AVALONBAY COMMUNITIES INC
Form 10-K
March 01, 2007

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, 2006
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.)*

2900 Eisenhower Avenue, Suite 300
Alexandria, Virginia 22314
(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
8.70% Series H Cumulative Redeemable Preferred 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 o

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 o 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 o

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. o

Indicate by check mark whether the Exchange registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Act).
Large accelerated filer x Accelerated filer o Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes o 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, 2006 was $8,231,895,376.

The number of shares of the registrant s Common Stock, par value $.01 per share, outstanding as of January 31, 2007 was 79,344,557.

Documents Incorporated by Reference

Portions of AvalonBay Communities, Inc. s Proxy Statement for the 2007 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

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 on page 65 of 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, or 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 Northeast, Mid-Atlantic, Midwest, Pacific Northwest, and Northern and Southern California regions of the United States. We focus on these markets because we believe that, long term, the limited new supply of apartment homes and lower housing affordability in these markets will result in larger increases in cash flows relative to other markets. In addition to increasing the rental revenues of our operating assets, we believe these market attributes will increase the value of our operating assets and enable us to create additional value through the development and selective acquisition of multifamily housing.

At January 31, 2007, we owned or held a direct or indirect ownership interest in:

- 151 operating apartment communities containing 43,533 apartment homes in ten states and the District of Columbia, of which six communities containing 2,381 apartment homes were under reconstruction;

- 17 communities under construction that are expected to contain an aggregate of 5,153 apartment homes when completed; and

- rights to develop an additional 54 communities that, if developed in the manner expected, will contain an estimated 14,185 apartment homes.

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

Our 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 are consolidated for financial reporting purposes and that were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year. Other Stabilized Communities are generally all other operating communities that have stabilized occupancy and operating expenses during the current year, but that had not achieved stabilization as of the beginning of the prior 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 by successfully and cost-effectively developing, redeveloping, acquiring, owning and operating high-quality communities in our selected markets that contain features and amenities desired by residents, as well as by providing our residents with efficient and effective service.

To help fulfill this goal, we regularly (i) monitor our investment allocation by geographic market and product type, (ii) develop, redevelop and acquire 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 such that we maintain continuous access to cost-effective capital. Our long-term strategy is to more deeply penetrate the high barrier-to-entry markets in our chosen regions with a broad range of products and services and an intense focus on our customer. 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.

During the three years ended December 31, 2006, we acquired two apartment communities whose financial results are consolidated for financial reporting purposes, disposed of 16 apartment communities, and completed the development of 20 apartment communities and the redevelopment of six apartment communities. In anticipation of continued improvement in apartment fundamentals and to help position us for future growth, we increased our construction volume during 2006 (as measured by total projected capitalized cost at completion) and continued to secure new development opportunities, including the acquisition of land for future development. We also increased our investments in apartment communities through an institutional discretionary investment fund, AvalonBay Value Added Fund, L.P. (the Fund), which we manage and in which we own approximately a 15% interest. The Fund acquired communities that we believe we can redevelop or reposition, or take advantage of market cycle timing and improved operating performance, to create value. Since its inception in March 2005, the Fund has acquired 13 communities. A more detailed description of the Fund and its investment activity can be found in Financing Activities and Note 6, Investments in Unconsolidated Entities of the Consolidated Financial Statements in Item 8 of this report. As a result of strong capital flows to the industry, we also continued to dispose of assets at prices that enabled significant realized gains on cost.

In 2007, we expect additional new development activity to be in the range of $1,000,000,000 to $1,300,000,000, and we expect the Fund will continue to selectively acquire additional communities. We also anticipate asset sales, dependent on strategic and value realization opportunities. The level of development, acquisition and disposition activity, however, is heavily influenced by capital market conditions, including prevailing interest rates. 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 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 Alexandria, Virginia, we also maintain regional offices and administrative 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 Jose, California;

Seattle, Washington;

Shelton, Connecticut; 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 enable us to acquire the target site shortly before the start of construction, which reduces development-related risks and preserves capital. However, we will acquire and hold land when business conditions warrant. Due to increased competition for land based on current market conditions, we have, at times, acquired land earlier in the development cycle or acquired land zoned for uses other than residential with the potential for rezoning. After we acquire land, we generally shift our focus to construction. Except for certain mid-rise and high-rise apartment communities where we may elect to use third-party general contractors or construction managers, we act as our own general contractor and construction manager.

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 this enables us to achieve higher construction quality, greater control over construction schedules and significant cost savings. Our development, property management and construction teams monitor construction progress to ensure high-quality workmanship and a smooth and timely transition into the leasing and operating phase.

As competition for desirable development opportunities has increased in recent years, we will in some cases be engaged in more complicated development pursuits. For example, at times we have acquired and may in the future acquire existing commercial buildings with the intent to pursue rezoning, tenant terminations or expirations and demolition of the existing structures. Generally, during the period that we hold these buildings for future development, the 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 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 procedures to minimize 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 high-quality design and workmanship and a smooth and timely transition into the lease-up and restabilization phase.

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 when market conditions are favorable and redeploy the proceeds from those sales to develop, redevelop and acquire communities and to rebalance our portfolio across 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 by issuing debt or equity securities. 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. In 2005 we formed the Fund, which during its investment period (ending no later than March 2008) will be the principal vehicle for us to acquire additional investments in apartment communities, subject to certain exceptions. Through the Fund s investment period (or until fully invested), we expect to continue our acquisition activity through the Fund, focusing in particular on communities in our markets that can benefit from redevelopment, repositioning or market cycle opportunities.

Property Management Strategy. We intend to increase operating income through innovative, proactive property management that will result in higher revenue from communities and controlled 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
- managing community occupancy for optimal rental revenue levels.

Controlling operating expenses is another way in which we intend 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 control operating expenses in a variety of ways, which include the following, among others:

- we use purchase order controls, acquiring goods and services from pre-approved vendors;
- we 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 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. In general, as a REIT we cannot directly provide services to our tenants that are not customarily provided by a landlord, nor can we 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 and is therefore subject to federal income taxes.

Financing Strategy. We have consistently maintained, and intend to continue to maintain, a capital structure that is aligned to the business risks presented by our corporate strategy. For the year ended December 31, 2006, our fixed charge ratio on an incurred and expensed basis was 1.90 and 2.68, respectively. We believe that fixed charge coverage is an important measure of balance sheet strength, as it measures our ability to service fixed payment obligations from operating cash flow. At December 31, 2006, our debt-to-total market capitalization was 22.3%, and our long-term floating rate debt was 3.4% of total market capitalization. Total market capitalization reflects the aggregate of the market value of our common stock, the market value of our operating partnership units outstanding (based on the market value of our common stock), the liquidation preference of our preferred stock and the outstanding principal amount of our debt. We believe that debt-to-total market capitalization can be one useful measure of a real estate operating company s long-term liquidity and balance sheet strength, because it shows an approximate relationship between a company s total debt and the current total market value of its assets based on the current price at which the company s common stock trades. However, because debt-to-total market capitalization changes with fluctuations in our stock price, which occur regularly, our debt-to-total market capitalization may change even when our earnings and debt levels remain stable.

We estimate that a portion of our short-term liquidity needs will be met from retained operating cash and borrowings under our variable rate unsecured credit facility. If required to meet the balance of our current or anticipated liquidity needs, we will attempt to arrange additional capacity under our existing unsecured credit facility, sell existing communities or land and/or issue 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, including interest rates, our short and long term liquidity needs, the adequacy of our expected liquidity sources, 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 venture or partnership. Our decision whether to hold an apartment community in fee simple or to have an indirect interest in the community through a joint venture or partnership 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, who may prefer that (or who may require less payment if) the land or community is contributed to a joint venture or partnership; (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 or partnership vehicle is used. Investments in joint ventures or partnerships are not limited to a specified percentage of our assets. Each joint venture or partnership 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 or partnership agreement.

We have invested in the Fund, a private, discretionary investment vehicle that acquires and operates apartment communities in our markets. The Fund will serve, until March 16, 2008 or until 80% of its committed capital is invested, as the principal vehicle through which we will invest in the acquisition of apartment communities, subject to certain exceptions. These exceptions include significant individual asset and portfolio acquisitions, properties acquired in tax-deferred transactions and acquisitions that are inadvisable or inappropriate for the Fund. The Fund will not restrict our development activities, and will terminate after a term of eight years, subject to two one-year extensions. The Fund has nine institutional investors, including us, with a combined equity capital commitment of $330,000,000. A significant portion of the investments made in the Fund by its investors are being made through AvalonBay Value Added Fund, Inc., a Maryland corporation that qualifies as a REIT under the Internal Revenue Code (the Fund REIT). A wholly-owned subsidiary of the Company is the general partner of the Fund and has committed $50,000,000 to the Fund and the Fund REIT (of which approximately $22,944,000 has been invested as of January 31, 2007) representing a 15.2% combined general partner and limited partner equity interest. Under the Fund documents, the Fund has the ability to employ leverage through debt financings up to 65% on a portfolio basis, which, if achieved, would enable the Fund to invest up to $940,000,000. We currently expect that leverage of less than 65% will be employed, reducing the projected investment value to between $850,000,000 and $900,000,000 (of which approximately $514,000,000 has been invested as of January 31, 2007).

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

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. On occasion, we own and operate 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) or (ii) we believe the retail space will enhance the attractiveness of the community to residents. As of December 31, 2006, we had a total of 327,010 square feet of rentable retail space that produced gross rental revenue in 2006 of $5,258,000 (0.7% of total revenue). 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. At present, we expect to develop with the intent to sell, directly through a taxable REIT subsidiary or indirectly through a joint venture partnership, one or more land parcels. 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 (or the Treasury Regulations), the Board of Directors determines that it is no longer in our best interest to qualify as a REIT.

Inflation and Deflation

Substantially all of our apartment leases are for a term of one year or less. In an inflationary environment, this may allow us to realize increased rents upon renewal of existing leases or the beginning of new leases. Short-term leases generally minimize our risk from the adverse effects of inflation, although these leases generally permit residents to leave at the end of the lease term and therefore expose us to the effect of a decline in market rents. In a deflationary rent environment, we may be exposed to declining rents more quickly under these shorter-term leases.

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, 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 net income to the extent 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 Internal Revenue 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 apartment 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 proposition given the quality, location and amenities that the resident seeks. We also compete with the condominium and single-family home markets. 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 .

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 450 Fifth Street, N.W., Washington, D.C. 20549. You may call the SEC at 1-800-SEC-0330 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. In addition, you may read our SEC fillings at the offices of the New York Stock Exchange (NYSE), which is located at 20 Board Street, New York, New York 10005. Our SEC filings are available at the NYSE because our common stock and an outstanding series of preferred stock are listed on the NYSE.

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 Investor Relations 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 Corporate Governance Guidelines and Code of Conduct, are available free of charge in that section of our website or by writing to AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Chief Financial Officer.

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 December 31, 2006, we had 1,767 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 on page 65.

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 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 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;

- we may incur costs that exceed our original estimates due to increased material, labor or other costs;

- occupancy rates and rents at a community may fail to meet our 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 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 are currently engaged in a lawsuit alleging noncompliance with these statutes. See Legal Proceedings.

We project 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 have been increasing, particularly for materials such as steel, concrete and lumber, and, for some of our Development Communities and Development Rights, the total construction costs may be higher than the original budget. Total capitalized cost includes all capitalized costs projected to be incurred to develop or redevelop a community, determined in accordance with United States Generally Accepted Accounting Principles (GAAP), including:

- land and/or property acquisition costs;

- construction or reconstruction costs;

costs of environmental remediation;

real estate taxes;

capitalized interest;

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 hurt occupancy or rental rates.

Local conditions in our markets significantly affect occupancy or rental rates at 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; and
- rent control or rent stabilization laws, or other laws regulating housing, that could prevent us from raising rents to offset increases in operating costs.

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

We must operate our communities in compliance with numerous federal, state and local laws and regulations, including landlord tenant laws and other laws generally applicable to business operations. Noncompliance with laws could expose us to liability.

Compliance with changes in (i) laws increasing 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 (iii) other governmental rules and regulations or enforcement policies affecting the use and operation of our communities, including changes to building codes and fire and life-safety codes, may result in lower revenue growth or significant unanticipated expenditures.

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.

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 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, in order for us to continue to qualify as a REIT, and 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 which 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 variable interest rate debt. 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 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, 2006, approximately 7% of our apartment homes at current operating communities were under use 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 aggressively and, in consequence, can also limit increases in 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.
Risks related to indebtedness.
We have a $650,000,000 revolving variable rate unsecured credit facility with JPMorgan Chase Bank, N.A., and Wachovia Bank, N.A., serving together as syndication agent and as banks, Bank of America, N.A., serving as administrative agent, swing lender, issuing bank and a bank, Morgan Stanley Bank, Wells Fargo Bank, N.A., and Deutsche Bank Trust Company Americas, serving collectively as documentation agent and as banks, and a syndicate of other financial institutions, serving as banks. 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 unsecured credit facility and the indentures 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.

Failure to generate sufficient revenue could limit cash flow available for distributions to stockholders.

A decrease in rental revenue could have an adverse effect on our ability to pay distributions to our stockholders and our ability to maintain our status as a REIT. 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.

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 hard to sell, especially if market conditions are poor. 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.

Subject to the requirements related to the Fund, we may in the future acquire apartment communities on a select basis. 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 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. As noted in the business description above, we also own and operate retail space when a retail component represents the best use of the space, as is often the case with large urban in-fill developments. Also as noted in the business description above, we expect to develop, through a taxable REIT subsidiary, directly or through a joint venture partnership, one or more parcels with the intent to sell, which we believe represents the best use for those parcels. 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, or that we will be successful in these other activities. We may be exposed to a variety of risks if we choose to enter new markets, including an inability to evaluate accurately 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. We may be unsuccessful in owning and operating retail space at our communities or in developing real estate with the intent to sell.

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. Partnership or joint venture investments 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 a discretionary investment fund.

We have formed the Fund which, through a wholly-owned subsidiary, we manage as the general partner and to which we have committed $50,000,000, representing an approximate 15% equity interest. This presents risks, including the following:

- investors in the Fund may fail to make their capital contributions when due and, as a result, the Fund may be unable to execute its investment objectives;

- our subsidiary that is the general partner of the Fund is generally liable, under partnership law, for the debts and obligations of the Fund, subject to certain exculpation and indemnification rights pursuant to the terms of the partnership agreement of the Fund;

- investors in the Fund 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 Fund;

- while we have broad discretion to manage the Fund and make investment decisions on behalf of the Fund, 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 Fund to make certain investments or implement certain decisions that we consider beneficial;

- we can develop communities but are generally prohibited from making acquisitions of apartment communities outside of the Fund until the earlier of March 16, 2008 or until 80% of the Fund s committed capital is invested, subject to certain exceptions; and

- we may be liable if either the Fund, or the REIT through which a number of investors have invested in the Fund and which we manage, fails 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 is expensive 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.

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.

12

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 the Northeast and 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 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 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. 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 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.

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 several 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.

All of our stabilized operating communities, and all of the communities that we are currently developing or redeveloping, 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 operation. 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. 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.
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 could relate to 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.

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 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 to otherwise address concerns about concentrations of ownership of our stock, our charter generally prohibits ownership (directly, indirectly by virtue of the attribution provisions of the Internal Revenue 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. 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, 2006, the Established Communities are communities that are consolidated for financial reporting purposes, had stabilized occupancy and operating expenses as of January 1, 2005, 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 acquisition cost. The definition of substantial redevelopment may differ for communities owned through a joint venture arrangement.

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

Development Rights are development opportunities in the early phase of the development process for which we either have an option to acquire land or enter into a leasehold interest, for which we are the buyer under a long-term conditional contract to purchase land or where we 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.

In addition, we own approximately 60,000 square feet of office space in Alexandria, Virginia, for our corporate office, with all other regional and administrative offices leased under operating leases.

As of December 31, 2006, 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:		
Northeast	35	8,674
Mid-Atlantic	17	5,413
Midwest	3	887
Pacific Northwest	10	2,500
Northern California	29	8,450
Southern California	11	3,430
Total Established	105	29,354
Other Stabilized Communities:		
Northeast	19	6,088
Mid-Atlantic	5	1,397
Midwest	2	460
Pacific Northwest	1	211
Northern California	3	603
Southern California	7	2,128
Total Other Stabilized	37	10,887
Lease-Up Communities	2	519
Redevelopment Communities	6	2,381
Total Current Communities	150	43,141
Development Communities	17	5,153
Development Rights	54	14,185

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

Current Communities

Our Current Communities are primarily garden-style apartment communities consisting of two and three-story buildings in landscaped settings. In January 2007, the Fund acquired one community containing 392 apartment homes. The Current Communities, as of January 31, 2007, include 115 garden-style (of which 15 are mixed communities and include townhomes), 21 high-rise and 15 mid-rise apartment communities. The Current Communities offer many attractive amenities including some or all of the following:

- vaulted ceilings;
- lofts;
- fireplaces;
- patios/decks; and
- modern appliances.

Other features at various communities may include:

- swimming pools;
- fitness centers;
- tennis courts; and
- business centers.

We also have an extensive and ongoing maintenance program to keep all communities and apartment homes substantially free of deferred maintenance and, where vacant, available for immediate occupancy.

We believe that 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 this will ultimately 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	
	1-1-06	1-31-07	1-1-06	1-31-07	1-1-06	1-31-07
Northeast	**55**	**56**	**15,671**	**15,732**	**37.8%**	**36.1%**
Boston, MA	18	18	4,514	4,490	10.9%	10.3%
Fairfield County, CT	16	14	4,375	3,812	10.6%	8.8%
Long Island, NY	3	6	915	1,621	2.2%	3.7%
Northern New Jersey	3	3	1,182	1,182	2.9%	2.7%
Central New Jersey	5	6	1,752	2,042	4.2%	4.7%
New York, NY	10	9	2,933	2,585	7.1%	5.9%
Mid-Atlantic	**21**	**24**	**6,859**	**7,622**	**16.6%**	**17.5%**
Baltimore, MD	6	9	1,224	1,987	3.0%	4.6%
Washington, DC	15	15	5,635	5,635	13.6%	12.9%
Midwest	**6**	**7**	**1,696**	**1,952**	**4.1%**	**4.5%**
Chicago, IL	6	7	1,696	1,952	4.1%	4.5%
Pacific Northwest	**12**	**12**	**3,111**	**3,111**	**7.5%**	**7.2%**
Seattle, WA	12	12	3,111	3,111	7.5%	7.2%
Northern California	**32**	**33**	**9,203**	**9,366**	**22.2%**	**21.5%**
Oakland-East Bay, CA	7	7	2,089	2,089	5.0%	4.8%
San Francisco, CA	9	11	2,015	2,489	4.9%	5.7%
San Jose, CA	16	15	5,099	4,788	12.3%	11.0%
Southern California	**16**	**19**	**4,872**	**5,750**	**11.8%**	**13.2%**
Los Angeles, CA	7	9	2,448	3,006	5.9%	6.9%
Orange County, CA	6	7	1,366	1,686	3.3%	3.9%
San Diego, CA	3	3	1,058	1,058	2.6%	2.4%
	142	151	41,412	43,533	100.0%	100.0%

We manage and operate substantially all of our Current Communities. During the year ended December 31, 2006, including communities owned by joint ventures and the Fund, we completed construction of 1,368 apartment homes in six communities, acquired 1,397 apartment homes in six communities and sold 1,036 apartment homes in four communities. The average age of our Current Communities, on a weighted average basis according to number of apartment homes, is 14.1 years. When adjusted to reflect redevelopment activity, as if redevelopment were a new construction completion date, the average age of our Current Communities is 9.3 years.
Of the Current Communities, as of January 31, 2007, we own:

a full fee simple, or absolute, ownership interest in 113 operating communities, six of which are on land subject to land leases expiring in November 2028, July 2029, December 2034, January 2062, April 2095, and March 2142;

a general partnership interest in two partnerships that each own a fee simple interest in an operating community;

a general partnership interest and an indirect limited partnership interest in the Fund, which owns a fee simple interest in 14 operating communities;

a general partnership interest in five partnerships structured as DownREITs, as described more fully below, that own an aggregate of 16 communities;

a membership interest in five limited liability companies that each hold a fee simple interest in an operating community, three of which are on land subject to land leases expiring in December 2026, November 2089, and December 2103; 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.

We also hold, directly or through wholly-owned subsidiaries, the full fee simple ownership interest in 17 of the Development Communities.

In each of our five partnerships structured as DownREITs, either AvalonBay or 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. For each DownREIT partnership, limited partners are entitled to receive an initial distribution before any distribution is made to the general partner. Although the partnership agreements for each of the DownREITs are different, generally the distributions per unit paid to the holders of units of limited partnership interests have approximated 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 applicable 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, 2007, there were 144,955 DownREIT partnership units outstanding. The DownREIT partnerships are 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 12/31/06	Average economic occupancy 2006	2005	Average rental rate $ per Apt (4)	$ per Sq. Ft.	Financ reporti cost (5)
RRENT MMUNITIES												
RTHEAST												
ston, MA												
alon at Bedford nter	Bedford, MA	139	159,704	38.0	2006	1,149	95.7%	85.4%(3)	17.1%	$ 1,705	$ 1.27(3)	24,7
alon at Center ce (11)	Providence, RI	225	222,834	1.2	1991/1997	990	88.0%	93.8%	95.6%	2,247	2.13	28,7
alon at Crane ok	Danvers & Peabody, MA	387	410,454	20.0	2004	1,271	95.3%	95.5%	85.6%	1,349	1.21	54,7
alon at Faxon k	Quincy, MA	171	175,649	8.3	1998	1,027	95.3%	96.3%	95.7%	1,596	1.50	15,6
alon at Flanders	Westborough, MA	280	299,828	62.0	2003	1,099	95.7%	95.4%	97.0%	1,515	1.35	37,2
alon at ington	Lexington, MA	198	230,277	16.1	1994	1,163	98.0%	95.9%	97.1%	1,775	1.46	16,0
alon at Newton hlands (8)	Newton, MA	294	339,484	7.0	2003	1,177	95.2%	95.2%	96.0%	2,220	1.83	56,6
alon at dential Center	Boston, MA	780	732,237	1.0	1968/1998	939	97.4%	97.5%	96.8%	2,767	2.87	156,6
alon at Steven s d	Saugus, MA	326	381,825	82.6	2004	1,106	96.0%	95.7%	94.6%	1,587	1.30	54,2
alon at The ehills I	Plymouth, MA	101	151,712	6.0	2004	1,954	96.0%	93.4%	83.9%	1,814	1.13	19,9
alon Essex	Peabody, MA	154	198,478	11.1	2000	1,289	98.1%	97.3%	96.6%	1,605	1.21	21,8
alon Ledges	Weymouth, MA	304	329,822	57.6	2002	1,023	95.4%	95.3%	94.3%	1,432	1.26	36,3
alon Oaks	Wilmington, MA	204	229,752	22.5	1999	1,023	98.5%	95.1%	93.5%	1,515	1.28	21,2
alon Oaks West	Wilmington, MA	120	133,376	27.0	2002	1,033	97.5%	93.7%	93.8%	1,432	1.21	16,8
alon Orchards	Marlborough, MA	156	176,497	23.0	2002	1,219	95.5%	96.4%	97.2%	1,495	1.27	21,1
alon Summit	Quincy, MA	245	224,418	8.0	1986/1996	916	97.6%	95.5%	95.2%	1,221	1.27	17,3
alon West	Westborough, MA	120	147,472	8.0	1996	1,229	95.8%	95.9%	96.7%	1,432	1.12	11,3
ex Place	Peabody, MA	286	250,322	18.0	2004	875	96.2%	97.8%	96.3%	1,090	1.22	23,7

rfield-New ven, CT												
alon at yrock Place	Stamford, CT	306	314,600	3.0	2002	1,040	97.4%	97.9%	97.6%	2,088	1.99	70,3
alon Danbury	Danbury, CT	234	235,320	36.0	2005	1,006	94.0%	94.5%	40.8%(3)	1,619	1.52	35,4
alon Darien	Darien, CT	189	242,533	32.0	2004	1,282	95.8%	93.7%	97.7%	2,500	1.82	41,5
alon Gates	Trumbull, CT	340	379,282	37.0	1997	1,116	95.0%	98.1%	96.3%	1,554	1.37	37,1
alon Glen	Stamford, CT	238	229,644	4.1	1991	965	93.7%	97.2%	98.0%	1,878	1.89	32,1
alon Haven	North Haven, CT	128	139,972	10.6	2000	1,094	96.1%	97.4%	95.9%	1,511	1.35	13,9
alon Milford I	Milford, CT	246	216,746	22.0	2004	886	95.9%	98.1%	93.9%	1,363	1.52	31,4
alon New aan (7)	New Canaan, CT	104	131,782	9.1	2002	1,251	92.3%	95.7%	96.4%	2,910	2.20	24,3
alon on mford Harbor	Stamford, CT	323	323,587	12.1	2003	1,002	98.8%	97.6%	96.5%	2,334	2.27	62,8
alon Orange	Orange, CT	168	163,238	9.6	2005	972	95.2%	97.9%	64.1%(3)	1,436	1.45	22,0
alon Springs	Wilton, CT	102	158,259	12.0	1996	1,552	95.1%	92.7%	93.9%	2,845	1.70	17,1
alon Valley	Danbury, CT	268	300,044	17.1	1999	1,070	97.4%	98.1%	94.9%	1,621	1.42	26,3
alon Walk I &	Hamden, CT	764	766,604	38.4	1992/1994	996	89.9%	91.7%(2)	93.2%	1,242	1.14(2)	65,4
ng Island, NY												
alon at Glen ve South	Glen Cove, NY	256	261,425	4.0	2004	1,050	96.9%	95.5%	95.8%	2,289	2.14	67,9
alon Commons	Smithtown, NY	312	377,240	20.6	1997	1,209	96.8%	97.1%	97.4%	2,014	1.62	33,7
alon Court	Melville, NY	494	596,942	35.4	1997/2000	1,208	96.4%	96.3%	96.8%	2,394	1.91	59,8
alon Pines I	Coram, NY	298	362,124	32.0	2005	1,485	95.3%	95.9%	71.6%(3)	1,816	1.43	46,5
alon Pines II	Coram, NY	152	185,954	42.0	2006	1,223	98.7%	71.0%(3)	N/A	2,310	1.34(3)	23,8
alon Towers	Long Beach, NY	109	124,611	1.3	1990/1995	1,143	98.2%	97.7%	97.7%	3,339	2.85	21,2

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rthern New rsey												
alon at gewater	Edgewater, NJ	408	428,611	7.6	2002	1,051	96.3%	95.8%	96.3%	2,269	2.07	75,2
alon at rham Park	Florham Park, NJ	270	330,410	41.9	2001	1,224	95.6%	97.6%	96.4%	2,467	1.97	41,8
alon Cove	Jersey City, NJ	504	575,334	11.0	1997	1,142	98.8%	97.7%	97.5%	2,677	2.29	92,8
ntral New rsey												
alon at ehold	Freehold, NJ	296	317,331	40.3	2002	1,072	98.0%	96.3%	95.6%	1,679	1.51	34,7
alon Run (13)	Lawrenceville, NJ	426	443,168	9.0	1994	1,010	95.8%	94.6%	95.5%	1,401	1.27	60,0
alon Run East	Lawrenceville, NJ	206	257,938	27.1	1996	1,287	97.1%	95.8%	96.0%	1,594	1.22	16,3
alon Run East 8)	Lawrenceville, NJ	312	341,320	70.5	2003	1,095	96.5%	96.2%	87.6%	1,722	1.51	52,1
alon Watch	West Windsor, NJ	512	486,069	64.4	1988	949	96.1%	96.4%	95.3%	1,368	1.39	30,1
w York, NY												
alon Bowery ce I	New York, NY	206	162,000	1.1	2006	786	59.7%	32.2%(3)	N/A	3,418	1.40(3)	89,5
alon Gardens	Nanuet, NY	504	608,842	62.5	1998	1,208	95.2%	97.0%	97.8%	2,035	1.63	55,1
alon Green	Elmsford, NY	105	113,538	16.9	1995	1,081	94.3%	96.5%	96.3%	2,148	1.92	13,2
alon on the und (11)	New Rochelle, NY	412	372,860	2.4	2001	905	96.4%	96.2%	96.2%	2,237	2.38	117,0
alon Riverview 1)	Long Island City, NY	372	332,947	1.0	2002	895	97.0%	96.7%	96.7%	2,956	3.19	94,5
alon View	Wappingers Falls, NY	288	327,547	41.0	1993	1,137	92.0%	95.0%	92.7%	1,320	1.10	19,2
alon Willow	Mamaroneck, NY	227	199,842	4.0	2000	880	98.2%	98.9%	96.4%	2,044	2.29	47,5
e Avalon	Bronxville, NY	110	119,410	1.5	1999	1,085	96.4%	97.0%	96.4%	3,438	3.07	31,3

D-ATLANTIC

ltimore, MD												
alon at rway Hills I &	Columbia, MD	384	386,344	23.8	1987/1996	1,005	95.1%	97.0%	94.7%	1,207	1.16	22,7
alon at rway Hills III	Columbia, MD	336	337,683	20.2	1987/1996	1,005	94.9%	95.1%(2)	91.1%(2)	1,293	1.22(2)	29,3
alon at mphony Glen	Columbia, MD	176	179,880	10.0	1986	1,022	91.0%	96.6%	95.9%	1,200	1.13	9,3
alon Landing	Annapolis, MD	158	117,033	13.8	1984/1995	741	97.5%	97.8%	97.2%	1,177	1.55	10,1
uthgate ossing	Columbia, MD	215	212,420	12.7	1986/2006	988	95.3%	93.8%	N/A	248	0.24	36,3
ashington, DC												
tumnWoods	Fairfax, VA	420	355,228	24.3	1989/1996	846	86.4%	94.6%(2)	95.2%	1,225	1.37(2)	33,2
alon at ington Square	Arlington, VA	842	901,120	20.1	2001	1,070	97.1%	96.5%	94.7%	1,770	1.60	112,6
alon at lston shington wers	Arlington, VA	344	294,954	4.1	1990	857	95.9%	97.8%	97.2%	1,602	1.83	38,1
alon at meron Court	Alexandria, VA	460	467,292	16.0	1998	1,016	95.2%	97.3%	95.3%	1,725	1.65	43,5
alon at coverly	Rockville, MD	368	368,374	24.0	1991/1995	1,001	94.8%	97.0%	95.3%	1,369	1.33	32,2
alon at Foxhall	Washington, DC	308	297,875	2.7	1982	967	98.7%	96.6%	94.3%	2,050	2.05	44,3
alon at Gallery ce I	Washington, DC	203	184,230	0.5	2003	903	97.5%	95.7%	95.6%	2,235	2.36	48,8
alon at osvenor Station	North Bethesda, MD	497	477,459	10.0	2004	963	96.8%	97.3%	95.7%	1,627	1.65	82,1
alon at ovidence Park	Fairfax, VA	141	148,282	9.3	1988/1997	1,052	100.0%	96.9%	96.8%	1,387	1.28	11,6
alon at Rock ring (9) (11)	North Bethesda, MD	386	388,232	10.2	2003	1,006	97.2%	96.6%	94.9%	1,659	1.59	46,2
alon at Traville	North Potomac, MD	520	573,717	47.9	2004	1,103	96.5%	97.7%	94.7%	1,595	1.41	69,7
alon Crescent	McLean, VA	558	613,426	19.1	1996	1,099	96.1%	96.0%	96.2%	1,770	1.55	57,6
alon Fields I &	Gaithersburg, MD	288	292,282	9.2	1998	1,050	92.7%	97.0%	95.7%	1,350	1.29	22,7
alon Knoll	Germantown, MD	300	290,544	26.7	1985	968	95.7%	97.2%	95.8%	1,147	1.15	9,3

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MIDWEST												
Chicago, IL												
Avalon Arlington Heights	Arlington Heights, IL	409	346,416	2.8	1987/2000	848	91.9%	92.9%(2)	95.0%	1,374	1.51(2)	55,857
Avalon at Danada Farms (8)	Wheaton, IL	295	350,606	19.2	1997	1,188	95.9%	95.3%	95.6%	1,346	1.08	38,972
Avalon at Stratford Green (8)	Bloomingdale, IL	192	237,084	12.7	1997	1,235	95.3%	95.9%	95.1%	1,322	1.03	22,164
Avalon at West Grove (8)	Westmont, IL	400	388,500	17.4	1967	971	94.5%	95.0%	96.2%	881	0.86	31,272
PACIFIC NORTHWEST												
Seattle, WA												
Avalon at Bear Creek (8)	Redmond, WA	264	288,250	22.2	1998	1,092	95.8%	96.3%	94.6%	1,174	1.04	34,857
Avalon Bellevue	Bellevue, WA	202	167,069	1.7	2001	827	98.0%	96.5%	95.8%	1,361	1.59	30,862
Avalon Belltown	Seattle, WA	100	82,418	0.7	2001	824	96.0%	96.4%	95.5%	1,610	1.88	18,444
Avalon Brandemoor (8)	Lynwood, WA	424	453,602	27.0	2001	1,070	96.0%	96.8%	96.6%	1,034	0.94	45,646
Avalon HighGrove (8)	Everett, WA	391	422,482	19.0	2000	1,081	96.4%	96.5%	94.9%	962	0.86	39,879
Avalon ParcSquare (8)	Redmond, WA	124	126,951	2.0	2000	1,024	94.4%	96.4%	95.4%	1,371	1.29	19,245
Avalon Redmond Place (8)	Redmond, WA	222	211,450	8.4	1991/1997	952	94.6%	96.7%	96.4%	1,116	1.13	26,409
Avalon RockMeadow (8)	Bothell, WA	206	243,958	11.2	2000	1,184	97.1%	96.1%	95.0%	1,132	0.92	24,806
Avalon WildReed (8)	Everett, WA	234	259,080	23.0	2000	1,107	96.2%	96.7%	95.7%	955	0.83	23,095
Avalon Wynhaven (8)	Issaquah, WA	333	424,803	11.6	2001	1,276	93.7%	95.4%	94.0%	1,286	0.96	52,844

NORTHERN CALIFORNIA												
Oakland-East Bay, CA												
Avalon at Union Square	Union City, CA	208	150,320	8.5	1973/1996	723	98.1%	96.7%	96.9%	1,106	1.48	22,581
Avalon at Willow Creek	Fremont, CA	235	191,935	13.5	1985/1994	817	100.0%	97.7%	96.9%	1,336	1.60	36,212
Avalon Dublin	Dublin, CA	204	179,004	13.0	1989/1997	877	96.6%	97.2%	96.2%	1,400	1.55	27,866
Avalon Fremont I	Fremont, CA	308	316,052	14.3	1994	1,026	95.8%	96.9%	96.3%	1,583	1.49	56,612
Avalon Pleasanton	Pleasanton, CA	456	366,062	14.7	1988/1994	803	97.4%	96.8%	95.9%	1,304	1.57	62,350
Waterford	Hayward, CA	544	452,043	11.1	1985/1986	831	95.6%	95.6%	94.9%	1,154	1.33	61,686
San Francisco, CA												
Avalon at Cedar Ridge	Daly City, CA	195	141,411	7.0	1972/1997	725	97.4%	96.8%	96.0%	1,404	1.87	26,546
Avalon at Diamond Heights	San Francisco, CA	154	123,047	3.0	1972/1994	799	98.1%	97.4%	95.9%	1,649	2.01	25,327
Avalon at Mission Bay North	San Francisco, CA	250	243,089	1.4	2003	977	92.8%	95.2%	95.5%	3,057	2.99	92,812
Avalon at Nob Hill	San Francisco, CA	185	108,745	1.4	1990/1995	588	97.3%	96.4%	96.3%	1,672	2.74	28,071
Avalon Foster City	Foster City, CA	288	222,364	11.0	1973/1994	772	97.9%	97.1%	97.0%	1,377	1.73	43,588
Avalon Pacifica	Pacifica, CA	220	186,800	21.9	1971/1995	849	96.8%	96.7%	96.1%	1,495	1.70	32,165
Avalon Sunset Towers	San Francisco, CA	243	171,800	16.0	1961/1996	707	95.9%	96.7%	97.4%	1,714	2.34	28,778
Avalon Towers by the Bay	San Francisco, CA	227	243,090	1.0	1999	1,071	97.8%	96.8%	96.2%	2,843	2.57	67,006
Crowne Ridge	San Rafael, CA	254	221,635	21.9	1973/1996	873	98.4%	96.3%	95.8%	1,324	1.46	33,063

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San Jose, CA												
Avalon at Blossom Hill	San Jose, CA	324	323,496	7.5	1995	998	97.8%	96.7%	96.2%	1,484	1.44	62,060
Avalon at Cahill Park	San Jose, CA	218	218,177	3.8	2002	1,001	95.9%	97.0%	97.1%	1,868	1.81	52,570
Avalon at Creekside	Mountain View, CA	294	215,680	13.0	1962/1997	734	98.0%	97.7%	96.5%	1,257	1.67	43,423
Avalon at Foxchase I & II	San Jose, CA	396	334,956	12.0	1988/1987	844	97.5%	96.9%	96.0%	1,247	1.43	60,670
Avalon at Parkside	Sunnyvale, CA	192	203,990	8.0	1991/1996	1,062	99.5%	98.0%	97.4%	1,655	1.53	38,218
Avalon at Pruneyard	Campbell, CA	252	197,000	8.5	1968/1997	782	99.6%	97.4%	97.0%	1,251	1.56	32,141
Avalon at River Oaks	San Jose, CA	226	210,050	4.0	1990/1996	929	97.3%	97.6%	96.7%	1,487	1.56	45,009
Avalon Campbell	Campbell, CA	348	326,796	10.8	1995	939	98.3%	96.9%	96.2%	1,528	1.58	60,114
Avalon Mountain View (7)	Mountain View, CA	248	211,552	10.5	1986	853	96.4%	95.9%	95.1%	1,567	1.76	51,609
Avalon on the Alameda	San Jose, CA	305	299,762	8.9	1999	983	97.0%	96.9%	95.2%	1,850	1.82	56,506
Avalon Rosewalk	San Jose, CA	456	448,488	16.6	1997/1999	984	98.0%	96.4%	95.7%	1,480	1.45	79,364
Avalon Silicon Valley	Sunnyvale, CA	710	653,929	13.6	1997	921	95.2%	96.5%	95.8%	1,732	1.81	122,123
Avalon Towers on the Peninsula	Mountain View, CA	211	218,392	1.9	2002	1,035	97.6%	96.5%	96.7%	2,422	2.26	65,752
CountryBrook (8)	San Jose, CA	360	322,992	14.0	1985/1996	897	99.4%	97.8%	96.8%	1,347	1.47	48,790
San Marino	San Jose, CA	248	209,000	11.5	1984/1988	843	99.2%	97.4%	96.7%	1,249	1.44	35,017
SOUTHERN CALIFORNIA												
Los Angeles, CA												
Avalon at Media Center	Burbank, CA	748	530,084	14.1	1961/1997	709	96.7%	95.7%	95.9%	1,370	1.85	76,461

Avalon at Warner Center	Woodland Hills, CA	227	191,114	7.0	1979/1998	842	96.0%	96.8%	97.5%	1,614	1.86	26,943
Avalon Camarillo	Camarillo, CA	249	233,267	10.0	2006	937	99.2%	54.4%(3)	N/A	3,196	1.85(3)	47,174
Avalon Glendale (11)	Burbank, CA	223	241,714	5.1	2003	1,084	96.0%	95.4%	95.7%	2,237	1.97	40,248
Avalon Woodland Hills	Woodland Hills, CA	663	594,396	18.2	1989/1997	897	97.0%	95.5%	96.0%	1,491	1.59	72,073
The Promenade	Burbank, CA	400	360,587	6.9	1988/2002	901	98.0%	97.4%	96.9%	1,759	1.90	71,003
Avalon Del Rey (9)(12)	Los Angeles, CA	309	284,636	5.0	2006	921	97.4%	51.5%(3)	N/A	3,710	2.07(3)	65,075
Orange County, CA												
Avalon at Pacific Bay	Huntington Beach, CA	304	268,000	9.7	1971/1997	882	96.7%	96.0%	96.7%	1,455	1.58	32,296
Avalon at South Coast	Costa Mesa, CA	258	207,672	8.0	1973/1996	805	98.1%	98.3%	97.2%	1,356	1.66	25,490
Avalon Mission Viejo	Mission Viejo, CA	166	124,600	7.8	1984/1996	751	95.8%	95.5%	95.4%	1,233	1.57	14,012
Avalon Newport	Costa Mesa, CA	145	122,415	6.6	1956/1996	844	100.0%	98.2%	97.5%	1,566	1.82	10,352
Avalon Santa Margarita	Rancho Santa Margarita, CA	301	229,593	20.0	1990/1997	763	97.7%	96.9%	96.5%	1,295	1.64	24,361
San Diego, CA												
Avalon at Cortez Hill	San Diego, CA	294	226,140	1.4	1973/1998	769	95.6%	95.1%	95.0%	1,404	1.74	34,556
Avalon at Mission Bay	San Diego, CA	564	402,285	12.9	1969/1997	713	97.3%	95.7%	95.1%	1,378	1.85	66,281
Avalon at Mission Ridge	San Diego, CA	200	207,625	4.0	1960/1997	1,038	97.0%	96.3%	96.1%	1,509	1.40	22,421

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ENT COMMUNITIES											
verly II	Rockville, MD	196	182,560	10.8	N/A	931	N/A	N/A	N/A	N/A	N/
in Station I	Dublin, CA	305	299,329	4.7	N/A	981	N/A	N/A	N/A	N/A	N/
Cove North (11)	Glen Cove, NY	111	101,161	1.3	N/A	911	N/A	N/A	N/A	N/A	N/
ngton Hills	Lexington, MA	387	487,139	2.3	N/A	1,259	N/A	N/A	N/A	N/A	N/
	Acton, MA	380	353,790	5.0	N/A	931	N/A	N/A	N/A	N/A	N/
Place II	New York, NY	90	73,624	1.1	N/A	838	N/A	N/A	N/A	N/A	N/
t Hill	Chestnut Hill, MA	204	275,563	4.7	N/A	1,351	N/A	N/A	N/A	N/A	N/
s	Danvers, MA	433	493,095	75.0	N/A	1,139	N/A	N/A	N/A	N/A	N/
	Los Angeles, CA	131	131,252	2.0	N/A	1,002	N/A	N/A	N/A	N/A	N/
rst	Lyndhurst, NJ	328	331,122	5.8	N/A	1,010	N/A	N/A	N/A	N/A	N/
bauer	Bellevue, WA	368	329,613	3.6	N/A	896	N/A	N/A	N/A	N/A	N/
ound II (11)	New Rochelle, NY	588	561,981	1.7	N/A	956	N/A	N/A	N/A	N/A	N/
ew North	Long Island City, NY	602	477,657	1.8	N/A	793	N/A	N/A	N/A	N/A	N/
bury	Shrewbury, MA	251	209,548	25.5	N/A	835	N/A	N/A	N/A	N/A	N/
e	Los Angeles, CA	123	125,109	1.6	N/A	1,017	N/A	N/A	N/A	N/A	N/
n	Woburn, MA	446	483,995	56.0	N/A	1,085	N/A	N/A	N/A	N/A	N/
Park	Conoga Park, CA	210	186,599	3.3	N/A	889	N/A	N/A	N/A	N/A	N/
DATED COMMUNITIES											
a Buena (6)	San Francisco, CA	160	125,636	0.9	2000/2006	785	94.4%	95.4%(3)	N/A	2,523	3.0
deen Station (6)	Aberdeen, NJ	290	296,033	16.8	2002/2006	1,021	97.0%	95.0%(3)	N/A	1,736	1.6
on Bay North II (9)(11)	San Francisco,	313	291,817	1.5	2006	932	36.4%	27.8%(3)	N/A	9,048	2.6

	CA										
ar Creek (6)	Schaumburg, IL	196	178,490	12.8	1986/2005	911	90.8%	95.9%(2)	94.3%(3)	1,073	1.1
e Place I (9)(11)	New York, NY	361	266,940	1.5	2005	739	98.6%	98.4%	62.5%(3)	3,125	4.1
bia (6)	Columbia, MD	170	177,284	11.3	1989/2004	1,043	96.5%	96.1%(2)	84.4%(3)	1,273	1.1
9)	Stamford, CT	402	365,252	5.1	1996	906	96.8%	96.9%	96.6%	2,101	2.2
e (6)	Wheaton, IL	204	162,821	12.4	2004	798	96.6%	95.5%	79.6%	894	1.0
ndo Beach (6)	Redondo Beach, CA	105	85,380	1.2	1971/2004	813	97.1%	94.4%	95.9%	1,929	2.2
)	Columbia, MD	156	150,276	11.4	1972/2006	963	97.0%	96.6%(3)	N/A	1,187	1.1
)	Norwalk, CA	192	173,568	8.7	1987/2005	904	89.1%	94.8%(2)	98.6%(3)	1,468	1.5
)	Los Angeles, CA	82	71,846	0.8	1987/2005	876	96.3%	96.1%	97.4%(3)	1,650	1.8
	Fremont, CA	134	105,900	7.0	1987/2005	790	100.0%	96.9%	96.0%(3)	1,114	1.3
nd (6)	Redmond, WA	400	340,448	24.0	1983/2004	851	87.5%	88.4%(2)	93.9%	1,016	1.0
(6)	Schaumburg, IL	256	201,924	13.2	1988/2006	789	85.9%	83.8%(3)	N/A	1,008	1.0
Village (10)	Kirkland, WA	211	207,511	2.9	2005	983	94.3%	94.1%	45.4%(3)	1,289	1.2
	Corona, CA	320	241,440	13.3	1987/2006	755	94.1%	94.7%(3)	N/A	1,066	1.3

24

Profile of Current, Development and Unconsolidated Communities (1)
(Dollars in thousands, except per apartment home data)

(1) We own a fee simple interest in the communities listed, excepted as noted below.

(2) Represents community which was under redevelopment during the year, resulting in lower average economic occupancy and average rental rate per square foot for the year.

(3) Represents 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 generally accepted accounting principles. For current Development Communities, cost represents total costs incurred through December 31, 2006. Financial reporting costs are excluded for unconsolidated communities, see Note 6, Investments in Unconsolidated Entities of our Consolidated Financial Statements in Item 8 of this report.

(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) This community was transferred to a joint venture entity upon completion of development. We do not hold an equity interest in the entity, but retain a promoted residual interest in the profits of the entity. We receive a property management fee for this community.

(11) Community is located on land subject to a land lease.

(12) Upon completion of this community we admitted a 70% joint venture partner to the LLC. However, due to an operating guarantee provided to the joint venture partner, this community is consolidated for financial reporting purposes.

(13) In December 2006, we completed the purchase of our partner s interest in Avalon Run, and this community is now a wholly-owned community. See Note 6, Investments in Unconsolidated Entities of our Consolidated Financial Statements in Item 8 of this report.

Features and Recreational Amenities Current and Development Communities

1/1.5 BA	2BR 2/2.5/3 BA	3BR 2/2.5 BA	3BA	Studios / efficiencies	Other	Total	Parking spaces	Washer & dryer hook-ups or units	Vaulted ceilings	Lofts	Fireplaces	Large storage or walk-in closet	Balcony, patio, deck or sunroom	Built-in bookcases	Carports
	87					139	269	All	Some	Some	Some	Some	All	None	No
	112	4		6		225	371	All	None	None	None	Some	Some	None	No
12	175	38				387	658	All	Some	Some	Some	All	All	None	No
	75	28				171	327	All	Some	Some	Some	Most	All	None	No
22	120	30				280	589	All	Some	Some	Some	All	All	None	No
25	89	56				198	362	All	Some	Some	Some	Most	All	None	Yes
40	99	55	4	6		294	551	All	Some	Some	Some	Most	Most	None	No
	242		29	149		781	538	None	None	None	None	Most	Some	None	No
	202	22				326	749	All	Some	Some	Some	All	All	None	No
	73	16				101	235	All	Most	Some	Some	All	All	None	No
	104					154	336	All	Some	Some	Half	Most	All	None	No
28	124	28				304	594	All	Some	Some	Some	All	All	None	No
24	96	24				204	394	All	Some	Some	Some	All	All	None	No
12	48	12				120	232	All	Some	Some	Some	All	All	None	No
87						156	307	All	Some	Some	Some	All	All	None	No
58	31	1			1	245	359	None	None	None	None	Some	Most	None	No
	55	25				120	285	All	Some	Some	Some	All	Half	None	No
246						286	450	Some	None	None	None	Some	Some	None	No
91	99	12			52	306	464	All	None	None	None	Most	All	None	No
	98	24				234	54	All	None	Some	Some	Some	All	None	No

	80	32				189	443	All	All	Some	Some	All	All	None	No
	168	50				340	688	All	Some	Some	Half	All	All	None	Yes
	125	1				238	363	Most	Some	Some	Some	Some	Most	Some	Yes
	40	24			36	128	256	All	Some	Some	Some	All	All	None	Yes
	62					246	426	All	Some	None	Some	Some	All	None	Yes
	64	24				104	194	All	Some	Some	Some	All	All	None	No
	130	20		14		323	503	All	Some	Some	Some	All	Most	None	No
	28	28			28	168	362	All	Some	Some	Some	All	All	None	Yes
	70	32				102	264	All	Half	Half	Most	All	All	None	No
	134	28				268	637	All	Some	Some	Some	All	All	None	Yes
116	122	98			156	764	1,411	All	Some	Some	Some	Most	All	None	Yes
	91			41		256	366	All	None	None	Some	All	Some	None	No
40	112	32				312	485	All	Some	Some	Some	All	All	None	No
54	194	74				494	797	All	Half	Half	Some	Some	All	None	No
	220		6			298	1,094	All	Most	Some	Some	Most	All	None	No
	102					152	135	All	Most	Some	Some	All	All	None	No
	38		3	1	67	109	198	All	None	None	None	Most	Most	None	No

Features and Recreational Amenities   Current and Development Communities

2BR /1.5 BA	2BR 2/2.5/3 BA	3BR 2/2.5 BA	3BR 3BA	Studios / Efficiencies	Other	Total	Parking spaces	Washer & dryer hook-ups or units	Vaulted ceilings	Lofts	Fireplaces	Large storage or walk-in closet	Balcony, patio, deck or sunroom	Built-in bookcases	Carports
	190	60				408	872	All	Some	Some	Some	All	Half	None	No
	162	62				270	583	All	All	None	Some	Most	Some	None	No
	231	26	2		48	504	460	All	Some	Some	Some	All	Some	None	No
24	192	40				296	591	All	Some	Some	Half	All	All	None	No
90	108	84				426	640	All	Some	Some	Some	Some	All	None	Yes
106		36				206	401	All	Some	Some	Some	Most	Most	None	Yes
36	148	56				312	500	All	Some	Some	Some	Some	All	None	Yes
48	172	40				512	781	All	Some	None	Half	All	All	None	No
54				54		206	131	All	None	None	None	Some	Some	None	No
48	144	104				504	1,382	All	Half	Half	Some	All	All	Some	Yes
24	56					105	208	All	Some	Some	Some	All	All	None	Yes
	185	21	21	43		412	648	Most	Some	Some	None	Most	Some	None	No
	114	15	14	43		372	426	All	None	Some	None	Most	Some	None	No
47	65	64				288	598	All	Some	Some	Some	Most	All	None	Yes
	76					227	371	All	Some	Some	Some	Some	All	None	No
2	43	10				110	170	All	Some	Some	Some	Most	Half	None	No
78	100	38				401	283	All	Some	None	Most	Some	All	Some	No
146	54	22			23	342	522	All	Some	None	Most	Some	All	Some	No
14	54	20				176	268	All	Some	None	Most	All	Most	Some	No

18	57				158	256	All	None	None	Most	Most	All	None	Yes
63						15								
94	48	10			2	353	All	None	None	Most	None	All	None	No
104	96				420	720	All	Some	None	Some	All	All	None	Yes
24	196	60		158	842	1,411	All	Some	Some	Some	All	All	Some	No
111					344	470	All	None	None	Some	Most	All	Some	No
	168			84	460	897	All	Most	Some	Some	All	Most	None	No
	168	44			368	627	All	Some	Some	Some	Most	All	None	No
70	32	2	28	16	308	349	All	Some	None	Some	All	All	Some	No
75		4	11		203	148	All	Some	None	None	Most	Some	None	No
33	185	13	1		497	746	All	Some	Some	None	Most	Most	None	No
	112	4		6	141	299	All	Some	None	Most	All	All	None	No
39	133	36			386	680	All	Some	Some	Some	Most	All	None	No
30	232	68			520	1,062	All	Some	Some	Some	All	Most	Some	Yes
26	346				558	989	All	Some	Some	Most	Most	All	Some	No
32	112	32		66	288	461	All	Some	Some	Some	Most	Most	None	No
56	80	28			300	477	All	Some	None	Most	All	All	Most	No

27

Features and Recreational Amenities   Current and Development Communities

1/1.5 BA	2BR 2/2.5/3 BA	3BR 2/2.5 BA	3BA	Studios / Efficiencies	Other	Total	Parking spaces	Washer & dryer hook-ups or units	Vaulted ceilings	Lofts	Fireplaces	Large storage or walk-in closet	Balcony, patio, deck or sunroom	Built-in bookcases	Carports	No dir acc gara
	147			30		409	650	All	None	None	None	Some	Half	None	No	N
	134	14	15			295	555	All	None	None	Some	Most	Some	Some	No	N
	108	21				192	424	All	None	None	Some	Most	Most	Some	No	Y
200						400	594	None	None	None	None	Some	Half	None	Yes	N
40	110	56	3			264	515	All	Some	None	Most	All	All	Half	Yes	Y
	67			23		202	300	All	Some	Some	Some	Most	Some	None	No	N
	20			16		100	118	All	None	None	None	Most	Some	None	No	N
109	149	78				424	737	All	Some	None	Most	All	All	Some	Yes	Y
119	124	56	8			391	721	All	Half	None	Most	All	All	Some	Yes	Y
26	55	12			117	124	189	All	Some	None	None	All	All	None	No	Y
44	67	35				222	161	All	Some	None	Most	Most	All	None	Yes	Y
48	86	28	16			206	415	All	Some	None	Most	Most	All	Some	Yes	N
60	78	60				234	463	All	Some	None	Most	All	All	Some	Yes	Y
42	239	13	28		8	333	780	All	Most	Some	Most	Half	Most	None	Yes	Y

84						208	296	None	None	None	Most	All	All	None	Yes	N
	136					235	240	All	None	None	None	All	All	None	Yes	N
8	60	48			16	204	428	Most	Some	None	Most	All	All	None	No	Y
	176		44			308	609	All	Some	None	Some	Half	All	None	Yes	Y
	218					456	941	All	Some	None	Most	Some	All	None	Yes	Y
	336					544	927	Some	Some	None	None	All	All	None	Yes	N
33	24			21		195	259	None	None	Some	None	Some	All	None	Yes	N
	49	15				154	155	None	Some	None	None	All	All	None	No	Y
	95	6		1		250	191	All	None	Some	None	All	Most	Some	No	Y
	25			46		185	105	None	None	None	None	Some	Some	Most	No	Y
122	1			40		288	290	None	None	None	None	Most	All	Some	Yes	N
106	56					220	301	None	None	None	Some	Some	All	None	Yes	Y
20	20			20		243	244	None	None	None	None	None	Some	None	No	N
	120		3			226	212	All	None	None	Some	Half	Most	None	No	N
68	24			4		254	404	Some	Some	None	Some	None	All	None	Yes	N

Features and Recreational Amenities — Current and Development Communities

2BR /1.5 BA	2BR 2/2.5/3 BA	3BR 2/2.5 BA	3BR 3BA	Studios / Efficiencies	Other	Total	Parking spaces	Washer & dryer hook-ups or units	Vaulted ceilings	Lofts	Fireplaces	Large storage or walk-in closet	Balcony, patio, deck or sunroom	Built-in bookcases	Carports	N di acc gar
	210		24			324	549	All	Some	None	None	Most	All	None	Yes	N
	94		6			218	314	All	Some	Some	None	All	Some	None	No	N
128				8		294	441	None	None	None	Some	None	Most	None	Yes	N
	240					396	666	All	Some	None	None	ALL	All	None	Yes	Y
	96	36				192	353	All	Some	None	Half	All	All	Some	Yes	Y
40						252	400	All	None	None	None	None	Half	None	Yes	Y
	126					226	356	Most	None	None	Most	All	All	None	No	Y
	179		12			348	454	All	Some	None	None	All	All	None	Yes	N
	88	52				248	672	All	Some	None	None	Some	All	None	Yes	N
	164		28			305	534	All	Some	Some	Some	Most	All	None	Some	Y
	264		24			456	684	All	Some	None	Some	ALL	All	Most	Yes	Y
	336	18	15	3		710	2,000	All	Some	Some	Some	All	All	Some	Yes	Y
	117		6			211	307	All	Some	None	None	Most	All	None	No	N
	252					360	692	All	None	None	All	None	All	None	Yes	Y
	146					248	439	All	Some	None	None	None	All	None	Yes	N
169	50	12		221		748	893	Most	Some	None	Some	Some	Some	None	Yes	Y
54	65	20				227	427	All	Some	None	Some	Some	All	None	Yes	Y
		124				249	482	All	None	None	None	All	All	None	No	Y

	121		27		223	519	All	None	Some	Some	All	All	None	No	N
	441				663	1,356	Some	Some	Some	None	Most	All	None	No	N
	196	51			400	736	Some	Some	Some	All	Some	All	None	No	N
		119			309	623	All	None	Some	None	All	All	None	No	Y
56	104				304	492	All	None	None	None	All	All	None	Yes	Y
	86			48	258	428	Some	Half	None	None	Half	All	None	Yes	Y
28	44				166	232	None	None	None	None	None	All	None	Yes	Y
54		35		12	145	249	Most	Some	None	Some	Most	Most	Some	Yes	Y
	141				301	521	All	None	None	None	None	All	None	Yes	Y
	84			97	294	298	None	None	None	None	None	All	None	No	N
9	165			120	564	755	None	None	None	None	Some	All	None	No	N
98	1	83			200	387	Most	None	None	Most	Most	Most	Most	No	Y

Features and Recreational Amenities Current and Development Communities

2BR 1/1.5 BA	2BR 2/2.5/3 BA	3BR 2/2.5 BA	3BR 3BA	Studios / Efficiencies	Other	Total	Parking spaces	Washer & dryer hook-ups or units	Vaulted ceilings	Lofts	Fireplaces	Large storage or walk-in closet	Balcony, patio, deck or sunroom	Built-in bookcases	Carports	Non-direct access garage
	90					196	327	All	Some	Some	None	Some	All	None	No	Yes
8				16		111	190	All	None	None	None	All	Some	None	No	No
	254	24				387	823	All	Some	Some	Some	All	Some	None	No	Yes
45	157			8		328	569	Most	Some	Some	None	All	Most	None	No	No
	188					380	732	All	Some	Some	Some	Most	Some	None	No	Yes
18				10		90	50	All	None	None	None	Most	Some	None	No	No
	70	15				210	370	All	Some	Some	None	Most	Most	None	No	Yes
28	85	50		5		204	427	All	None	Some	None	All	All	None	No	No
	235	50				433	856	All	Some	Some	Some	Some	Some	None	No	Yes
	56		14			131	357	All	Some	None	None	Some	Some	None	No	Yes
5	88	23		78		368	485	All	None	None	None	Some	Some	None	No	Yes
	162	128		90		588	489	All	None	None	None	Some	None	None	No	All
	146		1	74		602	361	Some	None	None	None	Some	Some	None	No	Yes
12	123	24				251	529	All	None	Some	None	All	All	None	No	Yes
	288					446	892	All	None	Some	Some	All	Some	None	No	Yes
	62	8				123	350	All	None	None	None	All	Most	None	No	Yes

30

Features and Recreational Amenities   Current and Development Communities

unity ce lled ss	Building entrance controlled access	Under-ground parking	Aerobicse dance studio	Car wash	Picnic area	Walking / jogging trail	Pool	Sauna / whirlpool	Tennis court	Racquetball	Fitness center	Sand volleyball	Indoor / outdoor basketball
	No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No
s	Yes	Yes	No	Yes	Yes	No	Yes	No	No	No	Yes	No	No
s	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	Yes
	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No
	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	Yes
	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes
	Yes	Yes	No	No	Yes	No	Yes	Yes	No	No	Yes	No	Yes
	Yes	Yes	No	No	No	No	No	No	No	No	No	No	No
	No	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	Yes
	No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No
	No	No	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	No
	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	Yes
	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No
	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No
	No	No	No	No	Yes	Yes	Yes	Yes	No	No	Yes	No	No
s	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No
	Yes	No	No	No	Yes	No	Yes	No	No	No	No	No	Yes
	No	No	No	No	Yes	No	Yes	No	Yes	No	No	No	Yes
	Yes	Yes	No	No	Yes	No	Yes	No	Yes	No	Yes	No	No
	Yes	No	No	No	Yes	Yes	Yes	No	No	No	Yes	No	No
s	No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No
s	No	No	No	No	Yes	No	Yes	No	No	Yes	Yes	Yes	Yes
	Yes	Yes	No	No	Yes	No	Yes	No	No	Yes	Yes	No	No

Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No
Yes	No	No	No	No	No	Yes	No	No	No	Yes	No	Yes
Yes	No	No	No	Yes	Yes	Yes	No	No	No	Yes	No	No
Yes	Yes	No	No	Yes	Yes	Yes	No	No	Yes	Yes	No	Yes
Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No
Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No
No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes
No	No	Yes	No	Yes	Yes	Yes	No	Yes	Yes	Yes	No	Yes
Yes	No	Yes	No	Yes	Yes	Yes	No	No	No	Yes	No	No
Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes
Yes	No	No	No	Yes	Yes	Yes	No	No	Yes	Yes	No	Yes
No	No	No	No	Yes	Yes	Yes	No	Yes	No	Yes	No	Yes
No	No	No	No	Yes	Yes	Yes	No	Yes	No	Yes	No	Yes
No	Yes	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	No

Features and Recreational Amenities   Current and Development Communities

nity ce led s	Building entrance controlled access	Under-ground parking	Aerobicse dance studio	Car wash	Picnic area	Walking / jogging trail	Pool	Sauna / whirlpool	Tennis court	Racquetball	Fitness center	Sand volleyball	Indoor / outdoor basketball
	Yes	Yes	No	No	No	No	Yes	No	No	No	Yes	No	No
	No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No
	Yes	No	No	No	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes
	No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No
	No	No	No	No	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes
	No	No	No	No	Yes	Yes	Yes	No	Yes	No	Yes	No	Yes
	No	No	No	No	Yes	Yes	Yes	No	Yes	No	Yes	No	Yes
	Some	No	No	No	Yes	No	Yes	No	Yes	Yes	Yes	No	No
	Yes	Yes	No	No	No	No	No	No	No	No	Yes	No	No
	No	No	No	No	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes
	No	No	No	No	Yes	No	Yes	No	No	No	No	No	No
	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes
	Yes	No	No	No	Yes	No	No	No	No	No	Yes	No	No
	No	No	No	No	Yes	No	Yes	No	Yes	No	Yes	No	Yes
	Yes	No	No	No	Yes	No	Yes	No	No	Yes	Yes	No	No
	Yes	Yes	No	No	No	No	No	No	No	No	Yes	No	No
	No	No	No	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No	No
	No	No	No	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No	No
	No	No	No	Yes	Yes	Yes	Yes	No	No	No	Yes	No	No
	No	No	No	Yes	Yes	Yes	Yes	No	No	No	Yes	No	No
	No	No	No	Yes	No	No	No	No	No	No	No	No	No

No	No	No	Yes	Yes	No	Yes	No	Yes	No	Yes	Yes	Yes
Yes	No	No	Yes	Yes	No	Yes	No	No	No	Yes	No	Yes
Yes	Yes	No	Yes	Yes	Yes	Yes	No	Yes	No	Yes	No	No
Yes	No	No	Yes	Yes	No	Yes	Yes	No	No	Yes	Yes	Yes
No	No	No	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes
Yes	Yes	No	No	No	No	Yes	No	No	No	Yes	No	No
Yes	Yes	No	No	No	No	No	No	No	No	Yes	No	No
Yes	Yes	No	Yes	Yes	No	Yes	No	No	No	Yes	No	No
No	No	No	Yes	No	Yes	Yes	No	No	No	No	No	No
Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No
Yes	No	No	Yes	Yes	Yes	Yes	No	No	No	Yes	No	Yes
No	No	No	Yes	Yes	Yes	Yes	No	No	No	Yes	No	Yes
No	No	No	Yes	Yes	No	Yes	No	No	No	Yes	No	No
Yes	No	No	Yes	Yes	No	Yes	No	Yes	No	Yes	No	Yes

Features and Recreational Amenities Current and Development Communities

Building entrance controlled access	Under-ground parking	Aerobicse dance studio	Car wash	Picnic area	Walking / jogging trail	Pool	Sauna / whirlpool	Tennis court	Racquetball	Fitness center	Sand volleyball	Indoor / outdoor basketball
Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No
No	No	No	No	No	No	Yes	No	No	No	Yes	No	No
No	No	No	Yes	Yes	Yes	Yes	No	No	No	No	No	No
Yes	No	No	No	Yes	No	Yes	Yes	No	Yes	Yes	No	No
No	No	No	No	No	No	Yes	Yes	No	No	Yes	No	No
Yes	Yes	No	No	No	No	No	No	No	No	Yes	No	No
Yes	Yes	No	No	Yes	No	No	No	No	No	No	No	No
No	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No
No	No	No	No	No	No	Yes	Yes	No	No	Yes	No	No
Yes	Yes	No	No	No	No	No	No	No	No	Yes	No	No
No	No	No	No	No	Yes	Yes	Yes	No	No	Yes	No	No
No	No	No	No	No	No	Yes	Yes	No	No	Yes	No	No
No	No	No	No	Yes	Yes	Yes	Yes	No	No	Yes	No	No
Yes	Yes	No	No	Yes	Yes	Yes	Yes	No	No	Yes	No	No
No	No	No	No	No	No	Yes	No	No	No	Yes	No	No
No	No	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	No

No	No	No	Yes	Yes	No	Yes	Yes	No	No	Yes	Yes	Yes
No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No
No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	Yes
No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No
No	No	No	No	No	No	Yes	Yes	No	No	Yes	No	No
Yes	Yes	No	No	No	No	Yes	Yes	No	No	Yes	No	No
Yes	Yes	Yes	No	No	No	No	No	No	No	Yes	No	No
Yes	Yes	No	No	Yes	No	No	No	No	No	Yes	No	No
No	No	No	Yes	No	Yes	Yes	No	No	No	Yes	No	Yes
No	No	No	No	No	No	Yes	No	No	No	Yes	No	No
Yes	Yes	No	Yes	Yes	No	No	No	No	No	No	No	No
Yes	Yes	No	No	No	No	No	Yes	No	No	Yes	No	No
No	Yes	No	No	No	Yes	Yes	Yes	No	No	Yes	No	No

Features and Recreational Amenities   Current and Development Communities

ity e ed	Building entrance controlled access	Under- ground parking	Aerobicse dance studio	Car wash	Picnic area	Walking / jogging trail	Pool	Sauna / whirlpool	Tennis court	Racquetball	Fitness center	Sand volleyball	Indoor / outdoor basketball	C
	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	
	Yes	Yes	Yes	No	No	No	Yes	Yes	No	No	Yes	No	No	
	No	No	No	Yes	Yes	Yes	Yes	No	Yes	No	Yes	No	Yes	
	No	Yes	No	Yes	Yes	No	Yes	No	No	No	Yes	No	No	
	No	Yes	No	No	Yes	No	Yes	Yes	No	No	Yes	No	Yes	
	No	No	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	Yes	
	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	
	No	Yes	No	No	No	Yes	Yes	Yes	No	No	Yes	No	No	
	No	Yes	No	Yes	Yes	No	Yes	Yes	No	No	Yes	No	No	
	Yes	Yes	No	No	No	No	Yes	Yes	No	No	Yes	No	No	
	No	No	No	No	No	No	Yes	Yes	No	No	Yes	No	No	
	Yes	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes	No	Yes	
	Yes	Yes	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	
	No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No	
	No	No	No	Yes	No	No	Yes	No	No	No	Yes	No	No	
	Yes	No	No	No	No	No	Yes	No	No	No	Yes	No	No	
	No	No	No	Yes	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes	No	
	No	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No	
	No	Yes	No	No	No	No	Yes	Yes	No	No	Yes	No	No	

No	Yes	No	No	No	No	Yes	Yes	No	No	Yes	No	No
Yes	Yes	No	No	No	No	Yes	Yes	No	No	No	No	No
Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No
No	No	No	No	No	No	Yes	Yes	No	No	Yes	No	No
No	No	No	Yes	No	No	Yes	Yes	Yes	No	Yes	Yes	No
No	No	No	No	No	Yes	Yes	Yes	No	No	Yes	No	No
No	No	No	Yes	No	No	Yes	Yes	No	No	Yes	No	No
No	No	No	No	Yes	Yes	Yes	Yes	No	No	Yes	No	No
Yes	No	No	No	No	No	Yes	Yes	Yes	No	Yes	No	No
No	Yes	Yes	No	Yes	No	Yes	Yes	Yes	No	Yes	Yes	Yes
No	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No

Features and Recreational Amenities   Current and Development Communities

unity ce lled ss	Building entrance controlled access	Under-ground parking	Aerobicse dance studio	Car wash	Picnic area	Walking / jogging trail	Pool	Sauna / whirlpool	Tennis court	Racquetball	Fitness center	Sand volleyball	Indoor / outdoor basketball
	No	No	No	No	Yes	No	Yes	No	Yes	Yes	Yes	No	No
	Yes	Yes	No	No	Yes	No	Yes	No	No	Yes	Yes	No	No
	Some	Some	Yes	No	Yes	No	Yes	No	No	No	Yes	No	Yes
	Yes	No	Yes	No	Yes	No	Yes	No	No	No	Yes	No	No
s	Some	Some	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes
s	Yes	Yes	No	No	No	No	No	No	No	No	No	No	No
s	Yes	No	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No
	Yes	Yes	No	No	No	No	Yes	No	No	No	Yes	No	No
	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes
s	Yes	Yes	No	No	Yes	No	Yes	Yes	No	No	Yes	No	No
s	Yes	Yes	No	No	Yes	No	No	No	No	No	Yes	No	No
	All	No	No	No	Yes	No	Yes	No	No	No	Yes	No	No
	Yes	No	Yes	No	Yes	No	Yes	No	No	No	Yes	No	No
	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes
	Yes	No	No	No	Yes	No	Yes	No	No	No	Yes	No	Yes
s	Yes	Yes	No	No	Yes	No	No	No	No	No	Yes	No	No

(1) For the purpose of this table, Current Communities excludes communities held by unconsolidated real estate joint ventures.

35

Development Communities

As of December 31, 2006, we had 17 Development Communities under construction. We expect these Development Communities, when completed, to add a total of 5,153 apartment homes to our portfolio for a total capitalized cost, including land acquisition costs, of approximately $1,323,300,000. You should carefully review Item 1a., Risk Factors, for a discussion of the risks associated with 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 Wilshire *Los Angeles, CA*	123	$ 46.6	Q1 2005	Q1 2007	Q2 2007	Q4 2007
2.	Avalon Chestnut Hill *Chestnut Hill, MA*	204	60.6	Q2 2005	Q3 2006	Q1 2007	Q3 2007
3.	Avalon at Decoverly II *Rockville, MD*	196	30.5	Q3 2005	Q2 2006	Q1 2007	Q3 2007
4.	Avalon Lyndhurst (4) *Lyndhurst, NJ*	328	78.8	Q3 2005	Q4 2006	Q4 2007	Q2 2008
5.	Avalon Shrewsbury *Shrewsbury, MA*	251	36.1	Q3 2005	Q2 2006	Q2 2007	Q4 2007
6.	Avalon Riverview North *New York, NY*	602	175.6	Q3 2005	Q3 2007	Q3 2008	Q1 2009
7.	Avalon at Glen Cove North *Glen Cove, NY*	111	42.4	Q4 2005	Q2 2007	Q3 2007	Q1 2008
8.	Avalon Danvers *Danvers, MA*	433	84.8	Q4 2005	Q1 2007	Q2 2008	Q4 2008
9.	Avalon Woburn *Woburn, MA*	446	81.3	Q4 2005	Q3 2006	Q1 2008	Q3 2008
10.	Avalon on the Sound II *New Rochelle, NY*	588	184.2	Q1 2006	Q3 2007	Q3 2008	Q1 2009
11.	Avalon Meydenbauer *Bellevue, WA*	368	84.3	Q1 2006	Q4 2007	Q3 2008	Q1 2009
12.	Avalon at Dublin Station I *Dublin, CA*	305	85.8	Q2 2006	Q3 2007	Q2 2008	Q4 2008
13.	Avalon at Lexington Hills *Lexington, MA*	387	86.2	Q2 2006	Q2 2007	Q3 2008	Q1 2009
14.	Avalon Bowery Place II (5) *New York, NY*	90	61.9	Q3 2006	Q4 2007	Q1 2008	Q2 2008
15.	Avalon Encino *Los Angeles, CA*	131	61.5	Q3 2006	Q3 2008	Q4 2008	Q1 2009

16. Avalon Canoga Park *Canoga Park, CA*	210	53.9	Q4 2006	Q1 2008	Q2 2008	Q4 2008
17. Avalon Acton (5) *Acton, MA*	380	68.8	Q4 2006	Q1 2008	Q4 2008	Q2 2009
Total	5,153	$ 1,323.3				

(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, 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) The remediation of our Avalon Lyndhurst development site, as discussed in Note 8, Commitment and Contingencies of the Consolidated Financial Statements included as Item 8 of this report, is substantially complete. The net cost associated with this remediation effort after considering insurance proceeds received to date, including costs associated with construction delays, is expected to total approximately $7.5 million. We are pursuing the recovery of these additional costs through insurance as well as from the third parties involved, but any additional recoverable amounts are not currently estimable. The total expected capitalized cost cited above does

not reflect the potential impact of these additional net costs.

(5) This community is being financed in part by third party, tax-exempt debt.

Redevelopment Communities

As of December 31, 2006, we had three consolidated communities under redevelopment. We expect the total capitalized cost to redevelop these communities to be $25,800,000, excluding costs prior to redevelopment. In addition, the Fund has three communities under 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, 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 increasing our redevelopment activity related to Fund-owned communities, as well as 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:

	Number of apartment homes	Total cost ($ millions) Pre-redevelopment cost	Total capitalized cost (1)	Reconstruction start	Estimated reconstruction completion	Estimated restabilized operations (2)
Consolidated Communities						
1. Avalon Arlington Heights *Arlington Heights, IL*	409	$ 50.2	$ 57.1	Q1 2006	Q1 2007	Q3 2007
2. Avalon Walk I and II *Hamden, CT*	764	59.4	71.2	Q1 2006	Q4 2007	Q2 2008
3. Avalon at AutumnWoods *Fairfax, VA*	420	31.2	38.3	Q3 2006	Q3 2008	Q1 2009
Subtotal	1,593	$ 140.8	$ 166.6			
Fund Communities						
1. Avalon Redmond *Redmond, WA*	400	$ 49.2	$ 56.7	Q2 2006	Q4 2007	Q2 2008
	192	38.1	43.5			

2. Civic Center Place *Norwalk, CA*					Q4 2006	Q2 2008	Q4 2008
3. Avalon at Poplar Creek *Schaumburg, IL*	196	25.2		28.6	Q4 2006	Q1 2008	Q3 2008
Subtotal	788	$ 112.5	$	128.8			
Total	2,381	$ 253.3	$	295.4			

(1) Total capitalized cost includes all capitalized costs projected to be or actually incurred to develop 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.

Development Rights

As of December 31, 2006, we are evaluating the future development of 54 new apartment communities on land that is either owned by us, under contract, subject to a leasehold interest or for which we hold either a purchase or lease option. We generally hold Development Rights through options to acquire land, although for 18 of the Development Rights we currently own the land on which a community would be built if we proceeded with development. 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 14,185 apartment homes to our portfolio. Substantially all of these apartment homes will offer features like those offered by the communities we currently own. At December 31, 2006, there were cumulative capitalized costs (including legal fees, design fees and related overhead costs, but excluding land costs) of $39,365,000 relating to Development Rights that we consider probable for future development. In addition, land costs related to the pursuit of Development Rights (consisting of original land and additional carrying costs) of $209,568,000 are reflected as land held for development as of December 31, 2006 on the Consolidated Balance Sheet of the Consolidated Financial Statements set forth in Item 8 of this report.

The properties comprising the Development Rights are in different stages of the due diligence and regulatory approval process. The decisions as to which of the Development Rights to invest in, if any, or to continue to pursue once an investment in a Development Right is made, 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. Pre-development costs incurred in the pursuit of Development Rights 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 written-off with a charge to expense.

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

The table below presents a summary of these Development Rights:

	Location		Estimated number of homes	Total capitalized cost ($ millions) (1)
1.	White Plains, NY	(2)	393	$ 155
2.	New York, NY		296	125
3.	Tinton Falls, NJ		216	41
4.	Coram, NY	(2)	200	47
5.	Kirkland, WA Phase II	(2)	176	53
6.	Hingham, MA	(2)	235	44
7.	Northborough, MA		350	60
8.	Wilton, CT	(2)	100	24
9.	Union City, CA	(5)	438	120
10.	Andover, MA	(2)	115	21
11.	Norwalk, CT		319	83
12.	Sharon, MA		156	26
13.	Brooklyn, NY		628	317
14.	Pleasant Hill, CA	(4)	416	153
15.	Milford, CT	(2)	284	45
16.	West Haven, CT		170	23
17.	Cohasset, MA	(2)	200	38
18.	Quincy, MA	(2)	146	24
19.	West Long Branch, NJ	(3)	216	36
20.	Plymouth, MA Phase II		81	17
21.	Shelton, CT		302	49
22.	Shelton, CT II		171	34
23.	Roselle Park, NJ		340	75
24.	Wanaque, NJ		210	45
25.	San Francisco, CA		152	40
26.	North Bergen, NJ	(3)	156	48
27.	Howell, NJ		265	42
28.	Gaithersburg, MD		254	41
29.	Highland Park, NJ		285	67
30.	Dublin, CA Phase II		200	52
31.	Dublin, CA Phase III		205	53
32.	Canoga Park, CA		297	85
33.	New York, NY II		680	261
34.	Camarillo, CA		376	55
35.	Bloomingdale, NJ		173	38
36.	Greenburgh, NY Phase II		444	112
37.	Irvine, CA	(2)	280	76
38.	Stratford, CT	(2)	146	23
39.	Hackensack, NJ		210	47
40.	Oyster Bay, NY	(2)	150	42
41.	Saddle Brook, NJ		300	55
42.	Oakland, NJ		308	62

43.	Randolph, NJ		128		31
44.	Irvine, CA II		180		57
45.	Garden City, NY		160		58
46.	Alexandria, VA	(5)	283		73
47.	Tysons Corner, VA	(5)	439		101
48.	Yonkers, NY		400		88
49.	Plainview, NY		160		38
50.	Wheaton, MD	(5)	320		56
51.	Yaphank, NY	(2)	343		57
52.	Camarillo, CA II		233		57
53.	Rockville, MD	(5)	240		46
54.	Winchester, MA		260		65
	Total		14,185	$	3,581

(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 acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees.

(2) We own the land parcel, but construction has not yet begun.

(3) This Development Right is subject to a joint venture ownership structure.

(4) This Development Right is subject to a joint venture arrangement. In connection with

the pursuit of this Development Right, $125 million in bond financing was issued and immediately invested in a guaranteed investment contract (GIC) administered by a trustee as described in the Notes to the Consolidated Financial Statements set forth in Item 8 of this report.

(5) Represents improved land encumbered with debt. The improved land consists of occupied office buildings and industrial space. Net operating income from incidental operations from the current improvements are recorded as a reduction in the cost basis as described in the Notes to the Consolidated Financial Statements set forth in Item 8 of this report.

Recent Developments

Sales of Existing Communities. We seek to increase the value of our interests and increase our presence in selected high barrier-to-entry markets where we believe we can:

apply sufficient market and management presence to enhance revenue growth;

- reduce operating expenses; and
- leverage management talent.

To achieve this increased value creation and presence, we (i) sell assets that 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 variable rate unsecured credit facility. On occasion, we will set aside the proceeds from the sale of communities into a cash escrow account to facilitate a non-taxable, like-kind exchange transaction. We sold four communities, including one community previously held by a joint venture entity, containing an aggregate of 1,036 apartment homes, during the period from January 1, 2006 through January 31, 2007. Net proceeds from the sale of these assets were $218,492,000.

Land Acquisitions. We select land for development and follow established procedures that we believe minimize both the cost and the risks of development. During 2006, we acquired nine land parcels for an aggregate purchase price of $91,574,000. The land parcels purchased, which are currently being developed or are held for future development, are as follows:

		Gross acres	Estimated number of apartment homes	Total capitalized cost (1) ($ millions)	Date acquired	Construction start (2)
1.	Avalon Cohasset *Cohasset, MA*	62.0	200	$ 38	January 2006	2008
2.	Avalon Canoga Park *Canoga Park, CA*	3.3	210	54	January 2006	2006
3.	Avalon Jamboree Village *Irvine, CA*	4.5	280	76	May 2006	2008
4.	Avalon at Lexington Hills *Lexington, MA*	22.5	387	86	June 2006	2006
5.	Avalon at Charles Pond (3) *Coram, NY*	39.0	200	47	June 2006	2007
6.	Avalon at the Hingham Shipyard *Hingham, MA*	12.9	235	44	June 2006	2007
7.	Avalon at Oyster Bay *Oyster Bay, NY*	5.0	150	42	August 2006	2008
8.	Avalon Acton (3) *Acton, MA*	50.3	380	69	December 2006	2006
9.	Avalon White Plains *White Plains, NY*	3.2	393	155	December 2006	2007
	Total	202.7	2,435	$ 611		

(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 acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees.

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

(3) Excludes portion of land acquired that is not planned for development

In addition, in January 2007, we acquired a parcel of land located in Brooklyn, NY for approximately $70,000,000. We expect to begin construction of this high-rise community in the second half of 2007.

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, 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. A large concentration of our communities lies near, and thus is 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, for any single occurrence and in the aggregate, $75,000,000 of coverage with a deductible per building equal to five percent of the insured value of that building. The five percent deductible is subject to a minimum of $100,000 per occurrence. Earthquake coverage outside of California is subject to a $100,000,000 limit, except with respect to the state of Washington, for which the limit is $65,000,000. Our earthquake insurance outside of California provides for a

$100,000 deductible per occurrence. In addition, up to a policy aggregate of $2,000,000, the next $400,000 of loss per occurrence outside California will be treated as an additional deductible.

We renewed the first $15,000,000 layer of our property insurance policy on May 1, 2006. We renewed the remaining layers on this policy on December 1, 2006. At that time, we elected to renew most of these layers so that they will now expire on May 1, 2007, in order to mitigate the risk of cost escalation and align the renewal date for the upper layers with the renewal date for the primary layer.

Our annual general liability policy and workman s compensation coverage renewed on August 1, 2006. We have completed our negotiations with the incumbent carrier and the insurance coverage provided for in these renewal policies did not materially change from the preceding year.

Just as with office buildings, transportation systems and government buildings, there have been reports that apartment communities could become targets of terrorism. In December 2005, Congress passed the Terrorism Risk Insurance Extension Act (TRIEA) which is designed to make terrorism insurance available. In connection with this legislation, we have purchased insurance for property damage due to terrorism up to $200,000,000. Additionally, we have purchased insurance for certain terrorist acts, not covered under TRIEA, 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 TRIEA coverage (subject to deductibles and insured limits) for liability to third parties that result from terrorist acts at our communities. TRIEA is scheduled to expire on December 31, 2007. It is uncertain if Congress will extend TRIEA and continue to provide federal support for terrorism insurance. If Congress does not extend TRIEA, the cost and availability of terrorism insurance may be in question.

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 on environmental contamination. 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.

ITEM 3. LEGAL PROCEEDINGS

We are currently involved in litigation alleging that communities constructed by us violate the accessibility requirements of the Fair Housing Act and the Americans with Disabilities Act. The lawsuit, Equal Rights Center v. AvalonBay Communities, Inc., was filed on September 23, 2005 in the federal district court in Maryland. The plaintiff seeks compensatory and punitive damages in unspecified amounts as well as injunctive relief (such as modification of existing communities), an award of attorneys fees, expenses and costs of suit. The Company has filed a motion to dismiss all or parts of the suit, which has not been ruled on yet by the court. Due to the preliminary nature of the litigation, we cannot predict or determine the outcome of this lawsuit, nor is it reasonably possible to estimate the amount of loss, if any, that would be associated with an adverse decision or settlement.

On January 11, 2007, a former leasing consultant of the Company, individually and on behalf of other leasing consultants allegedly similarly situated, filed suit against the Company in the U.S. District Court for the Southern District of New York alleging that the Company did not pay all leasing consultants overtime as required under the Fair Labor Standards Act. The Company disputes this allegation and maintains that it has accurately tracked and paid all leasing consultants overtime as required by law. We cannot predict the outcome of this lawsuit, nor is it reasonably possible at this time to estimate the amount of loss, if any, that would be associated with an adverse decision.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of our security holders during the fourth quarter of 2006.

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 2006 and 2005, as reported by the NYSE. On January 31, 2007 there were 795 holders of record of an aggregate of 79,344,557 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.

	2006			2005		
	Sales Price		Dividends	Sales Price		Dividends
	High	Low	declared	High	Low	declared
Quarter ended March 31	$110.45	$ 88.95	$0.78	$75.59	$65.18	$0.71
Quarter ended June 30	$112.00	$100.50	$0.78	$81.80	$64.99	$0.71
Quarter ended September 30	$125.21	$110.27	$0.78	$88.23	$78.37	$0.71
Quarter ended December 31	$134.60	$119.31	$0.78	$92.99	$78.82	$0.71

We expect to continue our policy of paying regular quarterly cash dividends. However, 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 January 2007, we announced that our Board of Directors declared a dividend on our common stock for the first quarter of 2007 of $0.85 per share, a 9.0% increase over the previous quarterly dividend of $0.78 per share. The increased dividend will be payable on April 16, 2007 to all common stockholders of record as of April 2, 2007.

During the three months ended December 31, 2006, the Company issued (i) 2,287 shares of common stock in exchange for 2,287 units of limited partnership held by two limited partners of Bay Countrybrook, L.P., and (ii) 3,235 shares of common stock in exchange for 3,235 limited partnership units in Avalon DownREIT V, L.P. The shares were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933. AvalonBay is relying on the exemption based on factual representations received from the limited partners who received these shares.

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, 2006	549	$ 121.78		$ 100,000
Month Ended November 30, 2006	757	$ 131.77		$ 100,000
Month Ended December 31, 2006	254	$ 127.91		$ 100,000

(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 for the first time in our Form 10-K for the year ended December 31, 2005, our Board of Directors has adopted a Stock Repurchase Program under which we may acquire, from time to time, shares of common stock in the open market with an aggregate purchase price of up to $100,000,000. In 2006 and 2005, no purchases were made (a) under this program, or (b) outside of this program. In determining whether to repurchase shares, we consider a variety of factors, including our liquidity needs, the then current market price of our shares and the effect of the share repurchases on our per share earnings and FFO. 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 on page 69 of this Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

The following table provides historical consolidated financial, operating and other data for AvalonBay Communities, Inc. 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				
	12-31-06	12-31-05	12-31-04	12-31-03	12-31-02
Revenue:					
Rental and other income	$ 731,041	$ 666,376	$ 613,240	$ 556,582	$ 531,595
Management, development and other fees	6,259	4,304	604	931	2,145
Total revenue	737,300	670,680	613,844	557,513	533,740
Expenses:					
Operating expenses, excluding property taxes	210,895	191,558	181,351	164,253	147,965
Property taxes	68,257	65,487	59,458	53,257	47,580
Interest expense, net	111,046	127,099	131,103	130,178	114,282
Depreciation expense	162,896	158,822	151,991	138,725	121,995
General and administrative expense	24,767	25,761	18,074	14,830	13,449
Impairment loss					6,800
Total expenses	577,861	568,727	541,977	501,243	452,071
Equity in income of unconsolidated entities	7,455	7,198	1,100	25,535	55
Venture partner interest in profit-sharing			(1,178)	(1,688)	(857)
Minority interest in consolidated partnerships	(573)	(1,481)	(150)	(950)	(865)
Gain on sale of land	13,519	4,479	1,138	1,234	
Income from continuing operations before cumulative effect of change in accounting principle	179,840	112,149	72,777	80,401	80,002
Discontinued operations:					
Income from discontinued operations	1,148	14,942	21,134	31,368	44,723
Gain on sale of communities	97,411	195,287	121,287	159,756	48,893
Total discontinued operations	98,559	210,229	142,421	191,124	93,616
Income before cumulative effect of change in accounting principle	278,399	322,378	215,198	271,525	173,618
			4,547		

Cumulative effect of change in accounting principle					
Net income	278,399	322,378	219,745	271,525	173,618
Dividends attributable to preferred stock	(8,700)	(8,700)	(8,700)	(10,744)	(17,896)
Net income available to common stockholders	$ 269,699	$ 313,678	$ 211,045	$ 260,781	$ 155,722
Per Common Share and Share Information:					
Earnings per common share basic					
Income from continuing operations (net of dividends attributable to preferred stock)	$ 2.31	$ 1.42	$ 0.96	$ 1.01	$ 0.90
Discontinued operations	$ 1.33	$ 2.88	$ 1.99	$ 2.79	$ 1.36
Net income available to common stockholders	$ 3.64	$ 4.30	$ 2.95	$ 3.80	$ 2.26
Weighted average common shares outstanding basic	74,125,795	72,952,492	71,564,202	68,559,657	68,772,139
Earnings per common share diluted					
Income from continuing operations (net of dividends attributable to preferred stock)	$ 2.27	$ 1.40	$ 0.96	$ 1.00	$ 0.89
Discontinued operations	$ 1.30	$ 2.81	$ 1.96	$ 2.73	$ 1.34
Net income available to common stockholders	$ 3.57	$ 4.21	$ 2.92	$ 3.73	$ 2.23
Weighted average common shares outstanding diluted	75,586,898	74,759,318	73,354,956	70,203,467	70,674,211
Cash dividends declared	$ 3.12	$ 2.84	$ 2.80	$ 2.80	$ 2.80

	For the year ended				
	12-31-06	12-31-05	12-31-04	12-31-03	12-31-02
Other Information:					
Net income	$ 278,399	$ 322,378	$ 219,745	$ 271,525	$ 173,618
Depreciation continuing operations	162,896	158,822	151,991	138,725	121,995
Depreciation discontinued operations		3,241	10,676	14,380	22,482
Interest expense, net continuing operations	111,046	127,099	131,103	130,178	114,282
Interest expense, net discontinued operations			525	2,399	3,122
EBITDA(1)	$ 552,341	$ 611,540	$ 514,040	$ 557,207	$ 435,499
Funds from Operations (2)	$ 330,819	$ 281,773	$ 246,247	$ 230,566	$ 251,410
Number of Current Communities (3)	150	143	138	131	137
Number of apartment homes	43,141	41,412	40,142	38,504	40,179
Balance Sheet Information:					
Real estate, before accumulated depreciation	$ 6,578,615	$ 5,903,168	$ 5,697,144	$ 5,431,757	$ 5,369,453
Total assets	$ 5,813,186	$ 5,165,060	$ 5,081,249	$ 4,909,582	$ 4,950,835
Notes payable and unsecured credit facilities	$ 2,825,586	$ 2,334,017	$ 2,451,354	$ 2,337,817	$ 2,471,163
Cash Flow Information:					
Net cash flows provided by operating activities	$ 351,943	$ 306,248	$ 275,617	$ 239,677	$ 307,810
Net cash flows provided by (used in) investing activities	$ (511,371)	$ (19,761)	$ (251,683)	$ 33,935	$ (435,796)
Net cash flows provided by (used in) financing activities	$ 162,280	$ (282,293)	$ (29,471)	$ (279,465)	$ 68,008

Notes to Selected Financial Data

(1) 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 generally accepted accounting principles, or 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.

(2) 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 Operations and Other Comprehensive Income included elsewhere in this report.

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

Consistent with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trustsâ (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;

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				
	12-31-06	12-31-05	12-31-04	12-31-03	12-31-02
Net income	$ 278,399	$ 322,378	$ 219,745	$ 271,525	$ 173,618
Dividends attributable to preferred stock	(8,700)	(8,700)	(8,700)	(10,744)	(17,896)
Depreciation real estate assets, including discontinued operations and joint venture adjustments	164,749	162,019	157,988	128,278	142,980
Minority interest expense, including discontinued operations	391	1,363	3,048	1,263	1,601
Gain on sale of unconsolidated entities holding previously depreciated real estate assets	(6,609)				
Cumulative effect of change in accounting principle			(4,547)		
Gain on sale of previously depreciated real estate assets	(97,411)	(195,287)	(121,287)	(159,756)	(48,893)
Funds from Operations attributable to common stockholders	$ 330,819	$ 281,773	$ 246,247	$ 230,566	$ 251,410
Weighted average common shares outstanding diluted	75,586,898	74,759,318	73,354,956	70,203,467	70,674,211
FFO per common share diluted	$ 4.38	$ 3.77	$ 3.36	$ 3.28	$ 3.55

48

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 facilitate 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 as described more fully under Forward-Looking Statements on page 65 of this report. Actual results or developments could differ materially from those projected in such statements as a result of the risk factors described in Item 1a, Risk Factors, of this report.

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 seek to create long-term shareholder value by accessing capital on cost effective terms; deploying that capital to develop, redevelop and acquire apartment communities in high barrier-to-entry markets; operating apartment communities; and selling communities when they no longer meet our long-term investment strategy or when pricing is attractive.

We believe that apartment communities present an attractive long-term investment opportunity compared to other real estate investments because a broad potential resident base should help reduce demand volatility over a real estate cycle. We intend to continue to pursue real estate investments in markets where constraints to new supply exist, and where new rental household formations are expected to out-pace multifamily permit activity over the course of the real estate cycle. Barriers-to-entry in our markets generally include a difficult and lengthy en