

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

	12-31-10	12-31-09
ASSETS		
Real estate:		
Land	\$ 1,344,946	\$ 1,249,236
Buildings and improvements	6,618,559	5,980,423
Furniture, fixtures and equipment	203,852	185,395
	8,167,357	7,415,054
Less accumulated depreciation	(1,705,566)	(1,474,147)
Net operating real estate	6,461,791	5,940,907
Construction in progress, including land	309,704	531,299
Land held for development	184,150	237,095
Operating real estate assets held for sale, net	--	124,186
Total real estate, net	6,955,645	6,833,487
Cash and cash equivalents	306,426	105,691
Cash in escrow	173,343	210,676
Resident security deposits	22,289	23,646
Investments in unconsolidated real estate entities	121,537	74,570
Deferred financing costs, net	33,284	34,531
Deferred development costs	77,253	87,763
Prepaid expenses and other assets	131,711	87,241
Total assets	<u>\$ 7,821,488</u>	<u>\$ 7,457,605</u>
LIABILITIES AND EQUITY		
Unsecured notes, net	\$ 1,820,141	\$ 1,658,029
Variable rate unsecured credit facility	--	--
Mortgage notes payable	2,247,516	2,316,843
Dividends payable	76,676	72,773
Payables for construction	34,433	49,623
Accrued expenses and other liabilities	246,591	232,964
Accrued interest payable	32,248	35,069
Resident security deposits	34,030	33,646
Liabilities related to real estate assets held for sale	--	2,734
Total liabilities	<u>4,491,635</u>	<u>4,401,681</u>
Redeemable noncontrolling interests	14,262	5,797
Stockholders' equity:		
Preferred stock, \$0.01 par value; \$25 liquidation preference; 50,000,000 shares authorized at December 31, 2010 and December 31, 2009; zero shares issued and outstanding at December 31, 2010 and December 31, 2009	--	--
Common stock, \$0.01 par value; 140,000,000 shares authorized at both December 31, 2010 and December 31, 2009; 85,899,080 and 81,528,957 shares issued and outstanding at December 31, 2010 and December 31, 2009, respectively	859	815
Additional paid-in capital	3,593,677	3,200,367
Accumulated earnings less dividends	(282,743)	(149,988)
Accumulated other comprehensive loss	(1,175)	(1,067)
Total stockholders' equity	<u>3,310,618</u>	<u>3,050,127</u>
Noncontrolling interests	4,973	--
Total equity	<u>3,315,591</u>	<u>3,050,127</u>
Total liabilities and equity	<u>\$ 7,821,488</u>	<u>\$ 7,457,605</u>

See accompanying notes to Consolidated Financial Statements.

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

	For the year ended		
	12-31-10	12-31-09	12-31-08
Revenue:			
Rental and other income	\$ 887,912	\$ 843,779	\$ 807,196
Management, development and other fees	7,354	7,328	6,568
Total revenue	895,266	851,107	813,764
Expenses:			
Operating expenses, excluding property taxes	269,946	261,333	248,396
Property taxes	93,388	83,702	73,839
Interest expense, net	175,209	150,323	114,910
(Gain) loss on extinguishment of debt, net	--	25,910	(1,839)
Depreciation expense	232,571	209,260	183,266
General and administrative expense	26,846	28,748	42,781
Impairment loss - land holdings	--	21,152	57,899
Total expenses	797,960	780,428	719,252
Equity in income of unconsolidated entities	762	1,441	4,566
Gain on sale of land	--	4,830	--
Income from continuing operations	98,068	76,950	99,078
Discontinued operations:			
Income from discontinued operations	1,937	13,437	26,767
Gain on sale of communities	74,074	63,887	284,901
Total discontinued operations	76,011	77,324	311,668
Net income	174,079	154,274	410,746
Net loss attributable to noncontrolling interests	1,252	1,373	741
Net income attributable to the Company	175,331	155,647	411,487
Dividends attributable to preferred stock	--	--	(10,454)
Net income attributable to common stockholders	\$ 175,331	\$ 155,647	\$ 401,033
Other comprehensive income:			
Unrealized gain (loss) on cash flow hedges	(108)	1,865	434
Comprehensive income	\$ 175,223	\$ 157,512	\$ 401,467
Earnings per common share - basic:			
Income from continuing operations attributable to common stockholders (net of dividends attributable to preferred stock)	\$ 1.18	\$ 0.98	\$ 1.16
Discontinued operations attributable to common stockholders	0.90	0.96	4.05
Net income attributable to common stockholders	\$ 2.08	\$ 1.94	\$ 5.21
Earnings per common share - diluted:			
Income from continuing operations attributable to common stockholders, net of preferred stock dividends	\$ 1.17	\$ 0.97	\$ 1.15
Discontinued operations attributable to common stockholders	0.90	0.96	4.02
Net income attributable to common stockholders	\$ 2.07	\$ 1.93	\$ 5.17

See accompanying notes to Consolidated Financial Statements.

AVALONBAY COMMUNITIES, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Dollars in thousands)

	Shares issued		Preferred stock	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total AvalonBay stockholders' equity	Noncontrolling interests	Total equity
	Preferred stock	Common stock								
Balance at December 31, 2007	4,000,000	77,318,611	\$ 40	\$ 773	\$3,026,708	\$ 1,566	\$ (3,366)	\$ 3,025,721	\$ --	\$3,025,721
Net income attributable to the Company	--	--	--	--	--	411,487	--	411,487	--	411,487
Unrealized gain on cash flow hedges	--	--	--	--	--	--	434	434	--	434
Change in redemption value of noncontrolling interest	--	--	--	--	--	12,095	--	12,095	--	12,095
Dividends declared to common and preferred stockholders	--	--	--	--	--	(423,118)	--	(423,118)	--	(423,118)
Issuance of common stock	--	323,085	--	3	5,838	(185)	--	5,656	--	5,656
Purchase of common stock	--	(521,733)	--	(5)	(18,086)	(24,068)	--	(42,159)	--	(42,159)
Redemption of preferred stock	(4,000,000)	--	(40)	--	(96,425)	--	--	(96,465)	--	(96,465)
Amortization of deferred compensation	--	--	--	--	22,464	--	--	22,464	--	22,464
Balance at December 31, 2008	--	77,119,963	-	771	2,940,499	(22,223)	(2,932)	2,916,115	--	2,916,115
Net income attributable to the Company	--	--	--	--	--	155,647	--	155,647	--	155,647
Unrealized gain on cash flow hedges	--	--	--	--	--	--	1,865	1,865	--	1,865
Change in redemption value of noncontrolling interest	--	--	--	--	--	3,373	--	3,373	--	3,373
Dividends declared to common stockholders	--	--	--	--	--	(287,983)	--	(287,983)	--	(287,983)
Issuance of common stock, net of withholdings	--	4,408,994	--	44	245,676	1,198	--	246,918	--	246,918
Amortization of deferred compensation	--	--	--	--	14,192	--	--	14,192	--	14,192
Balance at December 31, 2009	--	81,528,957	-	815	3,200,367	(149,988)	(1,067)	3,050,127	--	3,050,127
Net income	--	--	--	--	--	175,331	--	175,331	928	176,259
Unrealized gain (loss) on cash flow hedges	--	--	--	--	--	--	(108)	(108)	--	(108)
Change in redemption value of noncontrolling interest	--	--	--	--	--	(5,573)	--	(5,573)	--	(5,573)
Consolidation of noncontrolling interests	--	--	--	--	--	--	--	--	4,045	4,045
Dividends declared to common stockholders	--	--	--	--	--	(302,518)	--	(302,518)	--	(302,518)
Issuance of common stock, net of withholdings	--	4,370,123	--	44	380,924	5	--	380,973	--	380,973
Amortization of deferred compensation	--	--	--	--	12,386	--	--	12,386	--	12,386
Balance at December 31, 2010	--	85,899,080	\$ -	\$ 859	\$3,593,677	\$ (282,743)	\$ (1,175)	\$ 3,310,618	\$ 4,973	\$3,315,591

See accompanying notes to Consolidated Financial Statements.

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

	For the year ended		
	12-31-10	12-31-09	12-31-08
Cash flows from operating activities:			
Net income	\$ 174,079	\$ 154,274	\$ 410,746
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation expense	232,571	209,260	183,266
Depreciation expense from discontinued operations	371	9,026	16,186
Amortization of deferred financing costs and debt premium/discount	7,723	8,139	5,892
Amortization of stock-based compensation	5,938	6,098	11,888
Equity in income of unconsolidated entities, net of eliminations	1,852	(810)	(3,436)
Impairment loss - land holdings	--	21,152	57,899
Abandonment of development pursuits	--	2,461	9,428
(Gain) loss on extinguishment of debt, net	--	25,910	(1,839)
Gain on sale of real estate assets	(74,074)	(68,717)	(284,901)
(Increase) decrease in cash in operating escrows	(4,996)	(2,434)	3,054
(Increase) decrease in resident security deposits, prepaid expenses and other assets	(15,234)	2,391	(5,673)
Increase (decrease) in accrued expenses, other liabilities and accrued interest payable	3,876	11,850	(16,426)
Net cash provided by operating activities	<u>332,106</u>	<u>378,600</u>	<u>386,084</u>
Cash flows from investing activities:			
Development/redevelopment of real estate assets including land acquisitions and deferred development costs	(429,853)	(560,155)	(881,503)
Capital expenditures - existing real estate assets	(16,772)	(11,114)	(15,534)
Capital expenditures - non-real estate assets	(420)	(834)	(5,290)
Proceeds from sale of real estate, net of selling costs	194,009	189,417	529,777
Increase (decrease) in payables for construction	(15,190)	(14,740)	(27,018)
Decrease in cash in construction escrows	42,329	77,754	126,611
Acquisition of mortgage note	(24,000)	--	--
(Increase) decrease in investments in unconsolidated real estate entities	(49,039)	(13,887)	6,648
Net cash used in investing activities	<u>(298,936)</u>	<u>(333,559)</u>	<u>(266,309)</u>
Cash flows from financing activities:			
Issuance of common stock	381,365	108,860	7,433
Repurchase of common stock	--	--	(42,159)
Redemption of preferred stock	--	--	(100,000)
Dividends paid	(298,090)	(283,710)	(278,795)
Net repayments under unsecured credit facility	--	(124,000)	(390,500)
Issuance of mortgage notes payable and draws on construction loans	--	741,140	697,046
Repayments of mortgage notes payable	(69,327)	(65,229)	(67,442)
Issuance of unsecured notes	250,000	500,000	330,000
Repayment of unsecured notes	(89,576)	(868,564)	(219,050)
Payment of deferred financing costs	(6,524)	(12,523)	(9,491)
Redemption of units for cash by minority partners	--	(202)	(1,756)
Distributions to DownREIT partnership unitholders	(61)	(57)	(216)
Distributions to joint venture and profit-sharing partners	(222)	--	(181)
Net cash provided by (used in) financing activities	<u>167,565</u>	<u>(4,285)</u>	<u>(75,111)</u>
Net increase in cash and cash equivalents	200,735	40,756	44,664
Cash and cash equivalents, beginning of year	<u>105,691</u>	<u>64,935</u>	<u>20,271</u>
Cash and cash equivalents, end of year	<u>\$ 306,426</u>	<u>\$ 105,691</u>	<u>\$ 64,935</u>
Cash paid during the year for interest, net of amount capitalized	<u>\$ 157,014</u>	<u>\$ 168,651</u>	<u>\$ 110,290</u>

See accompanying notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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

During the year ended December 31, 2010:

- 102,984 shares of common stock valued at \$7,777 were issued in connection with stock grants; 5,687 shares valued at \$525 were issued through the Company's dividend reinvestment plan; 48,882 shares valued at \$4,203 were withheld to satisfy employees' tax withholding and other liabilities; 1,300 shares valued at \$39 were forfeited, 25 shares valued at \$3 were issued in exchange for DownREIT OP units and 61,055 shares valued at \$3,322 were issued to two former members of the Company's Board of Directors in fulfillment of deferred stock awards, for a net value of \$7,385. In addition, the Company granted 126,484 options for common stock at a value of \$2,460.
- The Company recorded a decrease to prepaid expenses and other assets and a corresponding decrease to other comprehensive income of \$108 and recorded an increase of \$1,737 to prepaid expenses and other assets with a corresponding offset to unsecured notes, net, to record the impact of the Company's hedge accounting activity (as described in Note 5, "Derivative Instruments and Hedging Activities").
- Common dividends declared but not paid totaled \$76,676.
- The Company recorded an increase of \$5,573 in redeemable noncontrolling interests with a corresponding increase to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units. For further discussion of the nature and valuation of these items, see Note 11, "Fair Value."
- The Company recognized \$4,045 in noncontrolling interests in conjunction with the consolidation of a Fund I subsidiary. See Note 6, "Investments in Real Estate Entities" for further discussion.

During the year ended December 31, 2009:

- 2,624,641 shares of common stock valued at \$139,058 were issued as part of the special dividend declared in the fourth quarter of 2008, 169,851 shares of common stock valued at \$8,360 were issued in connection with stock grants, 11,172 shares valued at \$651 were issued through the Company's dividend reinvestment plan, 33,186 shares valued at \$1,517 were withheld to satisfy employees' tax withholding and other liabilities and 1,031 shares valued at \$147 were forfeited, for a net value of \$146,405. In addition, the Company granted 344,801 options for common stock at a value of \$2,252.
- The Company recorded a decrease to other liabilities and a corresponding gain to other comprehensive income of \$1,865 to record the impact of the Company's hedge accounting activity.
- Common dividends declared but not paid totaled \$72,773.
- The Company recorded a decrease of \$3,373 in redeemable noncontrolling interests with a corresponding increase to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units.
- The Company obtained \$93,440 in variable rate tax-exempt bond financing related to a Development Right, the proceeds of which will be held in escrow until requisitioned for construction funding. This loan provides an option for the Company to request an additional construction loan of up to \$83,560 subject to the lender's discretion.

During the year ended December 31, 2008:

- 130,325 shares of common stock valued at \$11,646 were issued in connection with stock grants, 5,703 shares valued at \$458 were issued through the Company's dividend reinvestment plan, 24,407 shares valued at \$1,357 were issued to a retiring member of the Board of Directors in fulfillment of deferred stock awards, 39,633 shares valued at \$3,483 were withheld to satisfy employees' tax withholding and other liabilities and 1,101 shares valued at \$109 were forfeited, for a net value of \$9,869. In addition, the Company granted 401,212 options for common stock at a value of \$3,976.
- The Company recorded a decrease to other liabilities and a corresponding gain to other comprehensive income of \$434 to record the impact of the Company's hedge accounting activity.
- The Company issued \$135,000 of variable rate debt relating to Avalon Walnut Creek. The proceeds were placed in an escrow account until requisitioned for construction funding and no amounts were drawn in 2008 for use in the development of the community.
- Common and preferred dividends declared but not paid totaled \$208,209.
- The Company recorded a decrease of \$12,095 in redeemable noncontrolling interests with a corresponding increase to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units.