UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

Commission file number 1-12672

AVALONBAY COMMUNITIES, INC.

(Exact name of registrant as specified in its charter)

Maryland	**77-0404318**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Ballston Tower

671 N. Glebe Rd, Suite 800

Arlington, Virginia 22203

(Address of principal executive offices, including zip code)

(703) 329-6300

(Registrant s telephone number, including area code)

(Former name, if changed since last report)

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

Yes x No o

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

Yes x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer (Do not check if a smaller reporting company) o	Smaller reporting company o

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

Yes o No x

APPLICABLE ONLY TO CORPORATE ISSUERS

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

129,402,894 shares of common stock, par value $0.01 per share, were outstanding as of July 31, 2013

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AVALONBAY COMMUNITIES, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

		6-30-13 (unaudited)		12-31-12
ASSETS				
Real estate:				
Land	$	3,310,543	$	1,430,532
Buildings and improvements		11,249,812		7,112,763
Furniture, fixtures and equipment		325,288		254,378
		14,885,643		8,797,673
Less accumulated depreciation		(2,326,132)		(2,021,703)
Net operating real estate		12,559,511		6,775,970
Construction in progress, including land		1,146,805		802,857
Land held for development		409,930		316,037
Operating real estate assets held for sale, net				120,256
Total real estate, net		14,116,246		8,015,120
Cash and cash equivalents		111,147		2,733,618
Cash in escrow		94,400		50,033
Resident security deposits		27,886		24,748
Investments in unconsolidated real estate entities		365,521		129,352
Deferred financing costs, net		35,726		38,700
Deferred development costs		37,260		24,665
Prepaid expenses and other assets		183,999		143,842
Total assets	$	14,972,185	$	11,160,078
LIABILITIES AND EQUITY				
Unsecured notes, net	$	1,846,113	$	1,945,798
Variable rate unsecured credit facility		142,000		
Mortgage notes payable		3,865,206		1,905,235
Dividends payable		138,456		110,966
Payables for construction		84,984		53,677
Accrued expenses and other liabilities		224,189		223,651
Accrued interest payable		39,735		33,056
Resident security deposits		48,225		38,328
Liabilities related to real estate assets held for sale				1,547
Total liabilities		6,388,908		4,312,258
Redeemable noncontrolling interests		19,514		7,027
Equity:				
Preferred stock, $0.01 par value; $25 liquidation preference; 50,000,000 shares authorized at both June 30, 2013 and December 31, 2012; zero shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively				
Common stock, $0.01 par value; 280,000,000 shares authorized at June 30, 2013 and 140,000,000 shares authorized at December 31, 2012; 129,398,867 and 114,403,472 shares issued and outstanding at June 30, 2013 and December 31, 2012, respectively		1,294		1,144
Additional paid-in capital		8,972,852		7,086,407
Accumulated earnings less dividends		(308,938)		(142,329)
Accumulated other comprehensive loss		(105,042)		(108,007)

Total equity		8,560,166		6,837,215
Noncontrolling interest		3,597		3,578
Total equity		8,563,763		6,840,793
Total liabilities and equity	$	14,972,185	$	11,160,078

See accompanying notes to Condensed Consolidated Financial Statements.

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AVALONBAY COMMUNITIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF

COMPREHENSIVE INCOME

(unaudited)

(Dollars in thousands, except per share data)

	For the three months ended		For the six months ended	
	6-30-13	6-30-12	6-30-13	6-30-12
Revenue:				
Rental and other income	$ 386,321	$ 249,675	$ 694,415	$ 491,501
Management, development and other fees	2,913	2,770	5,185	5,319
Total revenue	389,234	252,445	699,600	496,820
Expenses:				
Operating expenses, excluding property taxes	90,056	66,751	163,748	130,788
Property taxes	42,038	24,528	74,753	48,171
Interest expense, net	43,169	33,191	81,342	66,814
Loss on extinguishment of debt, net				1,179
Depreciation expense	196,106	63,224	305,280	124,137
General and administrative expense	11,345	8,316	21,384	18,026
Expensed acquisition, development, and other pursuit costs	3,768	901	43,827	1,141
Total expenses	386,482	196,911	690,334	390,256
Equity in income (loss) of unconsolidated entities	(940)	2,073	(19,503)	4,248
Gain on sale of land	240	280	240	280
Income (loss) from continuing operations	2,052	57,887	(9,997)	111,092
Discontinued operations:				
Income from discontinued operations	363	3,885	3,394	8,289
Gain on sale of real estate assets	33,682	95,049	118,173	95,049
Total discontinued operations	34,045	98,934	121,567	103,338
Net income	36,097	156,821	111,570	214,430
Net loss attributable to noncontrolling interests	121	88	78	237
Net income attributable to common stockholders	$ 36,218	$ 156,909	$ 111,648	$ 214,667
Other comprehensive income:				
Unrealized gain (loss) on cash flow hedges		(27,798)		(16,789)
Cash flow hedge losses reclassified to earnings	1,574		2,965	
Comprehensive income	$ 37,792	$ 129,111	$ 114,613	$ 197,878
Earnings per common share - basic:				
Income (loss) from continuing operations attributable to common stockholders	$ 0.02	$ 0.61	$ (0.08)	$ 1.17

Discontinued operations attributable to common stockholders		0.26		1.03		0.98		1.08
Net income attributable to common stockholders	$	0.28	$	1.64	$	0.90	$	2.25
Earnings per common share - diluted:								
Income (loss) from continuing operations attributable to common stockholders	$	0.02	$	0.60	$	(0.08)	$	1.16
Discontinued operations attributable to common stockholders		0.26		1.03		0.97		1.08
Net income attributable to common stockholders	$	0.28	$	1.63	$	0.89	$	2.24
Dividends per common share:	$	1.07	$	0.97	$	2.14	$	1.94

See accompanying notes to Condensed Consolidated Financial Statements.

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AVALONBAY COMMUNITIES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)

(Dollars in thousands)

	For the six months ended	
	6-30-13	**6-30-12**
Cash flows from operating activities:		
Net income	$ 111,570	$ 214,430
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation expense	305,280	124,137
Depreciation expense from discontinued operations	875	4,194
Amortization of deferred financing costs and debt (premium) discount	(8,390)	3,040
Amortization of stock-based compensation	3,581	4,268
Equity in (income) loss of, and return on, unconsolidated entities and noncontrolling interests, net of eliminations	33,134	(3,182)
Loss on extinguishment of debt, net		1,781
Gain on sale of real estate assets	(118,413)	(95,329)
Gain on sale of joint venture real estate assets	(10,824)	
Increase in cash in operating escrows	(8,291)	(1,988)
Increase in resident security deposits, prepaid expenses and other assets	(43,499)	(20,732)
(Increase) decrease in accrued expenses, other liabilities and accrued interest payable	2,188	(8,151)
Net cash provided by operating activities	267,211	222,468
Cash flows from investing activities:		
Development/redevelopment of real estate assets including land acquisitions and deferred development costs	(591,894)	(341,144)
Acquisition of real estate assets, including partnership interest	(749,275)	(37,105)
Capital expenditures - existing real estate assets	(1,986)	(6,606)
Capital expenditures - non-real estate assets	(2,721)	(588)
Proceeds from sale of real estate, net of selling costs	432,380	182,225
Increase in payables for construction	31,307	6,582
Decrease in cash in construction escrows		1,697
(Increase) decrease in investments in unconsolidated real estate entities	(2,161)	2,188
Net cash used in investing activities	(884,350)	(192,751)
Cash flows from financing activities:		
Issuance of common stock	2,605	175,682
Dividends paid	(249,267)	(177,322)
Net borrowings under unsecured credit facility	142,000	
Issuance of mortgage notes payable	71,210	
Repayments of mortgage notes payable, including prepayment penalties	(1,786,130)	(103,621)
Settlement of interest rate contract	(51,000)	
Repayment of unsecured notes	(100,000)	(179,400)
Payment of deferred financing costs and issuance discounts	(524)	(123)
Acquisition of joint venture partner equity interest	(1,965)	(3,350)
Redemption of preferred interest obligation	(32,086)	
Distributions to DownREIT partnership unitholders	(16)	(15)
Distributions to joint venture and profit-sharing partners	(159)	(158)

Net cash used by financing activities		(2,005,332)		(288,307)
Net decrease in cash and cash equivalents		(2,622,471)		(258,590)
Cash and cash equivalents, beginning of period		2,733,618		616,853
Cash and cash equivalents, end of period	$	111,147	$	358,263
Cash paid during the period for interest, net of amount capitalized	$	75,648	$	62,012

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

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

During the six months ended June 30, 2013:

- As described in Note 4, Equity, 14,889,706 shares of common stock valued at $1,875,210,000 were issued as partial consideration for the Archstone Acquisition (as defined in this Form 10-Q); 123,977 shares of common stock valued at $16,019,000 were issued in connection with stock grants; 1,030 shares valued at $140,000 were issued through the Company s dividend reinvestment plan; 44,222 shares valued at $5,638,000 were withheld to satisfy employees tax withholding and other liabilities; and 5,214 shares valued at $516,000 previously issued in connection with employee compensation were cancelled upon forfeiture. In addition, the Company granted 215,230 options for common stock at a value of $5,768,000.

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

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

- The Company recorded $13,262,000 in redeemable noncontrolling interests associated with consolidated joint ventures acquired as part of the Archstone Acquisition. The Company also recorded an increase of $329,000 in redeemable noncontrolling interest with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put option held by a joint venture partner and DownREIT partnership units. For further discussion of the nature and valuation of these items, see Note 11, Fair Value.

- The Company assumed secured indebtedness with a principal amount of $3,512,202,000 in conjunction with the Archstone Acquisition, discussed further in Note 3, Notes Payable, Unsecured Notes and Credit Facility. The Company also assumed an obligation related to outstanding preferred interests of approximately $66,500,000, included in accrued expenses and other liabilities, and discussed further in Note 5, Archstone Acquisition.

During the six months ended June 30, 2012:

- 95,941 shares of common stock valued at $12,786,000 were issued in connection with stock grants; 1,336 shares valued at $180,000 were issued through the Company s dividend reinvestment plan; 120,078 shares valued at $15,458,000 were withheld to satisfy employees tax withholding and other liabilities; and 7,558 shares and options valued at $393,000 previously issued in connection with employee compensation were cancelled upon forfeiture. In addition, the Company granted 113,804 options for common stock at a value of $3,306,000.

- The Company recorded an increase to other liabilities and a corresponding decrease to other comprehensive income of $16,789,000; and recorded a decrease to prepaid expenses and other assets of $11,000, with a corresponding offset to the basis of unsecured notes, net to record the impact of the Company s hedge accounting activity.

- Common dividends declared but not paid totaled $93,698,000.

- The Company recorded an increase of $521,000 in redeemable noncontrolling interests with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put option held by a joint venture partner and DownREIT partnership units.

- The Company assumed a 4.61% coupon fixed rate mortgage loan with an outstanding balance of $11,958,000 in conjunction with the acquisition of The Mark Pasadena.

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AVALONBAY COMMUNITIES, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(unaudited)

1. Organization, Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

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

At June 30, 2013, excluding real estate investments owned through the Residual JV discussed in this Form 10-Q, the Company owned or held a direct or indirect ownership interest in 246 operating apartment communities containing 73,564 apartment homes in 12 states and the District of Columbia, of which six communities containing 2,248 apartment homes were under reconstruction. In addition, the Company owned or held a direct or indirect ownership interest in 27 communities under construction that are expected to contain an aggregate of 7,935 apartment homes when completed. The Company also owned or held a direct or indirect ownership interest in land or rights to land in which the Company expects to develop an additional 47 communities that, if developed as expected, will contain an estimated 13,649 apartment homes.

The interim unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements required by GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited financial statements should be read in conjunction with the financial statements and notes included in the Company s 2012 Annual Report on Form 10-K. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the operating results for the full year. Management believes the disclosures are adequate to ensure the information presented is not misleading. In the opinion of management, all adjustments and eliminations, consisting only of normal, recurring adjustments necessary for a fair presentation of the financial statements for the interim periods, have been included.

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

Earnings per Common Share

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

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	For the three months ended		For the six months ended	
	6-30-13	6-30-12	6-30-13	6-30-12
Basic and diluted shares outstanding				
Weighted average common shares - basic	129,179,471	95,308,163	124,456,232	95,082,172
Weighted average DownREIT units outstanding	7,500	7,500	7,500	7,500
Effect of dilutive securities	408,428	677,162	415,931	730,531
Weighted average common shares - diluted	129,595,399	95,992,825	124,879,663	95,820,203
Calculation of Earnings per Share - basic				
Net income attributable to common stockholders	$ 36,218	$ 156,909	$ 111,648	$ 214,667
Net income allocated to unvested restricted shares	(59)	(547)	(193)	(845)
Net income attributable to common stockholders, adjusted	$ 36,159	$ 156,362	$ 111,455	$ 213,822
Weighted average common shares - basic	129,179,471	95,308,163	124,456,232	95,082,172
Earnings per common share - basic	$ 0.28	$ 1.64	$ 0.90	$ 2.25
Calculation of Earnings per Share - diluted				
Net income attributable to common stockholders	$ 36,218	$ 156,909	$ 111,648	$ 214,667
Add: noncontrolling interests of DownREIT unitholders in consolidated partnerships, including discontinued operations	8	7	16	13
Adjusted net income attributable to common stockholders	$ 36,226	$ 156,916	$ 111,664	$ 214,680
Weighted average common shares - diluted	129,595,399	95,992,825	124,879,663	95,820,203
Earnings per common share - diluted	$ 0.28	$ 1.63	$ 0.89	$ 2.24

Certain options to purchase shares of common stock in the amounts of 606,318 and 424,357 were outstanding at June 30, 2013 and 2012, respectively, but were not included in the computation of diluted earnings per share because such options were anti-dilutive.

The Company is required to estimate the forfeiture of stock options and recognize compensation cost net of the estimated forfeitures. The estimated forfeitures included in compensation cost are adjusted to reflect actual forfeitures at the end of the vesting period. The forfeiture rate at June 30, 2013 is based on the average forfeiture activity over a period equal to the estimated life of the stock options, and was 1.2%. The application of estimated forfeitures did not materially impact compensation expense for the three and six months ended June 30, 2013 or 2012.

Derivative Instruments and Hedging Activities

The Company enters into interest rate swap and interest rate cap agreements (collectively, the Hedging Derivatives) for interest rate risk management purposes and in conjunction with certain variable rate secured debt to satisfy lender requirements. The Company does not enter into derivative transactions for trading or other speculative purposes. The Company assesses both at inception and on an on-going basis, the effectiveness of qualifying cash flow and fair value hedges. Hedge ineffectiveness is reported as a component of general and administrative expenses. The fair values of the Hedging Derivatives that are in an asset position are recorded in prepaid expenses and other assets. The fair value of the Hedging Derivatives that are in a liability position are included in accrued expenses and other liabilities. Fair value changes for derivatives that are not in qualifying hedge relationships are reported as a component of interest expense, net. For the derivative positions that the Company has determined qualify as effective cash flow hedges, the Company has recorded the effective portion of cumulative changes in the fair value of the Hedging Derivatives in other comprehensive income. Amounts recorded in other comprehensive income will be reclassified into earnings in the periods in which earnings are affected by the hedged cash flow. The effective portion of the change in fair value of the Hedging Derivatives that the Company has determined qualified as effective fair value hedges is reported as an adjustment to the carrying amount of the corresponding debt being hedged.

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Legal and Other Contingencies

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

Acquisitions of Investments in Real Estate

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

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to amounts in prior period financial statements to conform to current period presentations.

2. Interest Capitalized

The Company capitalizes interest during the development and redevelopment of real estate assets. Capitalized interest associated with the Company s development or redevelopment activities totaled $16,824,000 and $12,625,000 for the three months ended June 30, 2013 and 2012, respectively, and $29,963,000 and $24,945,000 for the six months ended June 30, 2013 and 2012, respectively.

3. Notes Payable, Unsecured Notes and Credit Facility

The Company s mortgage notes payable, unsecured notes and Credit Facility, as defined below, as of June 30, 2013 and December 31, 2012, are summarized below (dollars in thousands). The following amounts and discussion do not include the mortgage notes related to the communities classified as held for sale, if any, as of June 30, 2013 and December 31, 2012, as shown in the Condensed Consolidated Balance Sheets (see Note 7, Real Estate Disposition Activities).

	6-30-13	12-31-12
Fixed rate unsecured notes (1)	$ 1,850,000	$ 1,950,000
Fixed rate mortgage notes payable - conventional and tax-exempt (2)	2,714,321	1,427,133
Variable rate mortgage notes payable - conventional and tax-exempt(2)	1,011,709	476,935
Total notes payable and unsecured notes	5,576,030	3,854,068
Credit Facility	142,000	
Total mortgage notes payable, unsecured notes and Credit Facility	$ 5,718,030	$ 3,854,068

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(1) Balances at June 30, 2013 and December 31, 2012 exclude $3,887 and $4,202, respectively, of debt discount as reflected in unsecured notes on the Company s Condensed Consolidated Balance Sheets.

(2) Balances at June 30, 2013 and December 31, 2012 exclude $139,175 and $1,167, respectively of debt premium as reflected in mortgage notes payable on the Company s Condensed Consolidated Balance Sheets.

The following debt activity occurred during the six months ended June 30, 2013:

- In February 2013, as a portion of the consideration for the Archstone Acquisition, the Company assumed $3,512,202,000 consolidated principal amount of Archstone s existing secured indebtedness, repaying $1,477,720,000 principal amount of the indebtedness assumed concurrent with the closing of the Archstone Acquisition.
- In March 2013, the Company repaid $100,000,000 of its 4.95% medium term notes in accordance with the scheduled maturity.
- In April 2013, the Company obtained a 3.06% fixed rate, secured mortgage note in the amount of $15,000,000 that matures in April 2018.
- In April 2013, the Company repaid a 4.69% fixed rate, secured mortgage note in the amount of $170,125,000 pursuant to its scheduled maturity date.
- In May 2013, the Company repaid a $5,393,000 fixed rate secured mortgage note with an interest rate of 5.55% at par and without penalty in advance of its July 2028 scheduled maturity date.
- In May 2013, the Company obtained a 3.08% fixed rate secured mortgage note that matures in May 2020 in the amount of $56,210,000, in association with the refinancing of an existing $47,000,000 variable rate secured mortgage note.
- In May 2013, the Company repaid a $52,806,000 fixed rate secured mortgage note with an interest rate of 5.24% pursuant to its scheduled maturity date.

The Company has a $1,300,000,000 revolving variable rate unsecured credit facility with a syndicate of banks (the Credit Facility) which matures in April 2017. The Company has the option to extend the maturity by up to one year for a fee of $1,950,000. The Credit Facility bears interest at varying levels based on the London Interbank Offered Rate (LIBOR), rating levels achieved on our unsecured notes and on a maturity schedule selected by us. The current stated pricing is LIBOR plus 1.05% (1.24% at June 30, 2013). The annual facility fee is approximately $1,950,000 annually based on the $1,300,000,000 facility size and based on our current credit rating.

The Company had $142,000,000 and $0 of borrowings outstanding under the Credit Facility and had $54,485,000 and $44,883,000 outstanding in letters of credit that reduced the borrowing capacity as of June 30, 2013 and December 31, 2012, respectively.

In the aggregate, secured notes payable mature at various dates from April 2014 through July 2066, and are secured by certain apartment communities and improved land parcels (with a net carrying value of $4,761,224,000, excluding communities classified as held for sale, as of June 30, 2013).

As of June 30, 2013, the Company has guaranteed approximately $400,290,000 of mortgage notes payable by wholly owned subsidiaries; all such mortgage notes payable are consolidated for financial reporting purposes. The weighted average interest rate of the Company s fixed rate mortgage notes payable (conventional and tax-exempt) was 4.7% and 5.8% at June 30, 2013 and December 31, 2012, respectively. The weighted average interest rate of the Company s variable rate mortgage notes payable and its Credit Facility, including the effect of certain financing related fees, was 2.4% and 2.7% at June 30, 2013 and December 31, 2012, respectively.

Scheduled payments and maturities of mortgage notes payable and unsecured notes outstanding at June 30, 2013 are as follows (dollars in thousands):

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2013	$ 9,723	$	$	
2014	19,608		150,000	5.375%
2015	18,358	904,014		
2016	19,708	16,255	250,000	5.750%
2017	20,865	710,491	250,000	5.700%
2018	20,200	76,759		
2019	8,761	610,813		
2020	7,934	50,825	250,000	6.100%
2021	7,779	27,844	250,000	3.950%
2022	8,242		450,000	2.950%
Thereafter	89,800	1,098,051	250,000	2.850%
	$ 230,978	$ 3,495,052	$ 1,850,000	

(1) Secured note payments are comprised of the principal pay downs for amortizing mortgage notes.

The Company was in compliance at June 30, 2013 with certain customary financial and other covenants under the Credit Facility and the Company s unsecured notes.

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4. Equity

The following summarizes the changes in stockholders equity for the six months ended June 30, 2013 (dollars in thousands):

	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total AvalonBay stockholders equity	Noncontrolling interests	Total equity
Balance at December 31, 2012	$ 1,144	$ 7,086,407	$ (142,329)	$ (108,007)	$ 6,837,215	$ 3,578	$ 6,840,793
Net income attributable to common stockholders			111,648		111,648		111,648
Cash flow hedge loss reclassified to earnings				2,965	2,965		2,965
Change in redemption value of redeemable noncontrolling interest			(329)		(329)		(329)
Noncontrolling interests income allocation						19	19
Dividends declared to common stockholders			(276,894)		(276,894)		(276,894)
Issuance of common stock, net of withholdings	150	1,872,418	(1,034)		1,871,534		1,871,534
Amortization of deferred compensation		14,027			14,027		14,027
Balance at June 30, 2013	$ 1,294	$ 8,972,852	$ (308,938)	$ (105,042)	$ 8,560,166	$ 3,597	$ 8,563,763

During the six months ended June 30, 2013, the Company:

(i) issued 30,118 shares of common stock in connection with stock options exercised;

(ii) issued 1,030 common shares through the Company s dividend reinvestment plan;

(iii) issued 123,977 common shares in connection with stock grants;

(iv) withheld 44,222 common shares to satisfy employees tax withholding and other liabilities;

(v) cancelled 5,214 shares of restricted common stock upon forfeiture; and

(vi) issued 14,889,706 common shares in connection with the closing of the Archstone Acquisition.

With respect to the 14,889,706 common shares issued in conjunction with the Archstone Acquisition to Lehman (as defined below), the Company and Lehman entered into a shareholders agreement (the Shareholders Agreement). Under the Shareholders Agreement, until February 27, 2014 Lehman will vote all of its shares of the Company s common stock in accordance with the recommendation of the Company s board of directors on any matter other than an extraordinary transaction. After February 14, 2014, and for so long as Lehman holds more than 5% of the Company s common stock, Lehman will vote all of its shares of the Company s common stock (i) in accordance with the recommendations of the Company s 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 shareholders, either proportionately in accordance with the votes of the other shareholders or, at its election, in accordance with the recommendation of the Company s board of directors; and (iii) on all other matters, in its sole and absolute discretion. In May 2013, Lehman sold 7,870,000 of the Company s common shares it received as consideration for the Archstone Acquisition. Lehman received all of the net proceeds from the offering, and the sale did not impact the total number of the Company s common shares outstanding.

In addition, during the six months ended June 30, 2013 the Company granted 215,230 options for common stock to employees. Any deferred compensation related to the Company s stock option and restricted stock grants during the six months ended June 30, 2013 is not reflected on the Company s Condensed Consolidated Balance Sheet as of June 30, 2013, and will not be reflected until earned as compensation cost.

In August 2012, the Company commenced a third continuous equity program (CEP III), under which the Company is authorized to sell up to $750,000,000 of shares of its common stock from time to time during a 36-month period. The Company had no sales under CEP III during the six months ended June 30, 2013, and has $646,274,000 of shares that remain authorized for issuance under this program as of June 30, 2013.

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5. Archstone Acquisition

On February 27, 2013, pursuant to an asset purchase agreement (the Purchase Agreement) dated November 26, 2012, by and among the Company, Equity Residential and its operating partnership, ERP Operating Limited Partnership (together, Equity Residential), Lehman Brothers Holdings, Inc. (Lehman , which term is sometimes used in this report to refer to Lehman Brothers Holdings, Inc., and/or its relevant subsidiary or subsidiaries), and Archstone Enterprise LP (Archstone, which has since changed its name to Jupiter Enterprise LP), the Company, together with Equity Residential, acquired, directly or indirectly, all of Archstone s assets, including all of the ownership interests in joint ventures and other entities owned by Archstone, and assumed Archstone s liabilities, both known and unknown, with certain limited exceptions.

Under the terms of the Purchase Agreement, the Company acquired approximately 40% of Archstone s assets and liabilities and Equity Residential acquired approximately 60% of Archstone s assets and liabilities (the Archstone Acquisition). The Company accounted for the acquisition as a business combination and recorded the purchase price to acquired tangible assets consisting primarily of direct and indirect interests in land and related improvements, buildings and improvements, construction in progress and identified intangible assets and liabilities, consisting primarily of the value of above and below market leases, and the value of in-places leases, at their fair values. The following table summarizes the Company s preliminary purchase price allocation:

		Acquisition Date Preliminary Fair Value (dollars in thousands)
Land and land improvements	$	1,760,100
Buildings and improvements		3,729,422
FF&E		52,290
Construction-in-progress, including land and land held for development		404,765
In-place lease intangibles		182,467
Other assets		85,829
Total consolidated assets	$	6,214,873
Interest in unconsolidated real estate entities		256,454
Total assets	$	6,471,327
Fair value of assumed mortgage notes payable		3,732,980
Liability for preferred obligations		66,500
Other liabilities		34,100
Noncontrolling interest		13,262
Net Assets Acquired		2,624,485
Common shares issued		1,875,210
Cash consideration	$	749,275

The allocation of the fair values to the assets acquired and liabilities assumed is subject to further adjustment due primarily to information not readily available at the acquisition date, additional market information and final purchase price settlement with the sellers and Equity Residential in accordance with the terms of the Purchase Agreement. The Company s assessment of the fair values and the allocation of the purchase price to the identified tangible and intangible assets and assumed liabilities is its current best estimate of fair value.

The Company engaged a third party valuation specialist to assist in the determination of the fair value of each of the component parts of the operating communities, consisting of land and land improvements, buildings and improvements, furniture, fixtures and equipment, above and below market leases and in-place lease-related intangibles.

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Land valuation was based on a market approach, whereby recent sales of similar properties were used, adjusted for differences due to location, the state of entitlement as well as the shape and size of the parcel. Improvements to the land were valued using a replacement cost approach and considered the structures and amenities included for the communities. The approach applied industry standard replacement costs adjusted for geographic specific considerations, and reduced by estimated depreciation. The value for furniture, fixtures and equipment was also determined based on a replacement cost approach, adjusted for estimated depreciation. The FF&E value estimate considered both costs for items in the apartment homes, such as appliances and furnishings, and those for common areas such as exercise facilities and on site offices. The estimate of depreciation was made considering industry standard information and depreciation curves for the identified asset classes. The fair value of buildings acquired was estimated using the replacement cost approach, assuming the buildings were vacant at acquisition. The replacement cost approach considered the composition of structures in the acquired portfolio, adjusted for an estimate of depreciation. If the operating community is held in an unconsolidated joint venture, the Company valued its interest in the operating community based on its ownership interest.

The value of the acquired lease-related intangibles considered the estimated cost of leasing the apartment homes as if the acquired buildings were vacant, as well as the value of the current leases relative to market-rate leases. The in-place lease value was determined using an average total lease-up time, the number of apartment homes and net revenues generated during the lease-up time. The lease-up period for an apartment community was assumed to be 12 months to achieve stabilized occupancy. Net revenues were developed using market rent considering actual leasing and industry rental rate data. The value of current leases relative to a market-rate lease was based on market rents obtained for market comparables, and considered a market derived discount rate.

The Company is applying a weighted average depreciation period for the in-place lease intangibles of six months. During the three and six months ended June 30, 2013, the Company recognized $93,726,000 and $124,601,000, respectively, of depreciation expense for in-place lease intangibles, recorded as a component of Depreciation expense on the accompanying Condensed Consolidated Statements of Comprehensive Income.

The Company used an internal model to determine the fair value for the development land parcels acquired. The internal model applied a discounted cash flow analysis on the expected cash flows for each land parcel as if the expected multifamily rental community is constructed. The cash flow analysis incorporated assumptions that market participants would make, including the application of (i) discount factors to the estimated future cash flows of the underlying asset, (ii) a compound annual growth rate for the revenue from the operating community, and (iii) an exit capitalization rate.

The Company valued the Development Communities under construction and/or in lease-up using either the invested capital basis, or an internal model, depending on the stage of construction completion. For Development Communities earlier in the construction process and not yet in lease-up, invested capital was the relevant metric and was considered reflective of the fair value of the community. For Development Communities that either had completed construction or that were substantially complete with construction and in lease-up, the Company used a capitalization rate model. The capitalization rate model considered the pro-forma NOI for the Development Community, relative to NOI for comparable operating communities, with adjustments for the location and/or quality of the community. A capitalization rate was applied to each Development Community s NOI which was based on a relevant capitalization rate observed in comparable acquisition or disposition transactions, if available, as adjusted by the Company for differences in fundamentals between the Development Community and the referenced comparable transactions.

Given the significance of unobservable inputs, the Company has classified the valuations of the real estate assets acquired as Level 3 prices under the fair value hierarchy.

Other assets acquired consisted primarily of working capital determined by the Company to be reflective of the fair value.

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During the six months ended June 30, 2013, the Company recognized $77,939,000 in acquisition related expenses associated with the Archstone Acquisition, with $34,552,000 reported as a component of Equity in income (loss) of unconsolidated entities, and the balance in Expensed acquisition, development, and other pursuit costs on the accompanying Condensed Consolidated Statements of Comprehensive Income.

Consideration

Pursuant to the Purchase Agreement and separate arrangements between the Company and Equity Residential governing the allocation of liabilities assumed under the Purchase Agreement, the Company s portion of consideration under the Purchase Agreement, consisted of the following:

- the issuance of 14,889,706 shares of the Company s common stock, valued at $1,875,210,000 as of the market s close on February 27, 2013;
- a cash payment of approximately $749,000,000;
- the assumption of consolidated indebtedness with a fair value of approximately $3,732,979,000, consisting of $3,512,202,000 principal amount of consolidated indebtedness and $220,777,000 representing the amount by which fair value of the aforementioned debt exceeds the principal face value, $70,479,000 of which related to debt the Company repaid concurrent with the Archstone Acquisition;
- the acquisition with Equity Residential of interests in entities that have preferred units outstanding some of which may be presented for redemption from time to time. The Company s 40% share of the fair value of the collective obligation, including accrued dividends on these outstanding Archstone preferred units as of the closing date of the Archstone Acquisition, is approximately $66,500,000; and
- the assumption with Equity Residential of all other liabilities, known or unknown, of Archstone, other than certain excluded liabilities. The Company shares approximately 40% of the responsibility for these liabilities.

The Company valued the assumed mortgage notes payable using a discounted cash flow analysis that incorporated assumptions that market participants would use. This analysis reflects the contractual terms of the instrument, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The process also considered credit valuation adjustments to appropriately reflect the Company s nonperformance risk. The Company has concluded that the value of the assumed mortgage notes payable are Level 2 prices as the majority of the inputs used to value its positions fall within Level 2 of the fair value hierarchy.

The Company valued its obligation under the preferred units outstanding based on the current liquidation price of the respective preferred unit series, including accrued but unpaid dividends as appropriate. During the three months ended June 30, 2013, the Company paid approximately $32,100,000 to redeem its proportionate share of a portion of the preferred interest obligations assumed in conjunction with the Archstone Acquisition. The Company used the pricing for the settlement as the fair value at February 27, 2013.

The following table presents information for Archstone that is included in our Condensed Consolidated Statement of Comprehensive Income from the acquisition date, February 27, 2013, through June 30, 2013 (in thousands).

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		For the period including February 28, 2013 through June 30, 2013
Revenues	$	140,196
Loss attributable to common shareholders (1)	$	(91,137)

(1) Amounts exclude acquisition costs for the Archstone Acquisition.

The following table presents the Company s supplemental consolidated pro forma information as if the acquisition had occurred on January 1, 2012 (in thousands, except per share amounts):

		For the six months ended June 30, 2013		For the six months ended June 30, 2012
Revenues	$	771,547	$	695,464
Income (loss) from continuing operations		198,262		(24,486)
Earnings (loss) per common share - diluted (from continuing operations)	$	1.53	$	(0.19)

The unaudited proforma consolidated results are prepared for informational purposes only, and are based on assumptions and estimates considered appropriate by the Company s management. However, they are not necessarily indicative of what the Company s consolidated financial condition or results of operations actually would have been assuming the Archstone Acquisition had occurred on January 1, 2012, nor do they purport to represent the consolidated financial position or results of operations for future periods.

Investments in Archstone Consolidated Entities

In connection with the Archstone Acquisition, the Company entered into a limited liability company agreement with Equity Residential to acquire and own directly and indirectly certain Archstone entities (the Archstone Legacy Entities) which hold indirect interests in real estate assets, including 16 of the 60 of the consolidated communities acquired by the Company. As of June 30, 2013, the Archstone Legacy Entities have outstanding preferred interests held by unrelated third parties with an aggregate liquidation preference of approximately $90,000,000 (including accrued but unpaid distributions), which are generally subject to redemption at the election of the holders of such interests. One of the Archstone Legacy Entities previously entered into tax protection arrangements with the holders of certain of the preferred interests, which arrangements may limit for varying periods of time the Company s and Equity Residential s ability to dispose of the properties held indirectly by the Archstone Legacy Entities or to refinance certain related indebtedness, without making payments to the holders of such preferred interests. Pursuant to this LLC agreement, the Company has agreed to bear 40% of the economic cost of these preferred redemption obligations, and the tax protection payments that may arise from our disposition or refinancing of properties of the Archstone Legacy Entities that were contributed to a subsidiary that will be consolidated by the Company. The fair value of the Company s proportionate share of preferred redemption obligations of approximately $36,000,000 is recorded as a component of Accrued expenses and other liabilities on the accompanying Condensed Consolidated Balance Sheets. As part of the Archstone Acquisition, the Company and Equity Residential have agreed with Lehman and Archstone to require the acquired Archstone Legacy Entities to have sufficient funds available to honor their redemption obligations and to make any payments under its tax protection arrangements, when they may become due. The principal assets indirectly held by the limited liability company that acquired the Archstone Legacy Entities are interests in a subsidiary of the Company s (the AvalonBay Legacy Subsidiary) and a subsidiary of Equity Residential, each of which subsidiaries acquired certain properties formerly owned by the Archstone Legacy Entities. The Company consolidates the assets, liabilities and results of operations of the AvalonBay Legacy Subsidiary.

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Investments in Archstone Unconsolidated Entities

In conjunction with the Archstone Acquisition, the Company acquired interests in the following entities:

- *Archstone Multifamily Partners AC LP (the Archstone U.S. Fund)* The Archstone U.S. Fund was formed in July 2011 and is fully invested. As of June 30, 2013, the Archstone U.S. Fund owns nine communities containing 1,728 apartment communities, one of which includes a marina containing 229 boat slips. Through subsidiaries the Company owns the general partner of the fund and holds a 28.6% interest in the fund.

Subsidiaries of the Archstone U.S. Fund have eight loans secured by individual assets with amounts outstanding in the aggregate of $330,516,000 with varying maturity dates, ranging from 2019 to 2022. The mortgage loans are payable by the subsidiaries of the Archstone U.S. Fund with operating cash flow or disposition proceeds from the underlying real estate. The Company has not guaranteed the debt of the Archstone U.S. Fund, nor does it have any obligation to fund this debt should the Archstone U.S. Fund be unable to do so.

- *Archstone Multifamily Partners AC JV LP (the AC JV)* The AC JV is a joint venture in which the Company assumed Archstone s 20% ownership interest. The AC JV was formed in 2011 and as of June 30, 2013 owned two apartment communities containing 818 apartment homes in Cambridge, MA and Herndon, VA. The AC JV partnership agreement contains provisions that require the Company to provide a right of first offer (ROFO) to the AC JV in connection with additional opportunities to acquire or develop additional interests in multifamily real estate assets within a specified geographic radius of the two existing assets, generally one mile or less. The Company owns two land parcels for the development of 444 apartment homes, classified as Development Rights in Cambridge, MA, acquired as part of the Archstone Acquisition that are subject to ROFO restrictions. The ROFO restrictions expire in 2019.

As of June 30, 2013, subsidiaries of the AC JV have eight unsecured loans outstanding in the aggregate of $162,300,000 which mature in July 2021, and which were made by the investors in the venture, including us, in proportion to the investors respective equity ownership interest. The unsecured loans are payable by the subsidiaries of the AC JV with operating cash flow from the venture. The Company has not guaranteed the debt of the AC JV, nor does it have any obligation to fund this debt should the AC JV be unable to do so.

- *Brandywine Apartments of Maryland, LLC (Brandywine)* Brandywine owns a 305 apartment home community located in Washington, DC. The community is managed by a third party. Brandywine is comprised of five members who hold various interests in the joint venture. In conjunction with the Archstone Acquisition, the Company assumed a 26.1% equity interest in the venture, and subsequently purchased an additional 2.6% interest such that as of June 30, 2013, the Company now holds a 28.7% equity interest in the venture.

Brandywine has an outstanding $25,000,000 fixed rate mortgage loan that is payable by the venture. The Company has not guaranteed the debt of Brandywine, nor does the Company have any obligation to fund this debt should Brandywine be unable to do so.

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• Additionally, through subsidiaries the Company and Equity Residential entered into three limited liability company agreements (collectively, the Residual JV) through which the Company and Equity Residential acquired (i) certain assets of Archstone that the Company and Equity Residential plan to divest (to third parties or to the Company or Equity Residential) over time (the Residual Assets), and (ii) various liabilities of Archstone that the Company and Equity Residential agreed to assume in conjunction with the Archstone Acquisition (the Residual Liabilities). The Residual Assets include interests in apartment communities in Germany (including through a fund which Archstone managed), a 20.0% interest in a joint venture which owns and manages six apartment communities with 1,902 apartment homes in the United States, two land parcels, and various licenses, insurance policies, contracts, office leases and other miscellaneous assets. The Residual Liabilities generally include most existing or future litigation and claims related to Archstone s operations for periods before the close of the Archstone Acquisition, except for (i) claims that principally relate to the physical condition of the assets acquired directly by the Company or Equity Residential, which generally remain the sole responsibility of the Company or Equity Residential, as applicable, and (ii) certain tax and other litigation between Archstone and various equity holders in Archstone related to periods before the close of the Archstone Acquisition, and claims which may arise due to changes in the capital structure of Archstone that occurred prior to closing, for which Lehman has agreed to indemnify the Company and Equity Residential. The Company and Equity Residential jointly control the Residual JV and the Company holds a 40% economic interest in the assets and liabilities of the Residual JV.

6. Investments in Real Estate Entities

Investment in unconsolidated entities

As of June 30, 2013, including the interests in joint ventures acquired in the Archstone Acquisition, and excluding interest in the Residual JV, the Company had investments in seven unconsolidated real estate entities with ownership interest percentages ranging from 15.2% to 31.3%. The Company accounts for its investments in unconsolidated real estate entities under the equity method of accounting. The significant accounting policies of the Company s unconsolidated real estate entities are consistent with those of the Company in all material respects.

During the three months ended June 30, 2013, AvalonBay Value Added Fund, LP (Fund I) sold Avalon at Civic Center, located in Norwalk, CA. Avalon at Civic Center, containing 192 homes, was sold for $45,844,000. The Company s share of the gain in accordance with GAAP for the disposition was $1,472,000.

The following is a combined summary of the financial position of the entities accounted for using the equity method, excluding those owned by the Residual JV, as of the dates presented (dollars in thousands):

		6-30-13 (unaudited)		12-31-12 (unaudited)
Assets:				
Real estate, net	$	2,067,969	$	1,337,084
Other assets		168,822		73,252
Total assets	$	2,236,791	$	1,410,336
Liabilities and partners capital:				
Mortgage notes payable and credit facility	$	1,372,106	$	943,259
Other liabilities		40,860		20,405

Partners capital		823,825		446,672
Total liabilities and partners capital	$	2,236,791	$	1,410,336

The following is a combined summary of the operating results of the entities accounted for using the equity method, excluding those owned by the Residual JV, for the periods presented (dollars in thousands):

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	For the three months ended (unaudited)		For the six months ended (unaudited)	
	6-30-13	6-30-12	6-30-13	6-30-12
Rental and other income	$ 57,452	$ 44,505	$ 101,216	$ 87,132
Operating and other expenses	(22,986)	(19,131)	(40,680)	(37,800)
Gain on sale of communities	11,216	3,825	65,267	12,735
Interest expense, net	(15,829)	(12,659)	(31,098)	(25,726)
Depreciation expense	(17,783)	(12,597)	(30,933)	(25,297)
Net income (loss)	$ 12,070	$ 3,943	$ 63,772	$ 11,044

In conjunction with the formation of Fund I and AvalonBay Value Added Fund II, L.P. (Fund II), the Company incurred costs in excess of its equity in the underlying net assets of the respective investments. These costs represent $6,430,000 at June 30, 2013 and $7,342,000 at December 31, 2012 of the respective investment balances.

As part of the formation of Fund I and Fund II, the Company provided separate and distinct guarantees to one of the limited partners in each of the ventures. These guarantees are specific to the respective fund and any impacts or obligation of the Company to perform under one of the guarantees has no impact on the Company s obligations with respect to the other guarantee. The guarantees provide that, if, upon final liquidation of Fund I or Fund II, the total amount of all distributions to the guaranteed partner during the life of the respective fund (whether from operating cash flow or property sales) does not equal the total capital contributions made by that partner, then the Company will pay the guaranteed partner an amount equal to the shortfall, but in no event more than 10% of the total capital contributions made by the guaranteed partner (maximum of approximately $7,500,000 for Fund I and approximately $8,910,000 for Fund II as of June 30, 2013). As of June 30, 2013, the expected realizable values of the real estate assets owned by Fund I and Fund II are considered adequate to cover such potential payments under a liquidation scenario. The estimated fair value of, and the Company s obligation under these guarantees, both at inception and as of June 30, 2013, was not significant and therefore the Company has not recorded any obligation for either of these guarantees as of June 30, 2013.

Abandoned Pursuit Costs and Impairment of Long-Lived Assets

The Company capitalizes pre-development costs incurred in pursuit of new development opportunities for which the Company currently believes future development is probable (Development Rights). Future development of these Development Rights is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and the availability of capital. Initial pre-development costs incurred for pursuits for which future development is not yet considered probable are expensed as incurred. In addition, if the status of a Development Right changes, making future development by the Company no longer probable, any capitalized pre-development costs are written off with a charge to expense. The Company expensed costs related to abandoned pursuits, which includes the abandonment of Development Rights as well as costs incurred in pursuing the acquisition or disposition of assets for which such transactional activity did not occur, in the amounts of $195,000 and $820,000 for the three months ended June 30, 2013 and 2012, respectively, and $440,000 and $968,000 for the six months ended June 30, 2013 and 2012, respectively. These costs are included in Expensed acquisition, development, and other pursuit costs on the accompanying Condensed Consolidated Statements of Comprehensive Income. Abandoned pursuit costs can vary greatly, and the costs incurred in any given period may be significantly different in future periods.

The Company evaluates its real estate and other long-lived assets for impairment when potential indicators of impairment exist. Such assets are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the Company assesses its recoverability by comparing the carrying amount of the long-lived asset to its estimated undiscounted future cash flows. If the carrying amount exceeds the aggregate undiscounted future cash flows, the Company recognizes an impairment loss to the extent the carrying amount exceeds the estimated fair value of the long-lived asset. Based on periodic tests of recoverability of long-lived assets, the Company did not record any impairment losses for the three and six months ended June 30, 2013 and 2012.

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The Company assesses its portfolio of land held for both development and investment for impairment if the intent of the Company changes with respect to either the development of, or the expected holding period for, the land. The Company did not recognize any impairment charges on its investment in land for the three and six months ended June 30, 2013 and 2012.

The Company also evaluates its unconsolidated investments for impairment, considering both the carrying value of the investment, estimated as the expected proceeds that it would receive if the entity were dissolved and the net assets were liquidated at their current GAAP basis, as well as the Company s proportionate share of any impairment of assets held by unconsolidated investments. There were no impairment losses recognized by any of the Company s investments in unconsolidated entities during the three and six months ended June 30, 2013 and 2012.

7. Real Estate Disposition Activities

During the three months ended June 30, 2013, the Company sold Avalon at Dublin Station I, located in Dublin, CA containing a total of 305 apartment homes, for $105,400,000. The disposition resulted in a gain in accordance with GAAP of $33,682,000.

As of June 30, 2013, the Company did not have any real estate assets that qualified as held for sale.

The operations for any real estate assets sold from January 1, 2012 through June 30, 2013 have been presented as income from discontinued operations in the accompanying Condensed Consolidated Statements of Comprehensive Income. 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 (dollars in thousands):

	For the three months ended (unaudited)		For the six months ended (unaudited)	
	6-30-13	**6-30-12**	**6-30-13**	**6-30-12**
Rental income	$ 897	$ 9,425	$ 5,890	$ 19,537
Operating and other expenses	(314)	(3,088)	(1,621)	(6,314)
Interest expense, net		(55)		(138)
Loss on extinguishment of debt		(602)		(602)
Depreciation expense	(220)	(1,795)	(875)	(4,194)
Income from discontinued operations	$ 363	$ 3,885	$ 3,394	$ 8,289

8. Segment Reporting

The Company s reportable operating segments include Established Communities, Other Stabilized Communities, and Development/Redevelopment Communities. Annually as of January 1st, the Company determines which of its communities fall into each of these categories and unless disposition or redevelopment plans regarding a community change, maintains that classification throughout the year for the purpose of reporting segment operations.

In addition, the Company owns land for future development and has other corporate assets that are not allocated to an operating segment.

The Company s segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing each segments performance. The Company s chief operating decision maker is comprised of several members of its executive management team who use net operating income (NOI) as the primary financial measure for Established Communities and Other Stabilized Communities. NOI is defined by the Company as total revenue less direct property operating expenses. Although the Company considers NOI a useful measure of a community s or communities operating performance, NOI should not be considered an alternative to net income or net cash flow from operating activities, as determined in accordance with GAAP. NOI excludes a number of income and expense categories as detailed in the reconciliation of NOI to net income.

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A reconciliation of NOI to net income for the three and six months ended June 30, 2013 and 2012 is as follows (dollars in thousands):

	For the three months ended		For the six months ended	
	6-30-13	6-30-12	6-30-13	6-30-12
Net income	$ 36,097	$ 156,821	$ 111,570	$ 214,430
Indirect operating expenses, net of corporate income	10,890	8,617	19,932	16,653
Investments and investment management expense	1,096	1,499	2,110	2,945
Expensed acquisition, development and other pursuit costs	3,768	901	43,827	1,141
Interest expense, net	43,169	33,191	81,342	66,814
Loss on extinguishment of debt, net				1,179
General and administrative expense	11,345	8,316	21,384	18,026
Equity in (income) loss of unconsolidated entities	940	(2,073)	19,503	(4,248)
Depreciation expense	196,106	63,224	305,280	124,137
Gain on sale of real estate assets	(33,922)	(95,329)	(118,413)	(95,329)
Income from discontinued operations	(363)	(3,885)	(3,394)	(8,289)
Net operating income	$ 269,126	$ 171,282	$ 483,141	$ 337,459

The primary performance measure for communities under development or redevelopment depends on the stage of completion. While under development, management monitors actual construction costs against budgeted costs as well as lease-up pace and rent levels compared to budget.

The following table provides details of the Company s segment information as of the dates specified (dollars in thousands). The segments are classified based on the individual community s status as of the beginning of the given calendar year. Therefore, each year the composition of communities within each business segment is adjusted. Accordingly, the amounts between years are not directly comparable. Segment information for the three and six months ended June 30, 2013 and 2012 have been adjusted for the real estate assets that were sold from January 1, 2012 through June 30, 2013, or otherwise qualify as discontinued operations as of June 30, 2013, as described in Note 7, Real Estate Disposition Activities.

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	For the three months ended			For the six months ended			
	Total revenue	NOI	% NOI change from prior year	Total revenue	NOI	% NOI change from prior year	Gross real estate (1)
For the period ended June 30, 2013							
Established							
New England	$ 45,555	$ 30,320	4.9%	$ 90,209	$ 58,897	3.3%	$ 1,391,807
Metro NY/NJ	62,549	43,449	5.1%	123,794	85,888	5.3%	1,917,740
Mid-Atlantic	25,312	18,330	2.8%	50,346	36,518	2.2%	631,578
Pacific Northwest	11,603	7,937	10.5%	22,979	15,787	10.5%	443,641
Northern California	37,476	28,218	12.4%	74,078	55,722	12.0%	1,313,242
Southern California	29,542	20,375	6.9%	58,872	40,475	6.2%	1,055,368
Total Established	212,037	148,629	6.6%	420,278	293,287	6.1%	6,753,376
Other Stabilized	147,704	102,161	N/A	226,802	157,166	N/A	7,045,024
Development / Redevelopment	26,580	18,336	N/A	47,335	32,688	N/A	2,183,928
Land Held for Future Development	N/A	N/A	N/A	N/A	N/A	N/A	409,930
Non-allocated (2)	2,913	N/A	N/A	5,185	N/A	N/A	50,120
Total	$ 389,234	$ 269,126	57.1%	$ 699,600	$ 483,141	43.2%	$ 16,442,378
For the period ended June 30, 2012							
Established							
New England	$ 41,736	$ 27,263	5.7%	$ 82,812	$ 53,894	7.2%	$ 1,285,318
Metro NY/NJ	58,169	40,637	6.3%	115,388	80,229	8.0%	1,962,950
Mid-Atlantic	25,829	18,722	2.4%	51,525	37,538	4.4%	591,284
Pacific Northwest	8,119	5,651	9.5%	16,024	11,223	10.7%	303,343
Northern California	30,191	22,051	13.0%	59,645	43,715	14.2%	1,095,715
Southern California	24,508	17,023	8.5%	48,869	34,002	10.2%	946,376
Total Established	188,552	131,347	7.1%	374,263	260,601	8.7%	6,184,986
Other Stabilized	31,561	20,042	N/A	61,813	39,538	N/A	1,140,536
Development / Redevelopment	29,562	19,893	N/A	55,425	37,320	N/A	1,656,545
Land Held for Future Development	N/A	N/A	N/A	N/A	N/A	N/A	294,116
Non-allocated (2)	2,770	N/A	N/A	5,319	N/A	N/A	59,043
Total	$ 252,445	$ 171,282	10.8%	$ 496,820	$ 337,459	13.0%	$ 9,335,226

(1) Does not include gross real estate assets held for sale of $0 and $218,377 as of June 30, 2013 and 2012, respectively.

(2) Revenue represents third party management, asset management and developer fees and miscellaneous income which are not allocated to a reportable segment.

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9. Stock-Based Compensation Plans

Information with respect to stock options granted under the Company s 1994 Stock Option and Incentive Plan (the 1994 Plan) and its 2009 Stock Option and Incentive Plan (the 2009 Plan) are as follows (dollars in thousands, other than per share amounts):

	2009 Plan shares	Weighted average exercise price per share	1994 Plan shares	Weighted average exercise price per share
Options Outstanding, December 31, 2012	307,554	$ 112.67	719,830	$ 105.40
Exercised	(6,951)	96.72	(23,167)	80.91
Granted	215,230	129.03		
Forfeited	(1,061)	131.29	(4,012)	127.56
Options Outstanding, June 30, 2013	514,772	$ 119.69	692,651	$ 106.09
Options Exercisable June 30, 2012	195,034	$ 104.99	692,651	$ 106.09

The weighted average fair value of the options granted under the 2009 Plan during the six months ended June 30, 2013 is estimated at $26.78 per share on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions: dividend yield of 3.7% over the expected life of the option, volatility of 34.0%, risk-free interest rate of 0.9% and an expected life of approximately 5 years.

During 2013, the Company adopted a revised compensation framework under which share-based compensation will be granted, composed of annual awards and multiyear long term incentive performance awards. Annual awards will include restricted stock awards for which one third of the award will vest annually over a three year period following the measurement period. Under the multiyear long term incentive component of the revised framework, the Company will grant a target number of restricted stock units, with the ultimate award determined by the total shareholder return of the Company s common stock over a three-year measurement period. The share-based compensation earned will be in the form of restricted stock, or upon election of the recipient up to 25% in the form of stock options, for which one third of the award will vest annually over a three year period following the measurement period.

During the six months ended June 30, 2013, the Company issued 123,977 shares of restricted stock as well as awards for restricted stock units, with an estimated aggregate compensation cost of $36,996,000. The grant of restricted stock units includes an award which matures at the end of 2015 as well as two transitional awards that mature at the end of 2013 and 2014. The restricted stock units were valued using a Monte Carlo model with the following weighted average assumptions: baseline share value of $130.23, a dividend yield of 2.8%, estimated volatility figures over the life of the plan using 50% historical volatility and 50% implied volatility and risk free rates over the life of the plan ranging from 0.08% to 0.37%, resulting in an average estimated fair value per restricted stock unit of $110.00.

At June 30, 2013, the Company had 192,212 outstanding unvested shares granted under restricted stock awards. Restricted stock vesting during the six months ended June 30, 2013 totaled 132,790 shares and had fair values at the grant date ranging from $48.60 to $149.05 per share. The total grant date fair value of shares vested was $13,685,000 and $36,162,000 for the six months ended June 30, 2013 and 2012, respectively.

Total employee stock-based compensation cost recognized in income was $11,793,000 and $6,106,000 for the six months ended June 30, 2013 and 2012, respectively, and total capitalized stock-based compensation cost was $3,922,000 and $2,603,000 for the six months ended June 30, 2013 and 2012, respectively. At June 30, 2013, there was a total of $4,729,000 and $11,664,000 in unrecognized compensation cost for unvested stock options and unvested restricted stock, respectively, which does not include estimated forfeitures. The unrecognized compensation cost for unvested stock options and restricted stock is expected to be recognized over a weighted average period of 2.24 years and 2.85 years, respectively.

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10. Related Party Arrangements

Unconsolidated Entities

The Company manages unconsolidated real estate entities for which it receives asset management, property management, development and redevelopment fee revenue. From these entities, the Company earned fees of $2,913,000 and $2,770,000 in the three months ended June 30, 2013 and 2012, respectively, and $5,185,000 and $5,319,000 for the six months ended June 30, 2013 and 2012, respectively. These fees are included in management, development and other fees on the accompanying Condensed Consolidated Statements of Comprehensive Income. In addition, the Company has outstanding receivables associated with its management role of $10,983,000 and $3,484,000 as of June 30, 2013 and December 31, 2012, respectively.

Director Compensation

The Company recorded non-employee director compensation expense relating to restricted stock grants and deferred stock awards in the amount of $493,000 and $429,000 for the six months ended June 30, 2013 and 2012, respectively, as a component of general and administrative expense. Deferred compensation relating to restricted stock grants and deferred stock awards to non-employee directors was $916,000 and $364,000 on June 30, 2013 and December 31, 2012, respectively.

11. Fair Value

Financial Instruments Carried at Fair Value

Derivative Financial Instruments

Currently, the Company uses interest rate cap agreements to manage its interest rate risk. These instruments are carried at fair value in the Company s financial statements. In adjusting the fair value of its derivative contracts for the effect of counterparty nonperformance risk, the Company has considered the impact of its net position with a given counterparty, as well as any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. The Company minimizes its credit risk on these transactions by dealing with major, creditworthy financial institutions which have an A or better credit rating by the Standard & Poor s Ratings Group. As part of its on-going control procedures, the Company monitors the credit ratings of counterparties and the exposure of the Company to any single entity, thus minimizing credit risk concentration. The Company believes the likelihood of realizing losses from counterparty non-performance is remote. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives use Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. As of June 30, 2013, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined it is not significant. As a result, the Company has determined that its derivative valuations are classified in Level 2 of the fair value hierarchy.

Hedge ineffectiveness did not have a material impact on earnings of the Company for any prior period, and the Company does not anticipate that it will have a material effect in the future.

The following table summarizes the consolidated Hedging Derivatives at June 30, 2013, excluding derivatives executed to hedge debt on communities classified as held for sale (dollars in thousands):

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	Non-designated Hedges Interest Rate Caps	Cash Flow Hedges Interest Rate Caps
Notional balance	$ 612,851	$ 179,497
Weighted average interest rate (1)	1.7%	2.4%
Weighted average capped interest rate	5.9%	5.3%
Earliest maturity date	Aug-13	Jul-13
Latest maturity date	Sep-17	Jun-15

(1) For interest rate caps, this represents the weighted average interest rate on the debt.

Excluding derivatives executed to hedge secured debt on communities classified as held for sale, the Company had four derivatives designated as cash flow hedges and 14 derivatives not designated as hedges at June 30, 2013. Fair value changes for derivatives not in qualifying hedge relationships for the three and six months ended June 30, 2013, resulted in unrealized gains of $1,069,000 and $2,484,000, respectively, included in interest expense, net in the Condensed Consolidated Statement of Comprehensive Income. Fair value changes for derivatives not in qualifying hedge relationships for the three and six months ended June 30, 2012 were not material. To adjust the Hedging Derivatives in qualifying cash flow hedges to their fair value and recognize the impact of hedge accounting, the Company recorded a decrease in other comprehensive income of $16,789,000 during the six months ended June 30, 2012. The Company reclassified $1,574,000 and $2,965,000 of deferred losses from accumulated other comprehensive income into earnings as a component of the interest expense, net for the three and six months ended June 30, 2013. The Company anticipates reclassifying approximately $5,493,000 of hedging losses from accumulated other comprehensive income into earnings within the next 12 months to offset the variability of cash flows of the hedged item during this period. The Company did not have any derivatives designated as fair value hedges as of June 30, 2013 or 2012.

The Company was also party to a $215,000,000 forward interest rate protection agreement, which was entered into in 2011 to reduce the impact of variability in interest rates on a portion of our expected debt issuance activity in 2013. Based on changes in the Company s capital markets outlook for the year, and current liquidity position, it is now uncertain as to whether the Company will issue the anticipated debt for which this interest rate protection agreement was transacted. The Company settled this position at its maturity in May 2013 with a payment to the counterparty of $51,000,000, the fair value at the time of settlement. As of June 30, 2013, the Company has recorded deferred loss in accumulated other comprehensive income of $53,484,000 for the forward interest swap agreement with the timing for recognition in earnings dependent on the Company s capital markets activity for the balance of 2013. If the Company does issue the debt as anticipated, then the amounts recorded within accumulated other comprehensive income will be recognized as interest expense over the term of the debt.

Redeemable Noncontrolling Interests

The Company provided redemption options (the Puts) that allow joint venture partners of the Company to require the Company to purchase their interests in the investment at a guaranteed minimum amount related to three ventures, two of which were acquired as part of the Archstone Acquisition. The Puts are payable in cash. The Company determines the fair value of the Puts based on unobservable inputs considering the assumptions that market participants would make in pricing the obligations, applying a guaranteed rate of return to the joint venture partners net capital contribution balances as of period end. Given the significance of the unobservable inputs, the valuations are classified in Level 3 of the fair value hierarchy.

The Company issued units of limited partnership interest in DownREITs which provide the DownREIT limited partners the ability to present all or some of their units for redemption for cash as determined by the partnership agreement. Under the DownREIT agreement, for each limited partnership unit, the limited partner is entitled to receive cash in the amount equal to the fair value of the Company s common stock on or about the date of redemption. In lieu of cash redemption, the Company may elect to exchange such units for an equal number of shares in the Company s common stock. The limited partnership units in the DownREIT are valued using the market price of the Company s common stock, a Level 1 price under the fair value hierarchy.

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Financial Instruments Not Carried at Fair Value

Cash and Cash Equivalents

Cash and cash equivalent balances are held with various financial institutions within principal protected accounts. The Company monitors credit ratings of these financial institutions and the concentration of cash and cash equivalent balances with any one financial institution and believes the likelihood of realizing material losses related to cash and cash equivalent balances is remote. Cash and cash equivalents are carried at their face amounts, which reasonably approximate their fair values.

Other Financial Instruments

Rents receivable, accounts and construction payable and accrued expenses and other liabilities are carried at their face amounts, which reasonably approximate their fair values.

The Company values its unsecured notes using quoted market prices, a Level 1 price within the fair value hierarchy. The Company values its notes payable and outstanding amounts under the Credit Facility using a discounted cash flow analysis on the expected cash flows of each instrument. This analysis reflects the contractual terms of the instrument, including the period to maturity, and uses observable market-based inputs, including interest rate curves. The process also considers credit valuation adjustments to appropriately reflect the Company s nonperformance risk. The Company has concluded that the value of its notes payable and amounts outstanding under its credit facility are Level 2 prices as the majority of the inputs used to value its positions fall within Level 2 of the fair value hierarchy.

Financial Instruments Measured/Disclosed at Fair Value on a Recurring Basis

The following table summarizes the classification between the three levels of the fair value hierarchy of the Company s financial instruments measured/disclosed at fair value on a recurring basis (dollars in thousands):

Description	**Total Fair Value 6/30/2013**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Interest Rate Caps	$ 48	$	$ 48	$
Puts	(18,067)			(18,067)
DownREIT units	(1,012)	(1,012)		
Indebtedness	(5,868,176)	(1,920,035)	(3,948,141)	
Total	$ (5,887,207)	$ (1,921,047)	$ (3,948,093)	$ (18,067)

12. Subsequent Events

The Company has evaluated subsequent events through the date on which this Form 10-Q was filed, the date on which these financial statements were issued.

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help provide an understanding of our business and results of operations. This MD&A should be read in conjunction with our Condensed Consolidated Financial Statements and the accompanying Notes to Condensed Consolidated Financial Statements included elsewhere in this report. This report, including the following MD&A, contains forward-looking statements regarding future events or trends as described more fully under Forward-Looking Statements included in this report. Actual results or developments could differ materially from those projected in such statements as a result of the factors described under Forward-Looking Statements below and the risk factors described in Item 1a, Risk Factors, of our Form 10-K for the year ended December 31, 2012 (the Form 10-K).

All capitalized terms have the meaning as provided elsewhere in this Form 10-Q.

Executive Overview

Business Description

We are primarily engaged in developing, acquiring, owning and operating apartment communities in high barrier to entry markets of the United States. We believe that apartment communities are an attractive long-term investment opportunity compared to other real estate investments because a broad potential resident base should help reduce demand volatility over a real estate cycle. We seek to create long-term shareholder value by accessing capital at cost effective terms; deploying that capital to develop, redevelop and acquire apartment communities in high barrier to entry markets; operating apartment communities; and selling communities when they no longer meet our long-term investment strategy or when pricing is attractive. Barriers to entry in our markets generally include a difficult and lengthy entitlement process with local jurisdictions and dense urban or suburban areas where zoned and entitled land is in limited supply.

Our strategy is to be leaders in market research and capital allocation, delivering a range of multifamily offerings tailored to serve the needs of the most attractive customer segments in the best-performing submarkets of the United States. Our communities are predominately upscale, which generally command among the highest rents in their markets. However, we also pursue the ownership and operation of apartment communities that target a variety of customer segments and price points, consistent with our goal of offering a broad range of products and services.

We regularly evaluate the allocation of our investments by the amount of invested capital and by product type within our individual markets, which are primarily located in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Pacific Northwest, and the Northern and Southern California regions of the United States.

Second Quarter 2013 Highlights

While the Company experienced a decline in net income due to Archstone Acquisition related expenses, we experienced strong operating performance in the second quarter of 2013.

- Net income attributable to common stockholders for the quarter ended June 30, 2013 was $36,218,000, a decrease of $120,691,000 or 76.9% from the prior year period. The decrease is attributable primarily to an increase in depreciation expense and transaction costs from the Archstone Acquisition, as well as decreased gains from dispositions of real estate assets in 2013 as compared to the prior year period. The decrease is partially offset by an increase in NOI in our communities.

- For the quarter ended June 30, 2013, Established Communities NOI increased by $9,180,000 or 6.6% over the prior year period. This year-over-year increase was driven by an increase in rental revenue of 5.2% offset by an increase in operating expenses of 2.0% as compared to the prior year period.

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Our portfolio results for the quarter ended June 30, 2013 include operations from the communities acquired as part of the Archstone Acquisition, and reflect year-over-year revenue growth, as well as continued sequential rental revenue growth. The overall increase in revenues was driven by our portfolio growth, leasing activity for new development, and an increase in rental rates and occupancy for our Established Communities. We expect year-over-year revenue growth to continue for the balance of 2013, supported by the newly acquired Archstone communities as well as our Established Communities. We believe continued favorable apartment fundamentals, and a capital markets environment that provides cost effective capital, support our additional expanded investment activity as further discussed below.

During the quarter ended June 30, 2013, we completed the construction of three communities with an aggregate of 584 apartment homes for a total capitalized cost of $134,400,000. Also, we started construction of three communities containing 719 apartment homes with an expected aggregate total capitalized cost of $151,500,000. At June 30, 2013, 27 communities were under construction with a total projected capitalized cost of approximately $2,213,900,000. As of June 30, 2013, approximately $1,177,680,000 of the capital for this development was invested, with $1,036,220,000 remaining to invest.

During the three months ended June 30, 2013, we started the redevelopment of AVA Pasadena located in Pasadena, CA. AVA Pasadena contains 84 apartment homes and is expected to be redeveloped for a total capitalized cost of $5,600,000, excluding costs incurred prior to redevelopment. At June 30, 2013, there were six communities under redevelopment, with an expected investment of approximately $60,900,000, excluding costs incurred prior to the start of redevelopment, with $35,299,000 remaining to be invested**.**

At present, cash on hand and available capital from our Credit Facility are sufficient to provide the capital necessary to fund our committed development and redevelopment activities as of June 30, 2013. We believe that our balance sheet, as measured by our current level of indebtedness, our current ability to service interest and other fixed charges and our current moderate use of financial encumbrances (such as secured financing), provide adequate access to liquidity from the capital markets through the issuance of corporate securities (which could include unsecured debt and/or common and preferred equity) and secured debt, as well as from other sources of liquidity such as from joint ventures or from our retained cash, to meet our reasonably foreseeable liquidity needs as they arise. See the discussion under *Liquidity and Capital Resources.*

We established Fund I and Fund II (collectively the Funds) to engage in real estate acquisition programs through discretionary investment funds. We believe this investment format provides the following attributes: (i) third-party joint venture equity as an additional source of financing to expand and diversify our portfolio; (ii) additional sources of income in the form of property management and asset management fees and, potentially, incentive distributions if the performance of the Funds exceeds certain thresholds; and (iii) additional visibility into the transactions occurring in multi-family assets that helps us with other investment decisions related to our wholly-owned portfolio.

Fund I has nine institutional investors, including us. One of our wholly owned subsidiaries is the general partner of Fund I and excluding costs incurred in excess of our equity in the underlying net assets of Fund I, we have made an equity investment of approximately $12,788,000 in Fund I (net of distributions and excluding the purchase by us of a mortgage note secured by a Fund I community), representing a 15.2% combined general partner and limited partner equity interest. Fund I was our principal vehicle for acquiring apartment communities from its formation in March 2005 through the close of its investment period in March 2008. Fund I has a term that expired in March 2013, plus two one-year extension options. We have executed the first one-year extension.

Fund II has six institutional investors, including us. One of our wholly owned subsidiaries is the general partner of Fund II and, excluding costs incurred in excess of our equity in the underlying net assets of Fund II, we have made an equity investment of $99,813,000 (net of distributions), representing a 31.3% combined general partner and limited partner equity interest. Fund II served as the exclusive vehicle through which we acquired investment interests in apartment communities from its formation in 2008 through the close of its investment period in August 2011.

During the quarter ended June 30, 2013, Fund I sold Avalon at Civic Center located in Norwalk, CA, containing 192 apartment homes for $45,844,000. Our proportionate share of the gain in accordance with GAAP for the disposition by Fund I was $1,472,000.

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In connection with the Archstone Acquisition, we assumed Archstone s position in the Archstone U.S. Fund as the General Partner, a Limited Partner through which we hold a 28.6% equity interest, and a Class A partner, through which we hold a promote interest. The Archstone U.S. Fund was formed in July 2011 as a discretionary real estate investment vehicle and is fully invested. The Archstone U.S. Fund has a term expiring in 2021, subject to two, one-year extensions if necessary for the orderly dissolution of the Archstone U.S. Fund. The Archstone U.S. Fund will not impact the Company s development activities or investments acquired in operating communities acquired from unrelated third parties.

We also acquired interests in other joint venture entities as part of the Archstone Acquisition as described elsewhere in this report.

Communities Overview

Our real estate investments consist primarily of current operating apartment communities, communities in various stages of development (Development Communities) and Development Rights as defined below. Our current operating communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities and Redevelopment Communities. While we establish the classification of communities on an annual basis, we may update the classification of communities during the calendar year to the extent that our plans with regard to the disposition or redevelopment of a community change during the year. The following is a description of each category:

Current Communities are categorized as Established, Other Stabilized, Lease-Up, or Redevelopment according to the following attributes:

- *Established Communities (also known as same store communities)* are consolidated communities where a comparison of operating results from the prior year to the current year is meaningful, as these communities were owned and had stabilized occupancy and operating expenses as of the beginning of the prior year. For the period ended June 30, 2013, the Established Communities are communities that are consolidated for financial reporting purposes, had stabilized occupancy and operating expenses as of January 1, 2012, are not conducting or planning to conduct substantial redevelopment activities and are not held for sale or planned for disposition within the current year. A community is considered to have stabilized occupancy at the earlier of (i) attainment of 95% physical occupancy or (ii) the one-year anniversary of completion of development or redevelopment.

- *Other Stabilized Communities* are all other completed communities that we own or have a direct or indirect ownership interest in, and that have stabilized occupancy, as defined above. Other Stabilized Communities do not include communities that are conducting or planning to conduct substantial redevelopment activities within the current year.

- *Lease-Up Communities* are communities where construction has been complete for less than one year and where physical occupancy has not reached 95%.

- *Redevelopment Communities* are communities where substantial redevelopment is in progress or is planned to begin during the current year. Redevelopment is considered substantial when capital invested during the reconstruction effort is expected to exceed either

$5,000,000 or 10% of the community s pre-redevelopment basis and is expected to have a material impact on the operations of the community, including occupancy levels and future rental rates.

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

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Development Rights are development opportunities in the early phase of the development process for which we either have an option to acquire land or enter into a leasehold interest, for which we are the buyer under a long-term conditional contract to purchase land or where we control the land through a ground lease or own land to develop a new community. We capitalize related pre-development costs incurred in pursuit of new developments for which we currently believe future development is probable.

We currently lease our corporate headquarters located in Arlington, Virginia under an operating lease. The lease term ends in 2020, subject to two five year renewal options. All other regional and administrative offices are leased under operating leases.

As of June 30, 2013, communities that we owned or held a direct or indirect interest in were classified as follows:

	Number of communities	**Number of apartment homes**
Current Communities		
Established Communities:		
New England	30	7,490
Metro NY/NJ	25	8,416
Mid-Atlantic	11	4,443
Pacific Northwest	10	2,387
Northern California	19	5,680
Southern California	22	5,827
Total Established	117	34,243
Other Stabilized Communities:		
New England	15	3,183
Metro NY/NJ	18	6,158
Mid-Atlantic	25	7,787
Pacific Northwest	5	1,142
Northern California	17	5,448
Southern California	34	10,780
Non-Core	3	1,030
Total Other Stabilized	117	35,528
Lease-Up Communities	6	1,545
Redevelopment Communities	6	2,248
Total Current Communities	246	73,564
Development Communities	27	7,935
Development Rights	47	13,649

Results of Operations

Our year-over-year operating performance is primarily affected by both overall and individual geographic market conditions and apartment fundamentals and is reflected in changes in NOI of our Established Communities; NOI derived from acquisitions and development completions; the loss of NOI related to disposed communities; and capital market and financing activity. A comparison of our operating results for the three and six months ended June 30, 2013 and 2012 follows (unaudited, dollars in thousands):

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	For the three months ended				For the six months ended			
	6-30-13	6-30-12	$ Change	% Change	6-30-13	6-30-12	$ Change	% Change
Revenue:								
Rental and other income	$ 386,321	$ 249,675	$ 136,646	54.7%	$ 694,415	$ 491,501	$ 202,914	41.3%
Management, development and other fees	2,913	2,770	143	5.2%	5,185	5,319	(134)	(2.5)%
Total revenue	389,234	252,445	136,789	54.2%	699,600	496,820	202,780	40.8%
Expenses:								
Direct property operating expenses, excluding property taxes	75,148	53,852	21,296	39.5%	136,504	105,861	30,643	28.9%
Property taxes	42,038	24,528	17,510	71.4%	74,753	48,171	26,582	55.2%
Total community operating expenses	117,186	78,380	38,806	49.5%	211,257	154,032	57,225	37.2%
Corporate-level property management and other indirect operating expenses	13,812	11,400	2,412	21.2%	25,134	21,982	3,152	14.3%
Investments and investment management expense	1,096	1,499	(403)	(26.9)%	2,110	2,945	(835)	(28.4)%
Expensed acquisition, development and other pursuit costs	3,768	901	2,867	318.2%	43,827	1,141	42,686	3,741.1%
Interest expense, net	43,169	33,191	9,978	30.1%	81,342	66,814	14,528	21.7%
Loss on extinguishment of debt, net						1,179	(1,179)	(100.0)%
Depreciation expense	196,106	63,224	132,882	210.2%	305,280	124,137	181,143	145.9%
General and administrative	11,345	8,316	3,029	36.4%	21,384	18,026	3,358	18.6%
Gain on sale of land	(240)	(280)	40	(14.3)%	(240)	(280)	40	(14.3)%
Total other expenses	269,056	118,251	150,805	127.5%	478,837	235,944	242,893	102.9%
Equity in income (loss) of unconsolidated entities	(940)	2,073	(3,013)	(145.3)%	(19,503)	4,248	(23,751)	(559.1)%
Income (loss) from continuing operations	2,052	57,887	(55,835)	(96.5)%	(9,997)	111,092	(121,089)	(109.0)%
Discontinued operations:								
Income from discontinued operations	363	3,885	(3,522)	(90.7)%	3,394	8,289	(4,895)	(59.1)%
Gain on sale of communities	33,682	95,049	(61,367)	(64.6)%	118,173	95,049	23,124	24.3%
Total discontinued operations	34,045	98,934	(64,889)	(65.6)%	121,567	103,338	18,229	17.6%
Net income	36,097	156,821	(120,724)	(77.0)%	111,570	214,430	(102,860)	(48.0)%
Net loss attributable to noncontrolling interests	121	88	33	37.5%	78	237	(159)	(67.1)%
Net income attributable to common stockholders	$ 36,218	$ 156,909	$ (120,691)	(76.9)%	$ 111,648	$ 214,667	$ (103,019)	(48.0)%

Net income attributable to common stockholders decreased $120,691,000 or 76.9%, to $36,218,000 for the three months ended June 30, 2013 and $103,019,000 or 48.0% to $111,648,000 for the six months ended June 30, 2013 from the prior year periods. The decreases for the three and six months ended June 30, 2013 are due primarily to additional depreciation expense and expensed transaction costs associated with the Archstone Acquisition, as well as decreased gains from dispositions of real estate assets in 2013 as compared to the prior year period. The decreases in the three and six months ended June 30, 2013 are partially offset by an increase in NOI from communities acquired in the Archstone Acquisition and our existing and newly developed communities.

NOI is considered by management to be an important and appropriate supplemental performance measure to net income because it helps both investors and management to understand the core operations of a community or communities prior to the allocation of any corporate-level or financing-related costs. NOI reflects the operating performance of a community and allows for an easy comparison of the operating performance of individual assets or groups of assets. In addition, because prospective buyers of real estate have different financing and overhead structures, with varying marginal impacts to overhead by acquiring real estate, NOI is considered by many in the real estate industry to be a useful measure for determining the value of a real estate asset or group of assets. We define NOI as total property revenue less direct property operating expenses, including property taxes, and excluding corporate-level income (including management, development and other fees), corporate-level property management and other indirect operating expenses, investments and investment management expenses, expensed acquisition, development and other pursuit costs, net interest expense, gain (loss) on extinguishment of debt, general and administrative expense, joint venture income (loss), depreciation expense, impairment loss on land holdings, gain on sale of real estate assets and income from discontinued operations.

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NOI does not represent cash generated from operating activities in accordance with GAAP. Therefore, NOI should not be considered an alternative to net income as an indication of our performance. NOI should also not be considered an alternative to net cash flow from operating activities, as determined by GAAP, as a measure of liquidity, nor is NOI indicative of cash available to fund cash needs. Reconciliations of NOI for the three and six months ended June 30, 2013 and 2012 to net income for each period are as follows (unaudited, dollars in thousands):

	For the three months ended		For the six months ended	
	06-30-13	06-30-12	06-30-13	06-30-12
Net income	$ 36,097	$ 156,821	$ 111,570	$ 214,430
Indirect operating expenses, net of corporate income	10,890	8,617	19,932	16,653
Investments and investment management expense	1,096	1,499	2,110	2,945
Expensed acquisition, development and other pursuit costs	3,768	901	43,827	1,141
Interest expense, net	43,169	33,191	81,342	66,814
Loss on extinguishment of debt, net				1,179
General and administrative expense	11,345	8,316	21,384	18,026
Equity in (income) loss of unconsolidated entities	940	(2,073)	19,503	(4,248)
Depreciation expense	196,106	63,224	305,280	124,137
Gain on sale of real estate assets	(33,922)	(95,329)	(118,413)	(95,329)
Income from discontinued operations	(363)	(3,885)	(3,394)	(8,289)
Net operating income	$ 269,126	$ 171,282	$ 483,141	$ 337,459

The NOI changes for the three and six months ended June 30, 2013, as compared to the prior year periods, consist of changes in the following categories (unaudited, dollars in thousands):

	For the three months ended 6-30-13	For the six months ended 6-30-13
Established Communities	$ 9,180	$ 16,836
Other Stabilized Communities (1)	80,717	116,797
Development and Redevelopment Communities	7,947	12,049
Total	$ 97,844	$ 145,682

(1) Includes operating communities acquired as part of the Archstone Acquisition.

The increases in our Established Communities NOI for the three and six months ended June 30, 2013 are due to a combination of increased rental rates and increased occupancy offset somewhat by increased operating expenses. For the balance of 2013, we expect continued rental revenue growth over the prior year period, offset partially by an expected increase in operating expenses.

Rental and other income increased in the three and six months ended June 30, 2013 as compared to the prior year periods due to additional rental income generated from newly developed and acquired communities, including those acquired in the Archstone Acquisition, and increases in rental rates at our Established Communities.

Overall Portfolio The weighted average number of occupied apartment homes for consolidated communities increased to 55,473 apartment homes for the six months ended June 30, 2013 as compared to 42,870 homes for the prior year period. The weighted average monthly revenue per occupied apartment home increased to $2,102 for the six months ended June 30, 2013 as compared to $1,982 in the prior year period.

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Established Communities   Rental revenue increased $10,403,000, or 5.2% and $20,166,000, or 5.0%, for the three and six months ended June 30, 2013, respectively, over the prior year periods. The increase for the three months ended June 30, 2013 is due to increases in rental rates of 4.3% and economic occupancy of 0.9% from 95.7% to 96.6%. The increase for the six months ended June 30, 2013 is due to an increase in rental rates of 4.5% and economic occupancy of 0.5% from 95.9% to 96.4%. Economic occupancy takes into account the fact that apartment homes of different sizes and locations within a community have different economic impacts on a community s gross revenue. Economic occupancy is defined as gross potential revenue less vacancy loss, as a percentage of gross potential revenue. Gross potential revenue is determined by valuing occupied homes at leased rates and vacant homes at market rents. We experienced increases in rental revenue from Established Communities in all six of our regions for the six months ended June 30, 2013 over the prior year period. Information for each of our regions is discussed in more detail below.

The Metro New York/New Jersey region, which accounted for 29.5% of Established Community rental revenue for the six months ended June 30, 2013, experienced an increase in rental revenue of 5.1% as compared to the prior year period. Average rental rates increased 4.7% to $2,536, and economic occupancy increased 0.4% to 96.6% for the six months ended June 30, 2013. On a sequential basis, Metro New York/New Jersey reported rental revenue growth of 2.1% during the second quarter of 2013. Apartment demand in the Metro New York/New Jersey region is being driven by job growth across a diverse group of industries including healthcare, professional business services, technology, retail, hospitality and education. The region is also experiencing increased construction related employment growth related to Hurricane Sandy recovery efforts.

The New England region accounted for 21.5% of Established Community rental revenue for the six months ended June 30, 2013 and experienced a rental revenue increase of 3.4% over the prior year period. Average rental rates increased 2.6% to $2,087 and economic occupancy increased 0.8% to 96.2% for the six months ended June 30, 2013, as compared to the prior year period. Sequential revenue increased over the prior quarter by 2.0% during the three months ended June 30, 2013. The New England region s growth is driven by a renewed expansion in employment from the technology sector, primarily in the greater Boston area, offset somewhat by weakness in the financial services sector impacting the Fairfield-New Haven area. We expect continued revenue growth that will moderate during the year as new supply is introduced.

Northern California accounted for 17.6% of the Established Community rental revenue for the six months ended June 30, 2013 and experienced a rental revenue increase of 8.7% over the prior year period. Average rental rates increased 8.0% to $2,251, and economic occupancy increased 0.7% to 96.5% for the six months ended June 30, 2013 as compared to the prior year period. The Northern California region also saw the strongest sequential rental revenue growth in our markets, increasing 2.4% over the first quarter of 2013. Northern California s technology sector continues to support healthy apartment demand. New supply may slow revenue growth in future periods.

The Mid-Atlantic region, which represented 11.9% of Established Community rental revenue for the six months ended June 30, 2013, experienced an increase in rental revenue of 1.7% over the prior year period. Average rental rates increased by 1.7% to $1,964 over the prior year period, while maintaining economic occupancy of 96.2% for the six months ended June 30, 2013. The Mid-Atlantic region also experienced sequential quarterly rental revenue growth of 1.1%. Uncertainty surrounding federal spending in the Mid-Atlantic region and the expected elevated levels of new supply may result in slower revenue growth in 2013 relative to other markets.

Southern California accounted for 14.0% of the Established Community rental revenue for the six months ended June 30, 2013. The region experienced a rental revenue increase of 4.6% over the prior year period driven by an increase in average rental rates of 3.8% to $1,746 and an increase in economic occupancy of 0.8% to 96.4% for the six months ended June 30, 2013. Sequentially, the Southern California region saw a

0.7% increase in rental revenue in the second quarter of 2013. Above average job growth coupled with limited new supply will continue to support healthy apartment fundamentals in Southern California.

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The Pacific Northwest region accounted for 5.5% of the Established Community rental revenue for the six months ended June 30, 2013 and experienced a rental revenue increase of 8.7% over the prior year period. Average rental rates increased 8.3% to $1,659, and economic occupancy increased 0.4% to 96.6% for the six months ended June 30, 2013 as compared to the prior year period. The Pacific Northwest showed sequential rental revenue growth of 2.1%, led by job gains in the region s professional services sectorThe Pacific Northwest s retail, technology, and manufacturing sectors continue to support job creation. Consistent with several of our other markets, new supply may moderate revenue growth this year.

In accordance with GAAP, cash concessions are amortized as an offset to rental revenue over the approximate lease term, which is generally one year. As a supplemental measure, we also present rental revenue with concessions stated on a cash basis to help investors evaluate the impact of both current and historical concessions on GAAP based rental revenue and to more readily enable comparisons to revenue as reported by other companies. Rental revenue with concessions stated on a cash basis also allows investors to understand historical trends in cash concessions, as well as current rental market conditions.

The following table reconciles total rental revenue in conformity with GAAP to total rental revenue adjusted to state concessions on a cash basis for our Established Communities for the three and six months ended June 30, 2013 and 2012 (unaudited, dollars in thousands):

	For the three months ended		For the six months ended	
	6-30-13	**6-30-12**	**6-30-13**	**6-30-12**
Rental revenue (GAAP basis)	$ 211,941	$ 201,538	$ 420,104	$ 399,938
Concessions amortized	47	215	99	600
Concessions granted	(33)	(26)	(70)	(189)
Rental revenue adjusted to state concessions on a cash basis	$ 211,955	$ 201,727	$ 420,133	$ 400,349
Year-over-year % change GAAP revenue		5.2%		5.0%
Year-over-year % change cash concession based revenue				