

AVALONBAY COMMUNITIES INC
Form DEF 14A
April 08, 2013

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant
☒

Filed by a Party other
than the Registrant ☐

Check the appropriate
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Statement

☐ **Confidential, for
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AVALONBAY COMMUNITIES, INC

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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Table of Contents

Ballston Tower, 671 N. Glebe Road, Suite 800

Arlington, VA 22203

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 22, 2013

NOTICE IS HEREBY GIVEN that the 2013 Annual Meeting of Stockholders (the “Annual Meeting”) of AvalonBay Communities, Inc., a Maryland corporation (the “Company”), will be held on Wednesday, May 22, 2013, at 9:00 a.m., local time, at the offices of the Company, Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, VA 22203, for the following purposes:

1. To elect the following nine directors to serve until the 2014 Annual Meeting of Stockholders and until their respective successors are elected and qualify: Glyn F. Aeppel, Alan B. Buckelew, Bruce A. Choate, John J. Healy, Jr., Timothy J. Naughton, Lance R. Primis, Peter S. Rummell, H. Jay Sarles, and W. Edward Walter.
2. To consider and vote upon ratification of the selection of Ernst & Young LLP by the Audit Committee of the Company’s Board of Directors to serve as the Company’s independent auditors for 2013.
3. To consider and vote upon a resolution to approve, on a non-binding, advisory basis, the compensation of certain executives of the Company as more fully described in the accompanying proxy statement.
4. To consider and vote upon approval of an amendment to the Company’s Amended and Restated Articles of Incorporation, as amended, to increase the number of authorized shares of the Company’s common stock, par value \$.01 per share by 140 million shares as more fully described in the accompanying proxy statement.
5. To transact such other business as may be properly brought before the Annual Meeting and at any postponements or adjournments thereof.

Any action may be taken on the foregoing matters at the Annual Meeting on the date specified above, or on any date or dates to which, by original or later postponement or adjournment, the Annual Meeting may be postponed or adjourned.

The Board of Directors has fixed the close of business on March 8, 2013, as the record date for determining the stockholders entitled to receive notice of and to vote at the Annual Meeting and at any postponements or adjournments thereof. Only holders of record of the Common Stock at that time will be entitled to receive notice of and to vote at the Annual Meeting and at any postponements or adjournments thereof.

You are requested to authorize a proxy to vote your shares by completing and signing the enclosed proxy card, which is being solicited by the Board of Directors, and by mailing it promptly in the enclosed postage-prepaid envelope. You may also authorize a proxy to vote your shares by telephone or over the Internet by following the instructions on your proxy card. Any proxy delivered by a holder of Common Stock may be revoked by delivering written notice to the Company stating that the proxy is revoked or by delivery of a properly executed, later dated proxy. Holders of record

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of Common Stock who attend the Annual Meeting may vote in person, even if they have previously delivered a signed proxy or authorized a proxy by telephone or over the Internet, but the presence (without further action) of a stockholder at the Annual Meeting will not constitute revocation of a previously delivered proxy.

By Order of the Board of Directors

Edward M. Schulman

Secretary

Arlington, Virginia

April 10, 2013

Table of Contents
Proxy Statement
Table of Contents

<u>I. SOME QUESTIONS YOU MAY HAVE REGARDING THIS PROXY STATEMENT</u>	Page 1
<u>II. PROPOSALS</u>	4
<u>Proposal 1—Election of Directors</u>	4
<u>Required Vote and Recommendation</u>	4
<u>Information Regarding Nominees</u>	4
<u>Proposal 2—Ratification of Selection of Independent Public Auditors</u>	6
<u>Required Vote and Recommendation</u>	6
<u>Proposal 3—Non-Binding, Advisory Vote on Executive Compensation</u>	7
<u>Required Vote and Recommendation</u>	7
<u>Proposal 4—Amendment of Charter to Increase Authorized Shares of Common Stock</u>	8
<u>Purpose of the Amendment and Factors to Consider</u>	8
<u>Required Vote and Recommendation</u>	9
<u>Other Matters</u>	9
<u>III. CORPORATE GOVERNANCE AND RELATED MATTERS</u>	9
<u>Code of Ethics and Corporate Governance Guidelines</u>	9
<u>Board of Directors and its Committees</u>	9
<u>Contacting the Board</u>	12
<u>Report of the Audit Committee</u>	13
<u>Fiscal 2011 and 2012 Audit Fee Summary</u>	13
<u>Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors</u>	13
<u>Shareholders Agreement</u>	14
<u>Transactions with Related Persons, Promoters and Certain Control Persons</u>	14
<u>IV. EXECUTIVE COMPENSATION</u>	15
<u>Compensation Discussion and Analysis</u>	15
<u>Compensation Committee Report</u>	28
<u>Compensation Committee Interlocks and Insider Participation</u>	28
<u>Summary Compensation Table</u>	29
<u>Grants of Plan Based Awards</u>	31
<u>Outstanding Equity Awards at Fiscal Year End</u>	32
<u>Option Exercises and Stock Vested</u>	34
<u>Nonqualified Deferred Compensation</u>	35
<u>Potential Payments Upon Termination or Sale Event</u>	36
<u>Director Compensation</u>	40
<u>V. OFFICERS, STOCK OWNERSHIP AND OTHER INFORMATION</u>	42
<u>Executive and Senior Officers</u>	42
<u>Security Ownership of Certain Beneficial Owners and Management</u>	45
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	46
<u>VI. OTHER MATTERS</u>	47
<u>Solicitation of Proxies</u>	47
<u>Stockholder Proposals for Annual Meetings</u>	47

Table of Contents

AvalonBay Communities, Inc.

Ballston Tower, 671 N. Glebe Road, Suite 800

Arlington, Virginia 22203

PROXY STATEMENT

FOR 2013 ANNUAL MEETING OF STOCKHOLDERS

To Be Held On May 22, 2013

I. SOME QUESTIONS YOU MAY HAVE REGARDING THIS PROXY STATEMENT

Q. Why am I receiving these materials?

This proxy statement and the accompanying Notice of Annual Meeting and proxy card are first being sent to stockholders on or about April 10, 2013. The accompanying proxy is solicited on behalf of the Board of Directors of AvalonBay Communities, Inc., a Maryland corporation (the “Company”). We are providing these proxy materials to you in connection with our 2013 Annual Meeting of Stockholders to be held on Wednesday, May 22, 2013, at A. 9:00 a.m., local time, at the offices of the Company, Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, VA 22203, and any postponements or adjournments thereof (the “Annual Meeting”). As a Company stockholder, you are invited to attend the Annual Meeting and are entitled and requested to vote on the proposals described in this proxy statement. Directions on how to attend the Annual Meeting in person are available on the Company’s Internet website at www.avalonbay.com/events.

Q. How can I access the proxy materials electronically?

This proxy statement, our 2012 Annual Report to Stockholders and our Annual Report on Form 10-K for the year ended December 31, 2012 are available online at www.proxyvote.com. Instead of receiving copies of our future annual reports, proxy statements, and proxy cards by mail, stockholders can elect to receive an email that will A. provide electronic links to our proxy materials and an electronic link to the proxy voting site. Choosing to receive your future proxy materials online will save us the cost of producing and mailing documents to you and help conserve natural resources. You may sign up for electronic delivery by visiting www.proxyvote.com.

Q. Who may vote at the Annual Meeting?

You may vote all the shares of our common stock, par value \$0.01 per share (the “Common Stock”), that you owned at the close of business on March 8, 2013, the record date for determining stockholders entitled to receive notice of, A. and to vote on, these matters (the “Record Date”). On the Record Date, the Company had 129,343,963 shares of Common Stock outstanding and entitled to vote at the meeting. You may cast one vote for each share of Common Stock held by you on all matters.

Q. What constitutes a quorum at the Annual Meeting?

The presence, in person or by proxy, of holders of a majority of all of the shares of Common Stock entitled to vote is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and “broker non-votes” will be counted for purposes of determining whether a quorum is present for the transaction of business A. at the Annual Meeting. A “broker non-vote” refers to a share represented at the meeting held by a broker, as to which instructions have not been received from the beneficial owner or person entitled to vote such shares and with respect to which, on one or more but not all matters, the broker does not have discretionary voting power to vote such share.

Note that under New York Stock Exchange (“NYSE”) rules, if you hold shares through a bank, broker or other institution and you do not provide your voting instructions to them at least 10 days before the Annual Meeting, that firm has the discretion to vote your shares on proposals that the NYSE has determined are routine, such as the ratification of the appointment of the independent registered public accounting firm. A bank, broker or institution that holds your shares cannot vote your shares on non-routine matters at the Annual Meeting, such as the election of directors, approval of compensation-related matters, or a proposal submitted by a stockholder, without your voting instructions.

Table of Contents

Q. What proposals will be voted on at the Annual Meeting?

At the Annual Meeting, stockholders will be asked to: (1) elect nine directors of the Company, (2) consider and vote upon ratification of the selection of Ernst & Young LLP as the Company's independent auditors for 2013, (3) consider and vote upon a resolution to approve, on a non-binding, advisory basis, the Company's named executive officer compensation, (4) consider and vote upon a resolution to amend the Company's Amended and Restated Articles of Incorporation, as amended (the "Charter") to increase the number of authorized shares of Common Stock, and (5) transact such other business as may be properly brought before the Annual Meeting, in each case as specified in the Notice of Annual meeting and more fully described in this proxy statement.

Q. How does the Board of Directors recommend I vote?

- A. Please see the information included in the Proxy Statement relating to the proposals to be voted on. Our Board of Directors unanimously recommends that you vote:
1. **"FOR"** each of the nominees to the Board of Directors;
 2. **"FOR"** ratification of the selection of Ernst & Young LLP as the Company's independent auditors for the fiscal year 2013;
 3. **"FOR"** the non-binding resolution to approve the compensation of the Company's named executive officers as disclosed pursuant to the Securities and Exchange Commission's compensation disclosure rules; and
 4. **"FOR"** the resolution to amend the Company's Charter to increase the number of authorized shares of Common Stock.

Q. How do I vote?

Whether you hold shares directly as the stockholder of record or indirectly as the beneficial owner of shares held for you by a broker or other nominee (i.e., in "street name"), you may direct your vote without attending the Annual Meeting. You may vote by granting a proxy or, for shares you hold in street name, by submitting voting instructions to your broker or nominee. In most instances, you will be able to do this over the Internet, by telephone or by mail. Please refer to the summary instructions below and those included on your proxy card or, for shares you hold in street name, the voting instruction card provided by your broker or nominee.

By Internet—If you have Internet access, you may authorize your proxy from any location in the world by following the "By Internet" instructions on the proxy card or, if applicable, the Internet voting instructions that may be described on the voting instruction card sent to you by your broker or nominee.

By Telephone—If you are calling from the United States or Canada, you may authorize your proxy by following the "By Telephone" instructions on the proxy card or, if applicable, the telephone voting instructions that may be described on the voting instruction card sent to you by your broker or nominee.

By Mail—You may authorize your proxy by signing your proxy card and mailing it in the enclosed, postage-prepaid and addressed envelope. For shares you hold in street name, you may sign the voting instruction card included by your broker or nominee and mail it in the envelope provided.

Table of Contents

For shares held directly in your name, you may change your proxy instructions at any time prior to the vote at the Annual Meeting. You may do this by granting a new properly executed and later-dated proxy, by filing a written revocation with the Secretary of the Company at the address of the Company set forth above, or by attending the Annual Meeting and voting in person. Attendance at the Annual Meeting without further action will not cause your previously granted proxy to be revoked. You may change your proxy instructions for shares you beneficially own by submitting new voting instructions to your broker or nominee in the manner and within the time periods they prescribe.

If a properly signed proxy is submitted but not marked as to a particular item, the proxy will be voted FOR the election of the nine nominees for director of the Company named in this Proxy Statement, FOR the ratification of the selection of Ernst & Young LLP as the Company's independent auditors for 2013, FOR the non-binding resolution to approve the Company's named executive officer compensation, and FOR the resolution to amend the Company's Charter to increase the number of authorized shares of Common Stock. It is not anticipated that any matters other than those set forth in the Proxy Statement will be presented at the Annual Meeting. If other matters are presented, proxies will be voted in the discretion of the proxy holders.

The Company's 2012 Annual Report to Stockholders and a copy of the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC") are being mailed to stockholders concurrently with this Proxy Statement. The Annual Report to Stockholders and Form 10-K, however, are not part of the proxy solicitation material. **A copy of any or all exhibits to the Company's Form 10-K may be obtained free of charge by writing to AvalonBay Communities, Inc., Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, VA 22203, Attention: Chief Financial Officer or by accessing the "Investors" section of the Company's website (www.avalonbay.com).**

Table of Contents

II. PROPOSALS

PROPOSAL 1

ELECTION OF DIRECTORS

The Board of Directors currently consists of nine members. As previously announced, Bryce Blair, a current director and the Chairman of the Board, has announced that he will retire at the end of his current term, which expires at the 2013 Annual Meeting of Stockholders. The Board of Directors has nominated for election the remaining eight current directors and Glyn F. Aeppel. Accordingly, nine nominees will stand for election at the Annual Meeting and if elected will serve until the 2014 Annual Meeting of Stockholders and until their successors are elected and qualify. The following individuals have been nominated by the Board of Directors to serve as directors: Glyn F. Aeppel, Alan B. Buckelew, Bruce A. Choate, John J. Healy, Jr., Timothy J. Naughton, Lance R. Primis, Peter S. Rummell, H. Jay Sarles, and W. Edward Walter (each, a “Nominee” and, collectively, the “Nominees”). The Board of Directors anticipates that each of the Nominees, if elected, will serve as a director. However, if any person nominated by the Board of Directors is unable to serve or for good cause will not serve, the proxies will be voted for the election of such other person as the Board of Directors may recommend. You may not vote for more than nine directors at the Annual Meeting.

Required Vote and Recommendation

Only holders of record of Common Stock as of the close of business on the Record Date are entitled to vote on this proposal. Proxies will be voted for all of the Nominees unless contrary instructions are set forth on the enclosed proxy card. Under the Company’s Bylaws, the affirmative vote of the holders of a majority of the total votes cast for and affirmatively withheld as to each Nominee is required to elect such Nominee. Under Maryland law, abstentions and broker non-votes are not treated as votes cast. Accordingly, an abstention or broker non-vote will have no effect on the result of the vote.

*The Board of Directors unanimously recommends a vote **FOR** all of the Nominees.*

Information Regarding Nominees

The following biographical descriptions set forth information with respect to the Nominees, based on information furnished to the Company by each Nominee, and include the specific experience, qualifications, attributes and skills that led to the Board’s conclusion that each should serve as a director in light of the Company’s business and structure. There is no family relationship between any director, Nominee, or executive officer of the Company.

Employee Director:

Timothy J. Naughton, 51, is the Company’s Chief Executive Officer and President and has been a director of the Company since September 2005. The Board of Directors has voted to appoint Mr. Naughton to the additional position of Chairman of the Board concurrently with his reelection as a director at the Annual Meeting. Mr. Naughton has served as Chief Executive Officer since January 2012 and President since February 2005. Previously, Mr. Naughton served as Chief Operating Officer since February 2001. Prior to assuming the Chief Operating Officer role, Mr. Naughton served as Senior Vice President—Chief Investment Officer since January 2000, overseeing the Company’s investment strategy. Prior to becoming the Chief Investment Officer, Mr. Naughton served as the Company’s Regional Vice President—Development and Acquisitions, with responsibility primarily in the Mid-Atlantic and Midwest regions of the country. Mr. Naughton has been with the Company or its predecessors since 1989. Mr. Naughton serves on the Board of Governors of NAREIT, is a member of The Real Estate Round Table, is a member and past chairman of the Multifamily Council of the ULI, and is a member of the National Multi-Housing Council (“NMHC”), where he serves

on the Executive Committee. Mr. Naughton received his Masters of Business Administration from Harvard Business School in 1987 and earned his undergraduate degree in Economics with High Distinction from the University of Virginia, where he was elected to Phi Beta Kappa. The Board has concluded that Mr. Naughton should serve as a director based on his history with and knowledge of the Company, his performance and achievements as President and Chief Executive Officer of the Company, and his strong background in the real estate business, including years of experience in both property investment and development.

Non-Employee Director Nominees:

Glyn F. Aeppel, 54, has been nominated to serve on the Board of Directors. Ms. Aeppel has more than 25 years of experience in property acquisitions, development and financing. Ms. Aeppel established a hotel investment and advisory company, Glencove Capital, in June 2010 and serves as its President and Chief Executive Officer. From October 2008 to May 2010, Ms. Aeppel served as Chief Investment Officer of Andre Balazs Properties, an owner, developer and operator of luxury hotels. From April 2006 to October 2008, she served as Executive Vice President of Acquisitions and Development for Loews Hotels and as a member of its Executive Committee. From April 2004 to April 2006, she was a principal of Aeppel and Associates, a hospitality advisory development company, during which time she assisted Fairmont Hotels and Resorts in expanding in the United States and Europe. Prior to April 2004, Ms. Aeppel held executive positions with Le Meridien Hotels, Interstate Hotels & Resorts, Inc., FFC Hospitality, LLC, Holiday Inn Worldwide and Marriott Corporation. The Board has concluded that Ms. Aeppel is well-qualified to serve as a director based on her broad background and long experience in property acquisitions, development and financing. The Company issued a press release announcing Ms. Aeppel's nomination on March 28, 2013, the text of which is attached as Appendix A hereto.

Table of Contents

Alan B. Buckelew, 64, has been a director of the Company since September 2011. Mr. Buckelew is the Chief Executive Officer and President of Princess Cruises, Inc. In addition to overseeing the brand and operations of Princess Cruises as CEO since 2007 and as President since 2004, Mr. Buckelew also served as Chief Operating Officer for Cunard Line from 2004 to 2007. Prior to these roles, Mr. Buckelew served from 2000 to 2004 as Executive Vice President of Corporate Services for Princess Cruises, with responsibility for the Company's strategic planning, marketing and yield management functions. The Board has concluded that Mr. Buckelew should serve as a director based on his significant experience as a chief executive in an industry that, like multifamily apartment communities, is capital intensive and consumer-driven.

Bruce A. Choate, 65, has been a director of the Company since April 1994. Since December 2002, Mr. Choate has served as the President, Chief Executive Officer and a director of Watson Land Company, a privately-held real estate investment trust ("REIT") in Carson, California. Prior to December 2002, Mr. Choate had served since 1991 as Watson Land Company's Chief Financial Officer. Prior to joining Watson Land Company, Mr. Choate was employed by Bixby Ranch Company, a privately-held real estate investment company in Seal Beach, California, as Senior Vice President and Chief Financial Officer. Previously, Mr. Choate held various management positions with national banking and mortgage banking organizations. He holds memberships in the ULI, NAREIT, the Real Estate Investment Advisory Council, The Real Estate Round Table, and the National Association of Industrial and Office Property, and he serves on the Board of Directors of the Los Angeles Economic Development Corporation and is a charter member of the Southern California Leadership Council. Mr. Choate has been a director of Standard Pacific Corp., a publicly traded builder of attached and detached homes, since 2007. The Board has concluded that Mr. Choate should serve as a director based on his extensive financial, investment and management experience as the chief executive officer and chief financial officer of a real estate company with significant holdings and operations.

John J. Healy, Jr., 66, has been a director of the Company since May 1996. Mr. Healy is Co-Founder and CEO of Hyde Street Holdings, Inc., an investor in real estate and real estate related entities. Previously, Mr. Healy co-founded the Hanford/Healy Companies (1988), a real estate investment, asset management and consulting company, which was purchased by GMAC Commercial Mortgage, a subsidiary of General Motors, in September 1996. Mr. Healy has also held various management positions with real estate and financial firms including: The Federal Asset Disposition Association (predecessor to the Resolution Trust Corporation), Bank of America (COO and Director of Technical Services for a real estate subsidiary) and Manufacturers Hanover Trust Company (VP). Mr. Healy sits on the boards of ProLogis Targeted US Logistics Fund (formerly AMB US Logistics Fund, L.P., formerly AMB Alliance Fund III) (Independent Council), The Rosalind Russell Research Center for Arthritis (UCSF), and The Raleigh Performing Arts and Convention Commission. Memberships in professional associations include: ULI (as a Trustee), American Society of Real Estate Counselors ("CRE"), American Institute of Real Estate Appraisers ("MAI"), National Association of Corporate Directors ("NACD"), and Fellow—Royal Institution of Chartered Surveyors. The Board has concluded that Mr. Healy should serve as a director based on his experience and knowledge regarding real estate and asset management, as well as his specific skills in evaluating the financial and operational aspects of real estate companies acquired through his experience with real estate and financial firms.

Lance R. Primis, 66, has been a director of the Company since June 1998, and has served as the Lead Independent Director of the Company since 2003 (see "Board of Directors and its Committees—Lead Independent Director"). Since 1997, Mr. Primis has been the managing partner of Lance R. Primis & Partners, LLC, a management consulting firm with clients in the media industry. From 1969 to 1996, Mr. Primis was employed in various positions by The New York Times Company, including the positions of President and Chief Operating Officer, which he held from 1992 to 1996. Mr. Primis was the President and General Manager of The New York Times from 1988 to 1992. In addition, Mr. Primis previously served as a member of the Board of Directors of Torstar Corporation from 1997 until 2008 and Plum Holdings, LLC from 1997 until 2008. The Board has concluded that Mr. Primis should serve as a director based on his experience managing a public company with significant and varied operations and his performance in the role of Lead Independent Director.

Table of Contents

Peter S. Rummell, 67, has been a director of the Company since September 2007. Mr. Rummell is currently a private investor and most recently served as the CEO of the Jack Nicklaus Companies in Palm Beach, Florida, from August 2008 through May 2009. The Jack Nicklaus Companies runs Mr. Nicklaus's worldwide golf course design and related licensing business. Prior to that, from January 1997 until his retirement in July 2008, Mr. Rummell was Chairman and CEO of The St. Joe Company, one of Florida's largest real estate operating companies and the state's largest private landowner. From 1985 until 1996, Mr. Rummell served as President of Disney Development and then as Chairman of Walt Disney Imagineering, the division responsible for Disney's worldwide creative design, real estate, research and development activities. From 1983 until 1985, he was Vice Chairman of the Rockefeller Center Management Corporation in New York City. Mr. Rummell is the chairman of the ULI, with a two-year term that began July 1, 2011. He also served on the Board of Directors of Progress Energy from September 2003 until May 2006. The Board has concluded that Mr. Rummell should serve as a director based on his experience as the chief executive officer of a public corporation with significant real estate holdings and operations and his experience as president of a major division of a large corporation with real estate design and development activities.

H. Jay Sarles, 67, has been a director of the Company since September 2005. Mr. Sarles retired in 2005, having most recently served as vice chairman of Bank of America Corporation. Prior to that he served as Vice Chairman and Chief Administrative Officer of Fleet Boston Financial ("Fleet") with responsibility for administrative functions, risk management, technology and operations, treasury services, corporate strategy and mergers and acquisitions. During his 37 years at Fleet, Mr. Sarles oversaw virtually all of Fleet's businesses at one time or another, including the company's wholesale banking business from 2001 to 2003. These included commercial finance, real estate finance, capital markets, global services, industry banking, middle market and large corporate lending, small business services and investment banking businesses. Mr. Sarles has served as a director of Ameriprise Financial, Inc., a publicly traded financial planning services company, since September 2005. The Board has concluded that Mr. Sarles should serve as a director based on his extensive experience as an executive officer with a variety of responsibilities at a large financial institution with varied operations.

W. Edward Walter, 57, has been a director of the Company since September 2008. Mr. Walter has served as President and CEO of Host Hotels & Resorts, Inc. ("Host"), a publicly traded premier lodging real estate company, since October 2007. From 2003 until October 2007, he served as Executive Vice President and Chief Financial Officer of Host. From 1996 until 2003, he served in various senior management positions with Host, including Chief Operating Officer. Mr. Walter has been a member of the Board of Directors of Host since October 2007. Mr. Walter is also Chairman of the Board of Directors of the National Kidney Foundation, a Trustee of Friendship Public Charter Schools, and the Chair of NAREIT. The Board has concluded that Mr. Walter should serve as a director based on his demonstrated business, financial and organizational experience as both the past chief financial officer and current chief executive officer of a public corporation with significant real estate investment holdings and operations.

PROPOSAL 2

RATIFICATION OF SELECTION OF INDEPENDENT PUBLIC AUDITORS

The Board recommends that the stockholders ratify the Audit Committee's selection of Ernst & Young LLP ("Ernst & Young") as the principal independent auditors of the Company for fiscal year 2013. Ernst & Young was also the Company's principal independent auditors for fiscal year 2012. If the selection of Ernst & Young is not ratified, the Audit Committee anticipates that it will nevertheless engage Ernst & Young as auditors for fiscal year 2013, but will consider whether it should select a different auditor for fiscal year 2014. If the selection of Ernst & Young is ratified by the stockholders, the Audit Committee may nevertheless determine, based on changes in fees, personnel or for other reasons, to engage a firm other than Ernst & Young for the 2013 audit.

Representatives of Ernst & Young are expected to be present at the Annual Meeting and will have the opportunity to make a statement if they desire to do so. They are also expected to be available to respond to appropriate questions.

Required Vote and Recommendation

Only holders of record of Common Stock as of the close of business on the Record Date are entitled to vote on this proposal. Proxies will be voted for ratification of the selection of Ernst & Young as the Company's independent auditors for fiscal year 2013 unless contrary instructions are set forth on the enclosed proxy card. A majority of the votes cast on the proposal at the Annual Meeting is required to ratify the selection of Ernst & Young. Under Maryland law, abstentions and broker non-votes are not treated as votes cast. Accordingly, an abstention or broker non-vote will have no effect on the result of the vote.

*The Board of Directors unanimously recommends a vote **FOR** the ratification of the selection of Ernst & Young as the Company's independent auditors for fiscal year 2013.*

Table of Contents
PROPOSAL 3

NON-BINDING, ADVISORY VOTE ON EXECUTIVE COMPENSATION

The Compensation Discussion and Analysis beginning on page 15 of this proxy statement describes the Company's executive officer compensation program and decisions made by the Compensation Committee and the Board of Directors in 2012 with respect to our Chief Executive Officer and other officers named in the Summary Compensation Table on page 29 (the "Named Executive Officers"). As noted in the Compensation Discussion and Analysis, the Company's goals for its executive compensation program are (i) to attract, motivate and retain experienced, effective executives, (ii) to direct the performance of those executives with clearly defined goals and measures of achievement, and (iii) to align the interests of management with the interests of our stockholders.

At our 2011 annual meeting of stockholders, our stockholders voted on a proposal regarding the frequency of holding a non-binding, advisory vote on the compensation of our named executive officers (a "Say-on-Pay Vote"), among other matters. A majority of the votes cast on the frequency proposal were cast in favor of holding a Say-on-Pay Vote every year, which was consistent with the recommendation of our Board of Directors. Our Board currently intends for the Company to hold a Say-on-Pay Vote every year at least until the annual meeting of stockholders in 2017, which is the next required advisory vote on the frequency of holding a Say-on-Pay Vote.

While the vote on the following resolution is advisory in nature and therefore will not bind us to take any particular action, our Board of Directors intends to carefully consider the stockholder vote resulting from the proposal in making future decisions regarding our compensation program. The Board of Directors is asking stockholders to cast a non-binding advisory vote on the following resolution:

"RESOLVED, that the compensation paid to the Company's Named Executive Officers, as disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, compensation tables and any related material disclosed in this proxy statement, is hereby APPROVED, on a non-binding, advisory basis, by the stockholders of the Company."

Required Vote and Recommendation

Only holders of record of Common Stock as of the close of business on the Record Date are entitled to vote on this proposal. Proxies will be voted FOR adoption of the resolution approving the compensation disclosed unless contrary instructions are set forth on the enclosed proxy card. A majority of the votes cast on the proposal at the Annual Meeting is required to provide non-binding approval of the compensation paid to the Company's Named Executive Officers. Under Maryland law, abstentions and broker non-votes are not treated as votes cast. Accordingly, an abstention or broker non-vote will have no effect on the result of the vote.

The Board of Directors unanimously recommends a vote FOR the resolution to approve, on a non-binding advisory basis, the compensation paid to the Company's Named Executive Officers.

Table of Contents
PROPOSAL 4

AMENDMENT OF CHARTER TO INCREASE AUTHORIZED SHARES OF COMMON STOCK

On March 13, 2013, our Board adopted, subject to stockholder approval, an amendment to the Charter to increase the total number of shares of Common Stock authorized to be issued from 140 million shares to 280 million shares. More specifically, it is proposed that Article I, Section 1.3 and Article VII, Section 7.1 of the Charter be amended to read as follows (additions shown as underlined and deletions shown as ~~struck through~~):

“1.3 The total number of shares of Stock which the Corporation has authority to issue is ~~two hundred ten million (210,000,000)~~ three hundred fifty million (350,000,000) shares, consisting of (i) fifty million (50,000,000) shares of Preferred Stock; (ii) ~~one hundred forty million (140,000,000)~~ two hundred eighty million (280,000,000) shares of Common Stock; and (iii) twenty million (20,000,000) shares of excess stock, par value \$.01 per share (“Excess Stock”). The aggregate par value of all the shares of all classes of Stock is ~~\$2,100,000~~ \$3,500,000.”

“7.1 Authorized Stock. The total number of shares of Stock which the Corporation has authority to issue is ~~two hundred ten million (210,000,000)~~ three hundred fifty million (350,000,000) shares, consisting of (i) fifty million (50,000,000) shares of Preferred Stock, par value \$.01 per share; (ii) ~~one hundred forty million (140,000,000)~~ two hundred eighty million (280,000,000) shares of Common Stock, par value \$.01 per share; and (iii) twenty million (20,000,000) shares of Excess Stock, par value \$.01 per share. The aggregate par value of all the shares of all classes of Stock is ~~\$2,100,000~~ \$3,500,000.”

Purpose of the Amendment and Factors to Consider

The proposed amendment to the Charter will give the Company the flexibility it requires to issue shares of Common Stock to meet future long term corporate needs. At the present time the Company has 140 million shares of Common Stock authorized for issuance. As of March 8, 2013, 129.3 million shares of Common Stock have been issued and are outstanding. Additionally, the Company has reserved 4.5 million shares for possible future issuance in respect of the exercise of outstanding employee stock options or conversion of outstanding deferred stock units, conversion of outstanding DownREIT units, and the remaining capacity under the Company’s 2009 Stock Incentive Plan. After giving effect to these reserves, the Company has 6.2 million shares of Common Stock that remain authorized and available for issuance.

The Board believes that this number of shares is insufficient to meet the long term needs of the Company for Common Stock equity capital and future equity compensation programs. Therefore, the Board has determined that it is advisable and in the best interests of the Company to amend the Charter to increase the authorized number of shares of Common Stock by an additional 140 million shares in order to “reload” the Company’s authorized Common Stock as the Company approaches the limit of its current Common Stock share authorization. If approved, this will be the first increase in the authorized shares of Common Stock since 1998.

Although there are no present agreements, plans, arrangements, commitments or understandings with respect to the issuance of additional shares of Common Stock, the newly authorized shares of Common Stock could be issued at such times and for such corporate purposes as our Board may deem advisable without further action by our stockholders, except as may be required by applicable law or by the rules of the NYSE or any other stock exchange or national securities association trading system on which our Common Stock may be listed or traded. In this regard, stockholder approval of equity compensation plans would be required for new equity compensation plans or to

increase the number of shares of Common Stock available under existing equity compensation plans, and various rules of the SEC and the Internal Revenue Service would make stockholder approval of such arrangements very desirable in many cases. Subject to such stockholder approvals, the Board could authorize the issuance of these shares of Common Stock for any corporate purpose that the Board deems advisable, which may include capital raising transactions of equity or convertible debt securities, stock splits, stock dividends, issuance under current or future equity compensation and incentive plans, employee stock plans and savings plans, and acquisitions of individual properties or portfolios of multiple properties.

The additional authorized shares of Common Stock, if and when issued, would be part of the existing class of Common Stock and would have the same rights and privileges as the shares of Common stock currently outstanding. The Company's stockholders do not have preemptive rights with respect to Common Stock issuances. Accordingly, any issuance of additional shares of Common Stock will reduce the current stockholders' percentage ownership interest in the total outstanding shares of our Common Stock. The authorization and subsequent issuance of additional shares of Common stock may, among other things, have a dilutive effect on earnings per share and on the equity and voting power of existing holders of our Common Stock.

Table of Contents

Release No. 34-15230 of the staff of the SEC requires disclosure and discussion of the effects of any proposal that may be used as an anti-takeover device. Future issuances of Common Stock or securities convertible into Common Stock could have a dilutive effect on the earnings per share, book value per share, voting power and percentage interest of holdings of current stockholders. In addition, the availability and/or issuance of additional shares of Common Stock could, under certain circumstances, discourage or make more difficult efforts to obtain control of the Company and thereby protect the continuity of then-present management of the Company. The Board has no intention or plan to employ the increase of our authorized Common Stock to prevent or discourage any acquisition attempt at this time.

Required Vote and Recommendation

Only holders of record of Common Stock as of the close of business on the Record Date are entitled to vote on this proposal. Proxies will be voted “FOR” the approval of the Charter amendment unless contrary instructions are set forth on the enclosed proxy card. The affirmative vote of the holders of a majority of all outstanding shares of Common Stock is required to approve the proposal. Under Maryland law, abstentions and broker non-votes are not treated as votes cast. Accordingly, an abstention or broker non-vote will have the effect of a vote cast against the proposal.

For the reasons stated above, the Board unanimously recommends a vote FOR the proposal to amend the Charter to increase the number of authorized shares of Common Stock.

OTHER MATTERS

The Board of Directors does not know of any matters other than those described in this Proxy Statement which will be presented for action at the Annual Meeting. If other matters are presented, proxies will be voted in the discretion of the proxy holders.

Regardless of the number of shares you own, your vote is very important to the Company. Please complete, sign, date and promptly return the enclosed proxy card or authorize a proxy by telephone or over the Internet to vote your shares by following the instructions on your proxy card.

III. CORPORATE GOVERNANCE AND RELATED MATTERS

Code of Ethics and Corporate Governance Guidelines

The Company has adopted a Code of Business Conduct and Ethics (the “Code”), which constitutes a “code of ethics” as defined by the SEC, that applies to the Company’s Board of Directors as well as its Chief Executive Officer, Chief Financial Officer, principal accounting officer, controller, and other employees of the Company. In addition, the Company has adopted Corporate Governance Guidelines. Copies of the Code and the Corporate Governance Guidelines are available on the “Investors” section of the Company’s website (www.avalonbay.com) under “Corporate Overview – Corporate Governance Documents.” To the extent required by the rules of the SEC and the NYSE, we will disclose amendments and waivers relating to these documents in the same place on our website. Additional information on corporate governance policies is included in “*Compensation Policies*” on page 26, including information on the following Company policies: Executive Stock Ownership Guidelines, Prohibition Against Hedging, Pledging or Borrowing against Company Stock, Severance Policy, and Policy on Recoupment of Incentive Compensation (Clawback Policy) .

Board of Directors and its Committees

Board of Directors. The Board of Directors currently consists of nine directors, eight of whom are candidates for election. The Board of Directors met nine times during 2012. The Board of Directors schedules regular executive sessions at each of its meetings in which the Company's independent directors meet without management participation. During 2012 each of the directors attended at least 75% of the total number of meetings of the Board of Directors and meetings of the committees of the Board of Directors of which he was a member. The Board expects each director to attend the Company's annual meetings of stockholders at which he is a nominee, and all directors were in attendance at the 2012 Annual Meeting of Stockholders.

Table of Contents

Audit Committee. The Board of Directors has established an Audit Committee. The current members of this committee are Messrs. Sarles (Chair), Buckelew, Healy and Walter. The Board of Directors has determined that Mr. Sarles is an “audit committee financial expert” as defined by the SEC. Mr. Sarles’ designation by the Board as an “audit committee financial expert” is not intended to be a representation that he is an expert for any purpose as a result of such designation, nor is it intended to impose on him any duties, obligations or liability that are greater than the duties, obligations or liability imposed on him as a member of the Audit Committee and the Board in the absence of such designation. The Board of Directors has determined that the members of the Audit Committee, including the audit committee financial expert, are “independent” under the rules of the NYSE. The Audit Committee, among other functions, has the sole authority to appoint and replace the independent auditors, is responsible for the compensation and oversight of the work of the independent auditors, reviews the results of the audit engagement with the independent auditors, and reviews and discusses with management and the independent auditors quarterly and annual financial statements and major changes in accounting and auditing principles. The Audit Committee met five times during 2012. The Board of Directors has adopted a written charter for the Audit Committee. A copy of the Audit Committee charter is available on the “Investors” section of the Company’s website (www.avalonbay.com) under “Corporate Overview – Corporate Governance Documents.”

Compensation Committee. The Board of Directors has established a Compensation Committee. The current members of this committee are Messrs. Rummell (Chair), Primis and Sarles. The Board of Directors has determined that the members of the Compensation Committee are “independent” under the rules of the NYSE. The Compensation Committee, among other functions, reviews, designs and determines management compensation structures, programs and amounts, establishes corporate and management performance goals and objectives, and reviews and makes recommendations to the Board of Directors regarding the Company’s incentive compensation plans, including the Company’s 1994 Stock Incentive Plan and the Company’s 2009 Stock Option and Incentive Plan (collectively, the “Stock Incentive Plan”). The Compensation Committee also reviews employment agreements and arrangements with officers. The Compensation Committee may establish and delegate authority to one or more subcommittees consisting of one or more of its members as the Committee deems appropriate in order to carry out its responsibilities. In addition, our Stock Incentive Plan provides that the Committee, in its discretion, may delegate to the Chief Executive Officer of the Company all or part of the Committee’s authority and duties under the Plan with respect to stock and option awards, including the granting of awards to individuals who are not subject to the reporting and other provisions of Section 16 of the Securities Exchange Act of 1934, as amended. The Compensation Committee has engaged Steven Hall & Partners, an executive compensation consulting firm, to provide it with independent advice and counsel on executive and board compensation, as well as competitive pay practices. Steven Hall & Partners did not provide any services directly to the Company or its management. The Compensation Committee met four times during 2012. The Board of Directors has adopted a written charter for the Compensation Committee. A copy of the Compensation Committee charter is available on the “Investors” section of the Company’s website (www.avalonbay.com) under “Corporate Overview – Corporate Governance Documents.”

Nominating and Corporate Governance Committee. The Board of Directors has established a Nominating and Corporate Governance Committee (the “Nominating Committee”). The current members of this committee are Messrs. Primis (Chair), Choate and Healy. The Board of Directors has determined that the members of the Nominating Committee are “independent” under the rules of the NYSE. The Nominating Committee was formed to, among other functions, identify individuals qualified to become Board members, consider policies relating to Board and committee meetings, recommend the establishment or dissolution of Board committees, review and consider succession plans with respect to the positions of Chairman and Chief Executive Officer (including through periodic evaluation and discussion with the Board of internal candidates for such succession), and address other issues regarding corporate governance. The Nominating Committee met five times during 2012. The Board of Directors has adopted a written charter for the Nominating Committee. A copy of the Nominating Committee charter is available on the “Investors” section of the Company’s website (www.avalonbay.com) under “Corporate Overview – Corporate Governance Documents.”

In evaluating and determining whether to recommend a person as a candidate for election as a director, the Nominating Committee considers the qualifications set forth in the Company's corporate governance guidelines, which include business and professional background; history of leadership or contributions to other organizations; functional skill set and expertise; general understanding of marketing, finance, accounting and other elements relevant to the success of a publicly-traded company in today's business environment; and service on other boards of directors. In addition, the Board may consider diversity of background, experience and thought in evaluating and recommending candidates for election. The Board believes that diversity is important because a variety of points of view can contribute to a more effective decision-making process. The Nominating Committee may employ a variety of methods for identifying and evaluating nominees for director. The Nominating Committee may assess the size of the Board, the need for particular expertise on the Board, the upcoming election cycle of the Board and whether any vacancies are expected, due to retirement or otherwise. In the event that vacancies are anticipated or otherwise arise, the Nominating Committee will consider various potential candidates for director which may come to the Nominating Committee's attention through current Board members, professional search firms, stockholders or other persons. These candidates are evaluated at regular or special meetings of the Nominating Committee, and may be considered at any time during the year.

Table of Contents

In exercising its function of recommending individuals for nomination by the Board for election as directors, the Nominating Committee considers nominees recommended by stockholders. The procedure by which stockholders may submit such recommendations is set forth in the Company's Bylaws. See "Other Matters—Stockholder Proposals for Annual Meetings" for a summary of these requirements. When nominations are properly submitted, the Nominating Committee will consider candidates recommended by stockholders under the criteria summarized above. Following verification of the stockholder status of persons proposing candidates, the Nominating Committee makes an initial analysis of the qualifications of any candidate recommended by stockholders or others pursuant to the criteria summarized above to determine whether the candidate is qualified for service on the Board of Directors before deciding to undertake a complete evaluation of the candidate. If any materials are provided by a stockholder or professional search firm in connection with the nomination of a director candidate, such materials are forwarded to the Nominating Committee as part of its review. The same identifying and evaluating procedures apply to all candidates for director nomination, including candidates submitted by stockholders. In the case of stockholder nominations, the Board may also consider the specific information required to be provided by the nominating stockholder pursuant to the requirements of the Company's Bylaws.

If you would like the Nominating Committee to consider a prospective candidate, please submit the candidate's name and qualifications and other information in accordance with the requirements for director nominations by stockholders in the Company's Bylaws to: AvalonBay Communities, Inc., Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, VA 22203, Attention: Corporate Secretary.

Investment and Finance Committee. The Board of Directors has established an Investment and Finance Committee. The current members of this committee are Messrs. Walter (Chair), Blair (who has chosen to complete his retirement at the Annual Meeting and is not a candidate for election as a director), Buckelew, Choate, Naughton, and Rummell. The Investment and Finance Committee was formed to, among other things, review and monitor the acquisition, disposition, development and redevelopment of the Company's communities, and review and monitor the financial structure, capital sourcing strategy and financial plans and projections of the Company. The Investment and Finance Committee has authority, subject to certain limits and guidelines set by the Board of Directors and Maryland law, to approve investment and financing activity. The Investment and Finance Committee met six times during 2012.

Leadership Structure and Lead Independent Director. Our current Chairman of the Board, Bryce Blair, has decided to complete his retirement at the Annual Meeting and is not a candidate for election as a director. After considering Mr. Naughton's experience and role with the Company and his years of effective service as a director, and in light of the well-defined and well-established role of our Lead Independent Director (as described in the next paragraph), our Board has appointed Mr. Naughton, our current Chief Executive Officer and President, to the additional position of Chairman of the Board, effective upon his election as a director at the Annual Meeting. The Board believes that the Company will be best served by having Mr. Naughton serve as Chairman of the Board in addition to Chief Executive Officer and President, as opposed to appointing one of the other current directors or a future director to serve as Chairman of the Board. Among other benefits, Mr. Naughton's role as Chief Executive Officer and President enables him, working with the Lead Independent Director, to act as a bridge between management and the Board, helping management and the Board to act with a common purpose. Mr. Naughton's combined roles as Chief Executive Officer, President and Chairman of the board will promote unified leadership and direction for the Company.

To help assure sound corporate governance practices, the Board of Directors established the position of Lead Independent Director in 2003 and Mr. Primis currently serves in that role. Mr. Primis' role as Lead Independent Director includes presiding at all meetings of the Board of Directors at which the Chairman is not present, serving as a liaison between the Chairman and the independent directors, approving meeting agendas for the Board, having the authority to call meetings of the independent directors, conferring with both the Chairman and the Chief Executive Officer regularly, and acting as a contact person for those who wish to communicate with the independent directors.

Board of Directors Risk Oversight. The Company and the Board have a number of practices with regard to Board oversight of risk management matters. The charter of each of the Company's Board committees provides that each committee shall, from time to time to the extent that committee deems appropriate, review risk and compliance matters relevant to that committee and report the results of such review to the full Board. As required by NYSE rules, the charter of the Audit Committee states that the Audit Committee will assist with Board oversight of risk and compliance matters, and in any event will review the perceived major financial risk exposures of the Company and the steps management has taken to monitor and control such exposures. At most regularly scheduled Board meetings, the Board reviews key matters relating to the Company's finances, liquidity, operations and investment activity. On an annual basis, the Board engages in a broader discussion about company-wide risk management. Although it is not the primary reason for the selection of the current leadership structure by the Board, the Company and the Board believe that the current leadership structure of the Board, including both a Chairman of the Board and a separate Lead Independent Director, helps facilitate these risk oversight functions by providing multiple channels for risk related concerns and comments. The Company's operations involve various risks that could have adverse consequences, including those described in the Company's Annual Report on Form 10-K and other filings with the SEC. The Board recognizes that it is neither possible nor prudent to eliminate all risk. Despite the risk oversight activities described above, there can be no assurance that the Company's current practices have identified every potential material risk, are sufficient to address these risks, or that any risks will not result in a material adverse effect on the Company's business or operations.

Table of Contents

Independence of the Board. The NYSE has adopted independence standards for companies listed on the NYSE, which apply to the Company. These standards require a majority of the Board of Directors to be independent and every member of the Audit Committee, Compensation Committee and Nominating Committee to be independent. NYSE standards provide that a director is considered independent only if the Board of Directors “affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company).” In addition, NYSE rules currently provide that:

A director who is an employee, or whose immediate family member is an executive officer, of the Company is not independent until three years after the end of such employment relationship;

A director who receives, or whose immediate family member receives, more than \$120,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive more than \$120,000 per year in such compensation;

A director is not independent if (A) the director is a current partner or employee of a firm that is the Company’s internal or external auditor; (B) the director has an immediate family member who is a current partner of such a firm;

(C) the director has an immediate family member who is a current employee of such a firm and personally works on the Company’s audit; or (D) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company’s audit within that time;

A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company’s present executives serve on that company’s compensation committee is not independent until three years after the end of such service or the employment relationship; and

A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in a single fiscal year, exceeds the greater of \$1 million or 2% of such other company’s consolidated gross revenues, is not independent until three years after falling below such threshold.

To determine which of its members is independent, the Board of Directors used the above standards and also considered whether a director had any other past or present relationships with the Company which created conflicts or the appearance of conflicts. Other than the employment relationship described below, no such transactions, relationships or arrangements were reported to the Board for consideration.

Based on the absence of any such transactions, relationships or arrangements found as a result of this review, the Board determined that all nominees for directors are independent because none of them has any past or present material relationship with the Company that creates a conflict or the appearance of a conflict, except for Mr. Naughton, who currently serves as the Company’s Chief Executive Officer.

Contacting the Board

Any stockholder or other interested party may contact any of our directors, including the Lead Independent Director or our independent directors as a group, by writing to them c/o AvalonBay Communities, Inc., Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, VA 22203, Attention: Corporate Secretary. Your letter should clearly specify the name of the individual director or group of directors to whom your letter is addressed. Any communications received in this manner will be forwarded as addressed.

Table of Contents**Report of the Audit Committee**

The Audit Committee of the Board of Directors of AvalonBay Communities, Inc., a Maryland corporation (the “Company”), reviews the financial reporting process of the Company on behalf of the Board of Directors. Management has primary responsibility for this process, including the Company’s system of internal controls, and for the preparation of the Company’s consolidated financial statements in accordance with generally accepted accounting principles. The Company’s independent auditors, and not the Audit Committee, are responsible for auditing and expressing an opinion on the conformity of the Company’s audited financial statements to generally accepted accounting principles.

In this context, during 2012, the Audit Committee reviewed and discussed the audited financial statements with management and the independent auditors. The Audit Committee also discussed with the independent auditors the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA Professional Standards Vol. 1 AU section 380) (Communication with Audit Committees), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. In addition, the Audit Committee received from the independent auditors the written disclosures required by the Public Company Accounting Oversight Board regarding the independent auditor’s communications with the Audit Committee regarding independence and discussed with the independent auditors their independence from the Company and its management.

Relying on the reviews, disclosures and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board of Directors has approved, that the audited financial statements be included in the Company’s Annual Report on Securities and Exchange Commission (the “SEC”) Form 10-K for the year ended December 31, 2012, for filing with the SEC.

Submitted by the Audit Committee

H. Jay Sarles (Chair)

Alan B. Buckelew

John J. Healy, Jr.

W. Edward Walter

Fiscal 2011 and 2012 Audit Fee Summary

During fiscal years 2011 and 2012, the Company retained its principal independent auditors, Ernst & Young, to provide services in the following categories and approximate amounts:

	2011	2012
Audit fees	\$1,030,175	\$1,174,205
Audit related fees(1)	\$416,205	\$584,670
Tax fees(2)	\$407,625	\$416,025
All other fees	\$0	\$0

(1) Audit related fees include fees for services traditionally performed by the auditor such as subsidiary audits, employee benefit audits, and accounting consultation.

(2) Tax fees include preparation and review of subsidiary tax returns and taxation advice.

Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

Table of Contents

Transactions with Related Persons, Promoters and Certain Control Persons

The Company's Code of Business Conduct and Ethics (the "Code"), adopted by the Company's Board of Directors and evidenced in writing, provides that no employee of the Company, including an executive officer or director, may engage in activities that create a conflict of interest with the Company unless all relevant details have been disclosed and an appropriate waiver permitting the conduct has been received. An activity constitutes a conflict of interest under the Code if (i) the activity could adversely affect or compete with the Company, (ii) any interest, connection or benefit to the employee or director from the activity could reasonably be expected to cause such employee or director to consider anything other than the best interest of the Company when deliberating and voting on Company matters, or (iii) any interest, connection or benefit to the employee or director from the activity could give such employee or director or a member of his or her family an improper benefit that he or she obtains on account of his or her position within the Company. An executive officer or member of the Board of Directors may only receive a waiver from the Board or any designated committee of the Board, and any waiver granted to an executive officer or director will be disclosed to the Company's stockholders to the extent required by law or NYSE rules. The Nominating and Corporate Governance Committee of the Board (or any other committee that is designated) is responsible for administering the Code for executive officers and directors.

Shareholders Agreement

As previously disclosed in our Form 8-K Report filed on March 5, 2013, as amended on March 7, 2013, in connection with the closing of the Company's acquisition of approximately 40% of the assets of Archstone Communities (the "Archstone Acquisition"), we entered into a shareholders agreement (the "Shareholders Agreement") pursuant to which Lehman Brothers Holdings, Inc. ("Lehman") agreed that it will, for one year starting from the date of the closing of the Archstone Acquisition, vote all of its shares of our common stock in accordance with the recommendation of our Board of Directors on any matter other than an extraordinary transaction. After the first year, and for so long as Lehman holds more than 5% of our common stock, Lehman has agreed to vote all of its shares of our common stock (i) in accordance with the recommendations of our Board of Directors with respect to any election of directors, compensation and equity plan matters, and any amendment to our charter to increase our authorized capital stock; (ii) on all matters proposed by other stockholders, either proportionately in accordance with the votes of the other stockholders or, at its election, in accordance with the recommendation of our Board of Directors; and (iii) on all other matters, in Lehman's sole and absolute discretion.

The foregoing summary of the voting provisions contained in the Shareholders Agreement does not purport to be a complete summary of the relevant terms of the Shareholders Agreement and is subject to, and qualified in its entirety by reference to, the full text of the Shareholders Agreement, a copy of which was filed as Exhibit 10.2 to our Current Report on Form 8-K filed on March 5, 2013.

Table of Contents

IV. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Executive Summary

2012 Stockholder Advisory Vote on Executive Compensation

As previously announced at the 2012 Annual Meeting of Stockholders, the Company's executive officer compensation for 2011 was approved by 97.21% of the votes cast on the matter. The Compensation Committee and the Company considered these results to be an endorsement by stockholders of the Company's target level and actual executive compensation.

2012 Achievements and Compensation. During 2012, the Company achieved strong growth in Operating Funds from Operations and a high level of three-year Total Shareholder Return ("TSR"):

The Company achieved Operating Funds from Operations ("Operating FFO") for 2012 of \$5.50 against a target of \$5.40 and a maximum performance metric of \$5.65. Contributing to this strong level of Operating FFO was FFO growth of 16.4% and same store NOI² growth of 7.6%.

TSR over three years (annualized on a compounded basis) was 21.9%, which achieved maximum performance for the absolute TSR goal.

Value creation activity during 2012 included the following:

Development Activity: We started 12 new communities (3,290 apartment homes) for an expected aggregate total capital cost of approximately \$891 million. We completed and delivered eight new communities (1,934 apartment homes) at a total capital cost of approximately \$513 million. At year-end 2012, we had (i) approximately \$1.8 billion of new development underway across our six major markets and (ii) a pipeline of development rights that, if fully developed, would add 9,602 apartments in 34 communities at a total projected capital cost of approximately \$2.8 billion.

Redevelopment Activity: We commenced the redevelopment of four communities (1,347 apartment homes) for an incremental estimated capital cost of approximately \$50.7 million. We completed 11 redevelopments (2,903 apartment homes) for a total incremental capital cost of approximately \$106 million.

Portfolio Management: We sold four communities and a land parcel for an aggregate price of \$280.6 million and acquired four communities, including the acquisition of our partner's interest in a joint venture, at a aggregate price of \$156.4 million.

Investment Management Funds: We sold six assets from our first investment management fund. The Company's share of the gain in accordance with GAAP was approximately \$8 million.

Portfolio Acquisition: On November 26, 2012, we entered into agreements with Equity Residential Trust, Lehman Brother Holdings, Inc. and Archstone Enterprise LP. Upon the closing of these agreements on February 27, 2013 we acquired 40% of the assets of Archstone. To prepare for this acquisition of approximately \$6.8 billion of assets, in December 2012 we issued 16,675,000 shares of common stock for net proceeds, after transaction costs, of approximately \$2.1 billion. The Archstone acquisition closed during the first quarter of 2013, and the award of bonuses in respect of 2012 was not directly tied to our efforts or achievement with regard to the Archstone Acquisition.

After reviewing the Company's performance in 2012 against the corporate goals established at the beginning of 2012, our Board determined that the Company achieved, for the corporate component of the annual cash bonus, 129% of target (as compared to 131%, 126% and 82% in 2011, 2010 and 2009, respectively), and, for the corporate component of the long term equity bonus, 111% of target (as compared to 107%, 94% and 70% in 2011, 2010, and 2009, respectively).

Operating FFO is defined as FFO excluding gains or losses on the sale of real estate not subject to depreciation (generally land) as well as certain other non-routine or non-recurring items. We define FFO as net income or loss computed in accordance with GAAP, adjusted for (i) gains or losses on sales of previously depreciated operating communities; (ii) extraordinary gains or losses (as defined by GAAP); (iii) cumulative effect of change in accounting principle; (iv) impairment write-downs of depreciable real estate assets; (v) write-downs of investments in affiliates due to a decrease in the value of depreciable real estate assets held by those affiliates; (vi) depreciation of real estate assets; and (vii) adjustments for unconsolidated partnerships and joint ventures.

²NOI is defined as total revenue less direct property operating expenses.

Table of Contents

The average individual performance of our 2012 named executive officers (which contributed to their 2012 cash bonus) was judged to be 111% as compared to 115%, 112% and 114% in 2011, 2010, and 2009, respectively. For one of our named executive officers, Mr. McLaughlin, business unit performance contributed to his cash bonus and long term equity award, and his business unit was judged to have achieved 144% of target in 2012 as compared to 145%, 128% and 64% in 2011, 2010, and 2009, respectively. Individual and business unit goals and achievements are discussed more fully below.

Revised Bonus Program beginning in 2013. During 2012, the Board's Compensation Committee reviewed our incentive compensation framework. Following this review, the Board revised our incentive compensation framework in order to increase the transparency of the program to officers and investors and to more closely align our long term equity awards with long term stock performance. As revised, there will be two bonus programs each year, an annual bonus and a multiyear long term incentive performance award program:

Our annual bonus program will emphasize short term goals and will be paid with a cash bonus and (for certain officers whose business unit performance is measured for bonus compensation purposes) an award of restricted stock that vests over three years. The achievement of corporate, individual and, where appropriate, business unit goals will determine the level of achievement for the annual bonus program.

Our multiyear long term incentive performance award program will have as its sole performance metric TSR measured over a three-year performance period on an absolute basis and on a relative basis against the FTSE NAREIT Equity Index and the FTSE NAREIT Apartment Index. A performance award will be granted each year with a target number of restricted stock units that may be reduced or increased at the end of the performance period depending on TSR performance over the three-year period. Using forward-looking three-year performance awards will help assure that the compensation of our officers is tied to long term shareholder return. An officer must be employed with the Company at the end of the performance period to receive a payout under the performance award for such period.

Officers will have the right to elect, prior to the end of a performance period, that employee stock options (valued at the Black-Scholes value of an option at the end of the performance period) be awarded in lieu of 25% of the value of the restricted shares that would otherwise be awarded in respect of that year's performance. Restricted stock and options awarded at the end of the performance period will be subject to vesting over three years.

After discussing the framework and bonus determinations for 2012, our Compensation Discussion and Analysis describes this new program in detail, including transitional performance awards made to the named executive officers at the beginning of 2013.

Full Discussion – Review of 2012 Compensation

Consideration of the Results of the 2012 Stockholder Advisory Vote on Executive Compensation

As previously announced at the 2012 Annual Meeting of Stockholders, the Company's executive officer compensation for 2011 was approved by 97.21% of the votes cast on the matter. The Compensation Committee and the Company considered these results to be an endorsement by stockholders of the Company's target level and actual executive compensation.

Also as previously announced, in accordance with a majority of the votes cast at the 2012 Annual Meeting of Stockholders, the Company intends to hold an advisory stockholder vote on its executive compensation annually. The Company intends to hold an advisory vote on the frequency of such advisory votes on executive compensation at or before its 2017 Annual Meeting of Stockholders.

Table of Contents***Objectives and Structure of Our Executive Compensation Programs:***

The primary objectives of our executive compensation programs are: (i) to attract, retain and motivate experienced, effective executives, (ii) direct the performance of those executives with clearly defined goals and measures of achievement, (iii) align management's interest with stockholders' interests, and (iv) assure that compensation is aligned with performance.

For 2012, we utilized a combination of cash and equity-based compensation to provide appropriate incentives for our executives. Executive officers were eligible to receive a combination of annual base salary, annual cash bonuses, and annual restricted stock and option grants under our Stock Incentive Plan. Executive officers were also eligible for other benefits, including elective participation in a deferred compensation plan, a 401(k) retirement savings plan, an employee stock purchase plan, and certain insurance benefits and perquisites.

The component elements of each named executive officer's annual compensation for 2012 are set forth in the following table:

Base Salary	Annual Cash Bonus	Annual Long-Term Incentive Compensation	Other Miscellaneous Amounts
This amount, payable in cash, is generally established each year in February and effective in early March.	The threshold, target and maximum dollar value targets for 2012 cash bonuses were established in February 2012, with the cash bonus paid in March 2013 based on an evaluation of achievements of 2012 goals.	The threshold, target and maximum dollar value targets for long-term incentive compensation were established in February 2012, with 33% of the dollar value of the actual award (based on an evaluation of achievements of 2012 goals established at the time targets are set) awarded in the form of stock options (as described below) and 67% of such dollar value of the actual award granted in the form of restricted stock (as described below).	Each named executive officer received certain other compensation, such as amounts contributed to the named executive officer's 401(k) accounts and certain insurance premiums, all of which are detailed in the Summary Compensation Table and the footnotes to the table.

In determining the base salary and the threshold, target, and maximum cash and equity bonus for each named executive officer for a given year, the Compensation Committee generally considers a number of factors on a subjective basis, including (i) the scope of the officer's responsibilities within the Company and in relation to comparable officers at various companies within the peer group referred to below; (ii) the experience of the officer within our industry and at the Company; (iii) performance of the named executive officer and his or her contribution to the Company; (iv) the Company's financial budget and general level of wage increases throughout the Company for the coming year; (v) a review of historical compensation information for the individual officer; (vi) a subjective determination of the compensation needed to motivate and retain that individual; (vii) the recommendations of the Chief Executive Officer; and (viii) data regarding compensation paid to officers with comparable titles, positions or responsibilities at REITs that are considered by the Compensation Committee to be comparable for these purposes³. An officer's target compensation is not mechanically set to be a particular percentage of the peer group average, although, as noted, the Compensation Committee does review the officer's compensation relative to the peer group to help the Compensation Committee perform the subjective analysis described above. Peer group data is not used as the determining factor in setting compensation for the following reasons: (a) the officer's role and experience within the Company may be different from the role and experience of comparable officers at the peer companies; (b) the average actual compensation for comparable officers at the peer companies may be the result of a year of over performance or under performance by the peer group; and (c) the Compensation Committee believes that ultimately the decision as to appropriate target compensation for a particular officer should be made based on the full review described above.

In establishing base salary, cash bonus, and long-term incentive award targets, the REITs used for reference in the Compensation Committee's review were: Apartment Investment and Management Company, Boston Properties, Inc.,³Camden Property Trust, Digital Realty Trust, Inc., Equity Residential, Essex Property Trust, Inc., Federal Realty Investment Trust, General Growth Properties, Inc., Host Hotels & Resorts, Inc., Kimco Realty Corporation, The Macerich Company, ProLogis, Inc., Public Storage, Inc., UDR, Inc., Ventas, Inc., and Vornado Realty Trust.

17

Table of Contents

The Company does not have specific, proportionate ratios to define the relative total compensation between the individual named executive officers, although the Compensation Committee from time to time does review the relationship in pay between executive officers to assure that relative compensation levels are appropriate and are designed to effectively motivate and retain executives.

In setting the total compensation of our executive officers, the Compensation Committee considers, for each executive officer, the approximate proportions of the different elements of total compensation that would be earned if compensation targets were achieved.

The allocation between base salary, cash bonus and long-term equity is determined by the Compensation Committee based upon its general consideration of the executive's level within our organization. At the more senior levels, less of an officer's total compensation is fixed and more is variable (i.e., in the form of cash bonuses and long-term equity awards). A significant percentage of the compensation of these senior executives for 2012 was composed of restricted stock and stock options for the following reasons: (i) we believe that the interests of these executives should be closely aligned with the interests of our stockholders; (ii) we want these individuals to maintain a long-term focus for the Company; and (iii) this type of pay arrangement is generally consistent with the compensation practices of our peer companies. In accordance with SEC rules, the five named executive officers shown in the executive compensation tables were identified based upon title (for CEO and CFO) and total compensation (as calculated in accordance with the *Summary Compensation Table*) of officers who are in charge of a principal business unit, division, or function or who perform a policymaking function.

The Compensation Committee views the granting of stock options and restricted stock as a means of aligning management and stockholder interests, incenting and rewarding management's long-term perspective, and retaining the services of the executive. Stock options and restricted stock are designed to provide long-term performance incentives and rewards tied to the price of our Common Stock. Following the determination of 2012 annual performance and the resulting dollar value of the long-term incentive, 33% of that dollar value was awarded in the form of stock options (vesting as described below), using the Black-Scholes value on or about December 31 of the most recent year. The remaining dollar value was awarded in the form of stock awards (vesting as described below), using the closing price of our Common Stock as reported on the NYSE on the date of grant. (However, since Mr. Blair retired as an officer at the end of 2012, he was paid cash for the dollar value of his long-term incentive, rather than awarded restricted stock and options.) The Compensation Committee supports the use of stock options and stock awards for the following reasons: they have a strong retentive feature both during vesting and (in the case of options) after vesting; they provide a strong incentive to officers to maximize company performance; and they keep our compensation programs competitive with our peers. A greater percentage of the dollar value is allocated to restricted stock awards than to options because stock awards retain their value (and thus retentive feature) even if our stock price declines; they provide a current and immediate return to officers and thus are viewed as an important part of compensation; and they provide immediate exposure to the effect of a decline in stock price, thus aligning the interests of officers with our stockholders in protecting the value of our company.

Options awarded for 2012 performance vest over a period of three years on the anniversary of the award date, subject to accelerated vesting in the case of termination of employment due to retirement (as defined below), termination without cause, death, disability or change in control. Awards of restricted stock for 2012 vest in five tranches, with 20% of a restricted stock award vesting on March 1, 2012 and the remaining 80% vesting in equal annual installments on March 1 of each of the following four years subject to accelerated vesting in the case of termination of employment due to retirement (as defined below), termination without cause, death, disability or change in control. Dividends are paid on restricted stock, and the amounts of dividends on restricted stock received by each of the named executive officers during 2012 is included in the *Summary Compensation Table* on page 29 of this Proxy Statement.

"Retirement" for purposes of our long-term incentive awards, including stock option grants and restricted stock awards, generally means the termination of employment and other business relationships, other than for cause, when the sum

of the following equals or exceeds 70 years: (i) the number of full months (converted to years) of employment and other business relationships with the Company and any predecessor company (must be at least 120 months) and (ii) the employee's age on the date of termination (must be at least 50 years old). To qualify for retirement, the employee must also give six months' prior written notice to the Company of his intention to retire and enter into a one year non-solicitation and non-competition agreement. The Compensation Committee believes that this definition of retirement is appropriate and rewards long-term contributions of employees to the Company. Messrs. Naughton, Sargeant and Horey currently meet the 70 years age/service requirement, and Mr. McLaughlin will meet that requirement in June 2014. Mr. Blair, who retired as an officer on December 31, 2012, and will retire as a director at the Annual Meeting, also meets that requirement. The Compensation Committee believes that there is a retentive element to long-term incentive awards even for those officers who are eligible to benefit from accelerated vesting upon retirement. For example, in the case of stock options, retirement would trigger a 12-month period during which options must be exercised or forfeited. Continuing to have an employment or other business relationship with the Company, by contrast, would allow the officer to exercise an option at any time between the vesting of the option and the expiration of the original ten-year term of the option. In addition, there is a disincentive to retire in that a one-year non-competition agreement would apply that restricts the officer's ability to work for any of the Company's competitors.

Table of Contents

At the beginning of each year, the Company's management proposes corporate goals for that year for the Annual Bonus (cash) and Long-Term Incentive Plans. The Compensation Committee reviews these proposed goals, adopts any revisions it may deem appropriate, and recommends the final corporate goals to the full Board of Directors for ratification and approval by a vote of the independent directors who qualify for membership on the Compensation Committee. Annual business unit goals are drafted by the head of each business unit and reviewed, modified and approved by the Chief Executive Officer. The individual goals are determined in a similar manner, with the exception that the goals for the Chief Executive Officer are reviewed and approved by the Compensation Committee and ratified by the independent directors of the Board who qualify for membership on the Compensation Committee.

At the end of each year, the Chief Executive Officer reviews and recommends to the Compensation Committee the achievement of corporate, business unit and individual goals for the other named executive officers as well as any pay changes. With regard to pay changes, the Compensation Committee reviews the Chief Executive Officer's recommendations, may review competitive market data, and consults with a third party compensation consultant to the extent it deems appropriate. Recommendations for bonus awards and compensation changes for the Chief Executive Officer and all executive officers are approved by the Compensation Committee and are then ratified by the independent directors of the Board who qualify for membership on the Compensation Committee. All annual awards of options and restricted stock are generally effective on the date (usually in February each year) of ratification, but may be delayed to a date after such ratification if there is a pending announcement by the Company of material non-public information, such as an earnings release. The Compensation Committee has engaged Steven Hall & Partners, an executive compensation consulting firm, to provide it with advice and counsel on executive and board compensation, as well as competitive pay practices. Steven Hall & Partners did not provide any services directly to the Company or its management. The Company uses the services of FPL Associates, another compensation consulting firm, to provide it with advice, competitive pay practices and data, compensation design work and other review services, including assistance with preparing a termination payment analysis and calculating the Black-Scholes value of the Company's options at year end. The Compensation Committee undertook an assessment of whether any material conflict of interest exists in connection with the services of Steven Hall & Partners to the Compensation Committee or the services of FPL Associates to management and concluded that there was no such material conflict of interest.

Review of Our 2012 Compensation Decisions:

Base Salary for 2012. The following were the base salaries established for 2012 for each of the named executive officers.

Name	Base Salary(\$)
Mr. Blair	700,000
Mr. Naughton	800,000
Mr. Sargeant	500,000
Mr. Horey	400,000
Mr. McLaughlin	415,000

Annual Cash Bonus with Respect to 2012. The following table sets forth the target, threshold and maximum cash bonus established in February 2012 and the actual cash bonus award made in February 2013 with respect to performance in 2012 for each of the named executive officers:

Table of Contents

Name	Annual Cash Bonus Targets			Actual Cash Bonus (\$)
	Threshold (\$)	Target (\$)	Maximum (\$)	
Mr. Blair(1)	217,350	434,700	869,400	545,574
Mr. Naughton	500,000	1,000,000	2,000,000	1,252,742
Mr. Sargeant	250,000	500,000	1,000,000	613,680
Mr. Horey	160,000	320,000	640,000	393,539
Mr. McLaughlin	166,000	332,000	664,000	435,034

Mr. Blair's 2012 compensation reflects the fact that he retired as Chief Executive Officer on December 31, 2012.

The amounts described in this section for Mr. Blair's 2012 compensation differ from the amounts reflected in the (1) Summary Compensation Table on page 29 because the 2012 compensation for Mr. Blair in the Summary Compensation Table includes both his long-term incentive award for performance in 2011 and his long-term incentive award for performance in 2012, paid in cash in February 2013.

The actual cash bonuses awarded above reflect (1) the achievement of specific Company performance goals, (2) the performance of the officer's business unit, where applicable, and (3) the performance of the individual officer. Various weightings are applied to each category based on each officer's position and his or her ability to impact performance for the Company as a whole or a particular business unit.

For 2012, the following categories of performance goals and relative weightings were approved:

Name	Weight of Each Component			
	Corporate		Business Unit	Individual
Mr. Blair	75	%	—	25 %
Mr. Naughton	75	%	—	25 %
Mr. Sargeant	75	%	—	25 %
Mr. Horey	75	%	—	25 %
Mr. McLaughlin	30	%	50 %	20 %

Corporate Goals and Achievement for Cash Bonus. The corporate component of the annual bonus included four categories of performance goals, with weightings applicable to each goal set in advance. The following corporate goals were established for 2012:

- The achievement of a targeted level of Operating FFO per share, both on an absolute and relative basis, composed 55% of total corporate performance. For determining relative performance, the comparable peer group of multifamily REITs consisted of: Apartment Investment and Management Company ("AIMCO"), BRE Properties, Inc., Camden Property Trust, Inc., Equity Residential, Essex Property Trust, Inc., Home Properties, Inc., Post Properties, Inc., and UDR (collectively, the "Bonus Peer Group"). Operating FFO on an absolute basis was set at (i) \$5.15 per share for the achievement of threshold performance, \$5.40 per share for the achievement of target performance, and \$5.65 per share for the achievement of maximum performance. Actual 2012 Operating FFO on an absolute basis was determined to be \$5.50 per share. For Operating FFO growth relative to the Bonus Peer Group, a 6th place ranking was threshold performance, 3rd place ranking was target performance and maximum performance was 1st place. For 2012, the Compensation Committee determined that the Company achieved a 2nd place ranking against this peer group.
- (ii) The revenue from development activities, as compared to the original budgeted revenue, made up 7.5% of the total corporate performance. Meeting budgeted revenue for this component was determined to be target performance, 7.5% below budgeted revenue was threshold performance, and exceeding budgeted revenue by 7.5% or more was

maximum performance for this component. In 2012 budgeted revenue for this category, based upon 14 communities, was approximately \$36.3 million, while actual revenue was at approximately \$36.4 million for 2012. The operating performance of redevelopment activities, as compared to the original budgeted performance, made up 7.5% of the total corporate performance. Meeting budgeted net operating income (“NOI”) for this component was determined to be target performance, 3.0% below budgeted NOI was threshold performance, and exceeding budgeted NOI by 3.0% or more was maximum performance for this component. In 2012, budgeted NOI for this category was approximately \$65.6 million and actual NOI achievement for this category was approximately \$66.0 million.

(iii)
20

Table of Contents

The effectiveness of management (defined as the execution of business plans, flexibility in decision making, portfolio management, balance sheet management, and focus on the correct organizational priorities) and progress (iv) on various corporate initiatives made up 30% of the total corporate performance metrics for 2012. For 2012, the Compensation Committee determined that achievement on this category was 107.5% of target.

Overall, achievement of the corporate component of performance for 2012 for cash bonuses was determined to be 128.9% of target.

Business Unit Goals and Achievement for Cash Bonus. As noted above, of the five named executive officers, Mr. McLaughlin received a cash bonus based in part upon the achievement of his business unit.

Mr. McLaughlin's business unit component was based on the achievements of the Northeast Development and Construction group, as Mr. McLaughlin is the senior executive with direct oversight of that group. Mr. McLaughlin's business unit was evaluated against the following goals: (i) sourcing of new development rights; (ii) construction start volume and projected stabilized yields relative to target yields, with \$528 million of construction starts as target; (iii) construction completion volume as determined by total capital cost and actual stabilized yields relative to target yields; and (iv) actual construction costs relative to budgeted costs and actual schedule performance relative to budgeted schedule performance. For 2012, the overall achievement for Mr. McLaughlin's Development and Construction group was determined to be 144% of target.

Individual Goals. Individual goals for the officers include the executive's leadership and managerial performance and are evaluated on a subjective basis annually. Individual performance for Messrs. Blair and Naughton was determined by the Compensation Committee. The Committee also determined individual performance for the other named executive officers after receiving recommendations from Mr. Naughton. The Compensation Committee determinations were ratified and approved by the independent members of the Board who are qualified to serve on the Compensation Committee.

Specific individual goals for Mr. Blair in 2012 included (i) assisting with the oversight and guidance of the Company's development and construction activities; (ii) consulting with management on investment and capital allocation decisions related to development, and (iii) providing effective board leadership, including addressing board succession.

Mr. Naughton's individual goals for 2012 included (i) ensuring effective management through the organization's transition to new leadership; (ii) continuing to develop our Avalon, AVA and Eaves brands; (iii) identifying and capitalizing on growth opportunities; and (iv) maintaining a strong balance sheet and effectively managing capital.

Individual goals for Mr. Sargeant in 2012 included (i) focusing on operational efficiencies and process improvements; (ii) enhancing corporate controls; (iii) continued focus on team development and organizational structure; and (iv) proactive management of liquidity, key credit metrics and debt maturity risk.

Mr. Horey's individual goals in 2012 included (i) coordinating initiatives and infrastructure projects for the Company; (ii) managing the internal messaging, communication and coordination of the Company's senior officers and their respective groups; (iii) resolving issues related to management, staffing and training of the Company's Administrative, Operations, Investments and Corporate Support groups; (iv) managing the general and administrative resources of the Company; and (v) leading the Company's revenue management group to optimize pricing.

Mr. McLaughlin's individual goals in 2012 included: (i) effectively managing and staffing the Northeast Development and Construction businesses, with particular focus on building bench strength within the group during a time of

growth; (ii) focusing on construction execution and lease up performance; (iii) replenishing the Northeast development rights pipeline with a balanced mix of new opportunities; and (iv) managing development and construction risks as we enter the mature phase of the business cycle.

The achievement of individual goals by each of the named executive officers in 2012 was determined to be within 20% of individual target performance.

Table of Contents

The actual cash bonus paid in 2013 with respect to performance in 2012 for each of the named executive officers as included in the table above, and in the *Summary Compensation Table* on page 29 of this Proxy Statement, under the column “Non-Equity Incentive Plan Compensation,” were determined in accordance with the original methodology and goals described above.

Annual Long-Term Incentive Awards with Respect to 2012. The following table sets forth the annual long-term incentive award potential for 2012 performance established in February 2012 and the actual long-term incentive awards made in February 2013 with respect to performance in 2012 for each of the named executive officers.

Name	Annual Long-Term Incentive Targets			Actual	
	Threshold (\$)	Target (\$)	Maximum (\$)	Annual Long-Term Incentive Award (\$)(1)	
Mr. Blair	843,376	1,265,000	1,686,625	1,407,945	(2)
Mr. Naughton	1,466,740	2,200,000	2,933,260	2,448,600	
Mr. Sargeant	666,700	1,000,000	1,333,300	1,113,000	
Mr. Horey	420,021	630,000	839,979	701,190	
Mr. McLaughlin	450,023	675,000	899,978	766,199	

This dollar value for 2012 was awarded in the form of stock options and restricted shares. In determining the number of options to award, one-third of the dollar value in this column was divided by \$28.31, the Black-Scholes value of options as of December 31, 2012 as determined by the Company and verified by the Company’s third-party compensation consultant, FPL Associates. In determining the number of restricted shares to award, the remaining two-thirds of the long-term incentive award dollar value in this column was divided by \$130.23, the closing price of our Common Stock on the NYSE on the date of the award. The options granted as part of the long-term incentive award were granted on February 13, 2013, with an exercise price of \$130.23 per share and vest over a three-year term subject to accelerated vesting (in the case of termination of employment without cause, or upon (1) death, disability or retirement, or upon a sale of the Company, as defined in the 2009 Stock Option and Incentive Plan) or forfeiture of unvested options (in the case of termination of employment for any other reason). The shares of restricted stock granted as part of the long-term incentive award were granted on February 13, 2013. Twenty percent of such grants vested on March 1, 2013 and the remaining 80% of the shares vest in four equal annual installments on the anniversaries of that date, subject to accelerated vesting (in the case of termination of employment without cause, or upon death, disability or retirement, or upon a sale of the Company, as defined in the 2009 Stock Option and Incentive Plan) or forfeiture of unvested shares (in the case of termination of employment for any other reason). Dividends are payable on the shares at the same rate as dividends paid on all outstanding shares of our Common Stock.

(2) In connection with Mr. Blair’s retirement as Chief Executive Officer at the end of 2011, the annual long-term incentive award value in respect of 2012 for Mr. Blair was paid in cash rather than in restricted stock and options. Under our annual long-term incentive awards program, the Compensation Committee may award long-term incentive compensation to officers based on the achievement of specific Company performance goals and the performance of the officer’s business unit. For 2012 the weightings applied to the two categories of goals for each of the named executive officers were as follows:

Name	Weight of Each Component
Mr. Blair	100 %

Mr. Naughton	100 %			
Mr. Sargeant	100 %			
Mr. Horey	100 %			
Mr. McLaughlin	33 %	67		%

Table of Contents

2012 Corporate Goals and Achievement for Annual Long-Term Incentive Awards. The corporate component of the annual long-term incentive included four categories of performance goals, with weightings applicable to each goal set in advance based on a review of recommendations made by management. The following corporate goals were established for 2012:

The achievement of Total Stockholder Return (on an annualized, compounded three year average) on both an absolute and a relative basis (as compared to the Bonus Peer Group) comprised 50% of total corporate performance. Threshold Total Stockholder Return on an absolute basis was set at 6%, target was set at 9%, and maximum was 12%. For 2012, Total Stockholder Return was 21.9%. For total stockholder return relative to the Bonus Peer Group, a 6th place ranking was threshold performance, a 3rd place ranking was target, and maximum performance was 1st place. In 2012, the Company achieved a 4th place ranking against this peer group.

(i) The multiple of the price of our Common Stock compared to our FFO per share (as measured against the Bonus Peer Group) represented 10% of the total corporate performance. Threshold for this factor was set at 6th place, target was a 3rd place ranking, and 1st place was maximum performance. In 2012, the Company's ranking for this criterion was 1st.

(ii) The initial year stabilized yield performance for communities stabilizing during the year as compared to the pre-established target yield for such developments represented 10% of the total corporate performance. Target achievement of this goal was set at meeting the pre-established target yield, with threshold performance being 0.75 percentage points below the target yield and maximum at 0.75 percentage points above the target yield. Actual performance was approximately 0.4% above the target yield.

(iii) The effectiveness of management (defined as the execution of business plans, flexibility in decision making, portfolio management, balance sheet management, and focus on the correct organizational priorities) and progress on various corporate initiatives made up 30% of the total corporate performance metrics for 2012. For 2012, the Compensation Committee determined that achievement on this category was at 102.5% of target.

(iv) For 2012, corporate achievement of the annual long-term incentive measures was 111.3% of target. In future years, the Company's receipt of a "promoted" distribution from the Company's first investment management fund (i.e., a distribution in excess of the Company's proportionate interest in the Fund) could be a supplemental overriding measure that could allow officers to achieve, but not exceed, maximum performance. This was not a factor in 2012, nor is it likely to be a factor in 2013.

Business Unit Goals for Annual Long-Term Incentive Awards. The Business Unit goals that were used for calculating cash bonuses as described above were also used for calculating long-term incentive awards, with the achievement described above.

Based on those achievement levels and the formal approval and ratification of those determinations by the Compensation Committee and the independent members of the Board of Directors who are qualified to serve on the Compensation Committee, the dollar value of annual long-term incentive awards for each named executive officer was awarded as described in the table above, which resulted in the following annual awards made on February 13, 2013:

Named Executive Officer	Number of Options(1)	Number of Shares of Restricted Stock(2)
Mr. Blair(3)	0	0
Mr. Naughton	28,542	12,597
Mr. Sargeant	12,974	5,726
Mr. Horey	8,174	3,607
Mr. McLaughlin	8,931	3,942

The options set forth in this column were granted on February 13, 2013, with an exercise price of \$130.23 per share and vest over a three-year term subject to accelerated vesting (in the case of termination of employment (1) without cause, or upon death, disability or retirement, or upon a sale of the company (as defined in the 2009 Stock Option and Incentive Plan)) or forfeiture of unvested options (in the case of termination of employment for any other reason).

The shares of restricted stock set forth in this column were granted on February 13, 2013. Twenty percent of such grants vested on March 1, 2013 and the remaining 80% of the shares vest in four equal annual installments on the anniversaries of that date, subject to accelerated vesting (in the case of termination of employment without cause, (2) or upon death, disability or retirement, or upon a sale of the Company, as defined in the 2009 Stock Option and Incentive Plan) or forfeiture of unvested shares (in the case of termination of employment for any other reason).

Dividends are payable on the shares at the same rate as dividends paid on all outstanding shares of our Common Stock.

Table of Contents

In connection with Mr. Blair's retirement as Chief Executive Officer at the end of 2011, the annual long-term (3)incentive awards in respect of 2012 to Mr. Blair were made in the form of cash representing the full amount of his long-term incentive award, rather than in restricted stock and options.

2013 Compensation:

As described in the Summary to this Compensation Discussion and Analysis, our Board has revised our compensation framework beginning in 2013 in order to increase the transparency of the program to officers and investors and to more closely align our long term equity awards with long term stock performance. As revised, there will be two bonuses programs each year, an annual short term bonus and a multiyear long term incentive performance award program:

Our annual bonus program will emphasize short term goals and will be paid with a cash bonus and (for certain officers whose business unit performance is measured for bonus compensation purposes) an award of restricted stock that vests over three years. The achievement of corporate, individual and, where appropriate, business unit goals will determine the level of achievement for the annual bonus program. Achievement under the annual bonus program can vary from 0% to 200% of target. For the 2013 Annual Bonus, there will be four corporate goals: 1) Operating FFO per Share which accounts for 50% of the goal, 2) Development and Redevelopment NOI which accounts for 15% of the goal, 3) Development Yield Metric which accounts for 10% of the goal and 4) Effectiveness of Management and progress on various specific corporate initiatives which accounts for the remaining 25% of the goal.

Our multiyear long term incentive performance award program will have as its sole metric TSR measured on an absolute and a relative basis over a three-year performance period. A performance award will be granted each year with a target number of restricted stock units that may be reduced or increased at the end of the performance period depending on TSR performance over the three-year period. If TSR goals are achieved at the end of the performance period, the restricted stock units that are earned by the participant will be settled in the form of restricted stock that vests over three years. Using performance awards that measure three-year TSR will help assure that the compensation of our officers is tied to long term shareholder return.

The absolute and relative metrics under the performance awards are as follows:

	Performance Level and Metric(1) (relative performance stated as basis points(2) above or below index performance)		
	Threshold	Target	Maximum
Absolute metric	6%	9%	12%
Relative to FTSE NAREIT Equity Index	-300 bp	+100 bp	+500 bp
Relative to FTSE NAREIT Apartment Index	-200 bp	+100 bp	+400 bp

(1) The absolute and relative metrics above reflect the metrics used for the performance periods maturing on December 31, 2013, December 31, 2014, and December 31, 2015. Different metrics may be used for future awards.

(2) A basis point (bp) equals one-one hundredth of a percent. 100 bp equals 1.0%

Each metric will independently account for one third of the total potential payout, with the threshold, target and maximum achievement levels of 50%, 100% and 200%.

Table of Contents

Officers will have the right to elect, prior to the end of a performance period, that employee stock options (valued at the Black-Scholes value of an option at the end of the performance period) be awarded in lieu of 25% of the value of the restricted stock that would otherwise be awarded in respect of that year's annual bonus and maturing performance award. Restricted stock and options awarded at the end of the performance period will be subject to vesting over three years.

To transition to the new long term incentive program, in February 2013 the Board granted three performance awards for each participant. Each award measured TSR over a three-year period, with one award maturing on December 31, 2013, one on December 31, 2014, and one on December 31, 2015. An officer must be employed with the Company at the end of the performance period to receive a payout under the performance award for such period.

To address the transition to the new program, restricted stock awarded in February 2014 in respect of the 2013 annual bonus or maturing long-term performance awards will vest 15% on March 1, 2014 and 42.5% on the next two anniversaries.

During the first quarter of 2013 the following compensation decisions were made for each of the named executive officers (other than Mr. Blair, who retired as an officer of the Company at the end of 2011 and who is retiring from our Board in May 2013) by the Compensation Committee and ratified by the independent directors of the Board who qualify for membership on the Compensation Committee:

·Base Salary for 2013, effective March 3, 2013:

Name	Base Salary (\$)
Mr. Naughton	950,000
Mr. Sargeant	525,000
Mr. Horey	425,000
Mr. McLaughlin	430,000

The target, threshold and maximum annual bonus for that officer, and the percentage of such award that will be paid in cash and restricted stock:

Name	Annual Bonus Targets			
	Threshold (\$)	Target (\$)	Maximum (\$)	% cash/% stock
Mr. Naughton	593,750	1,187,500	2,375,000	100/0
Mr. Sargeant	262,500	525,000	1,050,000	100/0
Mr. Horey	170,000	340,000	680,000	100/0
Mr. McLaughlin	426,000	853,200	1,706,400	40/60

The target number of restricted stock units awarded each officer for their performance awards associated with the performance periods ending on December 31, 2013, December 31, 2014, and December 31, 2015:

Performance Period	Mr. Naughton	Mr. Sargeant	Mr. Horey	Mr. McLaughlin
2011 - 2013	20,061	8,063	5,260	1,926
2012 - 2014	20,061	8,063	5,260	1,926
2013 - 2015	20,061	8,063	5,260	1,926

Any units earned at the end of a performance period will be settled in restricted stock (and, if applicable as described above, employee stock options) with three-year vesting following the end of the performance period.

Table of Contents

Also in the first quarter of 2013, in consideration of the significant efforts and accomplishments associated with the Company's acquisition of 40% of the assets of Archstone Enterprise LP, on March 13, 2013, and to successfully integrate the Archstone assets and realize the strategic benefits and value creation sought by the transaction, our Board approved the following special grants of restricted stock and employee stock options to Messrs Naughton, Sargeant and Horey:

	Restricted Stock(1)	Stock Options(2)
Mr. Naughton	10,569	26,634
Mr. Sargeant	2,642	6,659
Mr. Horey	1,972	5,044

(1) 20% of the shares vested on April 1, 2013, and the remaining 80% vest in four annual installments beginning on March 1, 2014.

(2) These options vest in three annual installments beginning on March 13, 2014.

Other Benefits:

Pursuant to our Deferred Compensation Plan, certain employees, including the named executive officers, may defer up to 25% of base annual salary and up to 50% of annual cash bonus on a pre-tax basis and receive a tax-deferred return on those deferrals. Deferral elections are made by eligible employees during an open enrollment period each year for amounts to be earned in the following year. Participating employees direct the deemed investment of their deferral accounts by selecting among certain available investments in mutual funds.

We have an employee stock purchase plan that allows our employees the opportunity to purchase up to \$25,000 of our Common Stock per year at a 15% discount to the lower of the closing price of the Common Stock, as reported on the NYSE, on the first business day of the Purchase Period or the closing price of the Common Stock on the last day of the Purchase Period. The Purchase Period is defined as the seven-month period beginning on April 1 and ending on October 31 of a calendar year.

In addition, we maintain a 401(k) retirement savings plan and annually match 50% of the first six percent of base salary and bonus contributed to such plan by any employee (subject to certain tax limitations). We offer medical, dental and vision plans, a portion of the cost of which is paid by the employee. We also provide life insurance, accidental dismemberment insurance, and short-term and long-term disability insurance for each employee. Messrs. Naughton, Sargeant and Horey each have employment agreements with the Company pursuant to which certain other benefits are provided to them. The terms of each of such employment agreement are described in "*Potential Payments Upon Termination or Sale Event*" below.

Compensation Policies:

Executive Stock Ownership Guidelines. The Company believes that stock ownership by its executive officers is important and has established formal Executive Stock Ownership Guidelines for officers who are subject to reporting under Section 16 of the Securities Exchange Act. These guidelines provide that persons holding the title of Chairman of the Board, Chief Executive Officer or President are expected to maintain ownership of Common Stock (including unvested restricted shares) equal to six times their base salary. The multiples that apply to other covered officers are as follows: Chief Financial Officer and Executive Vice Presidents—three times; Senior Vice Presidents—one and one-half

times; Vice Presidents—one time. The full text of the Executive Stock Ownership Guidelines, which includes the time periods by which such ownership must be achieved and a retention policy during periods of non-achievement, is posted on the “Investors” section of the Company’s website under Corporate Governance Documents.

Prohibition Against Hedging, Pledging or Borrowing Against Company Stock. The Company adopted a formal policy prohibiting its executive officers and directors from (i) borrowing money from a broker or other lender that is secured by Company securities without the consent of the Company, and (ii) holding Company securities in a brokerage account that has outstanding “margin” debt. In addition, the policy prohibits sales of Company securities by an executive officer or director if he or she does not own the security at the time of the sale (a “Short Sale”), and prohibits the buying or selling of puts or calls in respect of any Company securities.

Severance Policy. The Board has adopted a Policy Regarding Shareholder Approval of Future Severance Agreements (the “Severance Policy”). The Severance Policy generally provides that the Company will not, without shareholder approval or ratification, enter into or bind the Company to the terms of any future severance agreement with a senior executive officer that provides for severance benefits in excess of 2.99 times the sum of the officer’s base salary plus annual bonus. The Severance Policy, which is posted on the “Investors” section of the Company’s website under “Corporate Governance Documents,” provides additional detail regarding the application of this policy.

Table of Contents

Policy on Recoupment of Incentive Compensation (Clawback Policy). The Board has adopted a Policy for Recoupment of Incentive Compensation (i.e., a compensation clawback policy), which applies to senior officers (generally senior vice presidents and above). Pursuant to this policy, in the event the Company is required to prepare an accounting restatement due to the material non-compliance of the Company with any financial reporting requirement, then an independent committee of the Board of directors may require any covered officer to repay to the Company all or part of any “Excess Compensation” that such officer had previously received. Excess Compensation is defined as that part of the incentive compensation received by a covered officer during the 3-year period preceding the publication of the restated financial statement that was in excess of the amount that such officer would have received had such incentive compensation been calculated based on the financial results reported in the restated financial statement. The full text of the policy is posted on the “Investors” section of the Company’s website under Corporate Governance Documents.

Practices with regard to dates and pricing of stock and option grants:

The Compensation Committee determines the number of shares underlying options and shares of restricted stock to award to each officer as part of annual compensation. Those members of the Board of Directors who qualify for service on the Compensation Committee review and ratify these awards at the Board’s regularly scheduled February meeting. The award date for options and stock grants is generally the date of ratification, but may be delayed to a date after such ratification if there is a pending announcement by the Company of material non-public information, such as an earnings release. The exercise price of each option granted is the closing price of our Common Stock on the award date.

In all cases, our options are granted: (i) on the dates described above; (ii) on the date of a new hire’s start with the Company as approved by the CEO in advance of the start date; (iii) on the date of approval by the CEO for retention or recognition purposes up to a Board-authorized maximum value of \$100,000; or (iv) on the date of a terminated senior executive’s departure from the Company, as set out in formal terms approved by the Compensation Committee in advance. Option exercise prices are determined by the NYSE closing price of our Common Stock on the date of grant. Additionally, all officers must receive prior authorization for any purchase or sale of our Common Stock, which, in the case of open market transactions, is generally only given during approved trading windows established in advance based upon earnings release dates.

Risk Considerations:

The Compensation Committee reviewed and considered risks arising from the Company’s compensation policies and practices for its employees. This review included consideration of the following specific elements of the Company’s executive compensation policies and procedures:

- annual bonus and long-term incentive awards are based upon pre-existing, defined goals;
- such goals contain multiple financial targets, including performance against a pre-approved budget;
- performance goals include both absolute performance and performance relative to industry peers;
- goals balance financial and non-financial performance;
- goals include corporate, business unit, and individual performance goals;
- performance goals include achievement against both single year and multiyear metrics;
- executive compensation is structured as a mix among salary, cash bonus, and equity awards;
- equity awards vest over time;
- bonus and long-term equity programs include maximum payouts or “caps”;

Table of Contents

- all unvested equity awards are forfeited upon a termination for cause or voluntary termination under certain circumstances;
- the CEO's individual goals include a goal addressing appropriate leverage ratios;
- achievement of metrics is not determined on an "all or nothing" basis, but rather goals may be achieved on a graduated basis based on performance against the stated target; and
- while awards are generally made in relation to performance against specific goals, the Compensation Committee retains the discretion to adjust annual bonuses of cash and restricted stock as may be warranted by specific circumstances.

Following this review, the Compensation Committee concluded that any risks arising from the Company's compensation policies and practices are not reasonably likely to have a material adverse effect on the Company at this time.

Section 162(m):

The SEC requires that this report comment upon the Company's policy with respect to Section 162(m) of the Internal Revenue Code of 1986, as amended, which limits the deductibility on the Company's tax return of compensation over \$1 million to any of the named executive officers of the Company unless, in general, the compensation is paid pursuant to a plan which is performance- related, non-discretionary and has been approved by the Company's stockholders. The Company believes that, because it qualifies as a REIT under the Code and pays dividends sufficient to minimize federal income taxes, the payment of compensation that does not satisfy the requirements of Section 162(m) will generally not affect the Company's net income. To the extent that compensation does not qualify for a deduction under Section 162(m), a larger portion of stockholder distributions may be subject to federal income taxation as dividend income rather than return of capital. The Company does not believe that Section 162(m) will materially affect the taxability of stockholder distributions, although no assurance can be given in this regard due to the variety of factors that affect the tax position of each stockholder. For these reasons, the Compensation Committee's compensation policy and practices are not directly guided by considerations relating to Section 162(m).

Compensation Committee Report

The Compensation Committee of the Board of Directors of AvalonBay Communities, Inc., a Maryland corporation, has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K of the Securities and Exchange Commission with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

Submitted by the Compensation Committee

Peter S. Rummell (Chair)

Lance R. Primis

H. Jay Sarles

Compensation Committee Interlocks and Insider Participation

The Compensation Committee currently consists of Peter S. Rummell, Lance R. Primis, and H. Jay Sarles. None of them has served as an officer of the Company or any of its subsidiaries. No member of the Compensation Committee has any other business relationship or affiliation with the Company or any of its subsidiaries (other than his service as a director).

Table of Contents**Summary Compensation Table**

The table below summarizes the compensation amounts paid in or earned by each of the named executive officers for the fiscal years ended December 31, 2010, December 31, 2011 and December 31, 2012.

Executives are eligible to defer a portion of their salaries and bonuses under our Deferred Compensation Plan. The amounts shown below are before any deferrals under the Nonqualified Deferred Compensation Plan. Amounts deferred in 2012 are shown in the *Nonqualified Deferred Compensation Table* beginning on page 35 below.

Name and Principal Position	Year	Salary (\$)(1)	Bonus (\$)	Stock Awards (\$)(2)(3)	Option Awards (\$)(2)(4)	Non-equity Incentive Plan Compensation (\$)(5)	Change in Pension Value and Other Non-qualified Compensation Earnings (\$)(6)	Total Compensation (\$)(7)(8)
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h) (i)	(j)
Bryce Blair Chairman of the Board	2012	702,373	—	3,203,962	0	1,953,519	(8) — 292,041	6,151,895
	2011	823,368	—	1,889,419	980,990	1,316,102	— 284,903	5,294,782
	2010	823,368	—	1,408,984	584,084	1,268,501	— 232,972	4,317,909
Tim Naughton Chief Executive Officer	2012	799,038	—	1,073,305	540,388	1,252,742	— 166,870	3,832,343
	2011	750,000	—	944,709	490,480	959,063	— 173,146	3,317,399
	2010	750,000	—	704,529	292,042	924,375	— 129,724	2,800,670
Tom Sargeant Chief Financial Officer	2012	499,231	—	697,722	351,244	613,680	— 133,672	2,295,549
	2011	460,000	—	1,614,019	318,814	524,228	— 111,105	3,028,166
	2010	460,000	—	457,962	189,832	510,255	— 95,646	1,713,695
Leo Horey EVP, Property Operations	2012	396,154	—	436,741	219,850	393,539	— 78,811	1,525,095
	2011	380,000	—	694,853	205,036	400,368	— 75,559	1,755,815
	2010	380,000	—	298,358	123,683	369,816	— 57,090	1,228,947
William McLaughlin EVP, Development & Construction	2012	410,193	—	495,904	249,627	435,034	— 63,139	1,653,896
	2011	390,000	—	462,046	239,904	434,616	— 62,530	1,589,095
	2010	390,000	—	303,033	125,628	399,110	— 43,017	1,260,788

(1) The amounts shown as salary in column (c) reflect actual payments received in each indicated year, which may vary slightly from the salary described in the *Compensation Discussion and Analysis* as a result of (i) the number of pay periods in each calendar year and (ii) the fact that any salary increases did not go into effect until early March of each year.

(2) The amounts in column (e) and column (f) include restricted stock and option awards actually granted during the fiscal year for service in the prior fiscal year. For example, the row for 2012 shows the value (computed in accordance with FASB ASC Topic 718 and as further discussed in the footnotes 3 and 4) of stock and option

awards made in February 2012 with respect to 2011 service. In connection with Mr. Blair's retirement as Chief Executive Officer at the end of 2011, the annual long term incentive award value in respect of 2011 was paid in restricted stock rather than restricted stock and options.

- (3) The amounts in column (e) reflect the aggregate grant date fair value for awards made in the fiscal years ended December 31, 2010, December 31, 2011, and December 31, 2012 computed in accordance with FASB ASC Topic 718 for restricted stock awards made pursuant to the Company's 2009 Stock Option and Incentive Plan. The value of restricted stock awards is based solely on the closing price of our Common Stock on the NYSE on the date of grant; as a result, no assumptions were used in the calculation of this value. In the case of Mr. Sargeant and Mr. Horey the amounts in this column for 2011 include Supplemental Awards granted on December 30, 2011.
- (4) The amounts in column (f) reflect the aggregate grant date fair value for awards made pursuant to the Company's 2009 Stock Option and Incentive Plan in the fiscal years ended December 31, 2010, December 31, 2011, and December 31, 2012 computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of this amount are included in footnote 9 to the Company's audited financial statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 22, 2013.
- (5) The amounts shown in column (g) reflect the cash awards to the named individuals determined by the Compensation Committee in February of the following year (based upon the achievement of the performance metrics established in the year indicated, as more fully described in the *Compensation Discussion and Analysis* above) and ratified by the members of the full Board of Directors who would be qualified to serve on the Compensation Committee.
- (6) All earnings under the Company's nonqualified deferred compensation program are determined by reference to returns of actual mutual funds and the Company does not consider such earnings to be above market.

Table of Contents

For 2012, the amounts shown in column (i) include, for each named executive officer (a) dividends paid on unvested shares of restricted stock during 2012 in the following amounts: Mr. Blair—\$221,918; Mr. Naughton—\$123,128; Mr. Sargeant—\$97,404; Mr. Horey—\$60,791; and Mr. McLaughlin—\$54,329; (b) amounts contributed by the Company to the named executive officers' 401(k) accounts in the amount of \$7,500 each. The amounts shown in column (i) also include (i) premiums paid by the company on disability insurance in the following amounts: Mr. Blair—\$4,764; Mr. Naughton—\$3,296; Mr. Sargeant—\$2,947; Mr. Horey—\$0, and Mr. McLaughlin—\$0; (ii) and premiums paid by the Company in 2012 for Company-owned life insurance policies (7) on the lives of such named executive officers for which the Company has endorsed the respective policies so that any death benefit, in excess of the cumulative premiums paid by the Company, will be paid to the beneficiaries of the deceased, which premiums were in the following amounts for each officer (such amounts representing payment of a whole-life premium which builds cash value in the Company-owned policy to support future repayment of the cumulative premiums; see "Potential Payments Upon Termination or Sale Event—Endorsement Split Dollar Agreements"): Mr. Blair—\$57,859; Mr. Naughton—\$32,946; Mr. Sargeant—\$25,821; Mr. Horey—\$10,521; and Mr. McLaughlin—\$0. The amount shown for Mr. McLaughlin includes premiums in the amount of \$1,310 paid by the Company for a standard term life insurance policy in the face amount of \$750,000.

2012 compensation for Mr. Blair includes the following: (i) base salary received in 2012; (ii) the value of restricted stock awards received in 2012 for performance in 2011 under the Company's long-term incentive compensation (8) plan; (iii) the cash bonus received in 2013 for performance in 2012; (iv) the cash received in 2013 for performance in 2012 under the Company's long-term incentive compensation plan; and (v) all other compensation as described in footnote (7) above.

Table of Contents**Grants of Plan-Based Awards**

The table below sets out the grants made to the named executive officers in 2012 under the Company's 2009 Stock Option and Incentive Plan.

Grants of Plan-Based Awards

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards ⁽¹⁾			Estimated Future Payouts Under Equity Incentive Plan Awards ⁽²⁾			All Other Stock Awards	All Other Option Awards	Exercise Price	Grant Date	Value of Stock and Options
		Threshold (\$)	Target (\$)	Maximum (\$)	Threshold (\$)	Target (\$)	Maximum (\$)	Number of Shares of Stock or Units (#) ⁽³⁾	Number of Securities Underlying Options (#) ⁽⁴⁾	(\$/Share) ^(k)		(\$) ⁽⁵⁾
Blair	2/16/2012	\$1,060,376	\$1,699,000	\$2,554,625								
	2/16/2012							24,099				\$3,203,000
Naughton	2/16/2012	\$500,000	\$1,000,000	\$2,000,000								
	2/16/2012				\$1,466,740	\$2,200,000	\$2,933,260					
	2/16/2012							8,073				\$1,073,000
	2/16/2012								18,602	\$132.95		\$540,380
Sargeant	2/16/2012	\$250,000	\$500,000	\$1,000,000								
	2/16/2012				\$666,700	\$1,000,000	\$1,333,300					
	2/16/2012							5,248				\$697,720
	2/16/2012								12,091	\$132.95		\$351,240
Horey	2/16/2012	\$160,000	\$320,000	\$640,000								
	2/16/2012				\$420,021	\$630,000	\$839,979					
	2/16/2012							3,285				\$436,740
	2/16/2012								7,568	\$132.95		\$219,850
McLaughlin	2/16/2012	\$166,000	\$332,000	\$664,000								
	2/16/2012				\$450,023	\$675,000	\$899,978					
	2/16/2012							3,730				\$495,900
	2/16/2012								8,593	\$132.95		\$249,620

(1) The amounts shown in columns (c), (d) and (e) reflect the threshold, target and maximum payment levels for 2012 under our cash bonus plan, which were established on February 16, 2012. The actual cash bonuses received by each of the named executive officers for performance in 2012, paid in 2013, are set out in column (g) of the *Summary Compensation Table*.

(2) The amounts shown in columns (f), (g) and (h) reflect the threshold, target and maximum dollar values for 2012 performance for annual equity grants under our equity incentive plan, which were adopted on February 16, 2012. As noted in the "Compensation Discussion and Analysis" section above, the actual number of shares of restricted stock granted to the named executive officers on February 13, 2013, based upon achievement under this plan were as follows: Mr. Blair—0, Mr. Naughton—12,597, Mr. Sargeant—5,726, Mr. Horey—3,607, and Mr. McLaughlin—3,942.

Information about the vesting of such shares of restricted stock is provided in footnote (3) below. The actual number of shares underlying options granted to the named executive officers on February 13, 2013, based upon achievement under this plan was as follows: Mr. Blair—0, Mr. Naughton—28,542, Mr. Sargeant—12,974, Mr. Horey—8,174, and Mr. McLaughlin—8,931. Each of such options was granted at an exercise price of \$130.23. Information about the vesting of such options is provided in footnote (4) below.

The number of shares of restricted stock shown in column (i) granted on February 16, 2012 represent the actual number of shares of restricted stock granted to the named executive officers, with respect to performance in 2011, and do not represent compensation for performance in 2012. With respect to all shares of restricted stock granted on February 16, 2012, described in this table, 20% of the shares vested on March 1 in the year of issuance and the (3) remaining 80% of the shares vest in four equal annual installments on the anniversaries of that date, subject to accelerated vesting (in the case of termination of employment without cause, upon death, disability or retirement, or upon a sale of the Company (as defined in the 2009 Stock Option and Incentive Plan)) or forfeiture of unvested shares (in the case of termination of employment for any other reason). Dividends are payable on the shares at the same rate as dividends paid on all outstanding shares of our Common Stock.

The number of shares underlying options shown in column (j) represents the number of options granted to the named executive officers on February 16, 2012, with respect to performance in 2011, and does not represent compensation for performance in 2012. All options described in this table become exercisable in three equal (4) installments on the first, second and third anniversaries of the date of grant. In accordance with the 2009 Stock Option and Incentive Plan and our standard form of stock option agreement at the time of the award, all unvested options awarded in 2012 will automatically vest upon a termination without cause, or termination by death, disability or retirement, in which case the remaining term of the option will be 12 months or, if earlier, the expiration of the original ten year term of the option.

For the February 16, 2012, option grants, the value was calculated using the Black-Scholes model with the following material assumptions: dividend yield of 3.5%, volatility of 35.0%, risk-free interest rates of 0.87%, and (5) an expected life of approximately five years. The actual realized value will depend upon the difference between the market value of the Common Stock on the date the option is exercised and the exercise price. For the February 16, 2012 grants of restricted stock, the value was calculated based on the closing price of the Common Stock on the date of grant of \$132.95.

Table of Contents**Outstanding Equity Awards at Fiscal Year-End**

Option Awards(1)							Stock Awards(2)			
Name	Grant Date	Number of Securities Underlying Unexercised Options: (#)	Number of Securities Underlying Unexercised Options: (#)(3)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(4)	Market Value of Shares or Units of Stock That Have Not Vested (\$)(5)	Equity Incentive Plan Awards: Number of Shares or Units of Stock That Have Not Vested (#)	Equity Incentive Plan Awards: Market Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)
									(i)	(j)
(a)		(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Mr. Blair	2/8/2007	75,831	—	—	\$ 143.34	2/8/2017				
	2/11/2010	—	10,010	—	\$ 74.20	2/11/2020				
	2/16/2011	11,122	22,245	—	\$ 115.83	2/16/2021				
Mr. Naughton							42,372	5,745,219	—	—
	2/11/2005	22,868	—	—	\$ 67.86	2/11/2015				
	2/9/2006	116,148	—	—	\$ 96.19	2/9/2016				
	2/8/2007	45,363	—	—	\$ 143.34	2/8/2017				
	2/11/2008	52,161	—	—	\$ 86.40	2/11/2018				
	2/11/2009	38,724	—	—	\$ 48.60	2/11/2019				
	2/11/2010	10,010	5,005	—	\$ 74.20	2/11/2020				
	2/16/2011	5,561	11,122	—	\$ 115.83	2/16/2021				
	2/16/2012	—	18,602	—	\$ 132.95	2/16/2022				
	2/13/2013	—	28,542	—	\$ 130.23	2/13/2023				
Mr. Sargeant							30,602	4,149,325	—	—
	2/8/2007	37,026	—	—	\$ 143.34	2/8/2017				
	2/11/2010	—	3,254	—	\$ 74.20	2/11/2020				
	2/16/2011	3,614	7,230	—	\$ 115.83	2/16/2021				
	2/16/2012	—	12,091	—	\$ 132.95	2/16/2022				
Mr. Horey	2/13/2013	—	12,974	—	\$ 130.23	2/13/2023				
							25,087	3,401,546	—	—
	2/8/2007	18,526	—	—	\$ 143.34	2/8/2017				
	2/11/2010	4,239	2,120	—	\$ 74.20	2/11/2020				
	2/16/2011	2,324	4,650	—	\$ 115.83	2/16/2021				
	2/16/2012	—	7,568	—	\$ 132.95	2/16/2022				
	2/13/2013	—	8,174	—	\$ 130.23	2/13/2023				
						13,462	1,825,313	—	—	

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Mr. McLaughlin	2/11/2005	1,472	—	—	\$67.86	2/11/2015				
	2/9/2006	1,039	—	—	\$96.19	2/9/2016				
	2/8/2007	20,404	—	—	\$143.34	2/8/2017				
	2/11/2008	12,132	—	—	\$86.40	2/11/2018				
	2/11/2009	16,107	—	—	\$48.60	2/11/2019				
	2/11/2010	4,306	2,153	—	\$74.20	2/11/2020				
	2/16/2011	2,720	5,440	—	\$115.83	2/16/2021				
	2/16/2012	—	8,593	—	\$132.95	2/16/2022				
	2/13/2013	—	8,931	—	\$130.23	2/13/2023				
							12,141	1,646,198	—	—

Stock options granted under the Company's 1994 Stock Incentive Plan and 2009 Stock Option and Incentive Plan become exercisable in three equal installments on the first, second and third anniversaries of the date of grant. All (1) unvested options will automatically vest upon a termination without cause, or termination by death, disability or retirement, in which case the remaining term of the option will be 12 months or, if earlier, the expiration of the original ten year term of the option.

Stock awards granted under the Company's 1994 Stock Incentive Plan and 2009 Stock Option and Incentive Plan have been made in the form of Restricted Stock. Annual stock awards are made in the form of Restricted Stock which vests 20% on March 1st of the year of grant, and the remaining 80% which vests over the next four years, with 20% vesting on March 1 of each year, subject to accelerated vesting in the case of termination of employment without cause, upon death, disability or retirement, or upon a change-in-control of the Company (as defined in the (2) Plans), or forfeiture of unvested shares in the case of termination of employment for any other reason. Stock awards granted to Messrs. Sargeant and Horey on December 30, 2011, vest 75% on December 31, 2013 and the remaining 25% vest on December 31, 2014. In addition, in the case of Messrs. Naughton, Sargeant and Horey, vesting of restricted stock will be accelerated under certain conditions, as described in their employment agreements with the Company. Dividends are payable on the shares at the same rate as dividends paid on all outstanding shares of our Common Stock.

Table of Contents

- (3) The table below shows the vesting schedule for all unexercisable options. All options vest on the anniversary of the grant date in the year indicated:

Vesting Schedule for Unexercisable Options

Name	Grant Date	Vesting Schedule			
		2013	2014	2015	2016
Bryce Blair	2/11/2010	10,010			
	2/16/2011	11,122	11,123		
Timothy J. Naughton	2/11/2010	5,005			
	2/16/2011	5,561	5,561		
	2/16/2012	6,200	6,201	6,201	
	2/13/2013		9,514	9,514	9,514
Thomas J. Sargeant	2/11/2010	3,254			
	2/16/2011	3,615	3,615		
	2/16/2012	4,030	4,030	4,031	
	2/13/2013		4,324	4,325	4,325
Leo S. Horey	2/11/2010	2,120			
	2/16/2011	2,325	2,325		
	2/16/2012	2,522	2,523	2,523	
	2/13/2013		2,724	2,725	2,725
William McLaughlin	2/11/2010	2,153			
	2/16/2011	2,720	2,720		
	2/16/2012	2,864	2,864	2,865	
	2/13/2013		2,977	2,977	2,977

- (4) The table below shows the vesting schedule for all unvested shares of restricted stock.

Vesting Schedule for Unvested Restricted Stock

Name	Grant Date	Vesting Schedule				
		2013	2014	2015	2016	2017
Bryce Blair	2/11/2009	5,708				
	2/11/2010	3,798	3,798			
	2/16/2011	3,263	3,262	3,263		
	2/16/2012	4,820	4,820	4,820	4,820	
Timothy J. Naughton	2/11/2009	2,854				
	2/11/2010	1,899	1,899			
	2/16/2011	1,631	1,631	1,632		
	2/16/2012	1,615	1,614	1,615	1,615	
	2/13/2013	2,519	2,519	2,520	2,519	2,520
Thomas J. Sargeant	2/11/2009	1,855				
	2/11/2010	1,234	1,235			
	2/16/2011	1,060	1,060	1,061		
	12/30/2011	5,742	1,915			
	2/16/2012	1,050	1,049	1,050	1,050	
Leo S. Horey	2/13/2013	1,145	1,145	1,145	1,145	1,146
	2/11/2009	1,275				
	2/11/2010	804	805			

	2/16/2011	682	682	682		
	12/30/2011	1,722	575			
	2/16/2012	657	657	657	657	
	2/13/2013	721	721	722	721	722
William McLaughlin	2/11/2009	1,187				
	2/11/2010	817	817			
	2/16/2011	798	798	798		
	2/16/2012	746	746	746	746	
	2/13/2013	788	788	789	788	789

(5) Based on the closing price of the Common Stock as reported on the NYSE on December 31, 2012 of \$135.59 per share.

Table of Contents**Option Exercises and Stock Vested Table**

The following table identifies the number of shares underlying options exercised during 2012 for each of the named executive officers, the value realized on such exercises, the number of shares of restricted stock that vested during 2012 for each such officer and the value of such shares on the date of vesting. The value realized upon exercise of the options is the product of (1) the closing price on the NYSE of our Common Stock on the date of exercise minus the exercise price multiplied by (2) the number of shares of Common Stock underlying the exercised options.

Name (a)	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (b)	Value Realized on Exercise (\$) (c)	Number of Shares Acquired on Vesting (d)	Value Realized on Vesting (\$) (1) (e)
Mr. Blair	35,827	2,999,430	55,442	7,468,225
Mr. Naughton	79,448	6,545,002	38,669	5,236,081
Mr. Sargeant	23,289	1,998,645	18,837	2,540,477
Mr. Horey	87,564	5,050,186	16,351	2,214,587
Mr. McLaughlin	10,000	536,505	16,611	2,248,671

These shares of restricted stock vested on March 1, 2012 and June 1, 2012. The closing price of the stock, as (1) reported on the NYSE for March 1, 2012, was \$131.09 per share. The closing price of the stock, as reported on the NYSE for June 1, 2012, was \$137.01 per share.

Table of Contents**Nonqualified Deferred Compensation**

Pursuant to our Deferred Compensation Plan, certain employees of the Company, including the named executive officers, may defer up to 25% of base annual salary and up to 50% of annual cash bonus on a pre-tax basis and receive a tax-deferred return on those deferrals. Deferral elections are made by eligible employees during an open enrollment period each year for amounts to be earned in the following year. Participating employees direct the deemed investment of their deferral accounts by selecting among certain available Investment Funds. The table below shows the Investment Funds available under the Deferred Compensation Plan and their annual rate of return for the calendar year ended December 31, 2012. Since the Investment Funds are all publicly available, we do not consider any of the earnings credited under the Deferred Compensation Plan to be “above market.”

Name of Fund	2012 Rate of Return (%)
American Funds EuroPacific Growth R4	19.22
American Funds Fundamental Investor R4	17.13
American Funds Growth Fund of America R4	20.56
Artisan Mid Cap Value	11.39
Cohen & Steers Realty	15.72
Columbia Dividend Opportunity Z	13.34
Fidelity Retirement Money Market	0.01
JP Morgan Large Cap Growth Select	12.11
MFS Value R3	16.13
PIMCO Total Return Institutional	10.36
Royce Pennsylvania Mutual Service	14.15
Spartan 500 Index Advantage	15.97
T. Rowe Price Emerging Markets Stock	20.03
T. Rowe Price Mid Cap Growth Adv	13.62
T. Rowe Price Retirement 2005 Adv	11.01
T. Rowe Price Retirement 2010 Adv	12.16
T. Rowe Price Retirement 2015 Adv	13.58
T. Rowe Price Retirement 2020 Adv	14.78
T. Rowe Price Retirement 2025 Adv	15.70
T. Rowe Price Retirement 2030 Adv	16.56
T. Rowe Price Retirement 2035 Adv	17.05
T. Rowe Price Retirement 2040 Adv	17.29
T. Rowe Price Retirement 2045 Adv	17.21
T. Rowe Price Retirement 2050 Adv	17.21
T. Rowe Price Retirement 2055 Adv	17.20
T. Rowe Price Retirement Income Adv	9.78
Wells Fargo Advantage Growth Adm	16.89

Benefits under our Deferred Compensation Plan will be paid out on the earlier of the employee’s death or the date six months, 66 months, or 126 months following termination of employment (depending upon the employee’s properly made election), or in ten annual installments beginning in the seventh month following departure from the company, or in one lump sum (or four annual installments) on a specified date that is at least five years after the deferral year while the employee is still employed with the company, or in the event of an “Unforeseeable Financial Emergency” as determined by our Retirement Planning Committee (a committee of management designated by the Compensation Committee of the Board of Directors) in its sole discretion and in accordance with tax law requirements.

Table of Contents

Name	Executive Contributions in Last Fiscal Year (\$)(1)	Registrant Contributions in Last Fiscal Year (\$)	Aggregate Earnings in Last Fiscal Year (\$)	Aggregate Withdrawals/ Distributions in Last Fiscal Year (\$)	Aggregate Balance at Last Fiscal Year End (\$)(2)
(a)	(b)	(c)	(d)	(e)	(f)
Mr. Blair	—	—	\$ 437,843	—	\$3,142,612
Mr. Naughton	—	—	\$ 319,488	—	\$2,696,221
Mr. Sargeant	—	—	\$ 303,182	—	\$1,971,702
Mr. Horey	\$ 39,538	—	\$ 112,423	—	\$871,172
Mr. McLaughlin	—	—	—	—	—

- (1) All contributions in column (b) are also included as compensation to the named executive officers in the Salary column of the *Summary Compensation Table*.
- (2) Amounts in column (f) include amounts that were previously reported as compensation to the named executive officers in the Salary column of the Summary Compensation Table for 2011 and 2010, as follows:

Name	Executive Contributions by Year	
	2011	2010
Bryce Blair	130,017	178,876
Timothy J. Naughton	187,760	213,752
Thomas J. Sargeant	—	—
Leo S. Horey	38,000	38,000
William McLaughlin	—	—

Potential Payments Upon Termination or Sale Event

The summaries of agreements below are qualified in their entirety by reference to the complete agreements, which have been included as exhibits to the Company's filings with the SEC.

As noted in the narrative disclosure to the *Summary Compensation Table* above, we are a party to employment agreements with Messrs. Naughton, Sargeant and Horey that will expire on December 31, 2015, unless renewed by mutual agreement, and that provide for severance benefits in the event that the executive is terminated without cause. The employment agreements provide that it would be considered a termination without cause: (a) of Mr. Naughton, if his title is reduced to below that of Chief Executive Officer or if he does not report directly to the full Board, (b) of Mr. Sargeant, if his title is not that of Chief Financial Officer or he is not the most senior financial officer, and (c) of Mr. Horey, if his title is reduced to below that of Executive Vice President or he is not a member of the executive officer group. The employment agreements also provide that it would be a default if the Company takes bad faith actions with respect to an executive's annual compensation and bonus awards, which bad faith must be demonstrated by reference to the awards set for and awarded other officers. The executive must provide the Company notice of such an alleged default and an opportunity to cure. In the event of such a default that is not cured, the executive would be entitled to terminate his employment and receive the same level of severance as in a termination without cause.

Under the employment agreements, upon a termination of the executive's employment without cause the executive would be entitled to a multiple of his "Covered Compensation," which is defined as the sum of the executive's annual

base salary plus the average of the executive's last two annual cash bonuses as of the date of termination. In the case of Messrs. Naughton and Sargeant, the multiple is two times unless the termination is in connection with a sale of the Company, in which case the multiple is three times. In Mr. Horey's case, the multiple is one times unless the termination is in connection with a sale of the Company, in which case the multiple is two times. The executive would also receive a cash payment representing the pro rata value of his annual bonus and long term incentive award for the portion of the year worked, valued at target. The executives' unvested restricted stock and options would also vest. Severance benefits upon a sale of the Company are based on a "double trigger": the executive must be terminated without cause, as described above, following the sale in order for severance benefits to be triggered under the agreements.

The employment agreements do not provide for a tax gross up if an excise tax is imposed on the severance benefits under Section 4999 of the Internal Revenue Code of 1986, as amended (the "golden parachute tax"), but if an executive would be better off with reduced severance benefits in order to avoid the effect of the golden parachute tax then the benefits will be reduced accordingly. The employment agreements do not provide for additional perquisites.

Table of Contents

To receive severance benefits under the employment agreements, the executive must enter into a separation and release agreement with the Company containing general release, confidentiality, return of property, mutual non-disparagement and a one-year employee non-solicitation provision.

Other Severance Arrangements. Our agreements with our directors and officers governing compensatory stock option and restricted stock awards provide for immediate vesting (and, in the case of stock options, immediate exercisability) if a sale of the Company occurs. In addition, upon the retirement of an employee (as defined in the award agreements under the Stock Incentive Plan) (a) all of such employee's options shall automatically become fully exercisable and (absent a specific agreement providing otherwise) shall be exercisable for one year thereafter and (b) all of such employee's restricted shares of stock shall automatically vest. Retirement of an employee as defined in the award agreements under the Plan generally means the termination of employment, other than for cause, when the sum of the following equals or exceeds 70 years: (i) the number of full months (converted to years) of employment and other business relationships with the Company and any predecessor company (must be at least 120 months) and (ii) the employee's age on the date of termination (must be at least 50 years old). To qualify for retirement, the employee must also give six months' prior written notice to us of his intention to retire and enter into a one year non-solicitation and non-competition agreement with us. Under this formula, Messrs. Naughton, Sargeant and Horey are currently eligible for retirement, and Messr. McLaughlin will become eligible for retirement in June 2014. Mr. Blair, who retired as an officer on December 31, 2012, and will retire as a director at the Annual Meeting, also meets that requirement. The supplemental restricted stock awards that Messrs. Sargeant and Horey received in December 2011 will not vest on an accelerated basis in the event of a retirement before December 31, 2013.

We have adopted an Officer Severance Program for the benefit of officers who do not have employment agreements. Under this program, in the event an officer who is not otherwise covered by a severance arrangement is terminated (other than for cause) within eighteen months of a sale of the Company (as defined) or during the six months prior to a sale of the Company, such officer will generally receive a multiple of his Covered Compensation (as defined above) depending on the officer's title: for the Chief Executive Officer, the multiple is three times, for the Chief Financial Officer or an Executive Vice President, the multiple is two times, and for other officers the multiple is one times. The terminated officer would also receive (i) a cash payment representing the pro rata value of his annual bonus and long term incentive award for the portion of the year worked, valued at target, (ii) accelerated vesting of the officer's unvested restricted stock and options, and (iii) payment of COBRA insurance premiums for up to 18 months.

Our multiyear performance awards under which restricted stock units are awarded and may be earned at the end of a performance period are not subject to the terms described above, but any restricted stock or options that are granted in settlement of units once a performance period is complete are subject to these terms (except that the stock options that may be awarded in lieu of 25% of the value of the restricted stock that would otherwise be awarded will generally not expire, even after separation of employment, for a minimum of five years from their date of grant). In the event a participant's employment terminates for any reason prior to the completion of a performance period, whether with or without cause, or by reason of death or disability or voluntary departure or retirement, the participant forfeits all units with respect to that performance period. If a sale of the Company occurs during a performance period, (i) if there is more than 12 months remaining in the performance period, all units with respect to that performance period are forfeited (unless the successor makes other arrangements for their continuation), and (ii) if there is less than 12 months remaining in the performance period, the performance period is deemed complete on the date of sale and achievement against the performance metrics is measured through the date of sale, with no proration on account of the shortened performance period and with vested stock (or options) issued in settlement of any units earned.

Table of Contents

Endorsement Split Dollar Agreements. The Company owns whole-life insurance policies with respect to Messrs. Blair, Naughton, Sargeant and Horey. The face amount of each policy is \$2,500,000 (for Mr. Blair), \$1,500,000 (for Messrs. Sargeant, and Naughton), and \$750,000 (for Mr. Horey). The Company has endorsed each of these Company-owned policies such that in the event of the death of an insured, the Company will be paid insurance proceeds equal to the cumulative premiums paid on the policy by the Company, with excess insurance proceeds being paid to the insured's estate or named beneficiary. The Company has agreed to (i) pay the premiums due on each policy through 2017 (provided that the insured pays a portion of the premium equal to the current term rate for the insured's age multiplied by the insured's current interest in the policy), (ii) after the last Company payment, withdraw cash from the policy equal to the cumulative premiums paid and (iii) thereafter assign the policy to the insured. The Company will cease making premium payments, and will withdraw an amount from the cash surrender value of the policy equal to the lesser of the cumulative premiums or the cash surrender value earlier than 2017, in the event of the insured's termination for cause or voluntary resignation without a constructive termination. In such case the policy will be reduced to a fully paid-up policy.

Severance Benefits. The tables below, together with the footnotes thereto and the additional information below, reflect the payments and benefits that the named executive officers would receive in the event of their termination of employment with the Company on December 31, 2012, under the indicated circumstances.

Table of Contents**Bryce Blair, Chairman of the Board***(will retire on May 22, 2013)*

Executive Benefits and Payments Upon Termination	For Cause or Voluntary(\$)	Termination Without Cause (Unrelated to a Sale Event)(\$)	Death(\$)	Termination Without Cause (Related to a Sale Event)(\$)
A Severance (Cash)	—	—	—	1,992,302 (1)
B Life Insurance	38,390 (2)	224,599 (3)	(4)	224,599 (3)

Timothy J. Naughton, Chief Executive Officer and President

Executive Benefits and Payments Upon Termination	For Cause or Voluntary(\$)	Termination Without Cause (Unrelated to a Sale Event)(\$)	Death(\$)	Termination Without Cause (Related to a Sale Event)(\$)
A Severance (Cash)	—	3,483,438 (5)	—	5,225,157 (6)
B Life Insurance	20,992 (2)	128,112 (3)	(4)	128,112 (3)

Thomas J. Sargeant, Chief Financial Officer

Executive Benefits and Payments Upon Termination	For Cause or Voluntary(\$)	Termination Without Cause (Unrelated to a Sale Event)(\$)	Death(\$)	Termination Without Cause (Related to a Sale Event)(\$)
A Severance (Cash)	—	2,034,483 (5)	—	3,051,725 (6)
B Life Insurance	21,234 (2)	100,406 (3)	(4)	100,406 (3)

Leo S. Horey, Chief Administrative Officer

Executive Benefits and Payments Upon Termination	For Cause or Voluntary(\$)	Termination Without Cause (Unrelated to a Sale Event)(\$)	Death(\$)	Termination Without Cause (Related to a Sale Event)(\$)
A Severance (Cash)	—	792,681 (5)	—	1,585,361 (6)
B Life Insurance	9,351 (2)	40,909 (3)	(4)	40,909 (3)

William McLaughlin, Executive Vice President

Executive Benefits and Payments Upon Termination	For Cause or Voluntary(\$)	Without Cause (Unrelated to a Sale Event)(\$)	Death(\$)	Termination Without Cause (Related to a Sale Event)(\$)
A Severance (Cash)	—	—	—	1,663,726 (1)
B Life Insurance	—	—	—	—

Footnotes for all tables above:

- In accordance with the terms of the Company's Officer Severance Plan, represents two times Covered
- (1) Compensation (base salary and the average of the prior two year's cash bonuses) for Mr. McLaughlin and one times Covered Compensation for Mr. Blair.
- (2) Represents the cash surrender value of the policy less the total aggregate premiums paid by the Company. The Company will recover its premiums in the future.
- (3) Represents the estimated present value of four years of future premiums paid by the Company on the whole-life portion of a split-dollar life insurance policy. The Company will recover its premiums in the future. Upon death, (i) the officer's estate will receive a death benefit under a life insurance policy owned by the Company in the amount of \$2.5 million with respect to Mr. Blair, \$1.5 million with respect to Messrs. Naughton and
- (4) Sargeant, and \$750,000 with respect to Mr. Horey, and (ii) the Company will receive repayment of all premiums paid by the Company.

Table of Contents

(5) In accordance with the terms of their respective employment agreements, represents two times Covered Compensation for Messrs. Naughton and Sargeant and one times Covered Compensation for Mr. Horey.

(6) In accordance with the terms of their respective employment agreements, represents three times Covered Compensation for Messrs. Naughton and Sargeant and two times Covered Compensation for Mr. Horey.

The following benefits apply generally to all similarly situated employees and are not included in the tables above:

Upon a termination of any employee's employment without cause or upon death, disability or retirement of the employee or upon a sale of the Company (as defined in the Stock Incentive Plan), all unvested shares of restricted stock held by an employee will immediately vest. The full value of the shares of restricted stock for which vesting would accelerate upon a termination on December 31, 2012 of each of the named executive officers, based on a closing price of \$135.59 on December 31, 2012 is: Mr. Blair—\$5,745,000; Mr. Naughton—\$2,441,000; Mr. Sargeant—\$2,615,000; Mr. Horey—\$1,336,000; and Mr. McLaughlin—\$1,104,000.

All unvested employee stock options provide for accelerated vesting upon termination of employment without cause or upon death, disability, retirement, or a sale of the Company (as defined in the Stock Incentive Plan). The full in the money value of unvested options for which vesting would accelerate upon a termination on December 31, 2012 of each of the named executive officers is: Mr. Blair—\$1,054,000; Mr. Naughton—\$576,000; Mr. Sargeant—\$375,000; Mr. Horey—\$241,000; and Mr. McLaughlin—\$262,000.

Upon a termination of any employee's employment due to retirement, the employee will receive the following:
For six months, the Company will pay the employee's premium due for insurance benefits extended under COBRA.

Pro-rated Company match under the 401(k) plan.

Pro-rated annual bonus.

The employee may choose a gift from an on-line catalogue of retirement gifts.

To receive retirement benefits, the officer must give six months' prior written notice to the Company of his intention to retire and enter into a one year non-solicitation and non-competition agreement.

If any employee's employment terminates on or after the end of the calendar year for any reason other than for cause, the Company would compensate that individual with the cash bonus and the cash value of the long-term incentive award that would have been paid to that employee in February or March of the following year. Accordingly, the value of the cash bonus and long-term incentive award earned by the Named Executive Officers in respect of 2012 service is not included in the table above (but is described elsewhere in this Proxy Statement). For Messrs. Naughton, Sargeant and Horey, if such a termination occurred in the middle of the year, they would receive a prorated portion of such amount (at target) under the terms of their employment agreements. Under the Company's Officer Severance Plan, in the event of such a termination in connection with a sale of the Company, Messrs. Blair and McLaughlin would receive a prorated portion of such amount (at target).

Director Compensation

A director of the Company who is also an employee receives no additional compensation for his services as a director. Our Board and Nominating Committee assess the total compensation for non-employee directors relative to the compensation provided by similarly sized real estate investment trusts, by our multi-family peer group, and by a group of cross-industry similarly sized companies. Our Nominating Committee reviews compensation for non-employee directors periodically.

Table of Contents

On the fifth business day following each annual meeting of stockholders, each of our non-employee directors automatically receives a grant of a number of shares of restricted stock (or a deferred stock award in lieu thereof) equal to \$125,000 divided by the closing price of Common Stock as reported by the NYSE on the date of grant. Based on this formula, following the 2012 Annual Meeting, each non-employee director received a restricted stock or deferred stock grant of 976 shares of Common Stock. All of such shares of restricted stock (or deferred stock awards) granted to non-employee directors vest at the rate of 20% on the date of issuance and on each of the first four anniversaries of the date of issuance, subject to accelerated vesting upon departure from the Board except in the case of a voluntary departure by the director during his elected term that is not due to death or disability, or the director's removal for cause. If a director elected to receive a deferred stock award in lieu of restricted stock, then the director will receive shares of stock in respect of the vested portion of the deferred stock award within 30 days following termination of service as a director of the Company. In addition, during 2012 non-employee directors received a quarterly payment of \$15,000 (\$60,000 per year). A non-employee director may elect to receive all or a portion of such cash payment in the form of a deferred stock award equal to the cash payment amount divided by the last reported price on the NYSE on the date of grant.

In consideration for serving as Lead Independent Director, Mr. Primis currently receives, in addition to the compensation described above, an annual fee of \$30,000, payable in equal quarterly installments of \$7,500.

The following table sets forth the compensation for service as a director of the Company received by each non-employee director in 2012, as recognized for financial reporting purposes.

Director Compensation Table

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
Name	Fees Earned or Paid in Cash (\$)(1)	Stock Awards (\$)(2)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Nonqualified Deferred Compensation Earnings (\$)	All other Compensation (\$)(3)	Total (\$)
Alan B. Buckelew	\$ 60,000	\$124,937	—	—	—	\$ 3,118	\$188,055
Bruce A. Choate	\$ 60,000	\$124,937	—	—	—	\$ 152,865	\$337,802
John J. Healy, Jr.	—	\$184,937	—	—	—	\$ 134,705	\$319,642
Lance R. Primis	\$ 90,000	\$124,937	—	—	—	\$ 9,238	\$224,175
Peter S. Rummell	\$ 60,000	\$124,937	—	—	—	\$ 14,401	\$199,338
H. Jay Sarles	\$ 60,000	\$124,937	—	—	—	\$ 9,238	\$194,175
W. Edward Walter	\$ 60,000	\$124,937	—	—	—	\$ 15,371	\$200,308

(1) For Mr. Primis, this includes \$30,000 paid in 2012 for his service as Lead Independent Director during 2012.

The amounts in column (c) reflect the grant date fair value of the shares of restricted stock or deferred stock granted to each Director on May 31, 2012 equal to \$125,000 divided by the closing price of Common Stock as reported by the NYSE on the date of grant. The value was calculated based on the closing price of the Common Stock on the date of grant of \$139.75. Mr. Healy's stock award amount also includes his election to receive cash payments totaling \$60,000 in the form of deferred units.

(3)

The amounts in column (g) reflect dividends paid on restricted stock and deferred stock. Dividends on deferred stock are automatically reinvested in the plan as additional deferred stock. The number of shares of deferred stock is calculated based upon the closing price of the Common Stock on the dividend payment date.

Table of Contents

V. OFFICERS, STOCK OWNERSHIP AND OTHER INFORMATION

Executive and Senior Officers

The following biographical descriptions set forth information with respect to the executive and senior officers of the Company, based on information furnished to the Company by each officer. There is no family relationship between any director, nominee, or executive officer of the Company. Officers of the Company are elected annually at the first meeting of the Board of Directors following each annual meeting of stockholders. Each officer holds office until the first meeting of the Board of Directors following the next annual meeting of stockholders and until his or her successor is duly elected and qualifies or until his or her earlier death, resignation or removal in the manner provided in the Company's Bylaws.

The Board of Directors has determined that Messrs. Blair, Naughton, Sargeant, Birenbaum, Breslin, Horey, McLaughlin, Morris, O'Shea, Schulman, and Wilson, and Ms. Shea are executive officers of the Company within the meaning of Rules 3b-7 and 16a-1(f) of the Securities Exchange Act of 1934, as amended (the "Exchange Act").

Bryce Blair, 54, is currently the Company's Chairman of the Board and has been a director of the Company since May 2001. As previously announced, Mr. Blair has chosen not to stand for election as a director at the Annual Meeting. Mr. Blair served as the Company's Chairman of the Board since January 2002 and was Chief Executive Officer from February 2001 through December 2011 and President from September 2000 through February 2005. Mr. Blair was the Chief Operating Officer of the Company from February 1999 to February 2001. Prior to February 1999, Mr. Blair had served as Senior Vice President—Development, Acquisitions and Construction since the Merger, the same position he held with Avalon Properties from its formation in August 1993 through June 1998. Mr. Blair was a partner with the Northeast Group of TCR from 1985 until 1993. Mr. Blair received his Master's degree in Business Administration from Harvard Business School. He graduated magna cum laude with an undergraduate degree in Civil Engineering from the University of New Hampshire. He is a member of NAREIT, where he is past Chairman, and the ULI, where he is a past trustee and past Chairman of the Multifamily Council. Mr. Blair has been a member of the Board of Directors of Pulte Group, Inc. since 2011 and was formerly a member of the Board of Directors of CarrAmerica Realty Corporation from 2005 to 2006.

Timothy J. Naughton, 51, is the Company's Chief Executive Officer and President and has been a director of the Company since September 2005. The Board of Directors has voted to appoint Mr. Naughton to the additional position of Chairman of the Board following his election as a director at the Annual meeting. Mr. Naughton has served as Chief Executive Officer since January 2012 and President since February 2005. Previously, Mr. Naughton served as Chief Operating Officer since February 2001. Prior to assuming the Chief Operating Officer role, Mr. Naughton served as Senior Vice President—Chief Investment Officer since January 2000, overseeing the Company's investment strategy. Prior to becoming the Chief Investment Officer, Mr. Naughton served as the Company's Regional Vice President—Development and Acquisitions, with responsibility primarily in the Mid-Atlantic and Midwest regions of the country. Mr. Naughton has been with the Company or its predecessors since 1989. Mr. Naughton serves on the Board of Governors of NAREIT, is a member of The Real Estate Round Table, is a member and past chairman of the Multifamily Council of the ULI and is a member of the NMHC, where he serves on the Executive Committee. Mr. Naughton received his Masters of Business Administration from Harvard Business School in 1987 and earned his undergraduate degree in Economics with High Distinction from the University of Virginia, where he was elected to Phi Beta Kappa.

Thomas J. Sargeant, 54, has been Chief Financial Officer of the Company since the Merger. From March 1995 through June 1998, Mr. Sargeant served as the Chief Financial Officer and Secretary of Avalon Properties, and he was Treasurer of Avalon Properties from its formation in August 1993 through June 1998. Mr. Sargeant, a certified public accountant, is a magna cum laude graduate of the University of South Carolina, where he was elected to Phi Beta Kappa and the Honors College.

Matthew H. Birenbaum, 47, is the Company's Executive Vice President—Corporate Strategy, a position he has held since October 2011, with responsibility for coordinating the Company's brand and corporate strategies with its investment activities and providing leadership in setting overall portfolio allocation strategies. Prior to joining the Company in 2011, Mr. Birenbaum was the founding principal of Abbey Road Property Group, LLC, a multi-family development and investment firm based in Arlington, Virginia since 2006 and before that a Senior Vice President at EYA (formerly Eakin/Youngentob Associates). Prior to joining EYA in 2003, Mr. Birenbaum was a Regional Vice President of Development with the Company. Mr. Birenbaum received his Bachelor of Arts from Brown University, where he graduated *phi beta kappa*, and his Masters Degree from The Kellogg Graduate School of Management at Northwestern University, where he graduated with honors. He served as Treasurer of the L'Enfant Trust, a historic preservation group in Washington, DC, and is an active member of ULI, as well as being certified LEED-AP.

Table of Contents

Sean J. Breslin, 46, is the Company's Executive Vice President—Investments and Asset Management, with overall responsibility for the Company's investment platform, including acquisitions/dispositions, portfolio management and market research. Prior to assuming his current role in February 2010 he was the Senior Vice President—Redevelopment and Asset Management since 2008, and Senior Vice President—Investments from 2006 through 2007. Mr. Breslin joined the Company as Vice President—Investments in 2002 and prior to that was the Chief Operating Officer of CWS Capital Partners. He received his Bachelors Degree from California State University, Long Beach and his Masters of Business Administration from the University of Texas. Mr. Breslin is a member of the Executive Committee of NMHC and is Vice Chair of ULI's Multifamily Council. He is also a member of the Executive Committee of the Real Estate Finance & Investment Center at the University of Texas at Austin.

Leo S. Horey, 50, is the Company's Executive Vice President—Chief Administrative Officer. He has held this title since April 2012 and was Executive Vice President—Property Operations prior to that since January 2004. Mr. Horey was Senior Vice President—Property Operations from February 2001 through December 2003. Prior to assuming that office, Mr. Horey had served since the Merger as Regional Vice President—Property Operations. Prior to the Merger, Mr. Horey had served since 1994 as Vice President—Property Operations for Avalon Properties. Previously, Mr. Horey had worked for TCR since 1990. Mr. Horey received his Masters of Business Administration from the Kenan-Flagler Business School at the University of North Carolina at Chapel Hill, where he was a Richard H. Jenrette Fellow. He also holds a Bachelor of Science degree in Computer Science and Economics from Duke University.

William M. McLaughlin, 48, is the Company's Executive Vice President—Development & Construction. Prior to assuming his current title in February 2010 he was Senior Vice President—Development & Construction since 2009. He has been with the Company or its predecessors since 1994, and has also served as Senior Vice President—Development and Vice President—Development. Before joining the Company, Mr. McLaughlin was with Lincoln Property Company. Mr. McLaughlin received his Bachelors Degree in Economics from Harvard College in 1986.

Kevin P. O'Shea, 47, has been the Company's Executive Vice President—Capital Markets since January 2013. Prior to that he was Senior Vice President—Investment Management. Mr. O'Shea joined the Company in July 2003. Prior to joining the Company, Mr. O'Shea was an Executive Director at UBS Investment Bank, where his experience included real estate investment banking. Earlier in his career, Mr. O'Shea practiced commercial real estate and banking law as an attorney. Mr. O'Shea received his Masters Degree in Business Administration from Harvard Business School, his J.D. from Southern Methodist University and his undergraduate degree from Boston College.

Edward M. Schulman, 50, is the Company's Executive Vice President—General Counsel and Secretary. Mr. Schulman joined the Company in February 1999 and has served as General Counsel since that time. Prior to joining the Company he was a corporate and securities law partner at Goodwin Procter LLP. Mr. Schulman is a magna cum laude graduate of Harvard Law School and received his undergraduate degree in economics from Princeton University, where he graduated with high honors.

Stephen W. Wilson, 56, is the Company's Executive Vice President—Development & Construction. Prior to assuming his current title in February 2010, he was Senior Vice President—Development & Construction for the West Coast and Mid-Atlantic. Mr. Wilson has also served as Senior Vice President—Development and Vice President—Development. Prior to joining the Company in 1998, Mr. Wilson was a Senior Vice President and Chief Operating Officer for SU Development, Inc. of Bellevue, Washington and Senior Vice President of Continental Pacific, Inc. of Bellevue, Washington. Mr. Wilson received his B.A. in Business Administration (Accounting) from Washington State University. He is a member of ULI and The American Institute of Certified Public Accountants.

David Bellman, 57, is the Company's Senior Vice President—Construction. Mr. Bellman joined AvalonBay in 1998 and prior to that spent 16 years with Boston Properties. Mr. Bellman studied Engineering Administration at George Washington University and is a member of the New York City Builders Congress.

Kurt D. Conway, 53, is the Company's Senior Vice President—Brand Strategy. Mr. Conway joined the Company in August 2010. Prior to joining the Company, Mr. Conway held senior level marketing roles in multi-site hospitality and healthcare businesses. Most recently, he was Senior Vice President Sales, Marketing and Corporate Communications for Sunrise Senior Living from 2003 until 2010. Previously, he was a Senior Vice President of Sales and Marketing for Marriott International and also held senior level roles in Product Management and Marketing for ManorCare, Inc. Mr. Conway earned a Master's of Science degree from the University of Massachusetts and a Bachelor's of Business Administration from the University of Michigan.

Table of Contents

Deborah A. Coombs, 57, is the Company's Senior Vice President—Property Operations. Prior to joining the Company in 2003, Ms. Coombs was Area Vice President for the Southern California region of Equity Residential Property Management. From 1989 to 1994, Ms. Coombs was the Regional Director of Operations for Lexford Properties. She received her BA Degree in Education with Distinction from Purdue University.

Jonathan B. Cox, 55, is the Company's Senior Vice President—Development. Mr. Cox joined the Company in 2003 and has over 20 years of multifamily residential development experience, most recently prior to joining the Company as a Vice President with The Holladay Corporation. Mr. Cox graduated from Case Western Reserve University and has a Masters of Business Administration from the Wharton School.

Scott W. Dale, 54, is the Company's Senior Vice President—Development. Prior to joining the Company in 1998, Mr. Dale was the Regional Real Estate manager for General Motors Worldwide Real Estate. Mr. Dale holds a Bachelor of Science Degree in Civil Engineering from the University of Calgary. He also attended Boston University School of Management, from which he graduated Beta Gamma Sigma with a Masters Degree in Business Administration. He is an affiliated member of the Real Estate Investment Advisory Council, the ULI, and the Association of Professional Engineers of Ontario.

Ronald S. Ladell, 51, is the Company's Senior Vice President—Development. Prior to joining the Company in 2002, he was the Vice President for Business Development for Pinnacle Communities responsible for commercial and multifamily developments. Mr. Ladell also served as the Vice President, General Counsel and Director of Development for a restaurant and hotel franchisee developing, constructing and operating hotels and restaurants in the Northeast. Mr. Ladell received is JD from Rutgers School of Law-Newark and his BA from Rutgers College, Rutgers University.

Joanne M. Lockridge, 54, is the Company's Senior Vice President—Finance. Ms. Lockridge has been with the Company since the Merger, and prior to that with Avalon Properties since its formation in 1993. She earned her Masters in Finance degree from Fairfield University and her undergraduate degree, magna cum laude, from St. Anselm College.

J. Richard Morris, 53, has been the Company's Senior Vice President—Construction since February 2005. Mr. Morris has been with the Company since the Merger. He joined Avalon Properties in 1996 and prior to joining the Company worked for regional residential developers in the Mid-Atlantic area constructing numerous large residential communities. Mr. Morris graduated cum laude from West Virginia State University with a B.S. in Building Construction. He also completed graduate courses in Engineering Management at the West Virginia College of Graduate Studies. Mr. Morris is a member of the National Association of Home Builders, where he has served on subcommittees for Codes and Standards.

Christopher L. Payne, 43, is the Company's Senior Vice President—Development. Prior to joining the Company in 2000, Mr. Payne managed new development activity for Belmont Corp. in Southern California. Mr. Payne received a B.S. in Business Administration / Finance from California State University, Fullerton and a Masters in Real Estate Development from the University of Southern California.

Martin Piazzola, 53, joined the Company as a Senior Vice President—Development in 2011. Prior to joining the Company, Mr. Piazzola was Vice President for Lincoln Property Company responsible for identifying, underwriting, acquiring and developing residential projects in the New York area. Previously, Mr. Piazzola was Executive Vice President of The Clarett Group. He earned a Bachelor of Science degree in accounting at the State University of New York at Binghamton, an MBA in Finance from New York University, is certified as a CPA, and is a member of the Board of Governors of the Real Estate Board of New York.

Keri A. Shea, 43, has been the Company's Vice President—Finance & Treasurer since 2006, and since 2009 has also been designated as the Company's principal accounting officer. Ms. Shea joined the Company in 2002 as Assistant

Corporate Controller and was promoted to Corporate Controller in 2005. Prior to joining the Company, she most recently served as the Corporate Controller for two start-up technology companies in the Washington, D.C. area. Prior to that Ms. Shea was with Arthur Andersen LLP for eight years. She is a certified public accountant and has a B.B.A. in Accounting from the College of William & Mary.

Matthew T. Smith, 45, is the Company's Senior Vice President - Property Operations with responsibility for the East region. Mr. Smith joined AvalonBay concurrently with the closing of the Archstone Acquisition in February 2013. At Archstone he was the Executive Vice President of Operations for the East region from 2005 until 2013. Mr. Smith holds a BA in Economics and Urban Studies from the University of Pennsylvania and an MBA in Finance and Accounting from New York University.

Table of Contents**Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth the beneficial ownership of Common Stock as to (i) each person or entity who is known by the Company to have beneficially owned more than 5% of the Common Stock as of December 31, 2012 or, in the case of Jupiter Enterprise LP, February 27, 2013; (ii) each of the Company's directors and Nominees as of March 1, 2013; (iii) each of the Named Executive Officers as of March 1, 2013; and (iv) all directors and executive officers as a group as of March 1, 2013, based on representations of officers and directors of the Company and filings through March 2013 received by the Company on Schedule 13G under the Exchange Act. All such information was provided by the stockholders listed and reflects their beneficial ownership known by the Company. All percentages have been calculated as of March 1, 2013 and are based upon 129,346,679 shares of Common Stock outstanding at the close of business on such date (unless otherwise indicated).

Name and Business Address of Beneficial Owner(1)	Number of Shares of Common Stock Beneficially Owned(2)	Percent of Class (%)
Bryce Blair	251,119 (3)	*
Alan B. Buckelew	1,545	*
Bruce A. Choate	60,953 (4)	*
John J. Healy, Jr.	37,394 (5)	*
Leo S. Horey	84,956 (6)	*
William M. McLaughlin	118,529 (7)	*
Timothy J. Naughton	398,574 (8)	*
Lance R. Primis	10,484	*
Peter S. Rummell	7,305 (9)	*
Thomas J. Sargeant	178,207 (10)	*
H. Jay Sarles	14,075 (11)	*
W. Edward Walter	5,625 (12)	*
All current directors and executive officers as a group (18 persons)	1,299,647 (13)	0.01
Jupiter Enterprise LP. 1271 Avenue of the Americas, New York, NY 10020	14,889,706 (14)	11.51
The Vanguard Group, Inc. 100 Vanguard Blvd., Malvern, PA 19355	12,766,880 (15)	9.87
BlackRock, Inc. 40 East 52 nd Street, New York, NY 10022	9,198,229 (16)	7.11
Vanguard Specialized Funds-Vanguard REIT Index Fund 100 Vanguard Blvd., Malvern PA 19355	7,427,816 (17)	5.74
State Street Corporation. One Lincoln Street, Boston, MA 02111	6,036,359 (18)	4.67

*

Less than one percent

(1) The address for all directors and executive officers is AvalonBay Communities, Inc., Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, VA 22203.

(2) Except as otherwise noted, each individual in the table above has the sole voting and investment power over the shares listed.

(3) Includes 108,085 shares issuable upon the exercise of stock options that vest on or before May 1, 2013.

Includes (i) 41,331 shares issuable in the future under deferred stock awards granted to Mr. Choate in lieu of

(4) restricted stock awards pursuant to elections under the Stock Incentive Plan and (ii) 19,622 shares held jointly with spouse. As of the date of this proxy statement no shares are subject to any lien, pledge or margin.

- (5) Includes 36,076 shares issuable in the future under deferred stock awards granted to Mr. Healy in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.

45

Table of Contents

- (6) Includes 32,056 shares issuable upon the exercise of stock options that vest on or before May 1, 2013.
- (7) Includes (i) 65,917 shares issuable upon the exercise of stock options that vest on or before May 1, 2013, and (ii) 1,160 held in trust for minor children.
- (8) Includes 291,474 shares issuable upon the exercise of stock options that vest on or before May 1, 2013.
- (9) Includes 1,503 shares issuable in the future under deferred stock awards granted to Mr. Rummell in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.
- (10) Includes (i) 51,539 shares issuable upon the exercise of stock options that vest on or before May 1, 2013, (ii) 1,352 shares held by Mr. Sargeant's spouse, and (iii) 33,829 shares held in various trusts.
(11) All of such shares are held in a revocable trust.
- (12) Includes 2,298 shares issuable in the future under deferred stock awards granted to Mr. Walter in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.
- (13) Includes (i) 605,126 shares issuable upon the exercise of stock options that vest on or before May 1, 2013, (ii) 81,208 shares issuable in the future under deferred stock awards, and (iii) 34,989 shares held in trust.
The number of shares reported is based on a Schedule 13G filed on March 7, 2013 reporting beneficial ownership as of February 27, 2013 by Lehman Brothers Holdings Inc. The Schedule 13G indicates that the reporting entity holds sole voting power and sole dispositive power with respect to all reported shares. The Schedule 13G further reports that Jupiter Enterprise LP is managed by its general partner, Jupiter Enterprise GP LLC, which is managed
(14) by its managing member, Jupiter Multifamily JV LP. Jupiter Multifamily JV LP is managed by its general partner, Jupiter Multifamily (GP) LLC, which is managed by its general partner, Jupiter Multifamily (Governance) LLC. The Company issued these shares in connection with the Archstone Acquisition and entered into a Shareholders Agreement with Lehman Brothers Holdings, Inc., with respect to these shares, certain terms of which are described on page 14.
The number of shares reported is based on a Schedule 13GA filed on February 7, 2013 reporting beneficial
(15) ownership as of December 31, 2012. The schedule 13G indicates that the reporting entity holds sole voting power with respect to 366,883 shares, shared voting power with respect to 85,537 shares, sole dispositive power with respect to 12,766,880 shares, and shared dispositive power with respect to 293,942 shares.
The number of shares reported is based on a Schedule 13GA filed on February 4, 2013, reporting beneficial
(16) ownership as of December 31, 2012. The Schedule 13GA indicates that the reporting entity holds sole voting and dispositive power with respect to all reported shares.
The number of shares reported is based on Schedule 13GA filed with the SEC on February 14, 2013 reporting
(17) beneficial ownership as of December 31, 2012. The Schedule 13G also reports that the reporting entity holds sole voting power with respect to all reported shares.
The number of shares reported is based on a Schedule 13G filed with the SEC on February 8, 2013, reporting
(18) beneficial ownership as of December 31, 2012. The Schedule 13G indicates that the reporting entity holds shared voting and shared dispositive power with respect to all reported shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires persons who are officers of the Company as defined by Section 16, directors of the Company and persons who own more than 10% of a registered class of the Company's equity securities (collectively, "Insiders") to file reports of ownership and changes in ownership with the SEC and one national securities exchange on which such securities are registered. In accordance with Rule 16a-3(c) under the Exchange Act, the Company has designated the NYSE as the national securities exchange with which reports pursuant to Section 16(a) of the Exchange Act need to be filed. Insiders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on a review of copies of such reports and written representations that no other reports were required during the fiscal year ended December 31, 2012, all filing requirements applicable to the Insiders were timely satisfied with the exception of (i) a Form 4 filed on behalf of Mr. Blair reflecting an option exercise on February 27, 2012, that was filed on March 5, 2012, and (ii) a Form 4 filed on behalf of Mr. McLaughlin reflecting the cash out of a fractional share on June 7, 2012, and a sale of shares on August

16, 2012, that was filed on August 30, 2012.

46

Table of Contents

VI. OTHER MATTERS

Solicitation of Proxies

The cost of solicitation of proxies for the Annual Meeting will be paid by the Company. In addition to the solicitation of proxies by mail, the directors, officers and employees of the Company may also solicit proxies personally or by telephone without additional compensation for such activities. The Company will also request persons, firms, and corporations holding shares in their names or in the names of their nominees, which are beneficially owned by others, to send proxy materials to and obtain proxies from such beneficial owners. The Company will reimburse such holders for their reasonable expenses. The Company has engaged Morrow & Co., LLC, 470 West Ave, Stamford, CT 06902, a third party proxy solicitation firm. We anticipate that the cost of such third party proxy solicitation, which will be borne by the Company, will be approximately \$7,500 plus reasonable out-of-pocket expenses.

Stockholder Proposals for Annual Meetings

Stockholder proposals submitted pursuant to Exchange Act Rule 14a-8 for inclusion in the Company's proxy statement and form of proxy for the 2014 annual meeting of stockholders must be received by the Company by December 11, 2013. Such a proposal must also comply with the requirements as to form and substance established by the SEC for such a proposal to be included in the proxy statement and form of proxy.

In accordance with our Bylaws, as currently in effect, for a stockholder to nominate a director or for a proposal of a stockholder to be presented at the Company's 2014 annual meeting of stockholders, other than a stockholder proposal intended to be included in our proxy statement and submitted pursuant to Rule 14a-8 of the Exchange Act, a stockholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Company, together with all supporting documentation required by the Company's Bylaws, (A) not prior to November 11, 2013 nor later than 5:00 p.m., Eastern Time, on December 11, 2013 or (B) in the event that the date of the 2014 annual meeting is advanced or delayed by more than 30 days from May 22, 2014, (i) not earlier than the 150th day prior to the date of such meeting, and (ii) not later than 5:00 p.m., Eastern Time, on the later of (x) the 120th day prior to the date of such annual meeting or (y) the 10th day following the day on which public announcement of such annual meeting is first made. You may contact the Company's Secretary at the address mentioned below for a copy of the relevant Bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates. Any such proposals should be mailed to: AvalonBay Communities, Inc., Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, VA 22203, Attention: Secretary.

Appendix A

Text of Company Press Release on Nomination of Glyn F. Aeppel

ARLINGTON, VA (March 28, 2013) – AvalonBay Communities, Inc. (NYSE: AVB) announced today that its Board of Directors has nominated Glyn F. Aeppel to stand for election to the company’s Board of Directors at its upcoming Annual Meeting of Stockholders, to be held on May 22, 2013. Ms. Aeppel, 54, is president and chief executive officer of Glencove Capital, a hotel investment and advisory company she founded in June 2010. Ms. Aeppel has more than 25 years of experience in property acquisitions, development and financing, including executive positions with Andre Balazs Properties and Loews Hotels.

“AvalonBay will benefit from Glyn’s substantial experience in many facets of the real estate business,” said Timothy J. Naughton, CEO, who has been appointed Chairman of the Board effective following his re-election to the Board at the Annual Meeting. Added Lance Primis, Lead Independent Director, “Glyn will add an additional independent voice to our Board, and we look forward to working with her.”

Please take a moment now to authorize a proxy to vote these shares of AvalonBay Communities, Inc. common stock at the 2013 Annual Meeting of Stockholders.

**AVALONBAY
COMMUNITIES,
INC.
BALLSTON
TOWER
671 N. GLEBE
ROAD, SUITE 800
ARLINGTON, VA
22203**

**YOU CAN AUTHORIZE A PROXY TO VOTE
THESE SHARES TODAY IN ONE OF THREE WAYS:**

BY INTERNET—www.proxyvote.com

Use the Internet to authorize your proxy and transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE STOCKHOLDER COMMUNICATIONS

If you would like to reduce the costs incurred by AvalonBay Communities, Inc. in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to authorize your proxy using the Internet and, when prompted, indicate that you agree to receive or access stockholder communications electronically in future years.

BY PHONE - 1-800-690-6903

Use any touch-tone telephone to authorize your proxy and transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you call and then follow the instructions.

BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to AvalonBay Communities, Inc., c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. If you vote these shares by internet or telephone you do NOT need to mail this proxy card

TO VOTE,
MARK BLOCKS
BELOW IN
BLUE OR
BLACK INK AS
FOLLOWS:

M56425-P36626 KEEP THIS PORTION FOR YOUR RECORDS
DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

**AVALONBAY
COMMUNITIES, INC.**

**For Withhold For All
All All Except**

To withhold authority to vote for any individual nominee(s), mark "For All Except" and write the number(s) of the nominee(s) on the line below.

**THE BOARD OF DIRECTORS
RECOMMENDS A VOTE "FOR"
PROPOSALS 1, 2, 3 and 4.**

o o o

To elect the following eight individuals to serve until the 2013

1. Annual Meeting of Stockholders and until their respective successors are elected and qualify:

01) Glyn F. Aeppel	06) Lance R. Primis
02) Alan B. Buckelew	07) Peter S. Rummell
03) Bruce A. Choate	08) H. Jay Sarles W.
04) John J. Healy, Jr.	09) Edward Walter
05) Timothy J. Naughton	

For Against Abstain

2. To ratify the selection of Ernst & Young LLP as the Company's independent auditors for the year ending December 31, 2013 o o o

3. To adopt a resolution approving, on a non-binding advisory basis, the compensation paid to the Company's Named Executive Officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion set forth in the proxy statement. o o o

4. To approve an amendment to the Company's Amended and Restated Articles of Amendment, as amended, to increase the number of authorized shares of the Company's common stock, par value \$.01 per share, by 140 million shares. o o o

5. In addition, the proxies are authorized to vote and otherwise represent the undersigned on any other matter that may properly come before the Annual Meeting or any adjournment or postponement thereof in the discretion of the proxy holder.

If you vote by mail, you must date, sign and return this card in order for these shares to be voted.

Yes No

Yes No

HOUSEHOLDING

ELECTION—Please indicate if
you consent to receive certain ☐ ☐
future investor
communications in a single
package per household.

Please indicate if you plan to attend this ☐ ☐
meeting.

Please sign exactly as your name appears on this card
and date. When signing as attorney, executor,
administrator, trustee, guardian, officer of a
corporation or other entity or in another representative
capacity, please give your full title. If shares are held
jointly, each holder should sign.

Signature [PLEASE SIGN WITHIN BOX]

Signature (Joint Owners) Date

Important Notice Regarding the Availability of Proxy Materials for the Annual Meeting:

The Notice, Proxy Statement and Annual Report to Stockholders are available at www.proxyvote.com.

M56426-P36626

AVALONBAY COMMUNITIES, INC.

2013 ANNUAL MEETING OF STOCKHOLDERS, MAY 22, 2013, 9:00 A.M. EASTERN TIME

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

PROXY

The undersigned stockholder of AvalonBay Communities, Inc., a Maryland corporation (the “Company”), hereby appoints Timothy J. Naughton and Thomas J. Sargeant, and each of them, as proxies for the undersigned, each with full power of substitution, to attend the Annual Meeting of Stockholders of the Company (the “Annual Meeting”), to be held at the offices of the Company, Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, VA 22203 on May 22, 2013, 9:00 a.m. Eastern Time, and any adjournments or postponements thereof, to cast on behalf of the undersigned all votes that the undersigned is entitled to cast at the Annual Meeting and otherwise to represent the undersigned with all of the powers the undersigned would possess if personally present at the Annual Meeting. The undersigned hereby acknowledges receipt of the Notice of the Annual Meeting of Stockholders and of the Proxy Statement, the terms of each of which are incorporated herein by reference, and revokes any proxy heretofore given with respect to the Annual Meeting.

IF THIS PROXY IS PROPERLY EXECUTED, THE VOTES ENTITLED TO BE CAST BY THE UNDERSIGNED WILL BE CAST AS DIRECTED HEREIN, BUT IF THIS PROXY IS EXECUTED AND NO INSTRUCTIONS ARE SPECIFIED, THE VOTES ENTITLED TO BE CAST BY THE

UNDERSIGNED WILL BE CAST “FOR” EACH OF THE NOMINEES FOR DIRECTOR IN PROPOSAL 1 AND “FOR” PROPOSALS 2, 3, AND 4. IF ANY OTHER BUSINESS IS PRESENTED AT THE ANNUAL MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF, INCLUDING WHETHER OR NOT TO ADJOURN THE ANNUAL MEETING, THE VOTES ENTITLED TO BE CAST BY THE UNDERSIGNED WILL BE CAST BY THE PROXIES IN THEIR DISCRETION. AT THE PRESENT TIME, THE BOARD OF DIRECTORS IS NOT AWARE OF ANY OTHER BUSINESS TO BE PRESENTED AT THE ANNUAL MEETING. THIS PROXY ALSO CONFERS DISCRETIONARY AUTHORITY ON THE PROXIES TO VOTE WITH RESPECT TO THE ELECTION OF ANY INDIVIDUAL AS DIRECTOR WHERE ONE OR MORE NOMINEES ARE UNABLE TO SERVE, OR FOR GOOD CAUSE WILL NOT SERVE, AND WITH RESPECT TO MATTERS INCIDENTAL TO THE CONDUCT OF THE ANNUAL MEETING. STOCKHOLDERS WHO PLAN TO ATTEND THE ANNUAL MEETING MAY REVOKE THEIR PROXY BY CASTING THEIR VOTE AT THE ANNUAL MEETING IN PERSON.

**SEE REVERSE PLEASE COMPLETE, DATE, SIGN AND PROMPTLY MAIL SEE REVERSE
SIDE THIS PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE SIDE**