Investments in Consolidated Real Estate Entities

In the third quarter of 2010, a lender ran a competitive bid process to sell a $26,000 non-recourse mortgage note secured by a Fund I operating community for which the underlying real estate asset had an estimated fair value of approximately $30,000. The Company participated in the bidding and purchased the note on an arms length basis for $24,000. The note pays interest-only through the maturity date of October 2014 at a stated interest rate of 6.06%. Subsequent to acquisition, the Company modified certain terms of the mortgage note, including (i) conforming the original principal balance to the Company's purchase price, (ii) modifying the interest payment terms to require remittance of interest based on available cash flow with any deficiency in the monthly payment amount accruing to the principal due on the note, and (iii) modifying certain terms to help eliminate any potential conflicts between the Company and Fund I, such as removing any prepayment penalty.

Upon acquisition of the note, the Company determined that it had control of the Fund I subsidiary, as a result of its collective equity and debt investments, the relationship between the Company and Fund I, and the nature of the Company's operations being more similar to those of the Fund I subsidiary than those of Fund I. Therefore, the Company consolidated the results of operations and net assets of the Fund I subsidiary. The Fund I subsidiary was consolidated at fair value, determined using a discounted cash flow analysis on the expected cash flows of the underlying community. This analysis used of estimated rates of return, capitalization rates, estimated holding periods and estimated sales proceeds, all of which are considered significant other unobservable inputs and are therefore classified as Level 3 prices in the fair value hierarchy.

7. Real Estate Disposition Activities

During the year ended December 31, 2010, the Company sold three wholly-owned communities and an office building that previously served as the Company's corporate office for an aggregate gross sales price of $198,600. These dispositions resulted in a gain in accordance with GAAP of approximately $71,399.

Details regarding the real estate sales are summarized in the following table:

Community Name	Location	Period of sale	Apartment homes	Debt	Gross sales price	Net proceeds
Avalon at Danada Farms	Wheaton, IL	Q110	295	$ --	$ 45,450	$ 43,712
Avalon Knoll	Germantown, MD	Q110	300	--	37,500	36,403
Avalon on the Sound	New Rochelle, NY	Q210	412	--	107,500	105,943
2900 Eisenhower Avenue	Alexandria, VA	Q410	N/A	--	8,150	7,951
Total of all 2010 asset sales			1,007	$ --	$ 198,600	$ 194,009
Total of all 2009 asset sales			1,037	$ --	$ 179,675	$ 176,481
Total of all 2008 asset sales			3,059	$ 43,715	$ 564,950	$ 503,377

The operations for any real estate assets sold from January 1, 2008 through December 31, 2010 and the real estate assets that qualified as discontinued operations and held for sale as of December 31, 2010 have been presented as such in the accompanying Consolidated Financial Statements. Accordingly, certain reclassifications have been made to prior years to reflect discontinued operations consistent with current year presentation.

The following is a summary of income from discontinued operations for the periods presented:

	For the year ended		
	12-31-10	12-31-09	12-31-08
Rental income	$ 4,259	$ 35,561	$ 68,941
Operating and other expenses	(1,951)	(12,417)	(22,691)
Interest expense, net	--	(681)	(3,297)
Depreciation expense	(371)	(9,026)	(16,186)
Income from discontinued operations	$ 1,937	$ 13,437	$ 26,767

The Company does not have any assets or liabilities related to real estate assets classified as Held for Sale at December 31, 2010. The Company's Consolidated Balance Sheets include other assets (excluding net real estate) of $2,431 as of December 31, 2009. The Company had other liabilities of $2,734 as of December 31, 2009, relating to real estate assets sold or classified as held for sale.

Also in 2010, the Company reported gains of $2,675 relating to two prior year dispositions. As part of the disposition of these assets, the Company provided the purchaser with indemnifications related to certain litigation matters. Gain recognition occurred in conjunction with the settlement of the associated legal matters in 2010, relieving the Company of its obligation under the respective indemnifications.

8. Commitments and Contingencies

Employment Agreements and Arrangements

As of December 31, 2010, the Company had employment agreements with four executive officers. The employment agreements provide for severance payments and generally provide for accelerated vesting of stock options and restricted stock in the event of a termination of employment (except for a termination by the Company with cause or a voluntary termination by the employee). The current terms of these agreements end on dates that vary between December 2011 and November 2012. The employment agreements provide for one-year automatic renewals (two years in the case of the Chief Executive Officer ("CEO")) after the initial term unless an advance notice of non-renewal is provided by either party. Upon a notice of non-renewal by the Company, each of the officers may terminate his employment and receive a severance payment. Upon a change in control, the agreements provide for an automatic extension of up to three years from the date of the change in control. The employment agreements provide for base salary and incentive compensation in the form of cash awards, stock options and stock grants subject to the discretion of, and attainment of performance goals established by, the Compensation Committee of the Board of Directors.

The Company's stock incentive plan, as described in Note 10, "Stock-Based Compensation Plans," provides that upon an employee's Retirement (as defined in the plan documents) from the Company, all outstanding stock options and restricted shares of stock held by the employee will vest, and the employee will have up to 12 months to exercise any options held upon retirement. Under the plan, Retirement means a termination of employment and other business relationships, other than for cause, after attainment of age 50, provided that (i) the employee has worked for the Company for at least 10 years, (ii) the employee's age at Retirement plus years of employment with the Company equals at least 70, (iii) the employee provides at least six months written notice of his intent to retire, and (iv) the employee enters into a one year non-compete and employee non-solicitation agreement.

The Company also has an Officer Severance Program (the "Program") for the benefit of those officers of the Company who do not have employment agreements. Under the Program, in the event an officer who is not otherwise covered by a severance arrangement is terminated (other than for cause) within two years following a change in control (as defined) of the Company, such officer will generally receive a cash lump sum payment equal to the sum of such officer's base salary and cash bonus, as well as accelerated vesting of stock options and restricted stock. Costs related to the Company's employment agreements and the Program are deferred and recognized over the requisite service period when considered by management to be probable and estimable.

Construction and Development Contingencies

In 2007 the Company entered into a commitment to acquire parcels of land in Brooklyn, New York for an aggregate purchase price of approximately $111,000 subject to escalations based on the timing of the acquisitions. Under the terms of the commitment, the Company is closing on the various parcels over a period determined by the seller's ability to execute unrelated purchase transactions and achieve deferral of tax gains for the land sold under this commitment. However, under no circumstances will the commitment extend beyond 2011, at which time either the Company or the seller can compel execution of the remaining transactions. At December 31, 2010, the Company has an outstanding commitment to purchase the remaining land for approximately $49,979.