payable and unsecured notes	3,948,534	3,974,872
Credit Facility		
Total mortgage notes payable, unsecured notes and Credit Facility	$ 3,948,534	$ 3,974,872

(1) Balances at June 30, 2010 and December 31, 2009 include $2,040 and $2,220 of debt discount.

(2) Balances at June 30, 2010 and December 31, 2009 include $1,184 and ($228) for basis adjustments resulting from qualifying fair value hedging relationships.

The following debt activity occurred during the six months ended June 30, 2010:

In February 2010, the Company repaid a 6.47% fixed rate secured mortgage note in the amount of $13,961 in advance of its March 2012 scheduled maturity date.

In March 2010, the Company repaid a 6.95% fixed rate secured mortgage note in the amount of $11,226 in advance of its February 2025 scheduled maturity date.

In the aggregate, secured notes payable mature at various dates from October 2010 through July 2066, and are secured by certain apartment communities and improved land parcels (with a net carrying value of $1,832,734 as of June 30, 2010). As of June 30, 2010, the Company has guaranteed approximately $409,256 of mortgage notes payable held by wholly owned subsidiaries; all such mortgage notes payable are consolidated for financial reporting purposes. The weighted average interest rate of the Company s fixed rate mortgage notes payable (conventional and tax-exempt) was 5.0% at June 30, 2010 and 5.1% at December 31, 2009. The weighted average interest rate of the Company s variable rate mortgage notes payable and its Credit Facility, including the effect of certain financing related fees, was 2.4% at June 30, 2010 and 2.9% at December 31, 2009.

Scheduled payments and maturities of mortgage notes payable and unsecured notes outstanding at June 30, 2010 are as follows:

Year	Secured notes payments[(1)]	Secured notes maturities	Unsecured notes maturities	Stated interest rate of unsecured notes
2010	$ 2,520	$ 28,989	$ 14,576	7.500%
			75,000	7.317%(2)
2011	10,776	36,610	39,900	6.625%
			150,000	5.946%(2)
2012	14,034	108,224	201,601	6.125%
			104,400	5.500%
			75,000	4.377%(2)
2013	14,876	264,697	100,000	4.950%
2014	15,769	33,100	150,000	5.375%
2015	14,725	365,130		
2016	15,600		250,000	5.750%
2017	16,533	18,300	250,000	5.700%
2018	17,522			
2019	2,588	699,529		
Thereafter	110,707	498,684	250,000	6.100%
	$ 235,650	$ 2,053,263	$ 1,660,477	

(1) Secured note payments are comprised of the principal pay downs for amortizing mortgage notes.

(2) The weighted average interest rate for the swapped

unsecured notes
as of June 30,
2010.

The Company has a variable rate unsecured credit facility (the Credit Facility) in the amount of $1,000,000 with a syndicate of commercial banks, to whom the Company pays an annual facility fee of approximately $1,250. The Company did not have any amounts outstanding under the Credit Facility and had $57,076 outstanding in letters of credit as of June 30, 2010. At December 31, 2009, there were no amounts outstanding under the Credit Facility and $44,105 outstanding in letters of credit. The Credit Facility bears interest at varying levels based on the London Interbank Offered Rate (LIBOR), rating levels achieved on the Company s unsecured notes and on a maturity schedule selected by the Company. The current stated pricing is LIBOR plus 0.40% per annum (0.75% at June 30, 2010). The Credit Facility matures in November 2011, assuming exercise of a one-year renewal option which is at the sole discretion of the Company.

The Company was in compliance at June 30, 2010 with certain customary financial and other covenants under the Credit Facility and the Company s unsecured notes.

4. Stockholders Equity

The following summarizes the changes in stockholders equity for the six months ended June 30, 2010:

	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total AvalonBay stockholders equity
Balance at December 31, 2009	$ 815	$ 3,200,367	$ (149,988)	$ (1,067)	$ 3,050,127
Net income attributable to common stockholders			123,648		123,648
Unrealized loss on cash flow hedges				(135)	(135)
Change in redemption value of redeemable noncontrolling interest			(3,928)		(3,928)
Dividends declared to common stockholders			(149,737)		(149,737)
Issuance of common stock, net of withholdings	36	306,484	76		306,596
Amortization of deferred compensation		8,338			8,338
Balance at June 30, 2010	$ 851	$ 3,515,189	$ (179,929)	$ (1,202)	$ 3,334,909

During the six months ended June 30, 2010, the Company:

(i) issued 3,003,504 shares of common stock through public offerings;

(ii) issued 425,090 shares of common stock in connection with stock options exercised;

(iii) issued 3,609 common shares through the Company s dividend reinvestment plan;

(iv) issued 102,984 common shares in connection with stock grants;

(v) issued 61,055 shares to a retiring member of the Board of Directors in fulfillment of deferred stock awards;

(vi) withheld 45,165 common shares to satisfy employees tax withholding and other liabilities; and

(vii) redeemed 1,300 shares of restricted common stock upon forfeiture.

In addition, the Company granted 126,484 options for common stock to employees. Any deferred compensation related to the Company s stock option and restricted stock grants during the six months ended June 30, 2010 is not reflected on the Company s Condensed Consolidated Balance Sheet as of June 30, 2010, and will not be reflected until earned as compensation cost.

In August 2009, the Company commenced a continuous equity program (the CEP), under which the Company was authorized up to $400,000 of its common stock until August 2012. During the three and six months ended June 30, 2010, the Company sold 2,111,819 and 3,003,504 shares under this program at an average sales price of $100.68 and $95.76 per share, for net proceeds of $209,428 and $283,298, respectively. In July 2010, the Company completed the currently-registered amount of sales under the program, selling $400,000 of common stock cumulatively through July 2010. See Note 12, Subsequent Events .

5. Derivative Instruments and Hedging Activities

The Company enters into interest rate swap and interest rate cap agreements (collectively, the Hedging Derivatives) for interest rate risk management purposes and in conjunction with certain variable rate secured debt to satisfy lender requirements. The Company does not enter into derivative transactions for trading or other speculative purposes. The following table summarizes the consolidated Hedging Derivatives at June 30, 2010, excluding derivatives executed to hedge debt on communities classified as held for sale (dollars in thousands):

	Non-designated Hedges Interest Rate Caps	Cash Flow Hedges Interest Rate Caps	Fair Value Hedges Interest Rate Swaps
Notional balance	$ 109,847	$ 151,963	$ 300,000
Weighted average interest rate (1)	1.5%	2.6%	5.9%
Weighted average capped interest rate	6.9%	5.0%	N/A
Earliest maturity date	Apr-11	Jun-12	Dec-10
Latest maturity date	Mar-14	Jun-15	Jan-12
Estimated fair value, asset/(liability)	$ 39	$ 632	$ 1,184

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

Excluding derivatives executed to hedge debt on communities classified as held for sale, the Company had four derivatives designated as cash flow hedges, five derivatives designated as fair value hedges and five derivatives not designated as hedges at June 30, 2010. Fair value changes for derivatives that are not in qualifying hedge relationships are reported as a component of general and administrative expenses on the accompanying Condensed Consolidated Statements of Operations and Other Comprehensive Income. Fair value changes for derivatives not in qualifying hedge relationships for the six months ended June 30, 2010, were not material. For the derivative positions that the Company has determined qualify as effective cash flow hedges, the Company has recorded the effective portion of cumulative changes in the fair value of the Hedging Derivatives in other comprehensive income. Amounts recorded in other comprehensive income will be reclassified into earnings in the periods in which earnings are affected by the hedged cash flow. To adjust the Hedging Derivatives in qualifying cash flow hedges to their fair value and recognize the impact of hedge accounting, the Company recorded a decrease in other comprehensive income of $135 and an increase of $797 during the six months ended June 30, 2010 and 2009, respectively. The amount reclassified into earnings for the six months ended June 30, 2010, as well as the estimated amount included in accumulated other comprehensive income as of June 30, 2010, expected to be reclassified into earnings within the next twelve months to offset the variability of cash flows of the hedged items during this period are not material. For the derivative positions that the Company has determined qualify as effective fair value hedges, the Company has recorded an increase in the fair value of $1,184 with the derivatives fair value reported as a component of prepaid expenses and other assets, with the associated gain as an adjustment to the carrying amount of the corresponding debt being hedged on the accompanying Condensed Consolidated Balance Sheets as of June 30, 2010.

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

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

6. Investments in Real Estate Entities

As of June 30, 2010, the Company had investments in six unconsolidated real estate entities with ownership interest percentages ranging from 15.2% to 50%. There were no changes in the Company s ownership interest in, or presentation of, its investments in unconsolidated real estate entities during the six months ended June 30, 2010. Detail of the real estate and associated funding underlying the Company s unconsolidated investments is presented in the following table (unaudited).

Unconsolidated Real Estate Investments		Company Ownership Percentage	# of Apartment Homes	Total Capitalized Cost (1)	Debt Amount (2)	Type	Interest Rate (3)	Maturity Date
Fund I								
1.	Avalon at Redondo Beach Los Angeles, CA		105	$ 24,622	$ 21,033	Fixed	4.87%	Oct 2011
2.	Avalon Lakeside Chicago, IL		204	18,304	12,056	Fixed	5.74%	Mar 2012
3.	Avalon Columbia Baltimore, MD		170	29,366	22,275	Fixed	5.48%	Apr 2012
4.	Avalon Sunset Los Angeles, CA		82	20,903	12,750	Fixed	5.41%	Mar 2014
5.	Avalon at Poplar Creek Chicago, IL		196	28,093	16,500	Fixed	4.83%	Oct 2012
6.	Avalon at Civic Center Norwalk, CA		192	42,756	27,001	Fixed	5.38%	Aug 2013
7.	Avalon Paseo Place Fremont, CA		134	24,832	11,800	Fixed	5.74%	Nov 2013
8.	Avalon at Yerba Buena San Francisco, CA		160	66,791	41,500	Fixed	5.88%	Mar 2014
9.	Avalon at Aberdeen Station Aberdeen, NJ		290	58,300	39,842	Fixed	5.64%	Sep 2013
10.	The Springs Corona, CA		320	48,392	26,000	Fixed	6.06%	Oct 2014
11.	Avalon Lombard Lombard, IL		256	35,319	17,243	Fixed	5.43%	Jan 2014
12.	Avalon Cedar Place Columbia, MD		156	24,439	12,000	Fixed	5.68%	Feb 2014
13.	Avalon Centerpoint Baltimore, MD		392	79,606	45,000	Fixed	5.74%	Dec 2013
14.	Middlesex Crossing Billerica, MA		252	38,062	24,100	Fixed	5.49%	Dec 2013
15.	Avalon Crystal Hill Ponoma, NY		168	38,606	24,500	Fixed	5.43%	Dec 2013
16.	Avalon Skyway San Jose, CA		348	78,179	37,500	Fixed	6.11%	Mar 2014
17.	Avalon Rutherford Station East		108	36,794	19,943	Fixed	6.13%	Sep 2016

	Rutherford, NJ							
18.	South Hills Apartments West Covina, CA		85	24,756	11,761	Fixed	5.92%	Oct 2013
19.	Weymouth Place Weymouth, MA		211	25,298	13,455	Fixed	5.12%	Mar 2015
	Total Fund I	15.2%	3,829	$ 743,418	$ 436,259		5.6%	
Fund II								
1.	Avalon Bellevue Park Bellevue, WA		220	$ 33,852	$ 21,515	Fixed	5.52%	Jun 2019
2.	The Hermitage Fairfax, VA		491	71,815	42,600	Fixed	5.26%	May 2017
3.	Avalon Rothbury Gaithersburg, MD		203	31,259	18,750	Variable	2.94%	Jun 2017
	Fund II corporate debt		N/A	N/A	1,500	Variable	2.85%	2010(4)
	Total Fund II	31.3%	914	$ 136,926	$ 84,365		4.8%	
Other Operating Joint Ventures								
1.	Avalon Chrystie Place I New York, NY (5)	20.0%	361	$ 135,325	$ 117,000	Variable	0.97%	Nov 2036
2.	Avalon at Mission Bay North II San Francisco, CA (6)	25.0%	313	124,014	105,000	Fixed	6.02%	Dec 2015
3.	Avalon Del Rey Los Angeles, CA	30.0%	309	70,037	45,506	Variable	3.69%	Apr 2016
Other Development Joint Ventures								
1.	Aria at Hathorne Danvers, MA (6) (7)	50.0%	64	N/A	1,860	Variable	4.19%	Jun 2010 (8)
	Total Other Joint Ventures		1,047	$ 329,376	$ 269,366		3.4%	
	Total Unconsolidated Investments		5,790	$ 1,209,720	$ 789,990		4.8%	

(1) Represents total capitalized cost as of June 30, 2010.

(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.

(4) As of June 30, 2010, these borrowings are drawn under an unsecured credit facility maturing in December 2011, assuming exercise of a one-year extension option.

(5) After the venture makes certain threshold distributions to the third-party partner, the Company generally receives 50% of all further distributions.

(6) The Company has contributed land at a stepped

up basis as its only capital contribution to this development.

(7) After the venture makes certain threshold distributions to the Company, the Company receives 50% of all further distributions.

(8) The loan for this venture matured in June 2010. As of June 30, 2010, the amounts under this borrowing have not been repaid. The venture is negotiating an extension or refinancing of the amounts outstanding. The lender has not to date declared an event of default with respect to the note or required the venture to pay a default rate of interest. Although the Company bears no responsibility to repay the amounts outstanding, the Company has the right to cure any event of default by the venture.

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

	6-30-10 (unaudited)	12-31-09 (unaudited)
Assets:		
Real estate, net	$ 1,098,125	$ 1,065,328
Other assets	41,046	39,502
Total assets	$ 1,139,171	$ 1,104,830
Liabilities and partners capital:		
Mortgage notes payable and credit facility	$ 789,990	$ 758,487
Other liabilities	20,400	19,669
Partners capital	328,781	326,674
Total liabilities and partners capital	$ 1,139,171	$ 1,104,830

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

	For the three months ended (unaudited)		For the six months ended (unaudited)	
	6-30-10	6-30-09	6-30-10	6-30-09
Rental and other income	$ 27,510	$ 26,613	$ 54,543	$ 51,769
Operating and other expenses	(12,363)	(13,727)	(25,791)	(25,583)
Interest expense, net	(9,894)	(9,279)	(19,383)	(18,181)
Depreciation expense	(8,937)	(8,222)	(17,918)	(16,028)
Net loss	$ (3,684)	$ (4,615)	$ (8,549)	$ (8,023)

In conjunction with the formation of Fund I and Fund II, as well as the acquisition and development of certain investments in unconsolidated entities, the Company incurred costs in excess of its equity in the underlying net assets of the respective investments. These costs represent $10,846 at June 30, 2010 and $11,047 at December 31, 2009 of the respective investment balances.

As part of the formation of the AvalonBay Value Added Fund, LP (Fund I) and the AvalonBay Value Added Fund II, LP (Fund II), the Company provided separate and distinct guarantees to one of the limited partners in each of the ventures. These guarantees are specific to the respective fund and any impacts or obligation of the Company to perform under one of the guarantees has no impact on the Company s obligations with respect to the other guarantee. The guarantees provide that, if, upon final liquidation of Fund I or Fund II, the total amount of all distributions to the guaranteed partner during the life of the respective fund (whether from operating cash flow or property sales) does not equal the total capital contributions made by that partner, then the Company will pay the guaranteed partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the guaranteed partner (maximum of approximately $7,500 for Fund I and approximately $1,470 for Fund II as of June 30, 2010). As of June 30, 2010, the expected realizable values of the real estate assets owned by Fund I and Fund II are considered adequate to cover such potential payments under a liquidation scenario. The estimated fair value of, and the Company s obligation under these guarantees, both at inception and as of June 30, 2010, was not significant and therefore the Company has not recorded any obligation for either of these guarantees as of June 30, 2010.

7. Real Estate Disposition Activities

During the three months ended June 30, 2010, the Company sold one community, Avalon on the Sound in New Rochelle, New York. Avalon on the Sound was developed by the Company in 2001 as a joint venture in which the Company held a 25% interest. The Company purchased its partner s 75% interest in 2005 and sold the entire community in the second quarter of 2010 for $107,500. This disposition resulted in a gain in accordance with GAAP of approximately $19,584. The Company retains ownership of Avalon on the Sound East, a 588 home apartment community adjacent to Avalon on the Sound. As of June 30, 2010, the Company did not have any communities that qualified as held for sale.

As disclosed in the Company s first quarter 2010 Form 10-Q, in April 2010, the Company settled a lawsuit relating to the Company s former Avalon Wynhaven community, which was sold in 2008. In conjunction with the settlement the Company made payments to the homeowners association and an indemnification payment to the buyer of Avalon Wynhaven in the aggregate of approximately $1,350. The Company previously had deferred recognition of $3,272 from the gain in disposition related to these costs. In the second quarter of 2010, the