

AVALONBAY COMMUNITIES INC

Form 10-Q

August 08, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

Commission file number 1-12672

AVALONBAY COMMUNITIES, INC.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of  
incorporation or organization)

77-0404318

(I.R.S. Employer  
Identification No.)

Ballston Tower

671 N. Glebe Rd, Suite 800

Arlington, Virginia 22203

(Address of principal executive offices, including zip code)

(703) 329-6300

(Registrant's telephone number, including area code)

(Former name, if changed since last report)

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

Yes  No

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

Yes  No

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

Large accelerated filer

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

Accelerated filer

Smaller reporting company

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

Yes  No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

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

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

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

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

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

See accompanying notes to Condensed Consolidated Financial Statements.

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AVALONBAY COMMUNITIES, INC.  
 CONDENSED CONSOLIDATED STATEMENTS OF  
 COMPREHENSIVE INCOME

(unaudited)

(Dollars in thousands, except per share data)

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

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

See accompanying notes to Condensed Consolidated Financial Statements.

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

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



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

See accompanying notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Supplemental disclosures of non-cash investing and financing activities:

During the six months ended June 30, 2014:

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

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

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

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

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

During the six months ended June 30, 2013:

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

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

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

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

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

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AVALONBAY COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Organization, Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

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

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

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

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

Earnings per Common Share

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

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

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

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

#### Derivative Instruments and Hedging Activities

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

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

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

### Legal and Other Contingencies

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

### Acquisitions of Investments in Real Estate

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

### Use of Estimates

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

### Reclassifications

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

### Recently Adopted Accounting Standards

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

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

### 2. Interest Capitalized

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

### 3. Notes Payable, Unsecured Notes and Credit Facility

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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## 4. Equity

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

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