AVALONBAY COMMUNITIES INC
Form 10-K
February 22, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
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)

Securities registered pursuant to Section 12(b) of the Act:

(Title of each class)	(Name of each exchange on which registered)
Common Stock, par value $.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ý No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No ý
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No o
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ý No o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer ý Accelerated filer o
Non-accelerated filer o Smaller reporting company o
Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes o No ý

The aggregate market value of the registrant's Common Stock, par value $.01 per share, held by nonaffiliates of the registrant, as of June 30, 2018 was $23,656,288,475.

The number of shares of the registrant's Common Stock, par value $.01 per share, outstanding as of January 31, 2019 was 138,508,567.

Documents Incorporated by Reference

Portions of AvalonBay Communities, Inc.'s Proxy Statement for the 2019 annual meeting of stockholders, a definitive copy of which will be filed with the SEC within 120 days after the year end of the year covered by this Form 10-K, are incorporated by reference herein as portions of Part III of this Form 10-K.

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PART I

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Our actual results could differ materially from those set forth in each forward-looking statement. Certain factors that might cause such a difference are discussed in this report, including in the section entitled “Forward-Looking Statements” included in this Form 10-K. You should also review Item 1A. “Risk Factors” for a discussion of various risks that could adversely affect us.

ITEM 1. BUSINESS

General

AvalonBay Communities, Inc. (the “Company,” which term, unless the context otherwise requires, refers to AvalonBay Communities, Inc. together with its subsidiaries), is a Maryland corporation that has elected to be treated as a real estate investment trust (“REIT”) for federal income tax purposes. We develop, redevelop, acquire, own and operate multifamily communities primarily in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Pacific Northwest, and Northern and Southern California. We focus on leading metropolitan areas in these regions that we believe are characterized by growing employment in high wage sectors of the economy, higher cost of home ownership and a diverse and vibrant quality of life. We believe these market characteristics offer the opportunity for superior risk-adjusted returns over the long-term on apartment community investments relative to other markets that do not have these characteristics. We believe that Denver, Colorado, and Southeast Florida share these characteristics and we began investing in these markets in 2017.

At January 31, 2019, we owned or held a direct or indirect ownership interest in:

- 269 operating apartment communities containing 78,365 apartment homes in 12 states and the District of Columbia, of which 254 communities containing 74,706 apartment homes were consolidated for financial reporting purposes and 15 communities containing 3,659 apartment homes were held by unconsolidated entities in which we hold an ownership interest. Nine of the consolidated communities containing 3,648 apartment homes were under redevelopment, as discussed below;
- 21 communities under development that are expected to contain an aggregate of 6,609 apartment homes when completed and one mixed-use project being developed in which we are currently pursuing a potential for-sale strategy of individual condominium units; and
- rights to develop an additional 28 communities that, if developed as expected, will contain 9,769 apartment homes.

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

Our principal financial goal is to increase long-term shareholder value through the development, redevelopment, acquisition, ownership and, when appropriate, disposition of apartment communities in our markets. To help meet this goal, we regularly (i) monitor our investment allocation by geographic market and product type, (ii) develop, redevelop and acquire interests in apartment communities in our selected markets, (iii) selectively sell apartment communities that no longer meet our long-term strategy or when opportunities are presented to realize a portion of the value created through our investment and redeploy the proceeds from those sales and (iv) endeavor to maintain a capital structure that is aligned with our business risks with a view to maintaining continuous access to cost-effective capital. We pursue our development, redevelopment, investment and operating activities with the purpose of Creating a Better Way to Live. Our strategic vision is to be the leading apartment company in select US markets, providing a range of distinctive living experiences that customers value. We pursue this vision by targeting what we believe are among the best markets and submarkets, leveraging our strategic capabilities in market research and consumer insight and being disciplined in our capital allocation and balance sheet management. We operate our apartment communities under three core brands Avalon, AVA and Eaves by Avalon, described in Item 2. "Communities." We pursue our development and redevelopment activities primarily through in-house development and in-house redevelopment teams, which are complemented by our in-house acquisition platform. We believe that our organizational structure, which includes dedicated development and operational teams in each of our regions, and strong culture are key differentiators, providing us with highly talented, dedicated and capable associates.

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During the three years ended December 31, 2018, we acquired 12 apartment communities and disposed of 21 apartment communities, excluding unconsolidated investments and the five wholly-owned communities we contributed to the NYC Joint Venture (as defined below) during 2018. During the three years ended December 31, 2018, we completed the development of 29 apartment communities and the redevelopment of 25 apartment communities.

We have investments in unconsolidated real estate entities with ownership interest percentages ranging from 20.0% to 55.0%, excluding joint ventures formed with Equity Residential as part of the Archstone Acquisition. During the three years ended December 31, 2018, excluding the NYC Joint Venture, we realized our pro rata share of the gain from the sale of 11 communities owned by unconsolidated real estate entities.

During 2018, we contributed five wholly-owned operating communities located in New York, NY, to a newly formed joint venture (the "NYC Joint Venture"). We retained a 20.0% interest in the venture and are acting as the managing member of the venture as well as the property manager for the communities. The five communities contain an aggregate of 1,301 apartment homes and 58,000 square feet of retail space.

On February 27, 2013, pursuant to an asset purchase agreement dated November 26, 2012, the Company, together with Equity Residential, acquired, directly or indirectly, all of the assets owned by Archstone Enterprise LP (“Archstone,” which has since changed its name to Jupiter Enterprise LP), 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 40.0% of Archstone's assets and liabilities and Equity Residential acquired approximately 60.0% of Archstone’s assets and liabilities (the “Archstone Acquisition”).

A more detailed description of our unconsolidated real estate entities and the related investment activity can be found in the discussion in Note 5, “Investments in Real Estate Entities,” of the Consolidated Financial Statements in Item 8 of this report and in Item 7. “Management's Discussion and Analysis of Financial Condition and Results of Operations.”

During 2018, excluding the five wholly-owned operating communities contributed to the NYC Joint Venture, we sold 10 operating communities, including sales by unconsolidated entities, and recognized a gain in accordance with U.S. generally accepted accounting principles (“GAAP”) of $205,770,000.

A further discussion of our development, redevelopment, disposition, acquisition, property management and related strategies follows.

Development Strategy. We select land for development and follow established procedures that we believe minimize both the cost and the risks of development. As one of the largest developers of multifamily rental apartment communities in our selected markets, we identify development opportunities through local market presence and access to local market information achieved through our regional offices. In addition to our principal executive office in Arlington, Virginia, we also maintain regional offices, administrative offices or specialty offices, including offices that are in or near the following cities:

- Bellevue, Washington;
- Boston, Massachusetts;
- Denver, Colorado;
- Fairfield, Connecticut;
- Irvine, California;
- Iselin, New Jersey;
- Melville, New York;

- Los Angeles, California;
- New York, New York;
- San Diego, California;
- San Francisco, California;
- San Jose, California; and
- Virginia Beach, Virginia.

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After selecting a target site, we usually negotiate for the right to acquire the site either through an option or a long-term conditional contract. Options and long-term conditional contracts generally allow us to acquire the target site after the completion of entitlements and shortly before the start of construction, which reduces development-related risks and preserves capital. However, as a result of competitive market conditions for land suitable for development, we have sometimes acquired and held land prior to construction for extended periods while entitlements are obtained, or acquired land zoned for uses other than residential with the potential for rezoning. For further discussion of our Development Rights, refer to Item 2. “Communities” in this report.

We generally act as our own general contractor and construction manager, except for certain mid-rise and high-rise apartment communities, where we may elect to use third-party general contractors as construction managers. We generally perform these functions directly (although we may use a wholly-owned subsidiary) both for ourselves and for the joint ventures and partnerships of which we are a member or a partner. We believe direct involvement in construction enables us to achieve higher construction quality, greater control over construction schedules and cost savings. Our development, property management and construction teams monitor construction progress to ensure quality workmanship and a smooth and timely transition into the leasing and operating phase.

During periods where competition for development land is more intense, we may acquire improved land with existing commercial uses and rezone the site for multifamily residential use. During the period that we hold these buildings for future development, any rent received in excess of expenses from these operations, which we consider to be incidental, is accounted for as a reduction in our investment in the development pursuit and not as net income. Any expenses relating to these operations, in excess of any rents received, are accounted for as a reduction in net income. We have also participated, and may in the future participate, in master planned or other large multi-use developments where we commit to build infrastructure (such as roads) to be used by other participants or commit to act as construction manager or general contractor in building structures or spaces for third parties (such as unimproved ground floor retail space, municipal garages or parks). Costs we incur in connection with these activities may be accounted for as additional invested capital in the community or we may earn fee income for providing these services. Particularly with large scale, urban in-fill developments, we may engage in significant environmental remediation efforts to prepare a site for construction.

Throughout this report, the term “development” is used to refer to the entire property development cycle, including pursuit of zoning approvals, procurement of architectural and engineering designs and the construction process. References to “construction” refer to the actual construction of the property, which is only one element of the development cycle.

Redevelopment Strategy. When we undertake the redevelopment of a community, our goal is to renovate and/or rebuild an existing community so that our total investment is generally below replacement cost and the community is well positioned in the market to achieve attractive returns on our capital. We have dedicated redevelopment teams and procedures that are intended to control both the cost and risks of redevelopment. Our redevelopment teams, which include redevelopment, construction and property management personnel, monitor redevelopment progress. We believe we achieve significant cost savings by undertaking the redevelopment primarily through an occupied turn strategy, in which we continue to operate the community as we install improvements in occupied apartment homes, working to minimize any impact on our current residents.

Throughout this report, the term “redevelopment” is used to refer to the entire redevelopment cycle, including planning and procurement of architectural and engineering designs, budgeting and actual renovation work. The actual renovation work is referred to as “reconstruction,” which is only one element of the redevelopment cycle.

Disposition Strategy. We sell assets that no longer meet our long-term strategy or when real estate market conditions are favorable, and we redeploy the proceeds from those sales to develop, redevelop and acquire communities and to rebalance our portfolio across or within geographic regions. This also allows us to realize a portion of the value created through our investments and provides additional liquidity. We are then able to redeploy the net proceeds from our dispositions in lieu of raising that amount of capital externally. When we decide to sell a community, we generally solicit competing bids from unrelated parties for these individual assets and consider the sales price and other terms of each proposal.

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As part of the Archstone Acquisition in 2013, we acquired, and still own, 14 assets that had previously been contributed by third parties on a tax-deferred basis to an Archstone partnership in which the third parties received ownership interests. To protect the tax-deferred nature of the contribution, the third parties are entitled to cash payments if we trigger tax obligations to the third parties by selling, or failing to maintain sufficient levels of secured financing on, the contributed assets. Our tax protection payment obligations with respect to these assets expire at different times and in some cases don't expire until the death of a third party who contributed ownership interests to the Archstone partnership. After review and investigation of Archstone's tax and accounting records, we estimate that, had we sold or taken other triggering actions in 2018 with respect to all 14 assets, the aggregate amount of the tax protection payments that would have been triggered would have been approximately $48,300,000. At the present time, we do not intend to take actions that would cause us to be required to make tax protection payments with respect to any of these assets.

Acquisition Strategy. Our core competencies in development and redevelopment discussed above allow us to be selective in the acquisitions we target. Acquisitions allow us to achieve rapid penetration into markets in which we desire an increased presence. Acquisitions (and dispositions) also help us achieve our desired product mix or rebalance our portfolio. Portfolio growth also allows for fixed general and administrative costs to be a smaller percentage of overall community Net Operating Income ("NOI").
While we have achieved growth in the past through the establishment of discretionary real estate investments funds, which placed certain limitations on our ability to acquire new communities during their investments periods, we are not presently pursuing the formation of a new discretionary real estate investment fund, preferring at this time to maintain flexibility in shaping our portfolio of wholly-owned assets through acquisitions and dispositions.

Property Management Strategy. We seek to increase operating income through innovative, proactive property management that will result in higher revenue from communities while constraining operating expenses. Our principal strategies to maximize revenue include:

- focusing on resident satisfaction;
- staggering lease terms such that lease expirations are better matched to traffic patterns;
- balancing high occupancy with premium pricing and increasing rents as market conditions permit; and
- employing revenue management software to optimize the pricing and term of leases.

Constraining growth in operating expenses is another way in which we seek to increase earnings growth. Growth in our portfolio and the resulting increase in revenue allows for fixed operating costs to be spread over a larger volume of revenue, thereby increasing operating margins. We constrain growth in operating expenses in a variety of ways, which include, but are not limited to, the following:

- we use purchase order controls, acquiring goods and services from pre-approved vendors;
- we use national negotiated contracts and also purchase supplies in bulk where possible;
- we bid third-party contracts on a volume basis;
- we strive to retain residents through high levels of service in order to eliminate the cost of preparing an apartment home for a new resident and to reduce marketing and vacant apartment utility costs;
- we perform turnover work in-house or hire third parties, generally considering the most cost effective approach as well as expertise needed to perform the work;
- we undertake preventive maintenance regularly to maximize resident safety and satisfaction, as well as to maximize property and equipment life;
- we have a customer care center, centralizing and improving the efficiency and consistency in the application of our policies for many of the administrative tasks associated with owning and operating apartment communities;
- we aggressively pursue real estate tax appeals; and
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we install high efficiency lighting and water fixtures, cogeneration systems and implement sustainability initiatives in our operating platform.

On-site property management teams receive bonuses based largely upon the revenue, expense, NOI and customer service metrics produced at their respective communities. We use and continuously seek ways to improve technology applications to help manage our communities, believing that the accurate collection of financial and resident data will enable us to maximize revenue and control costs through careful leasing decisions, maintenance decisions and financial management.

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We generally manage the operation and leasing activity of our communities directly (although we may use a wholly-owned subsidiary) both for ourselves and the joint ventures and partnerships of which we are a member or a partner. From time to time we may engage a third party to manage leasing and/or maintenance activity at one or more of our communities.

From time to time we also pursue or arrange ancillary services for our residents to provide additional revenue sources or increase resident satisfaction. As a REIT, we generally cannot provide direct services to our residents that are not customarily provided by a landlord, nor can we directly share in the income of a third party that provides such services. However, we can provide such non-customary services to residents or share in the revenue or income from such services if we do so through a “taxable REIT subsidiary,” which is a subsidiary that is treated as a “C corporation” subject to federal income taxes. See “Tax Matters” below.

Financing Strategy. Our financing strategy is to endeavor to maintain a capital structure that provides financial flexibility to help ensure we can select cost effective capital market options that are well matched to our business risks. We estimate that our short-term liquidity needs will be met from cash on hand, borrowings under our $1,500,000,000 revolving variable rate unsecured credit facility (the “Credit Facility”), sales of current operating communities and/or issuance of additional debt or equity securities. A determination to engage in an equity or debt offering depends on a variety of factors such as general market and economic conditions, our short and long-term liquidity needs, the relative costs of debt and equity capital and growth opportunities. A summary of debt and equity activity for the last three years is reflected on our Consolidated Statement of Cash Flows of the Consolidated Financial Statements set forth in Item 8 of this report.

We have entered into, and may continue in the future to enter into, joint ventures (including limited liability companies or partnerships) through which we would own an indirect economic interest of less than 100% of the community or communities owned directly by such joint ventures. Our decision to either hold an apartment community in fee simple or to have an indirect interest in the community through a joint venture is based on a variety of factors and considerations, including: (i) the economic and tax terms required by a seller of land or of a community; (ii) our desire to diversify our portfolio of communities by market, submarket and product type; (iii) our desire at times to preserve our capital resources to maintain liquidity or balance sheet strength; and (iv) our projection, in some circumstances, that we will achieve higher returns on our invested capital or reduce our risk if a joint venture vehicle is used. Investments in joint ventures are not limited to a specified percentage of our assets. Each joint venture agreement is individually negotiated, and our ability to operate and/or dispose of a community in our sole discretion may be limited to varying degrees depending on the terms of the joint venture agreement.

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

Other Strategies and Activities. While we emphasize equity real estate investments in rental apartment communities, we have the ability to invest in other types of real estate, mortgages (including participating or convertible mortgages), securities of other REITs or real estate operating companies, or securities of technology companies that relate to our real estate operations or of companies that provide services to us or our residents, in each case consistent with our qualification as a REIT. In addition, we own and lease retail space at our communities when either (i) the highest and best use of the space is for retail (e.g., street level in an urban area); (ii) we believe the retail space will enhance the attractiveness of the community to residents or; (iii) some component of retail space is required to obtain entitlements to build apartment homes. As of December 31, 2018, we had a total of approximately 681,000 square feet of rentable retail space, excluding retail space within communities currently under development. Gross rental revenue provided by leased retail space in 2018 was $26,071,000 (1.1% of total revenue). We may also develop a property in conjunction with another real estate company that will own and operate the retail or for-sale residential components of a mixed-use building or project that we help develop. If we secure a development right and believe that its best use, in whole or in part, is to develop the real estate with the intent to sell rather than hold the asset, we may, through a taxable REIT subsidiary, develop real estate for sale. Any investment in securities of other entities, and any development of real estate for sale, is subject to the percentage of ownership limitations, gross income tests, and other limitations that must be observed for REIT qualification.

We have not engaged in trading, underwriting or agency distribution or sale of securities of other issuers and do not intend to do so. At all times we intend to make investments in a manner so as to qualify as a REIT unless, because of circumstances or changes to the Internal Revenue Code of 1986, as amended (the “Code”) (or the Treasury Regulations thereunder), our Board of Directors determines that it is no longer in our best interest to qualify as a REIT.

Tax Matters

We filed an election with our 1994 federal income tax return to be taxed as a REIT under the Code and intend to maintain our qualification as a REIT in the future. As a REIT, with limited exceptions, such as those described under “Property Management Strategy” above, we will not be taxed under federal and certain state income tax laws at the corporate level on our taxable net

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income to the extent taxable net income is distributed to our stockholders. We expect to make sufficient distributions to avoid income tax at the corporate level. While we believe that we are organized and qualified as a REIT and we intend to operate in a manner that will allow us to continue to qualify as a REIT, there can be no assurance that we will be successful in this regard. Qualification as a REIT involves the application of highly technical and complex provisions of the Code for which there are limited judicial and administrative interpretations and involves the determination of a variety of factual matters and circumstances not entirely within our control.

Competition

We face competition from other real estate investors, including insurance companies, pension and investment funds, other REITs, and other well capitalized investors, to acquire and develop apartment communities and acquire land for future development. As an owner and operator of apartment communities, we also face competition for prospective residents from other operators whose communities may be perceived to offer a better location or better amenities or whose rent may be perceived as a better value given the quality, location and amenities that the resident seeks. We also compete against condominiums and single-family homes that are for sale or rent. Although we often compete against large, sophisticated developers and operators for development opportunities and for prospective residents, real estate developers and operators of any size can provide effective competition for both real estate assets and potential residents.

Environmental and Related Matters

As a current or prior owner, operator and developer of real estate, we are subject to various federal, state and local environmental laws, regulations and ordinances and also could be liable to third parties resulting from environmental contamination or noncompliance at our communities. For some Development Communities we undertake extensive environmental remediation to prepare the site for construction, which could be a significant portion of our total construction cost. Environmental remediation efforts could expose us to possible liabilities for accidents or improper handling of contaminated materials during construction. These and other risks related to environmental matters are described in more detail in Item 1A. “Risk Factors.”

We believe that more government regulation of energy use, along with a greater focus on environmental protection, may, over time, have a significant impact on urban growth patterns. If changes in zoning to encourage greater density and proximity to mass transit do occur, such changes could benefit multifamily housing and those companies with a competency in high-density development. However, there can be no assurance as to whether or when such changes in regulations or zoning will occur or, if they do occur, whether the multifamily industry or the Company will benefit from such changes.

Other Information

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may obtain copies of our SEC filings, free of charge, from the SEC's website at www.sec.gov.

We maintain a website at www.avalonbay.com. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to the Securities Exchange Act of 1934 are available free of charge in the “Investor Relations” section of our website as soon as reasonably practicable after the reports are filed with or furnished to the SEC. In addition, the charters of our Board's Nominating and Corporate Governance Committee, Audit Committee and Compensation Committee, as well as our Director Independence Standards, Corporate Governance Guidelines, Code of Business Conduct and Ethics, Policy Regarding Shareholder Rights Agreements, Policy Regarding Shareholder Approval of Future Severance Agreements, Executive Stock Ownership Guidelines, Policy on Political Contributions and Government Relations, Policy for Recoupment of

Incentive Compensation, and Sustainability Reports, are available free of charge in that section of our website or by writing to AvalonBay Communities, Inc., Ballston Tower, Suite 800, 671 N. Glebe Rd., Arlington, Virginia 22203, Attention: Chief Financial Officer. To the extent required by the rules of the SEC and the NYSE, we will disclose amendments and waivers relating to these documents in the same place on our website. The information posted on our website is not incorporated into this Annual Report on Form 10-K.

We were incorporated under the laws of the State of California in 1978. In 1995, we reincorporated in the State of Maryland and have been focused on the ownership and operation of apartment communities since that time. As of January 31, 2019, we had 3,087 employees.

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ITEM 1A. RISK FACTORS

Our operations involve various risks that could have adverse consequences, including those described below. This Item 1A. includes forward-looking statements. You should refer to our discussion of the qualifications and limitations on forward-looking statements in this Form 10-K.

Development, redevelopment, construction and operating risks could affect our profitability.

We intend to continue to develop and redevelop apartment home communities. These activities can include long planning and entitlement timelines and can involve complex and costly activities, including significant environmental remediation or construction work in high-density urban areas. These activities may be exposed to the following risks:

- we may abandon opportunities that we have already begun to explore for a number of reasons, including changes in local market conditions or increases in construction or financing costs, and, as a result, we may fail to recover expenses already incurred in exploring those opportunities;
- occupancy rates and rents at a community may fail to meet our original expectations for a number of reasons, including changes in market and economic conditions beyond our control and the development by competitors of competing communities;
- we may be unable to obtain, or experience delays in obtaining, necessary zoning, occupancy or other required governmental or third party permits and authorizations, which could result in increased costs or the delay or abandonment of opportunities;
- we may incur costs that exceed our original estimates due to increased material, labor or other costs;
- we may be unable to complete construction and lease-up of a community on schedule, resulting in increased construction and financing costs and a decrease in expected rental revenues;
- we may be unable to obtain financing with favorable terms, or at all, for the proposed development of a community, which may cause us to delay or abandon an opportunity;
- we may incur liabilities to third parties during the development process, for example, in connection with managing existing improvements on the site prior to tenant terminations and demolition (such as commercial space) or in connection with providing services to third parties (such as the construction of shared infrastructure or other improvements); and
- we may incur liability if our communities are not constructed and operated in compliance with the accessibility provisions of the Americans with Disabilities Acts, the Fair Housing Act or other federal, state or local requirements. Noncompliance could result in imposition of fines, an award of damages to private litigants and a requirement that we undertake structural modifications to remedy the noncompliance.

We estimate construction costs based on market conditions at the time we prepare our budgets, and our projections include changes that we anticipate but cannot predict with certainty. Construction costs may increase, particularly for labor and certain materials and, for some of our Development Communities and Development Rights (as defined below), the total construction costs may be higher than the original budget. Total capitalized cost includes all capitalized costs incurred and projected to be incurred to develop or redevelop a community, determined in accordance with GAAP, including:

- land and/or property acquisition costs;
- fees paid to secure air rights and/or tax abatements;
- construction or reconstruction costs;
- costs of environmental remediation;
- real estate taxes;
- capitalized interest and insurance;
- loan fees;

- permits;
- professional fees;
- allocated development or redevelopment overhead; and
- other regulatory fees.

Costs to redevelop communities that have been acquired have, in some cases, exceeded our original estimates and similar increases in costs may be experienced in the future. We cannot assure you that market rents in effect at the time new Development or Redevelopment Communities complete lease-up will be sufficient to fully offset the effects of any increased construction or reconstruction costs.

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The construction and maintenance of our communities include a risk of major casualty events that could materially damage our property and the property of others and pose the risk of personal injury. While we carry insurance for such risks in amounts we deem reasonable, we cannot assure that such insurance will be adequate, and when we have incurred and in the future may incur such casualties, we are subject to losses on account of deductibles and self-insured amounts in any event. Such casualties may also expose us in the future to higher insurance premiums, greater construction or operating costs (either voluntarily assumed by us or as a result of new local regulations) and risks to our reputation among prospective residents or municipalities from which we may seek approvals in the future, all of which could have a material adverse effect on our business and our financial condition and results of operations.

Unfavorable changes in market and economic conditions could adversely affect occupancy, rental rates, operating expenses and the overall market value of our real estate assets.

Local conditions in our markets significantly affect occupancy, rental rates and the operating performance of our communities. The risks that may adversely affect conditions in those markets include the following:

- corporate restructurings and/or layoffs, industry slowdowns and other factors that adversely affect the local economy;
- an oversupply of, or a reduced demand for, apartment homes;
- a decline in household formation or employment or lack of employment growth;
- the inability or unwillingness of residents to pay rent increases;
- rent control or rent stabilization laws, or other laws regulating housing, that could prevent us from raising rents sufficiently to offset increases in operating costs; and
- economic conditions that could cause an increase in our operating expenses, such as increases in property taxes, utilities, compensation of on-site associates and routine maintenance.

Rent control and other changes in applicable laws, or noncompliance with applicable laws, could adversely affect our operations or expose us to liability.

We must develop, construct and operate our communities in compliance with numerous federal, state and local laws and regulations, some of which may conflict with one another or be subject to limited judicial or regulatory interpretations. These laws and regulations may include zoning laws, building codes, landlord/tenant laws and other laws generally applicable to business operations. Noncompliance with laws could expose us to liability.

Lower revenue growth or significant unanticipated expenditures may result from our need to comply with changes in (i) laws imposing remediation requirements and the potential liability for environmental conditions existing on properties or the restrictions on discharges or other conditions, (ii) rent control or rent stabilization laws or other residential landlord/tenant laws or (iii) other governmental rules and regulations or enforcement policies affecting the development, use and operation of our communities, including changes to building codes and fire and life-safety codes.

We have seen a recent increase in municipalities implementing, considering or being urged by advocacy groups to consider rent control or rent stabilization laws and regulations or take other actions that could limit our ability to raise rents based solely on market conditions. For example, in 2016 in Mountain View, California, the voters passed a referendum that limits rent increases on existing tenants (but not on new move-ins) in communities built before 1995. These initiatives and any other future enactments of rent control or rent stabilization laws or other laws regulating multi-family housing, as well as any lawsuits against the Company arising from such rent control or other laws, may reduce rental revenues or increase operating costs. Such laws and regulations may limit our ability to charge market rents, increase rents, evict tenants or recover increases in our operating expenses and could make it more difficult for us to dispose of properties in certain circumstances. Expenses associated with our investment in these communities, such as debt service, real estate taxes, insurance and maintenance costs, are generally not reduced when circumstances cause a reduction in rental income from the community.

Short-term leases expose us to the effects of declining market rents.

Substantially all of our apartment leases are for a term of one year or less. Because these leases generally permit the residents to leave at the end of the lease term without penalty, our rental revenues are impacted by declines in market rents more quickly than if our leases were for longer terms.

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Competition could limit our ability to lease apartment homes or increase or maintain rents.

Our apartment communities compete with other housing alternatives to attract residents, including other rental apartments, condominiums and single-family homes that are available for rent, as well as new and existing condominiums and single-family homes for sale. Competitive residential housing in a particular area could adversely affect our ability to lease apartment homes and to increase or maintain rental rates.

Attractive investment opportunities may not be available, which could adversely affect our profitability.

We expect that other real estate investors, including insurance companies, pension and investment funds, other REITs and other well-capitalized investors, will compete with us to acquire existing properties and to develop new properties. This competition could increase prices for properties of the type we would likely pursue and adversely affect our profitability for new investments.

Capital and credit market conditions may adversely affect our access to various sources of capital and/or the cost of capital, which could impact our business activities, dividends, earnings and common stock price, among other things.

In periods when the capital and credit markets experience significant volatility, the amounts, sources and cost of capital available to us may be adversely affected. We primarily use external financing to fund construction and to refinance indebtedness as it matures. If sufficient sources of external financing are not available to us on cost effective terms, we could be forced to limit our development and redevelopment activity and/or take other actions to fund our business activities and repayment of debt, such as selling assets, reducing our cash dividend or paying out less than 100% of our taxable income. To the extent that we are able and/or choose to access capital at a higher cost than we have experienced in recent years (reflected in higher interest rates for debt financing or a lower stock price for equity financing), absent changes in other factors, our earnings per share and cash flows could be adversely affected. In addition, the price of our common stock may fluctuate significantly and/or decline in a high interest rate or volatile economic environment. We believe that the lenders under our Credit Facility will fulfill their lending obligations thereunder, but if economic conditions deteriorate, there can be no assurance that the ability of those lenders to fulfill their obligations would not be adversely impacted.

Insufficient cash flow could affect our debt financing and create refinancing risk.

We are subject to the risks associated with debt financing, including the risk that our available cash will be insufficient to meet required payments of principal and interest on our debt. In this regard, in order for us to continue to qualify as a REIT, we are required to annually distribute dividends generally equal to at least 90% of our REIT taxable income, computed without regard to the dividends paid deduction and excluding any net capital gain. This requirement limits the amount of our cash flow available to meet required principal and interest payments. The principal outstanding balance on a portion of our debt will not be fully amortized prior to its maturity. Although we may be able to repay our debt by using our cash flows, we cannot assure you that we will have sufficient cash flows available to make all required principal payments. Therefore, we may need to refinance at least a portion of our outstanding debt as it matures. There is a risk that we may not be able to refinance existing debt or that a refinancing will not be done on as favorable terms; either of these outcomes could have a material adverse effect on our financial condition and results of operations.

Rising interest rates could increase interest costs and could affect the market price of our common stock, and efforts to hedge such risk could be ineffective and cause us to incur costs.

We currently have, and may in the future incur, contractual variable interest rate debt. In addition, we regularly seek access to both fixed and variable rate debt financing to repay maturing debt and to finance our development and redevelopment activity. Accordingly, if interest rates increase, our interest costs will also rise, unless we have made arrangements that hedge the risk of rising interest rates. In addition, an increase in market interest rates may lead purchasers of our common stock to demand a greater annual dividend yield, which could adversely affect the market price of our common stock.

From time to time we use interest rate derivatives to hedge and manage our exposure to certain interest rate risks. For example, from time to time, when we anticipate issuing debt securities, we may seek to limit our exposure to fluctuations in interest rates during the period prior to issuance of the securities by entering into interest rate hedging contracts. Although these agreements may partially protect against rising interest rates, they also may reduce the benefits to the Company if interest rates decline. The settlement of interest rate hedging contracts has involved and may in the future involve material charges to our earnings. In addition, our use of interest rate hedging arrangements may expose us to additional risks, including a risk that a counterparty to a hedging arrangement may fail to honor its obligations. Developing and implementing an effective interest rate risk strategy is complex and no strategy can completely insulate us from risks associated with interest rate fluctuations. There can be no assurance that our

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hedging activities will be effective. Termination of these hedging agreements may involve net costs, such as transaction fees, settlement costs and/or breakage costs.

Bond financing and zoning and other compliance requirements could limit our income, restrict the use of communities and cause favorable financing to become unavailable.

We have financed some of our apartment communities with obligations issued by local government agencies because the interest paid to the holders of this debt is generally exempt from federal income taxes and, therefore, the interest rate is generally more favorable to us. These obligations are commonly referred to as “tax-exempt bonds” and generally must be secured by mortgages on our communities. As a condition to obtaining tax-exempt financing, or on occasion as a condition to obtaining favorable zoning or an agreement relating to property taxes in some jurisdictions, we will commit to make some of the apartments in a community available to households whose income does not exceed certain thresholds (e.g., 50% or 80% of area median income), or who meet other qualifying tests. As of December 31, 2018, 5.2% of our apartment homes at current operating communities were under income limitations such as these. These commitments, which may run without expiration or may expire after a period of time (such as 15 or 20 years), may limit our ability to raise rents and, as a consequence, may also adversely affect the value of the communities subject to these restrictions. In addition, if we fail to observe these commitments, we could lose benefits (such as reduced property taxes) or face liabilities including liability for the benefits we received under tax exempt bonds or agreements related to property taxes.

In addition, some of our tax-exempt bond financing documents require us to obtain a guarantee from a financial institution of payment of the principal of, and interest on, the bonds. The guarantee may take the form of a letter of credit, surety bond, guarantee agreement or other additional collateral. If the financial institution defaults in its guarantee obligations, or if we are unable to renew the applicable guarantee or otherwise post satisfactory collateral, a default will occur under the applicable tax-exempt bonds and the community could be foreclosed upon if we do not redeem the bonds.

Risks related to indebtedness.

We have a Credit Facility with a syndicate of commercial banks. Our organizational documents do not limit the amount or percentage of indebtedness that may be incurred. Accordingly, subject to compliance with outstanding debt covenants, we could incur more debt, resulting in an increased risk of default on our obligations and an increase in debt service requirements that could adversely affect our financial condition and results of operations.

The mortgages on properties that are subject to secured debt, our Credit Facility and the indenture under which a substantial portion of our debt was issued contain customary restrictions, requirements and other limitations, as well as certain financial and operating covenants including maintenance of certain financial ratios. Maintaining compliance with these restrictions could limit our flexibility. A default in these requirements, if uncured, could result in a requirement that we repay indebtedness, which could materially adversely affect our liquidity and increase our financing costs. Refer to Item 7. “Management's Discussion and Analysis of Financial Condition and Results of Operations” for further discussion.

The mortgages on properties that are subject to secured debt generally include provisions which stipulate a prepayment penalty or payment that we will be obligated to pay in the event that we elect to repay the mortgage note prior to the earlier of (i) the stated maturity of the note or (ii) the date at which the mortgage note is prepayable without such penalty or payment. If we elect to repay some or all of the outstanding principal balance for our mortgage notes, we may incur prepayment penalties or payments under these provisions which could materially adversely affect our results of operations.

Failure to maintain our current credit ratings could adversely affect our cost of funds, related margins, liquidity and access to capital markets.

There are two major debt rating agencies that routinely evaluate and rate our debt. Their ratings are based on a number of factors, which include their assessment of our financial strength, liquidity, capital structure, asset quality, amount of real estate under development, and sustainability of cash flow and earnings, among other factors. If market conditions change, we may not be able to maintain our current credit ratings, which could adversely affect our cost of funds and related margins, liquidity and access to capital markets.

Debt financing may not be available and equity issuances could be dilutive to our stockholders.

Our ability to execute our business strategy depends on our access to cost effective debt and equity financing. Debt financing may not be available in sufficient amounts or on favorable terms. If we issue additional equity securities, the interests of existing stockholders could be diluted.

Failure to generate sufficient revenue or other liquidity needs could limit cash flow available for distributions to stockholders.

A decrease in rental revenue, or liquidity needs such as the repayment of indebtedness or funding of our development activities, could have an adverse effect on our ability to pay distributions to our stockholders. Significant expenditures associated with each community such as debt service payments, if any, real estate taxes, insurance and maintenance costs are generally not reduced when circumstances cause a reduction in income from a community.

The form, timing and/or amount of dividend distributions in future periods may vary and be impacted by economic and other considerations.

The form, timing and/or amount of dividend distributions will be declared at the discretion of the Board of Directors and will depend on actual cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and other factors as the Board of Directors may consider relevant. The Board of Directors may modify our dividend policy from time to time.

We may choose to pay dividends in our own stock, in which case stockholders may be required to pay tax in excess of the cash they receive.

We may distribute taxable dividends that are payable in part in our stock. Taxable stockholders receiving such dividends will be required to include the full amount of the dividend as income to the extent of our current and accumulated earnings and profits for federal income tax purposes. As a result, a U.S. stockholder may be required to pay tax with respect to such dividends in excess of the cash dividend received. If a U.S. stockholder sells the stock it receives as a dividend in order to pay this tax, the sales proceeds may be less than the amount included in income with respect to the dividend, depending on the market price of our stock at the time of the sale. Furthermore, with respect to non-U.S. stockholders, we may be required to withhold U.S. tax with respect to such dividends, including in respect of all or a portion of such dividend that is payable in stock. In addition, the trading price of our stock would experience downward pressure if a significant number of our stockholders sell shares of our stock in order to pay taxes owed on dividends.

We may experience regulatory or economic barriers to selling apartment communities that could limit liquidity and financial flexibility.

Potential difficulties in selling real estate in our markets may limit our ability to change or reduce the apartment communities in our portfolio promptly in response to changes in economic or other conditions. Federal tax laws may limit our ability to earn a gain on the sale of a community (unless we own it through a subsidiary which will incur a taxable gain upon sale) if we are found to have held, acquired or developed the community primarily with the intent to resell the community, and this limitation may affect our ability to sell communities without adversely affecting returns to our stockholders. In addition, real estate in our markets can at times be difficult to sell quickly at prices we find acceptable.

From time to time we dispose of properties in transactions intended to qualify as “like-kind exchanges” under Section 1031 of the Code. If a transaction intended to qualify as a Section 1031 exchange is later determined to be taxable, we may face adverse tax consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of properties on a tax deferred basis.

Acquisitions may not yield anticipated results.

Our business strategy includes acquiring as well as developing communities. Our acquisition activities may be exposed to the following risks:

- an acquired property may fail to perform as we expected in analyzing our investment; and
- our estimate of the costs of operating, repositioning or redeveloping an acquired property may prove inaccurate.

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Failure to succeed in new markets, or with new brands and community formats, or in activities other than the development, ownership and operation of residential rental communities may have adverse consequences.

We may from time to time commence development activity or make acquisitions outside of our existing market areas if appropriate opportunities arise. For example, in 2017 we entered the Denver, Colorado, and Southeast Florida markets, where we have now engaged, and continue to pursue, development and acquisition opportunities. Our historical experience in our existing markets in developing, owning and operating rental communities does not ensure that we will be able to operate successfully in new markets, should we choose to enter them. We may be exposed to a variety of risks if we choose to enter new markets, including an inability to accurately evaluate local apartment market conditions; an inability to obtain land for development or to identify appropriate acquisition opportunities; an inability to hire and retain key personnel; and a lack of familiarity with local governmental and permitting procedures.

Although we are primarily in the multifamily rental business, we also own and lease ancillary retail and commercial space, in particular when such tenants represent the best use of the space, as is often the case with large urban in-fill developments. Gross rental revenue provided by leased retail/commercial space in our portfolio represented 1.1% of our total revenue in 2018. The long term nature of our retail/commercial leases and characteristics of many of our tenants (small, local businesses) may subject us to certain risks. We may not be able to lease new space for rents that are consistent with our projections or at market rates. Also, when leases for our existing retail/commercial space expire, the space may not be relet or the terms of reletting, including the cost of allowances and concessions to tenants, may be less favorable than the current lease terms. Our properties compete with other properties with retail/commercial space. The presence of competitive alternatives may affect our ability to lease space and the level of rents we can obtain. If our retail/commercial tenants experience financial distress or bankruptcy, they may fail to comply with their contractual obligations, seek concessions in order to continue operations or cease their operations, which could adversely impact our results of operations and financial condition.

We also may engage or have an interest in for-sale activity. For example, we have indicated that we may pursue the sale of residential condominium units as a disposition strategy from the residential component of our development at 15 West 61st Street, New York, New York. We may be unsuccessful at developing real estate with the intent to sell or in selling condominiums as a disposition strategy for an asset, which could have an adverse effect on our results of operations.

Land we hold with no current intent to develop may be subject to future impairment charges.

We own parcels of land that we do not currently intend to develop. As discussed in Item 2. “Communities—Other Land and Real Estate Assets,” in the event that the fair market value of a parcel changes such that we determine that the carrying basis of the parcel reflected in our financial statements is greater than the parcel's then current fair value, less costs to dispose, we would be subject to an impairment charge, which would reduce our net income.

We are exposed to various risks from our real estate activity through joint ventures.

Instead of acquiring, developing or maintaining ownership of apartment communities as a wholly-owned investment, at times we invest in real estate as a partner or a co-venturer with other investors. Joint venture investments (including investments through partnerships or limited liability companies) involve risks, including the possibility that our partner might become insolvent or otherwise refuse to make capital contributions when due; that we may be responsible to our partner for indemnifiable losses; that our partner might at any time have business goals that are inconsistent with ours; and that our partner may be in a position to take action or withhold consent contrary to our instructions or requests. Frequently, we and our partner may each have the right to trigger a buy-sell arrangement that could cause us to sell our interest, or acquire our partner's interest, at a time when we otherwise would not have initiated such a transaction.

We are exposed to risks associated with investment in and management of discretionary real estate investment funds and joint ventures.

We have investment interests in unconsolidated real estate entities (collectively, "ventures") ranging from 20.0% to 55.0%. The ventures present risks, including the following:

- our subsidiaries that are the general partner or managing member of the ventures are generally liable, under applicable law or the governing agreement of a venture, for the debts and obligations of the respective venture, subject to certain exculpation and indemnification rights pursuant to the terms of the governing agreement;
- investors in the ventures holding a majority of the equity interests may remove us as the general partner or managing member in certain cases involving cause;

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- while we have broad discretion to manage the ventures, the investors or an advisory committee comprised of representatives of the investors must approve certain matters, and as a result we may be unable to cause the ventures to implement certain decisions that we consider beneficial; and
- we may be liable and/or our status as a REIT may be jeopardized if either the ventures, or the REIT entities associated with the ventures, fail to comply with various tax or other regulatory matters.

The governance provisions of our joint ventures with Equity Residential could adversely affect our flexibility in dealing with such joint venture assets and liabilities.

In connection with the Archstone Acquisition, we created joint ventures with Equity Residential that manage or have an interest in certain of the acquired assets and liabilities. These structures involve participation in the ventures by Equity Residential whose interests and rights may not be the same as ours. Joint ownership of an investment in real estate involves risks not associated with direct ownership of real estate, including the risk that Equity Residential may at any time have economic or other business interests or goals which become inconsistent with our business interests or goals, including inconsistent goals relating to the sale of properties held in the joint ventures or the timing of the termination and liquidation of the joint ventures. Under the form for the joint venture arrangements, neither we nor Equity Residential expect to individually have the sole power to control the ventures, and an impasse could occur, which could adversely affect the applicable joint venture and decrease potential returns to us and our investors.

We rely on information technology in our operations, and any breach, interruption or security failure of that technology, or any non-compliance with applicable laws with respect to the use of that technology, could have a negative impact on our business, results of operations, financial condition and/or reputation.

Information security risks have generally increased in recent years due to the rise in new technologies and the increased sophistication and activities of perpetrators of cyber attacks.

We collect and hold personally identifiable information of our residents and prospective residents in connection with our leasing and property management activities, and we collect and hold personally identifiable information of our associates in connection with their employment. In addition, we engage third party service providers that may have access to such personally identifiable information in connection with providing necessary information technology and security and other business services to us.

We address potential breaches or disclosure of this confidential personally identifiable information by implementing a variety of security measures intended to protect the confidentiality and security of this information including (among others) engaging reputable, recognized firms to help us design and maintain our information technology and data security systems, including testing and verification of their proper and secure operations on a periodic basis. We also maintain cyber risk insurance to provide some coverage for certain risks arising out of data and network breaches.

However, there can be no assurance that we will be able to prevent unauthorized access to this information. Any failure in or breach of our operational or information security systems, or those of our third party service providers, as a result of cyber attacks or information security breaches, could result in a wide range of potentially serious harm to our business operations and financial prospects, including (among others) disruption of our business and operations, disclosure or misuse of confidential or proprietary information (including personal information of our residents and/or associates), damage to our reputation, and/or potentially significant legal and/or financial liabilities and penalties.

Various laws and regulations and interpretations thereof, as well as agreements with payment processors, require, or may require, us to comply with rules related to our websites for use by residents and prospective residents, including requirements related to accessibility of our websites to persons with disabilities and our handling of data collection. We could face liabilities for failure to comply with these requirements. We could incur costs to comply with stricter and more complex data privacy, data collection and information security laws and standards.

We are exposed to risks that are either uninsurable, not economically insurable or in excess of our insurance coverage, including risks discussed below.

Earthquake risk. As further described in Item 2. “Communities—Insurance and Risk of Uninsured Losses,” many of our West Coast communities are located in the general vicinity of active earthquake faults. We cannot assure you that an earthquake would not cause damage or losses greater than insured levels. In the event of a loss in excess of insured limits, we could lose our capital invested in the affected community, as well as anticipated future revenue from that community. We would also continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. Any such loss could materially and adversely affect our business and our financial condition and results of operations.

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Insurance coverage for earthquakes can be costly and in limited supply. As a result, we may experience shortages in desired coverage levels if market conditions are such that insurance is not available or the cost of insurance makes it, in the Company's view, economically impractical.

Severe or inclement weather risk. We are exposed to risks associated with inclement or severe weather, including hurricanes, severe winter storms and coastal flooding. Severe or inclement weather may result in increased costs resulting from increased maintenance, repair of water and wind damage, removal of snow and ice, and, in the case of our Development Communities, delays in construction that result in increased construction costs and delays in realizing rental revenues from a community.

A single catastrophe that affects one of our regions, such as an earthquake that affects the West Coast or a hurricane or severe winter storm that affects the Mid-Atlantic, Metro New York/New Jersey or New England regions, may have a significant negative effect on our financial condition and results of operations.

Climate change risk. To the extent that significant changes in the climate occur in areas where our communities are located, we may experience extreme weather and changes in precipitation and temperature, all of which may result in physical damage to or a decrease in demand for properties located in these areas or affected by these conditions. Should the impact of climate change be material in nature, including significant property damage to or destruction of our communities, or occur for lengthy periods of time, our financial condition or results of operations may be adversely affected. In addition, changes in federal, state and local legislation and regulation based on concerns about climate change could result in increased capital expenditures on our existing properties and our new development properties (for example, to improve their energy efficiency and/or resistance to inclement weather) without a corresponding increase in revenue, resulting in adverse impacts to our net income.

Terrorism risk. We have significant investments in large metropolitan markets, such as Metro New York/New Jersey and Washington, D.C., which have in the past been or may in the future be the target of actual or threatened terrorist attacks. Future terrorist attacks in these markets could directly or indirectly damage our communities, both physically and financially, or cause losses that exceed our insurance coverage and that could have a material adverse effect on our business, financial condition and results of operations.

A significant uninsured property or liability loss could have a material adverse effect on our financial condition and results of operations.

In addition to the earthquake insurance discussed above, we carry commercial general liability insurance, property insurance and terrorism insurance with respect to our communities on terms and in amounts we consider commercially reasonable. There are, however, certain types of losses (such as losses arising from acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in the Company's view, economically impractical. If an uninsured property loss or a property loss in excess of insured limits were to occur, we could lose our capital invested in a community, as well as the anticipated future revenues from such community. We would also continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. If an uninsured liability to a third party were to occur, we would incur the cost of defense and settlement with, or court ordered damages to, that third party. A significant uninsured property or liability loss could have a material adverse effect on our business and our financial condition and results of operations.

We may incur costs due to environmental contamination or non-compliance.

Under various federal, state and local environmental and public health laws, regulations and ordinances, we may be required, regardless of knowledge or responsibility, to investigate and remediate the effects of hazardous or toxic substances or petroleum product releases at our properties (including in some cases natural substances such as methane and radon gas) and may be held liable under these laws or common law to a governmental entity or to third parties for property, personal injury or natural resources damages and for investigation and remediation costs incurred as a result of the contamination. These damages and costs may be substantial and may exceed any insurance coverage we have for such events. The presence of these substances, or the failure to properly remediate the contamination, may adversely affect our ability to borrow against, develop, sell or rent the affected property. In addition, some environmental laws create or allow a government agency to impose a lien on the contaminated site in favor of the government for damages and costs it incurs as a result of the contamination.

The development, construction and operation of our communities are subject to regulations and permitting under various federal, state and local laws, regulations and ordinances, which regulate matters including wetlands protection, storm water runoff and wastewater discharge. These laws and regulations may impose restrictions on the manner in which our communities may be developed, and noncompliance with these laws and regulations may subject us to fines and penalties.

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Certain federal, state and local laws, regulations and ordinances govern the removal, encapsulation or disturbance of asbestos containing materials ("ACMs") when such materials are in poor condition or in the event of renovation or demolition of a building. These laws and the common law may impose liability for release of ACMs and may allow third parties to seek recovery from owners or operators of real properties for personal injury associated with exposure to ACMs. We are not aware that any ACMs were used in the construction of the communities we developed. ACMs were, however, used in the construction of a number of the communities that we have acquired. Although we implement an operations and maintenance program at each of the communities at which ACMs are detected, we may fail to adequately observe such program or a disturbance of ACMs may occur nevertheless, exposing us to liability.

We are aware that some of our communities have lead paint and have implemented an operations and maintenance program at each of those communities.

Environmental agencies and third parties may assert claims for remediation or personal injury based on the alleged actual or potential intrusion into buildings of chemical vapors from soils or groundwater underlying or in the vicinity of those buildings or on nearby properties.

All of our stabilized operating communities, and all of the communities that we are currently developing, have been subjected to at least a Phase I or similar environmental assessment, which generally does not involve invasive techniques such as soil or groundwater sampling. These assessments, together with subsurface assessments conducted on some properties, have not revealed, and we are not otherwise aware of, any environmental conditions that we believe would have a material adverse effect on our business, assets, financial condition or results of operations. In connection with our ownership, operation and development of communities, from time to time we undertake substantial remedial action in response to the presence of subsurface or other contaminants, including contaminants in soil, groundwater and soil vapor beneath or affecting our buildings. In some cases, an indemnity exists upon which we may be able to rely if environmental liability arises from the contamination or remediation costs exceed estimates. There can be no assurance, however, that all necessary remediation actions have been or will be undertaken at our properties or that we will be indemnified, in full or at all, in the event that environmental liability arises.

Mold growth may occur when excessive moisture accumulates in buildings or on building materials, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. Certain molds may in some instances lead to adverse health effects, including allergic or other reactions. To help limit mold growth, we educate residents about the importance of adequate ventilation and request or require that they notify us when they see mold or excessive moisture. We have established procedures for promptly addressing and remediating mold or excessive moisture from apartment homes when we become aware of its presence regardless of whether we or the resident believe a health risk is presented. However, we cannot provide assurance that mold or excessive moisture will be detected and remediated in a timely manner. If a significant mold problem arises at one of our communities, we could be required to undertake a costly remediation program to contain or remove the mold from the affected community and could be exposed to other liabilities that may exceed any applicable insurance coverage.

Additionally, we have occasionally been involved in developing, managing, leasing and operating various properties for third parties. Consequently, we may be considered to have been an operator of such properties and, therefore, potentially liable for removal or remediation costs or other potential costs which relate to the release or presence of hazardous or toxic substances or petroleum products at such properties.

We cannot assure you that:

- the environmental assessments described above have identified all potential environmental liabilities;
- no prior owner created any material environmental condition not known to us or the consultants who prepared the assessments;

- no environmental liabilities have developed since the environmental assessments were prepared;
- the condition of land or operations in the vicinity of our communities, such as the presence of underground storage tanks, will not affect the environmental condition of our communities;
- future uses or conditions, including, without limitation, changes in applicable environmental laws and regulations, will not result in the imposition of environmental liability; and
- no environmental liabilities will arise at communities that we have sold for which we may have liability.

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Our success depends on key personnel whose continued service is not guaranteed.

Our success depends in part on our ability to attract and retain the services of executive officers and other personnel. Our executive officers make important capital allocation decisions or recommendations to our Board of Directors from among the opportunities identified by our regional offices. There is substantial competition for qualified personnel in the real estate industry, and the loss of our key personnel could adversely affect the Company.

Failure to qualify as a REIT would cause us to be taxed as a corporation, which would significantly reduce funds available for distribution to stockholders.

If we fail to qualify as a REIT for federal income tax purposes, we will be subject to regular U.S. federal corporate income tax on our taxable income. In addition, unless we are entitled to relief under applicable statutory provisions, we would be ineligible to make an election for treatment as a REIT for the four taxable years following the year in which we lose our qualification. The additional tax liability resulting from the failure to qualify as a REIT would significantly reduce or eliminate the amount of funds available for distribution to our stockholders. Furthermore, we would no longer be required to make distributions to our stockholders. Thus, our failure to qualify as a REIT could also impair our ability to expand our business and raise capital, and would adversely affect the value of our common stock.

We believe that we are organized and qualified as a REIT, and we intend to operate in a manner that will allow us to continue to qualify as a REIT. However, we cannot assure you that we are qualified as a REIT, or that we will remain qualified in the future. This is because qualification as a REIT involves the application of highly technical and complex provisions of the Code for which there are only limited judicial and administrative interpretations and involves the determination of a variety of factual matters and circumstances not entirely within our control. Our qualification as a REIT will depend on our satisfaction of certain asset, income, organizational, distribution, shareholder ownership and other requirements on a continuing basis. In addition, future legislation, new regulations, administrative interpretations or court decisions may significantly change the tax laws or the application of the tax laws with respect to qualification as a REIT for federal income tax purposes or the federal income tax consequences of this qualification.

Even if we qualify as a REIT, we will be subject to certain federal, state and local taxes on our income and property and on taxable income that we do not distribute to our stockholders. In addition, we hold through our taxable REIT subsidiaries certain assets and engage in certain activities that a REIT could not engage in directly. We also use taxable REIT subsidiaries to hold certain assets that we believe would be subject to the 100% prohibited transaction tax if sold at a gain outside of a taxable REIT subsidiary or to engage in activities that generate non-qualifying REIT income. Our taxable REIT subsidiaries are subject to U.S. tax as regular corporations. The Archstone Acquisition increased the amount of assets held through our taxable REIT subsidiaries.

Prospective investors are urged to consult with their tax advisors regarding the effects of recently enacted tax legislation and other legislative, regulatory and administrative developments.

On December 22, 2017, H.R. 1, informally titled the Tax Cuts and Jobs Act (the “TCJA”), was enacted. The TCJA made major changes to the Code, including a number of provisions of the Code that affect the taxation of REITs and their stockholders. The long-term effect of the significant changes made by the TCJA remains uncertain, and additional administrative guidance will be required in order to fully evaluate the effect of many provisions. The effect of any technical corrections with respect to the TCJA could have an adverse effect on us or our stockholders or holders of our debt securities.

The ability of our stockholders to control our policies and effect a change of control of our company is limited by certain provisions of our charter and bylaws and by Maryland law.

There are provisions in our charter and bylaws that may discourage a third party from making a proposal to acquire us, even if some of our stockholders might consider the proposal to be in their best interests. These provisions include the following:

Our charter authorizes our Board of Directors to issue up to 50,000,000 shares of preferred stock without stockholder approval and to establish the preferences and rights, including voting rights, of any series of preferred stock issued. The Board of Directors may issue preferred stock without stockholder approval, which could allow the Board to issue one or more classes or series of preferred stock that could discourage or delay a tender offer or a change in control.

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To maintain our qualification as a REIT for federal income tax purposes, not more than 50% in value of our outstanding stock may be owned, directly or indirectly, by or for five or fewer individuals at any time during the last half of any taxable year. To maintain this qualification, and/or to address other concerns about concentrations of ownership of our stock, our charter generally prohibits ownership (directly, indirectly by virtue of the attribution provisions of the Code, or beneficially as defined in Section 13 of the Securities Exchange Act) by any single stockholder of more than 9.8% of the issued and outstanding shares of any class or series of our stock. In general, under our charter, pension plans and mutual funds may directly and beneficially own up to 15% of the outstanding shares of any class or series of stock. Under our charter, our Board of Directors may in its sole discretion waive or modify the ownership limit for one or more persons, but it is not required to do so even if such waiver would not affect our qualification as a REIT. These ownership limits may prevent or delay a change in control and, as a result, could adversely affect our stockholders' ability to realize a premium for their shares of common stock.

As a Maryland corporation, we are subject to the provisions of the Maryland General Corporation Law. Maryland law imposes restrictions on some business combinations and requires compliance with statutory procedures before some mergers and acquisitions may occur, which may delay or prevent offers to acquire us or increase the difficulty of completing any offers, even if they are in our stockholders' best interests. In addition, other provisions of the Maryland General Corporation Law permit the Board of Directors to make elections and to take actions without stockholder approval (such as classifying our Board such that the entire Board is not up for re-election annually) that, if made or taken, could have the effect of discouraging or delaying a change in control.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. COMMUNITIES

Our real estate investments consist primarily of current operating apartment communities, communities in various stages of development ("Development Communities") and Development Rights (as defined below). Our current operating communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities, Redevelopment Communities and Unconsolidated Communities. While we generally establish the classification of communities on an annual basis, we intend to 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, Redevelopment or Unconsolidated according to the following attributes:

- Established Communities (also known as Same Store Communities) are consolidated communities in the markets where we have a significant presence (New England, New York/New Jersey, Mid-Atlantic, Pacific Northwest, and Northern and Southern California) and 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 as of the beginning of the respective prior year. The Established Communities for the year ended December 31, 2018 are communities that are consolidated for financial reporting purposes, had stabilized occupancy as of January 1, 2017, are not conducting or planning to conduct substantial redevelopment activities, and are not held for sale or planned for disposition within the fiscal 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 consolidated communities that have stabilized occupancy, as defined above, as January 1, 2018, or which were acquired during the year ended December 31, 2018. Other Stabilized Communities includes stabilized operating communities in our expansion markets of Denver, Colorado, and Southeast Florida, but excludes communities that are conducting or planning to conduct substantial redevelopment activities within the fiscal year.

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

- Redevelopment Communities are consolidated communities where substantial redevelopment is in progress or is planned to begin during the fiscal year. Redevelopment is considered substantial when capital invested during the reconstruction effort is expected to exceed the lesser of $5,000,000 or 10% of the community's pre-redevelopment basis and is expected to have a material impact on the operations of the community, including occupancy levels and future rental rates.

- Unconsolidated Communities are communities that we have an indirect ownership interest in through our investment interest in an unconsolidated entity.

Development Communities are communities that are either currently under construction, or were under construction and completed during the fiscal year. These communities may be partially complete and operating.

Development Rights are development opportunities in the early phase of the development process where we either have an option to acquire land or enter into a leasehold interest, where we are the buyer under a long-term conditional contract to purchase land, where we control the land through a ground lease or own land to develop a new community, or where we are the designated developer in a public-private partnership. 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, as well as our other regional and administrative offices under operating leases.

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As of December 31, 2018, 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	35	8,301
Metro NY/NJ	35	10,389
Mid-Atlantic	28	9,274
Pacific Northwest	14	3,256
Northern California	36	10,798
Southern California	46	12,883
Total Established	194	54,901
Other Stabilized Communities:		
New England	4	1,164
Metro NY/NJ	9	2,363
Mid-Atlantic	7	2,593
Pacific Northwest	2	860
Northern California	4	1,111
Southern California	9	3,220
Expansion Markets	5	1,408
Non-Core	3	1,014
Total Other Stabilized	43	13,733
Lease-Up Communities	9	2,608
Redevelopment Communities	9	3,648
Unconsolidated Communities	15	3,659
Total Current Communities	270	78,549
Development Communities (1)	21	6,609
Total Communities	291	85,158
Development Rights	28	9,769

(1) Development Communities excludes the development of 15 West 61st Street, expected to contain 172 residential units and 67,000 square feet of retail space. We are pursuing a potential for-sale strategy of individual condominium units for the residential portion, while we would maintain ownership of the retail portion.

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

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We generally establish the composition of our Established Communities portfolio annually. Changes in the Established Communities portfolios for the years ended December 31, 2018, 2017 and 2016 were as follows:

	Number of communities
Established Communities as of December 31, 2015	177
Communities added	25
Communities removed (1):	
Redevelopment Communities	(3)
Disposed Communities	(6)
Communities with multiple phases combined	(2)
Established Communities as of December 31, 2016	191
Communities added	17
Communities removed (1):	
Redevelopment Communities	(10)
Disposed Communities	(6)
Other Stabilized (2)	(1)
Communities with multiple phases combined	(1)
Established Communities as of December 31, 2017	190
Communities added	25
Communities removed (1):	
Redevelopment Communities	(9)
Disposed Communities (3)	(13)
Other Stabilized (2)	(1)
Communities with multiple phases separated	2
Established Communities as of December 31, 2018	194

(1) We remove a community from our Established Communities portfolio if we believe that planned activity for a community for the upcoming year will result in that community's expected operations not being comparable to the prior year period. We believe that a community's expected operations will not be comparable to the prior year period when we intend either (i) to undertake a significant capital renovation of the community, such that we would consider the community to be classified as a Redevelopment Community; (ii) to dispose of a community through a sale or other disposition transaction; or (iii) when a significant casualty loss occurs.

(2) Community was moved from the Established Communities portfolio to the Other Stabilized portfolio as a result of a casualty loss that occurred during the year and impacted operations.

(3) Includes the five wholly-owned communities contributed to the NYC Joint Venture.

Current Communities

Our Current Communities include garden-style apartment communities consisting of multi-story buildings of stacked flats and/or townhome apartments in landscaped settings, as well as mid and high rise apartment communities consisting of larger elevator-served buildings of four or more stories, frequently with structured parking. As of January 31, 2019, our Current Communities consisted of the following:

	Number of communities	Number of apartment homes
Garden-style	131	39,699
Mid-rise	110	30,296
High-rise	28	8,370

Total Current Communities	269	78,365

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As discussed in Item 1. “Business,” we operate under three core brands Avalon, AVA and Eaves by Avalon. We believe that this branding differentiation allows us to target our product offerings to multiple customer groups and submarkets within our existing geographic footprint. Our core “Avalon” brand focuses on upscale apartment living and high end amenities and services. “AVA” targets customers in high energy, transit-served urban neighborhoods and generally feature smaller apartments, many of which are designed for roommate living with an emphasis on modern design and a technology focus. “Eaves by Avalon” is targeted to the cost conscious, “value” segment in suburban areas. We believe that these brands allow us to further penetrate our existing markets by targeting our market by consumer preference and attitude as well as by location and price.

We also have an extensive and ongoing maintenance program to continually maintain and enhance our communities and apartment homes. The aesthetic appeal of our communities and a service-oriented property management team, focused on the specific needs of residents, enhances market appeal to discriminating residents. We believe our mission of Creating a Better Way To Live helps us achieve higher rental rates and occupancy levels while minimizing resident turnover and operating expenses.

Our Current Communities are located in the following geographic markets:

	Number of communities at		Number of apartment homes at		Percentage of total apartment homes at			
	1/31/2018	1/31/2019	1/31/2018	1/31/2019	1/31/2018		1/31/2019	
New England	50	47	12,392	11,846	15.9	%	15.1	%
Boston, MA	40	37	10,422	9,876	13.4	%	12.6	%
Fairfield, CT	10	10	1,970	1,970	2.5	%	2.5	%
Metro NY/NJ	51	54	14,470	15,279	18.6	%	19.5	%
New York City, NY	13	14	4,909	5,089	6.3	%	6.5	%
New York Suburban	18	19	4,419	4,573	5.7	%	5.8	%
New Jersey	20	21	5,142	5,617	6.6	%	7.2	%
Mid-Atlantic	40	41	14,461	14,380	18.6	%	18.4	%
Washington Metro/Baltimore, MD	40	41	14,461	14,380	18.6	%	18.4	%
Pacific Northwest	18	17	4,669	4,538	6.0	%	5.8	%
Seattle, WA	18	17	4,669	4,538	6.0	%	5.8	%
Northern California	41	42	12,222	12,548	15.8	%	16.0	%
San Jose, CA	12	12	4,713	4,713	6.1	%	6.0	%
Oakland-East Bay, CA	13	13	3,847	3,847	5.0	%	4.9	%
San Francisco, CA	16	17	3,662	3,988	4.7	%	5.1	%
Southern California	62	60	17,764	17,352	23.0	%	22.1	%
Los Angeles, CA	40	40	11,916	11,916	15.4	%	15.2	%
Orange County, CA	13	12	3,621	3,370	4.7	%	4.3	%
San Diego, CA	9	8	2,227	2,066	2.9	%	2.6	%
Expansion markets	2	5	622	1,408	0.8	%	1.8	%
Denver, CO	1	3	252	748	0.3	%	1.0	%
Southeast Florida	1	2	370	660	0.5	%	0.8	%

Non-Core	3	3	1,014	1,014	1.3 %	1.3 %
	267	269	77,614	78,365	100.0 %	100.0 %

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We manage and operate substantially all of our Current Communities. During the year ended December 31, 2018, we completed construction of seven communities containing 1,915 apartment homes, one of which was developed through an unconsolidated joint venture, and sold 10 operating communities containing an aggregate of 2,321 apartment homes, as well as the five communities contributed to the NYC Joint Venture. The average age of our Current Communities, on a weighted average basis according to number of apartment homes, is 19.2 years. When adjusted to reflect redevelopment activity, as if redevelopment were a new construction completion date, the weighted average age of our Current Communities is 9.9 years.

Of the Current Communities, as of January 31, 2019, we owned (directly or through wholly-owned subsidiaries):

- 252 operating communities, including 241 with a full fee simple, or absolute, ownership interest and 11 that are on land subject to a land lease. The land leases have various expiration dates from October 2026 to March 2142, and six of the land leases are used to support tax advantaged structures that ultimately allow us to purchase the land upon lease expiration.

- A general partnership interest and an indirect limited partnership interest in Archstone Multifamily Partners AC LP (the “U.S. Fund”), Multifamily Partners AC JV LP (the “AC JV”) and North Point II JV, LP, subsidiaries of which own five, two and one operating communities, respectively. One community owned by the U.S. Fund is subject to a land lease.

- A membership interest in four limited liability companies, one of which, the NYC Joint Venture, through subsidiaries owns a fee simple interest in three operating communities and a leasehold interest in two additional operating communities, and three ventures that each hold a fee simple interest in an operating community.

- A general partnership interest in one partnership structured as a “DownREIT,” as described more fully below, that owns one community.

We also hold, directly or through wholly-owned subsidiaries, the full fee simple ownership interest in our Development Communities, as well as a mixed-use project currently being developed in which we are pursuing a potential for-sale strategy of individual condominium units.

In our partnership structured as a DownREIT, one of our wholly-owned subsidiaries is the general partner, and there are limited partners whose interest in the partnership is represented by units of limited partnership interest. Limited partners are entitled to receive an initial distribution before any distribution is made to the general partner. Under the partnership agreement for the DownREIT, the distributions per unit paid to the holders of units of limited partnership interests are equal to our current common stock dividend amount. The holders of units of limited partnership interest have the right to present all or some of their units for redemption for a cash amount as determined by the partnership agreement and based on the fair value of our common stock. In lieu of a cash redemption by the partnership, we may elect to acquire any unit presented for redemption for one share of our common stock or for such cash amount. As of January 31, 2019, there were 7,500 DownREIT partnership units outstanding. The DownREIT partnership is consolidated for financial reporting purposes.

Development Communities

As of December 31, 2018, we owned or held a direct or indirect interest in 21 Development Communities under construction. We expect these Development Communities, when completed, to add a total of 6,609 apartment homes and 87,000 square feet of retail space to our portfolio for a total capitalized cost, including land acquisition costs, of approximately $2,383,000,000. Additionally, we are pursuing a potential for-sale strategy of individual condominium units for the residential portion of the 15 West 61st Street development, which is currently under construction and when completed is expected to contain 172 residential units and 67,000 square feet of retail space for a total capitalized cost of $620,000,000. We currently intend to own and operate the retail portion of the development. We cannot assure you that we will meet our schedule for construction completion or that we will meet our budgeted costs, either individually, or in the aggregate. You should carefully review Item 1A. “Risk Factors” for a discussion of the risks associated with development activity and our discussion under Item 7. “Management's Discussion and Analysis of Financial Condition and Results of Operations” (including the factors identified under “Forward-Looking Statements”) for further discussion of development activity.

The following table presents a summary of the Development Communities. We hold a fee simple ownership interest in these communities (directly or through a wholly-owned subsidiary) unless otherwise noted in the table.

		Number of apartment homes	Projected total capitalized cost (1) ($ millions)	Construction start	Initial actual/ projected occupancy (2)	Estimated completion	Estimated stabilization (3)
1.	Avalon Boonton Boonton, NJ	350	$ 91	Q3 2016	Q1 2019	Q1 2020	Q3 2020
2.	Avalon Belltown Towers (4) Seattle, WA	273	147	Q4 2016	Q2 2019	Q4 2019	Q2 2020
3.	Avalon Public Market Emeryville, CA	289	163	Q4 2016	Q2 2019	Q4 2019	Q2 2020
4.	Avalon Teaneck Teaneck, NJ	248	73	Q4 2016	Q3 2019	Q1 2020	Q3 2020
5.	AVA Hollywood (4) Hollywood, CA	695	365	Q4 2016	Q3 2019	Q3 2020	Q1 2021
6.	AVA Esterra Park Redmond, WA	323	91	Q2 2017	Q4 2018	Q3 2019	Q1 2020
7.	Avalon at the Hingham Shipyard II Hingham, MA	190	65	Q2 2017	Q3 2018	Q2 2019	Q4 2019
8.	Avalon Piscataway Piscataway, NJ	360	90	Q2 2017	Q3 2018	Q2 2019	Q4 2019
9.	Avalon Sudbury Sudbury, MA	250	85	Q3 2017	Q2 2018	Q2 2019	Q3 2019
10.	Avalon Towson Towson, MD	371	114	Q4 2017	Q1 2020	Q4 2020	Q2 2021
11.	Avalon Yonkers Yonkers, NY	590	188	Q4 2017	Q3 2019	Q2 2021	Q3 2021
12.	Avalon Walnut Creek II Walnut Creek, CA	200	109	Q4 2017	Q4 2019	Q2 2020	Q4 2020
13.	Avalon North Creek Bothell, WA	316	84	Q4 2017	Q2 2019	Q1 2020	Q3 2020
14.	Avalon Saugus (4) Saugus, MA	280	93	Q2 2018	Q2 2019	Q1 2020	Q3 2020
15.	Avalon Doral Doral, FL	350	111	Q2 2018	Q2 2020	Q1 2021	Q3 2021
16.	Avalon Norwood Norwood, MA	198	61	Q2 2018	Q3 2019	Q1 2020	Q3 2020
17.	Avalon Harbor East Baltimore, MD	400	139	Q3 2018	Q4 2020	Q3 2021	Q1 2022
18.	Avalon Old Bridge Old Bridge, NJ	252	66	Q3 2018	Q1 2020	Q3 2020	Q1 2021
19.	Avalon Newcastle Commons II Newcastle, WA	293	106	Q4 2018	Q3 2020	Q1 2021	Q3 2021
20.	Twinbrook Station Rockville, MD	238	66	Q4 2018	Q2 2020	Q4 2020	Q1 2021
21.		143	76	Q4 2018	Q3 2020	Q3 2021	Q4 2021

Avalon Harrison (4)(5) Harrison, NY		
Total (6)	6,609	$ 2,383

(1) Projected total capitalized cost includes all capitalized costs projected to be or actually incurred to develop the respective Development Community, determined in accordance with GAAP, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees, as well as costs incurred for first generation retail tenants such as tenant improvements and leasing commissions. Projected total capitalized cost for communities identified as having joint venture ownership, either during construction or upon construction completion, represents the total projected joint venture contribution amount unless otherwise noted.

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

(3) Stabilized operations is defined as the earlier of (i) attainment of 95% or greater physical occupancy or (ii) the one-year anniversary of completion of development.

(4) Developments containing at least 10,000 square feet of retail space include Avalon Belltown Towers (11,000 square feet), AVA Hollywood (19,000 square feet), Avalon Saugus (23,000 square feet), and Avalon Harrison (27,000 square feet).

(5) We signed a land disposition and development agreement with the transportation authorities controlling such property relating to the development of this community. During the fourth quarter of 2018, all internal Company approvals were given to authorize the commitment of funds for the construction of this community.

(6) Development Communities excludes 15 West 61st Street, which is currently under construction. 15 West 61st Street is expected to contain 172 residential units and 67,000 square feet of retail space when completed and is expected to be developed for an estimated total capitalized cost of $620 million. We are currently pursuing a potential for-sale strategy of individual condominium units for the residential portion and currently intend to own and operate the retail portion of the development, both of which are expected to complete construction during 2019.

During the year ended December 31, 2018, the Company completed the development of the following communities:

		Number of apartment homes	Total capitalized cost (1) ($ millions)	Approximate rentable area (sq. ft.)	Total capitalized cost per sq. ft.	Quarter of completion
1.	AVA NoMa Washington, D.C.	438	$ 144	373,828	$ 385	Q1 2018
2.	Avalon Brooklyn Bay (2) Brooklyn, NY	180	97	149,881	$ 647	Q1 2018
3.	Avalon Somers Somers, NY	152	46	179,401	$ 256	Q1 2018
4.	AVA Wheaton Wheaton, MD	319	76	268,953	$ 283	Q2 2018
5.	Avalon Maplewood (3) Maplewood, NJ	235	65	209,628	$ 310	Q2 2018
6.	Avalon Dogpatch San Francisco, CA	326	204	262,478	$ 777	Q3 2018
7.	AVA North Point (4) Cambridge, MA	265	110	226,912	$ 485	Q3 2018
	Total	1,915	$ 742			

(1) Total capitalized cost is as of December 31, 2018. We generally anticipate incurring additional costs associated with these communities that are customary for new developments.

(2) We developed this project with a private development partner. We own the rental portion of the development on floors 3 through 19 and the partner owns the for-sale condominium portion of the development on floors 20 through 30. The information above represents only our portion of the project. We provided a construction loan to the development partner, which is being repaid with proceeds the partner receives from the sale of the condominium portion of the project. The balance as of December 31, 2018 was $12.8 million, representing outstanding principal and interest, net of repayments, as discussed in Note 5, “Investments in Real Estate Entities,” of the Consolidated Financial Statements set forth in Item 8 of this report.

(3) In February 2017, a fire occurred at Avalon Maplewood. See "Insurance and Risk of Uninsured Losses" for further discussion.

(4) We developed this project within an unconsolidated joint venture that was formed in July 2016, in which we own a 55.0% interest. The information above represents the total cost for the venture.

Redevelopment Communities

As of December 31, 2018, we had nine communities under redevelopment. We expect the total capitalized cost to redevelop these communities to be $177,000,000, excluding costs incurred prior to redevelopment. We have found that the cost to redevelop an existing apartment community is more difficult to budget and estimate than the cost to develop a new community. Accordingly, we expect that actual costs may vary from our budget by a wider range than for a new Development Community. We cannot assure you that we will meet our schedule for reconstruction completion or for attaining restabilized operations, or that we will meet our budgeted costs, either individually or in the aggregate. We anticipate maintaining or increasing our current level of redevelopment activity related to communities in our current operating portfolio. In addition, during 2018, we completed the reconstruction of the building that was destroyed in the Edgewater casualty loss in 2015. The new Edgewater building contains 240 apartment homes and was reconstructed for a total capitalized cost of $61,000,000, excluding costs incurred prior to the start of reconstruction. You should carefully review Item 1A. “Risk Factors” for a discussion of the risks associated with redevelopment activity.

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The following presents a summary of these Redevelopment Communities:

		Number of apartment homes	Projected total capitalized cost ($ millions) (1)(2)	Reconstruction start	Estimated reconstruction completion (2)	Estimated restabilized operations (3)
1.	Avalon Prudential Center II Boston, MA	266	$ 19	Q1 2017	Q4 2019	Q2 2020
2.	AVA Van Ness Washington, D.C.	269	20	Q3 2017	Q1 2019	Q3 2019
3.	Avalon Ballston Square Arlington, VA	714	25	Q4 2017	Q2 2019	Q4 2019
4.	Eaves Seal Beach Seal Beach, CA	549	32	Q1 2018	Q4 2019	Q2 2020
5.	Eaves Redmond Campus Redmond, WA	422	24	Q1 2018	Q2 2019	Q4 2019
6.	Eaves Fairfax Towers Falls Church, VA	415	14	Q1 2018	Q4 2019	Q2 2020
7.	Avalon Prudential Center I Boston, MA	243	18	Q1 2018	Q1 2020	Q3 2020
8.	Avalon Court Melville, NY	494	15	Q1 2018	Q3 2019	Q1 2020
9.	Avalon Studio City Studio City, CA	276	10	Q2 2018	Q1 2019	Q3 2019
	Total	3,648	$ 177			

(1) Projected total capitalized cost does not include capitalized costs incurred prior to redevelopment.
(2) Projected total capitalized costs represent the aggregate of any multiple phase redevelopments and the estimated reconstruction completion dates reflect all planned phases.
(3) Estimated restabilized operations is defined as the earlier of (i) attainment of 95% or greater physical occupancy or (ii) the one-year anniversary of completion of redevelopment.

Development Rights

At December 31, 2018, we had $84,712,000 in acquisition and related capitalized costs for direct interests in land parcels we own, and $47,443,000 in capitalized costs (including legal fees, design fees and related overhead costs) related to Development Rights for which we control the land parcel, typically through a conditional agreement or option to purchase or lease the land. Collectively, the land held for development and associated costs for deferred development rights relate to 28 Development Rights for which we expect to develop new apartment communities in the future. The cumulative capitalized costs for land held for development as of December 31, 2018 includes $74,342,000 in original land acquisition costs, net of any impairment loss recognized. The Development Rights range from those beginning design and architectural planning to those that have completed site plans and drawings and can begin construction almost immediately. We estimate that the successful completion of all of these communities would ultimately add approximately 9,769 apartment homes to our portfolio. Substantially all of these apartment homes will offer features like those offered by the communities we currently own.

For 21 Development Rights, we control the land through a conditional agreement or option to purchase or lease the parcel. While we generally prefer to hold Development Rights through conditional agreements or options to acquire land, for one Development Right we currently own the land on which a community would be built if we proceeded with development. In addition, six Development Rights are additional development phases of existing stabilized operating communities we own and will be constructed on land currently associated with, or adjacent to, those operating communities. During the next 12 months we expect to commence construction of an apartment community on the Development Right for which we currently own the land, with a carrying basis of $84,712,000.

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The properties comprising the Development Rights are in different stages of the due diligence and regulatory approval process. The decisions as to which of the Development Rights to invest in, if any, or to continue to pursue once an investment in a Development Right is made, are business judgments that we make after we perform financial, demographic and other analyses. In the event that we do not proceed with a Development Right, we generally would not recover any of the capitalized costs incurred in the pursuit of those communities, unless we were to recover amounts in connection with the sale of land; however, we cannot guarantee a recovery. Pre-development costs incurred in the pursuit of Development Rights, for which future development is not yet considered probable, are expensed as incurred. In addition, if the status of a Development Right changes, making future development no longer probable, any capitalized pre-development costs are charged to expense. During 2018, we incurred a charge of $4,309,000 for development pursuits that were not yet probable of future development at the time incurred, or for pursuits that we determined were no longer probable of being developed.

You should carefully review Item 1A. “Risk Factors,” for a discussion of the risks associated with Development Rights.

The following presents a summary of the Development Rights:

Market	Number of rights	Estimated number of homes	Projected total capitalized cost ($ millions) (1)
New England	6	1,233	$ 446
Metro NY/NJ	8	3,955	1,710
Mid-Atlantic	1	437	99
Pacific Northwest	2	552	169
Northern California	5	1,543	829
Southern California	4	1,444	677
Denver	2	605	194
Total	28	9,769	$ 4,124

(1) Projected total capitalized cost includes all capitalized costs incurred to date (if any) and projected to be incurred to develop the respective community, determined in accordance with GAAP, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees, as well as costs incurred for first generation retail tenants such as tenant improvements and leasing commissions.

Land Acquisitions

We select land for development and follow established procedures that we believe minimize both the cost and the risks of development. During 2018, we acquired land parcels for seven Development Rights, as shown in the table below, for an aggregate investment of $140,563,000. For all of the parcels, construction has either started or is expected to start within the next six months.

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		Estimated number of apartment homes	Projected total capitalized cost (1) ($ millions)	Date acquired
1.	Avalon Yonkers (2) Yonkers, NY	590	$ 188	January 2018
2.	Avalon Norwood Norwood, MA	198	61	January 2018
3.	Avalon Public Market (2) Emeryville, CA	289	163	February 2018
4.	Avalon Brea Place Brea. CA	653	284	February and May 2018
5.	Avalon Towson Towson, MD	371	114	March 2018
6.	Avalon Doral Doral, FL	350	111	May 2018
7.	Avalon Old Bridge Old Bridge, NJ	252	66	October 2018
	Total	2,703	$ 987	

(1) Projected total capitalized cost includes all capitalized costs incurred to date (if any) and projected to be incurred to develop the respective community, determined in accordance with GAAP, including land and related acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees, as well as costs incurred for first generation retail tenants such as tenant improvements and leasing commissions, net of projected proceeds for any planned sales of associated outparcels and other real estate.

(2) Additional parcel of land acquired in 2018 for a current Development Community. The estimated number of apartment homes and projected total capitalized cost represent the amounts for the full Development Community.

Disposition Activity

We sell assets when they do not meet our long-term investment strategy or when real estate markets allow us to realize a portion of the value created over our periods of ownership, and we generally redeploy the proceeds from those sales to develop, redevelop and acquire communities. Pending such redeployment, we will generally use the proceeds from the sale of these communities to reduce amounts outstanding under our Credit Facility or retain the cash proceeds on our balance sheet until it is redeployed into acquisition, development or redevelopment activity. On occasion, we will set aside the proceeds from the sale of communities into a cash escrow account to facilitate a tax deferred, like-kind exchange transaction. From January 1, 2018 to January 31, 2019, we sold our interest in nine wholly-owned operating communities, containing 1,982 apartment homes, with an aggregate gross sales price of $688,750,000, excluding the five wholly-owned operating communities contributed to the NYC Joint Venture.

Insurance and Risk of Uninsured Losses

We maintain commercial general liability insurance and property insurance with respect to all of our communities. These policies, along with other insurance policies we maintain, have policy specifications, insured and self-insured limits, exclusions and deductibles that we consider commercially reasonable. There are, however, certain types of losses (including, but not limited to, losses arising from nuclear liability or acts of war) that are not insured, in full or in part, because they are either uninsurable or the cost of insurance makes it, in management’s view, economically impractical. You should carefully review the discussion under Item 1A. “Risk Factors” of this Form 10-K for a discussion of risks associated with an uninsured property or casualty loss.

Many of our West Coast communities are located in the general vicinity of active earthquake faults. Many of our communities are near, and thus susceptible to, the major fault lines in California, including the San Andreas Fault, the Hayward Fault or other geological faults that are known or unknown. We cannot assure you that an earthquake would not cause damage or losses greater than our current insured levels. We procure property damage and resulting business interruption insurance coverage with a loss limit of $175,000,000 for any single occurrence and in the annual aggregate for losses resulting from earthquakes. However, for any losses resulting from earthquakes at communities located in California or Washington, the loss limit is $150,000,000 for any single occurrence and in the annual aggregate. The deductible applicable to losses resulting from earthquakes occurring in California is five percent of the insured value of each damaged building subject to a minimum of $100,000 and a maximum of $25,000,000 per loss. Limits, deductibles, self-insured retentions and coverages may increase or decrease annually during the insurance renewal process which occurs on different dates throughout the calendar year.

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Our communities are insured for certain property damage and business interruption losses through a combination of community specific insurance policies and/or a master property insurance program which covers the majority of our communities. This master property program provides a $400,000,000 limit for any single occurrence, subject to certain sublimits and exclusions. Under the master property program, we are subject to a $100,000 deductible per occurrence, as well as additional self-insured retention for the next $350,000 of loss, per occurrence, until the aggregate incurred self-insured retention exceeds $1,500,000 for the policy year.

Our communities are insured for third-party liability losses through a combination of community specific insurance policies and/or coverage provided under a master commercial general liability and umbrella/excess insurance program. The master commercial general liability and umbrella/excess insurance policies cover the majority of our communities and are subject to certain coverage limitations and exclusions, and they require a self-insured retention of $500,000 per occurrence.

We also maintain certain casualty policies (general liability, umbrella/excess and workers compensation) for construction related risks which have various exclusions and deductibles that, in management's view, are commercially reasonable. Certain projects are insured through our master insurance policies while others are insured through project-specific insurance policies. The limits vary by project and may be subject to deductibles up to $1,500,000 per occurrence.

We utilize a wholly-owned captive insurance company to insure certain types and amounts of risks, which includes property damage and resulting business interruption losses, general liability insurance and other construction related liability risks. In addition to our potential liability for the various policy self-insured retentions and deductibles, our captive insurance company is directly responsible for (i) 25% of the first $50,000,000 of losses (per occurrence) incurred by the master property insurance policy and (ii) covered liability claims arising out of our commercial general liability policy, subject to a $2,000,000 per occurrence loss limit. The captive is utilized to insure other limited levels of risk, which may be in part reinsured by third party insurance.

Just as with office buildings, transportation systems and government buildings, there have been reports that apartment communities could become targets of terrorism. Our communities are insured for terrorism related losses through the Terrorism Risk Insurance Program Reauthorization Act ("TRIPRA") program. This coverage extends to most of our casualty exposures (subject to deductibles and insured limits) and certain property insurance policies. We have also purchased private-market insurance for property damage due to terrorism with limits of $600,000,000 per occurrence and in the annual aggregate that includes certain coverages (not covered under TRIPRA) such as domestic-based terrorism. This insurance, often referred to as "non-certified" terrorism insurance, is subject to deductibles, limits and exclusions.

An additional consideration for insurance coverage and potential uninsured losses is mold growth or other environmental contamination. Mold growth may occur when excessive moisture accumulates in buildings or on building materials, particularly if the moisture problem remains undiscovered or is not addressed over a period of time. If a significant mold problem arises at one of our communities, we could be required to undertake a costly remediation program to contain or remove the mold from the affected community and could be exposed to other liabilities. For further discussion of the risks and our related prevention and remediation activities, please refer to the discussion under Item 1A. "Risk Factors - We may incur costs due to environmental contamination or non-compliance" elsewhere in this report. We cannot provide assurance that we will have coverage under our existing policies for property damage or liability to third parties arising as a result of exposure to mold or a claim of exposure to mold at one of our communities.

We also carry crime policies (also commonly referred to as a fidelity policy or employee dishonesty policy) and limited cyber liability insurance. The crime policies protect us, up to $30,000,000 per occurrence (subject to sublimits and exclusions), from employee theft of money, securities or property. The limited cyber liability insurance is part of our professional liability coverage and has limits of $15,000,000 per occurrence and in the annual aggregate. The cyber liability coverage protects us from certain claims arising out of data breach, wrongful acts, data privacy issues and media liability.

The amount or types of insurance we maintain may not be sufficient to cover all losses.

Maplewood Casualty Loss

In February 2017, a fire occurred at Avalon Maplewood, located in Maplewood, NJ ("Maplewood"), which at the time was under construction and not yet occupied. The Company completed reconstruction of the damaged and destroyed portions of the community as well as the vertical construction of the community in 2018. In 2017, we reached a final insurance settlement for the property damage and lost income for the Maplewood casualty loss of $19,696,000, after self-insurance and deductibles, of which $3,495,000 was recognized as business interruption insurance proceeds.

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Edgewater Casualty Loss

In January 2015, a fire occurred at our Avalon at Edgewater apartment community located in Edgewater, NJ ("Edgewater"). Edgewater consisted of two residential buildings. One building, containing 240 apartment homes, was destroyed. The second building, containing 168 apartment homes, suffered minimal damage and has been repaired. In January 2016, we reached a final settlement with our property and casualty insurers regarding the property damage and lost income related to the Edgewater casualty loss, for which we received aggregate insurance proceeds of $73,150,000, after self-insurance and deductibles. We received $44,142,000 of these recoveries in 2015, and the remaining $29,008,000 in 2016, of which $8,702,000 was recognized as an additional net casualty gain and $20,306,000 as business interruption insurance proceeds.

In 2017, we commenced the reconstruction of the destroyed building, which we completed in 2018.

To date, a number of lawsuits on behalf of former residents have been filed against us, including four class actions, approximately 23 individual actions, and subrogation actions by insurers who provided renters insurance to our residents. While we can give no assurances, we believe that any remaining liability will be covered by third party insurance and/or will not have a material impact on our statement of financial position or operations.

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ITEM 3. LEGAL PROCEEDINGS

As discussed immediately above, in January 2015, a fire occurred at the Company's Avalon at Edgewater apartment community in Edgewater, NJ. The Company believes that the fire was caused by sparks from a torch used during repairs being performed by a Company employee who was not a licensed plumber. The Company has since revised its maintenance policies to require that non-flame tools be used for plumbing repairs where possible or, where not possible inside the building envelope, that a qualified third party vendor perform the work in accordance with the Company's policies.

The Company has established protocols for processing claims from third parties who suffered losses as a result of the fire, and many third parties have contacted the Company's insurance carrier and settled their claims. Through the date of this Form 10-K, of the 229 occupied apartments destroyed in the fire, the residents of approximately 95 units have settled claims with the Company's insurer through this claims process.

With regard to the building that was destroyed, three class action lawsuits have been filed against the Company on behalf of occupants and consolidated in the United States District Court for the District of New Jersey. The Company has agreed with class counsel to the terms of a settlement which provides a claims process (with agreed upon protocols for instructing the adjuster as to how to evaluate claims) and, if needed, an arbitration process to determine damage amounts to be paid to individual claimants covered by the class settlement. In July 2017, the District Court granted final approval of the class action settlement and all claims have been submitted to the independent claims adjuster. A total of 66 units (consisting of residents who did not previously settle their claims and who did not opt out of the class settlement) are included in the class action settlement and bound by its terms. However, only approximately 45 units submitted claims. The independent claims adjuster is currently reviewing the claims submitted; the submitted claims total approximately $6,900,000 but, based on the Company's review of initial determinations made by the adjuster on a number of claims, the Company believes that the total amount actually awarded will be significantly less. To date, the claims adjuster completed its evaluation of 37 of these claims and it is expected that the evaluation of the remaining claims should be completed within the next month. In addition to the class action lawsuits described above, the Company has resolved litigated claims with tenants of approximately 60 units. There is currently one remaining resident lawsuit with respect to the destroyed building filed in the Superior Court of New Jersey, Bergen County - Law Division; the Company believes it has meritorious defenses to the extent of damages claimed in that suit. A number of subrogation lawsuits had been filed against the Company by insurers of Edgewater residents who obtained renters insurance; these lawsuits have been resolved or are expected to be resolved during the first quarter of 2019. A fourth class action, being heard in the same federal court, was filed against the Company on behalf of a purported class of residents of the second Edgewater building that suffered minimal damage; in October 2018, the court certified the class and the case will continue as a class action.

Having settled many third party claims as described above, while the Company can give no assurances, the Company currently believes that any potential remaining liability to third parties (including any potential liability to third parties determined in accordance with the class settlement described above) will not be material to the Company and will in any event be substantially covered by the Company's insurance policies.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is traded on the NYSE under the ticker symbol AVB. On January 31, 2019 there were 476 holders of record of an aggregate of 138,508,567 shares of our outstanding common stock. The number of holders does not include individuals or entities who beneficially own shares but whose shares are held of record by a broker or clearing agency, but does include each such broker or clearing agency as one record holder.

At present, we expect to continue our policy of paying regular quarterly cash dividends. However, the form, timing and/or amount of dividend distributions will be declared at the discretion of the Board of Directors and will depend on actual cash from operations, our financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code and other factors as the Board of Directors may consider relevant. The Board of Directors may modify our dividend policy from time to time.

In February 2019, we announced that our Board of Directors declared a dividend on our common stock for the first quarter of 2019 of $1.52 per share, a 3.4% increase over the previous quarterly dividend per share of $1.47. The dividend will be payable on April 15, 2019 to all common stockholders of record as of March 29, 2019.

Issuer Purchases of Equity Securities

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Dollar Amount that May Yet be Purchased Under the Plans or Programs (in thousands) (2)
October 1 - October 31, 2018	77	$172.79	—	$ 200,000
November 1 - November 30, 2018	—	$—	—	$ 200,000
December 1 - December 31, 2018	525	$190.71	—	$ 200,000

(1) Reflects shares surrendered to the Company in connection with exercise of stock options as payment of exercise price, as well as for taxes associated with the vesting of restricted share grants.

(2) As disclosed in our Form 10-Q for the quarter ended March 31, 2008, represents amounts outstanding under the Company's $500,000,000 Stock Repurchase Program. There is no scheduled expiration date to this program.

Information regarding securities authorized for issuance under equity compensation plans is included in the section entitled Item 12. “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” in this Form 10-K.

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ITEM 6. SELECTED FINANCIAL DATA

The following table provides historical consolidated financial, operating and other data for the Company. You should read the table with our Consolidated Financial Statements and the Notes included in this report (dollars in thousands, except per share data).

	For the year ended				
	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
Operating data:					
Total revenue	$2,284,535	$2,158,628	$2,045,255	$1,856,028	$1,685,061
Gain on sale of communities	$374,976	$252,599	$374,623	$115,625	$84,925
Gain (loss) on other real estate transactions	$345	$(10,907)	$10,224	$9,647	$490
Income from continuing operations	$974,175	$876,660	$1,033,708	$741,733	$659,148
Income from discontinued operations	$—	$—	$—	$—	$38,179
Net income	$974,175	$876,660	$1,033,708	$741,733	$697,327
Net income attributable to common stockholders	$974,525	$876,921	$1,034,002	$742,038	$683,567
Per Common Share and Share Information:					
Earnings per common share—basic:					
Income from continuing operations attributable to common stockholders (net of dividends attributable to preferred stock)	$7.05	$6.36	$7.53	$5.54	$4.93
Discontinued operations attributable to common stockholders	—	—	—	—	0.29
Net income attributable to common stockholders	$7.05	$6.36	$7.53	$5.54	$5.22
Weighted average shares outstanding—basic (1)	137,844,755	137,523,771	136,928,251	133,565,711	130,586,718
Earnings per common share—diluted:					
Income from continuing operations attributable to common stockholders (net of dividends attributable to preferred stock)	$7.05	$6.35	$7.52	$5.51	$4.92
Discontinued operations attributable to common stockholders	—	—	—	—	0.29
Net income attributable to common stockholders	$7.05	$6.35	$7.52	$5.51	$5.21
Weighted average shares outstanding—diluted	138,289,241	138,066,686	137,461,637	134,593,177	131,237,502
Cash dividends declared	$5.88	$5.68	$5.40	$5.00	$4.64
Other Information:					
Net income attributable to common stockholders	$974,525	$876,921	$1,034,002	$742,038	$683,567
Depreciation	631,196	584,150	531,434	477,923	442,682
Interest expense, net (2)	238,466	225,133	194,585	148,879	181,030
Income tax (benefit) expense	(160)	141	305	1,483	9,368
EBITDA (3)	$1,844,027	$1,686,345	$1,760,326	$1,370,323	$1,316,647

Funds from Operations attributable to common stockholders (4)	$1,218,752	$1,167,218	$1,135,762	$1,083,085	$951,035
Core Funds from Operations (4)	$1,244,286	$1,189,976	$1,125,341	$1,016,035	$890,081
Number of Current Communities (5)	270	267	258	259	251
Number of apartment homes	78,549	77,614	74,538	75,584	73,963
Balance Sheet Information:					
Real estate, before accumulated depreciation	$22,342,577	$21,935,936	$20,776,626	$19,268,099	$17,849,316
Total assets	$18,380,200	$18,414,821	$17,867,271	$16,931,305	$16,140,578
Notes payable and unsecured credit facilities, net	$7,040,263	$7,329,470	$7,030,880	$6,456,948	$6,489,707
Cash Flow Information:					
Net cash flows provided by operating activities	$1,301,111	$1,256,257	$1,160,272	$1,074,667	$891,355
Net cash flows used in investing activities	$(596,651)	$(965,381)	$(1,032,352)	$(1,199,517)	$(816,760)
Net cash flows (used in) provided by financing activities	$(688,502)	$(418,947)	$(303,271)	$25,093	$150,571

(1) Amounts do not include unvested restricted shares included in the calculation of Earnings per Share. Please refer to Note 1, "Organization, Basis of Presentation and Significant Accounting Policies—Earnings per Common Share," of the Consolidated Financial Statements set forth in Item 8 of this report for a discussion of the calculation of Earnings per Share.

(2) Interest expense, net includes any gain or loss incurred from the extinguishment of debt.

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(3) EBITDA is defined as net income before interest income and expense, income taxes, depreciation and amortization from both continuing and discontinued operations. Under this definition, EBITDA includes gains on sale of assets and gain on sale of partnership interests. Management generally considers EBITDA to be an appropriate supplemental measure to net income of our operating performance because it helps investors to understand our ability to incur and service debt and to make capital expenditures. EBITDA should not be considered as an alternative to net income (as determined in accordance with GAAP), as an indicator of our operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Our calculation of EBITDA may not be comparable to EBITDA as calculated by other companies.

(4) Refer to "Reconciliation of Non-GAAP Financial Measures" below.

(5) Current Communities consist of all communities other than those which are still under construction and for which a certificate or certificates of occupancy for the entire community have not been received.

Reconciliation of Non-GAAP Financial Measures

Funds from Operations attributable to common stockholders, or "FFO," and FFO adjusted for non-core items, or "Core FFO," as defined below, are generally considered by management to be appropriate supplemental measures of our operating and financial performance. In calculating FFO, we exclude gains or losses related to dispositions of previously depreciated property and exclude real estate depreciation, which can vary among owners of identical assets in similar condition based on historical cost accounting and useful life estimates. FFO can help one compare the operating performance of a real estate company between periods or as compared to different companies. By further adjusting for items that are not considered part of our core business operations, Core FFO allows one to compare the core operating performance of the Company year over year. We believe that in order to understand our operating results, FFO and Core FFO should be examined with net income as presented in the Consolidated Statements of Comprehensive Income included elsewhere in this report.

Consistent with the definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts® ("NAREIT"), we calculate FFO as net income or loss attributable to common stockholders computed in accordance with GAAP, adjusted for:

- gains or losses on sales of previously depreciated operating communities;
- cumulative effect of change in accounting principle;
- impairment write-downs of depreciable real estate assets;
- write-downs of investments in affiliates due to a decrease in the value of depreciable real estate assets held by those affiliates;
- depreciation of real estate assets; and
- adjustments for unconsolidated partnerships and joint ventures, including those from a change in control.

We calculate Core FFO as FFO, adjusted for:

- joint venture gains (if not adjusted through FFO), non-core costs, and promoted interests;
- casualty and impairment losses or gains, net on non-depreciable real estate;
- gains or losses from early extinguishment of consolidated borrowings;
- abandoned pursuits;
- business interruption insurance proceeds and the related lost NOI that is covered by the business interruption insurance proceeds;
- property and casualty insurance proceeds and legal settlements;
- gains or losses on sales of assets not subject to depreciation;
- hedge ineffectiveness;

- severance related costs;
- advocacy contributions;
- income taxes;
- expensed acquisition costs related to business acquisitions that occurred prior to the adoption of ASU 2017-01 as of October 1, 2016, as discussed in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies," of the Consolidated Financial Statements set forth in Item 8 of this report; and
- other non-core items.

FFO and Core FFO do not represent net income in accordance with GAAP, and therefore should not be considered an alternative to net income, which remains the primary measure, as an indication of our performance. In addition, FFO and Core FFO as calculated by other REITs may not be comparable to our calculations of FFO and Core FFO.

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FFO and Core FFO also do not represent cash generated from operating activities in accordance with GAAP, and therefore should not be considered an alternative to net cash flows from operating activities, as determined by GAAP, as a measure of liquidity. Additionally, it is not necessarily indicative of cash available to fund cash needs. A presentation of GAAP based cash flow metrics is provided in "Cash Flow Information" in the table above.

The following is a reconciliation of net income attributable to common stockholders to FFO attributable to common stockholders and to Core FFO attributable to common stockholders (dollars in thousands, except per share data).

	For the year ended				
	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
Net income attributable to common stockholders	$974,525	$876,921	$1,034,002	$742,038	$683,567
Depreciation—real estate assets, including discontinued operations and joint venture adjustments	629,814	582,907	538,606	486,019	449,769
Distributions to noncontrolling interests, including discontinued operations	44	42	41	38	35
Gain on sale of unconsolidated entities holding previously depreciated real estate assets	(10,655)	(40,053)	(58,069)	(33,580)	(73,674)
Gain on sale of previously depreciated real estate assets (1)	(374,976)	(252,599)	(374,623)	(115,625)	(108,662)
Casualty and impairment (recovery) loss, net on real estate (2) (7)	—	—	(4,195)	4,195	—
FFO attributable to common stockholders	$1,218,752	$1,167,218	$1,135,762	$1,083,085	$951,035
Adjusting items:					
Joint venture losses (gains) (3)	852	950	6,031	(9,059)	(5,194)
Joint venture promote (4)	(925)	(26,742)	(7,985)	(21,969)	(58,128)
Impairment loss on real estate (5) (7)	826	9,350	10,500	800	—
Casualty (gain) loss, net on real estate (6) (7)	(612)	(3,100)	(10,239)	(15,538)	—
Business interruption insurance proceeds (8)	(26)	(3,495)	(20,565)	(1,509)	(2,494)
Lost NOI from casualty losses covered by business interruption insurance (9)	1,730	7,904	7,366	7,862	—
Loss (gain) on extinguishment of consolidated debt	17,492	25,472	7,075	(26,736)	412
Advocacy contributions	3,489	—	—	—	—
Hedge ineffectiveness	—	(753)	—	—	—
Severance related costs	1,466	87	852	1,999	815
Development pursuit and other write-offs	1,324	1,406	3,662	1,838	2,564
(Gain) loss on sale of other real estate transactions	(344)	10,907	(10,224)	(9,647)	(490)
Acquisition costs (10)	—	92	3,523	3,806	(7,682)
Legal settlements	513	680	(417)	—	—
Income tax (benefit) expense (11)	(251)	—	—	1,103	9,243
Core FFO attributable to common stockholders	$1,244,286	$1,189,976	$1,125,341	$1,016,035	$890,081
Weighted average common shares outstanding - diluted	138,289,241	138,066,686	137,461,637	134,593,177	131,237,502
EPS per common share - diluted	$7.05	$6.35	$7.52	$5.51	$5.21
FFO per common share - diluted	$8.81	$8.45	$8.26	$8.05	$7.25
Core FFO per common share - diluted	$9.00	$8.62	$8.19	$7.55	$6.78

(1) Amount for 2014 excludes a gain of $14,132, representing our joint venture partners' portion of the gain on sale from a Fund I community which we consolidated for financial reporting purposes.

(2) During 2015, we recognized an impairment on depreciable real estate of $4,195 from the severe winter storms that occurred in our Northeast markets. During 2016, we received insurance proceeds, net of additional costs incurred, of $5,732 related to the winter storms, and recognized $4,195 of this recovery as an offset to the loss recognized in the prior year period. The balance of the net insurance proceeds received in 2016 of $1,537 is recognized as a casualty gain and is included in the reconciliation of FFO to Core FFO.

(3) Amounts for 2018, 2017 and 2016 are primarily composed of (i) the write-off of asset management fee intangibles primarily associated with the disposition of communities in the U.S. Fund in 2018, 2017 and 2016 and the AC JV in 2018, (ii) our proportionate share of yield maintenance charges incurred for the early repayment of debt associated with joint venture disposition activity, and (iii) our proportionate share of operating results for joint ventures formed with Equity Residential as part of the Archstone Acquisition. Amounts for 2014 and

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2015 are primarily composed of our proportionate share of gains and operating results for joint ventures formed with Equity Residential as part of the Archstone Acquisition.

(4) Amounts for 2018, 2017 and 2016 are composed of the recognition of our promoted interest in AvalonBay Value Added Fund II, L.P. ("Fund II"). Amount for 2015 is primarily composed of amounts received related to the modification of the joint venture agreement for the entity that owns Avalon at Mission Bay II to eliminate our promoted interest in future distributions. Amount for 2014 relates to our promoted interests from the sale of Avalon Chrystie Place.

(5) Amounts include impairment charges relating to ancillary land parcels.

(6) Amount for 2018 includes $554 in legal settlement proceeds relating to construction defects at a community acquired as part of the Archstone Acquisition. Amount for 2017 includes $19,481 for the Maplewood casualty loss, partially offset by $17,143 of property damage insurance proceeds, and $5,438 in legal settlement proceeds relating to construction defects at a community acquired as part of the Archstone Acquisition. Amount for 2016 includes $8,702 in property damage insurance proceeds for the Edgewater casualty loss, and $1,537 in insurance proceeds in excess of the total recognized loss related to severe winter storms in our Northeast markets that occurred in 2015. Amount for 2015 includes $44,142 of Edgewater insurance proceeds received partially offset by $28,604 for the write-off of real estate and related costs.

(7) The aggregate impact of (i) casualty and impairment (recovery) loss, net on real estate, (ii) impairment loss on real estate and (iii) casualty (gain) loss, net on real estate for 2018 and 2017 are losses of $215 and $6,250, respectively, and for 2016 and 2015 are gains of $3,935 and $10,542, respectively.

(8) Amount for 2017 is composed of business interruption insurance proceeds resulting from the final insurance settlement of the Maplewood casualty loss. Amount for 2016 is primarily composed of business interruption insurance proceeds resulting from the final insurance settlement of the Edgewater casualty loss.

(9) Amounts for 2017, 2016 and 2015 primarily relate to lost NOI resulting from the Edgewater casualty loss, for which we received $20,306 in business interruption insurance proceeds in the first quarter of 2016. Amount for 2018, as well as a portion of the amount for 2017, relates to the Maplewood casualty loss, for which we received $3,495 in business interruption insurance proceeds in the third quarter of 2017.

(10) Amount for 2014 is primarily composed of receipts related to communities acquired as part of the Archstone Acquisition for periods prior to our ownership, which are primarily comprised of property tax and mortgage insurance refunds.

(11) Amounts for 2015 and 2014 are composed of income taxes on income that was earned in taxable REIT subsidiaries and that is not considered to be a component of primary operations. Amount for 2018 represents a partial refund for payments in prior years.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help provide an understanding of our business, financial condition and results of operations. This MD&A should be read in conjunction with our Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included elsewhere in this report. This report, including the following MD&A, contains forward-looking statements regarding future events or trends that should be read in conjunction with the factors described 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" as well as the risk factors described in Item 1A. "Risk Factors" of this report.

Capitalized terms used without definition have the meanings provided elsewhere in this Form 10-K.

Executive Overview

Business Description

Our strategic vision is to be the leading apartment company in select U.S. markets, providing a range of distinctive living experiences that customers value. We pursue this vision by targeting what we believe are among the best markets and submarkets, leveraging our strategic capabilities in market research and consumer insight and being disciplined in our capital allocation and balance sheet management. Our communities are predominately upscale and 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.

We develop, redevelop, acquire, own and operate multifamily apartment communities primarily in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Pacific Northwest, and Northern and Southern California. We focus on leading metropolitan areas that we believe are characterized by growing employment in high wage sectors of the economy, higher cost of home ownership and a diverse and vibrant quality of life. We believe these market characteristics offer the opportunity for superior risk-adjusted returns over the long-term on apartment community investments relative to other markets that do not have these characteristics. We believe that the Denver, Colorado, and Southeast Florida markets share these characteristics, and in 2017 we began to invest in these markets through acquisitions and developments. We seek to create long-term shareholder value by accessing capital on cost effective terms; deploying that capital to develop, redevelop and acquire apartment communities in our selected markets; operating apartment communities; and selling communities when they no longer meet our long-term investment strategy or when pricing is attractive.

2018 Financial Highlights

Net income attributable to common stockholders for the year ended December 31, 2018 was $974,525,000, an increase of $97,604,000, or 11.1%, over the prior year. The increase is primarily attributable to increases in real estate sales and related gains and NOI from newly developed, acquired and existing operating communities, as well as decreases in loss on extinguishment of debt, net and casualty and impairment loss. These amounts were partially offset by a decrease in gains on the sale of unconsolidated communities in various joint ventures and related promote income, coupled with increases in depreciation and interest expense.

Established Communities NOI for the year ended December 31, 2018 increased by $26,248,000, or 2.3%, over the prior year. The increase was driven by an increase in rental revenue of 2.5%, partially offset by an increase in operating expenses of 3.2% over 2017.

During 2018, we raised approximately $1,572,833,000 of gross capital through the issuance of unsecured notes, sale of common shares under CEP IV and the sale of consolidated operating communities and other real estate. This amount does not include proceeds from joint venture dispositions. The funds raised from the sale of real estate consist of the proceeds from the sale of eight operating communities, as well as the five communities contributed to the NYC Joint Venture and one ancillary land parcel. We believe that our current capital structure will continue to provide financial flexibility to access capital on attractive terms.

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We believe our development activity will continue to create long-term value. During 2018, we completed the construction of seven communities containing an aggregate of 1,915 apartment homes and 10,000 square feet of retail space, for an aggregate total capitalized cost of $742,000,000, or $693,000,000 when including only our 55.0% interest in one community developed through an unconsolidated joint venture. We also started the construction of eight communities containing an aggregate of 2,154 apartment homes, which are expected to be completed for an estimated total capitalized cost of $718,000,000. In addition, during 2018 we completed the redevelopment of eight communities containing an aggregate of 3,368 apartment homes for a total investment of $217,000,000, excluding costs incurred prior to the redevelopment.

We also achieved portfolio growth through acquisitions, acquiring four communities containing an aggregate of 1,096 apartment homes for an aggregate purchase price of $334,450,000.

We believe that our balance sheet strength, 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 us with adequate access to liquidity from the capital markets. We expect to be able to meet our reasonably foreseeable liquidity needs, as they arise, through a combination of one or more of the following sources: existing cash on hand; operating cash flows; borrowings under our Credit Facility; secured debt; the issuance of corporate securities (which could include unsecured debt, preferred equity and/or common equity); the sale of apartment communities; or through the formation of joint ventures. See the discussion under "Liquidity and Capital Resources."

Communities Overview

As of December 31, 2018 we owned or held a direct or indirect ownership interest in 291 apartment communities containing 85,158 apartment homes in 12 states and the District of Columbia, of which 21 communities were under development and nine communities were under redevelopment. Of these communities, 15 were owned by entities that were not consolidated for financial reporting purposes, including five owned by the U.S. Fund, five owned by the NYC Joint Venture and two owned by the AC JV. In addition, we held a direct or indirect ownership interest in Development Rights to develop an additional 28 wholly-owned communities that, if developed as expected, will contain an estimated 9,769 apartment homes.

Our real estate investments consist primarily of Current Communities, Development Communities and Development Rights. Our Current Communities are further distinguished as Established Communities, Other Stabilized Communities, Lease-Up Communities, Redevelopment Communities and Unconsolidated Communities.

Established Communities are generally consolidated communities in markets where we have a significant presence that were owned and had stabilized occupancy as of the beginning of the prior year, allowing for a meaningful comparison of operating results between years. Other Stabilized Communities are generally all other completed consolidated communities that have stabilized occupancy during the fiscal year. Lease-Up Communities are consolidated communities where construction has been complete for less than one year and stabilized occupancy has not been achieved. Redevelopment Communities are consolidated communities where substantial redevelopment is in progress or is planned to begin during the fiscal year. Unconsolidated Communities are communities that we have an indirect ownership interest in through our investment interest in an unconsolidated joint venture. A more detailed description of our reportable segments and other related operating information can be found in Note 8, “Segment Reporting,” of our Consolidated Financial Statements.

Although each of these categories is important to our business, we generally evaluate overall operating, industry and market trends based on the operating results of Established Communities, for which a detailed discussion can be found in “Results of Operations” as part of our discussion of overall operating results. We evaluate our current and future cash needs and future operating potential based on acquisition, disposition, development, redevelopment and financing activities within Other Stabilized, Redevelopment and Development Communities. Discussions related to current and future cash needs and financing activities can be found under "Liquidity and Capital Resources."

NOI of our current operating communities is one of the financial measures that we use to evaluate the performance of our communities. NOI is affected by the demand and supply dynamics within our markets, our rental rates and occupancy levels and our ability to control operating costs. Our overall financial performance is also impacted by the general availability and cost of capital and the performance of newly developed, redeveloped and acquired apartment communities.

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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 2018, 2017 and 2016 follows (dollars in thousands):

	For the year ended			2018 vs. 2017		2017 vs. 2016	
	2018	2017	2016	$ Change	% Change	$ Change	% Change
Revenue:							
Rental and other income	$2,280,963	$2,154,481	$2,039,656	$126,482	5.9 %	$114,825	5.6 %
Management, development and other fees	3,572	4,147	5,599	(575)	(13.9)%	(1,452)	(25.9)%
Total revenue	2,284,535	2,158,628	2,045,255	125,907	5.8 %	113,373	5.5 %
Expenses:							
Direct property operating expenses, excluding property taxes	441,155	428,451	406,577	12,704	3.0 %	21,874	5.4 %
Property taxes	241,563	221,375	204,837	20,188	9.1 %	16,538	8.1 %
Total community operating expenses	682,718	649,826	611,414	32,892	5.1 %	38,412	6.3 %
Corporate-level property management and other indirect operating expenses	80,133	69,559	67,038	10,574	15.2 %	2,521	3.8 %
Investments and investment management expense	7,709	5,936	4,822	1,773	29.9 %	1,114	23.1 %
Expensed acquisition, development and other pursuit costs, net of recoveries	4,309	2,736	9,922	1,573	57.5 %	(7,186)	(72.4)%
Interest expense, net	220,974	199,661	187,510	21,313	10.7 %	12,151	6.5 %
Loss on extinguishment of debt, net	17,492	25,472	7,075	(7,980)	(31.3)%	18,397	260.0 %
Depreciation expense	631,196	584,150	531,434	47,046	8.1 %	52,716	9.9 %
General and administrative expense	56,365	50,673	45,771	5,692	11.2 %	4,902	10.7 %
Casualty and impairment loss (gain), net	215	6,250	(3,935)	(6,035)	(96.6)%	10,185	N/A (1)
Total other expenses	1,018,393	944,437	849,637	73,956	7.8 %	94,800	11.2 %
Equity in income of unconsolidated real estate entities	15,270	70,744	64,962	(55,474)	(78.4)%	5,782	8.9 %
Gain on sale of communities	374,976	252,599	374,623	122,377	48.4 %	(122,024)	(32.6)%
Gain (loss) on other real estate transactions	345	(10,907)	10,224	11,252	N/A (1)	(21,131)	N/A (1)
Income before income taxes	974,015	876,801	1,034,013	97,214	11.1 %	(157,212)	(15.2)%

Income tax (benefit) expense	(160)	141	305	(301)	N/A (1)	(164)	(53.8)%
Net income	974,175	876,660	1,033,708	97,515	11.1 %	(157,048)	(15.2)%
Net loss attributable to noncontrolling interests	350	261	294	89	34.1 %	(33)	(11.2)%
Net income attributable to common stockholders	$974,525	$876,921	$1,034,002	$97,604	11.1 %	$(157,081)	(15.2)%

(1) Percent change is not meaningful.

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Net income attributable to common stockholders increased $97,604,000, or 11.1%, to $974,525,000 in 2018 from 2017, primarily attributable to increases in real estate sales and related gains and NOI from newly developed, acquired and existing operating communities, as well as decreases in loss on extinguishment of debt, net and casualty and impairment loss. These amounts were partially offset by a decrease in gains on the sale of unconsolidated communities in various joint ventures and related promote income, coupled with increases in depreciation and interest expense. Net income attributable to common stockholders decreased $157,081,000, or 15.2%, to $876,921,000 in 2017 from 2016, primarily due to a decrease in real estate sales and related gains, coupled with increases in depreciation, loss on extinguishment of debt and interest expense, and a net casualty and impairment loss in the current year compared to a gain in the prior year. These amounts were partially offset by an increase in NOI from newly developed, acquired and existing operating 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 easier 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 impact to overhead as a result of 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 of recoveries, interest expense, net, loss (gain) on extinguishment of debt, net, general and administrative expense, equity in income of unconsolidated real estate entities, depreciation expense, corporate income tax (benefit) expense, casualty and impairment loss (gain), net, gain on sale of communities, loss (gain) on other real estate transactions and net operating income from real estate assets sold or held for sale.

NOI does not represent cash generated from operating activities in accordance with GAAP, and 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 years ended December 31, 2018, 2017 and 2016 to net income for each year are as follows (dollars in thousands):

	For the year ended		
	12/31/18	12/31/17	12/31/16
Net income	$974,175	$876,660	$1,033,708
Indirect operating expenses, net of corporate income	76,522	65,398	61,403
Investments and investment management expense	7,709	5,936	4,822
Expensed transaction, development and other pursuit costs, net of recoveries	4,309	2,736	9,922
Interest expense, net	220,974	199,661	187,510
Loss on extinguishment of debt, net	17,492	25,472	7,075
General and administrative expense	56,365	50,673	45,771
Equity in income of unconsolidated real estate entities	(15,270)	(70,744)	(64,962)
Depreciation expense	631,196	584,150	531,434
Income tax (benefit) expense	(160)	141	305
Casualty and impairment (gain) loss, net	215	6,250	(3,935)
Gain on sale of real estate assets	(374,976)	(252,599)	(374,623)
Gain on other real estate transactions, net	(345)	10,907	(10,224)
Net operating income from real estate assets sold or held for sale	(58,620)	(84,650)	(114,219)
Net operating income	$1,539,586	$1,419,991	$1,313,987

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The NOI increases for both 2018 and 2017, as compared to the prior years, consist of changes in the following categories (dollars in thousands):

	Full Year	
	2018	2017
Established Communities	$26,248	$61,143
Other Stabilized Communities	50,494	53,841
Development and Redevelopment Communities (1)	42,853	(8,980)
Total	$119,595	$106,004

(1) NOI for the years ended December 31, 2017 and 2016 include business interruption insurance proceeds of $3,495 related to the Maplewood casualty loss and $20,306 related to the Edgewater casualty loss, respectively.

The increase in our Established Communities' NOI in 2018 and 2017 is due to increased rental rates, partially offset by increased operating expenses.

Rental and other income increased in both 2018 and 2017 compared to the prior years due to additional rental income generated from newly developed, acquired and existing operating communities and an increase in rental rates at our Established Communities. The changes between years are also impacted by business interruption insurance proceeds received due to the final settlement of the Edgewater and Maplewood casualty losses, as described above.

Consolidated Communities—The weighted average number of occupied apartment homes for consolidated communities increased to 73,385 apartment homes for 2018, as compared to 70,081 homes for 2017 and 67,849 homes for 2016. The weighted average monthly rental revenue per occupied apartment home increased to $2,588 for 2018 as compared to $2,556 in 2017 and $2,476 in 2016.

Established Communities—Rental revenue increased $40,526,000, or 2.5%, to $1,631,633,000 for 2018 from $1,591,107,000 in the prior year. The increase is due to an increase in average rental rates of 2.5% to $2,576 per apartment home and maintaining economic occupancy consistent at 96.1%. Rental revenue increased $38,648,000, or 2.5%, for 2017, as compared to the prior year. 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 for all of our Established Communities' regions in 2018 as compared to the prior year, as discussed in more detail below.

The Northern California region accounted for 22.5% of the Established Community rental revenue for 2018 and experienced a rental revenue increase of 2.7% for 2018 over the prior year. Average rental rates increased 2.7% to $2,936 per apartment home, and economic occupancy remained consistent at 96.4% for 2018 as compared to 2017. We believe improving income growth will support stronger rental revenue growth in Northern California in 2019.

The Metro New York/New Jersey region accounted for 22.1% of the Established Community rental revenue for 2018 and experienced a rental revenue increase of 1.7% for 2018 over the prior year. Average rental rates increased 1.8% to $3,002 per apartment home, and were partially offset by a 0.1% decrease in economic occupancy to 96.2% for 2018 as compared to 2017. We expect operating conditions in the Metro New York/New Jersey region to improve modestly in 2019, driven primarily by a stronger income growth forecast than 2018.

The Southern California region accounted for 20.9% of the Established Community rental revenue for 2018 and experienced a rental revenue increase of 3.6% for 2018 over the prior year. Average rental rates increased 3.5% to $2,300 per apartment home, and economic occupancy increased 0.1% to 96.1% for 2018 as compared to 2017. We believe relatively stable job and income growth in Southern California will continue to support favorable operating conditions in the region in 2019.

The New England region accounted for 14.7% of the Established Community rental revenue for 2018 and experienced a rental revenue increase of 3.0% for 2018 over the prior year. Average rental rates increased 2.9% to $2,510 per apartment home, and economic occupancy increased 0.1% to 96.0% for 2018 as compared to 2017. We expect the operating environment in New England to improve in 2019, driven by strengthening income growth and a decrease in the volume of new apartment deliveries relative to 2018.

The Mid-Atlantic region accounted for 14.5% of the Established Community rental revenue for 2018 and experienced a rental revenue increase of 1.8% for 2018 over the prior year. Average rental rates increased 1.7% to $2,218 per apartment home, and economic occupancy increased 0.1% to 96.0% for 2018 as compared to 2017. We believe elevated levels of new apartment deliveries in the Mid-Atlantic region will continue to limit our ability to increase rental rates in 2019.

The Pacific Northwest region accounted for 5.3% of the Established Community rental revenue for 2018 and experienced a rental revenue increase of 2.5% for 2018 over the prior year. Average rental rates increased 2.5% to $2,301 per apartment home, and economic occupancy remained consistent at 96.0% for 2018 as compared to 2017. We expect operating conditions in the Pacific Northwest to remain relatively stable in 2019.

Management, development and other fees decreased $575,000 or 13.9%, and $1,452,000, or 25.9%, in 2018 and 2017, respectively, as compared to the prior years. The decreases in 2018 and 2017 were primarily due to lower property and asset management fees earned as a result of dispositions from Fund II, the U.S. Fund and the AC JV.

Direct property operating expenses, excluding property taxes increased $12,704,000, or 3.0%, and $21,874,000, or 5.4%, in 2018 and 2017, respectively, as compared to the prior years. The increases in 2018 and 2017 were primarily due to the addition of newly developed and acquired apartment communities.

For Established Communities, direct property operating expenses, excluding property taxes, increased $5,993,000, or 2.0%, and $6,067,000, or 2.0%, in 2018 and 2017, respectively, as compared to the prior years. The increase in 2018 was primarily due to increased compensation expense as well as maintenance and utilities costs, partially offset by decreased marketing and property insurance costs. The increase in 2017 was primarily due to increased compensation expense, bad debt and turnover and maintenance costs, partially offset by decreased property insurance costs.

Property taxes increased $20,188,000, or 9.1%, and $16,538,000, or 8.1%, in 2018 and 2017, respectively, as compared to the prior years. The increases in 2018 and 2017 were primarily due to the addition of newly developed and acquired apartment communities, increased assessments across our portfolio, as well as successful appeals in the prior years in excess of those recognized in the then current year.

For Established Communities, property taxes increased $8,520,000, or 5.3%, and $5,300,000, or 3.5%, in 2018 and 2017, respectively, as compared to the prior years. The increases in 2018 and 2017 were primarily due to increased assessments and rates in the current year periods, as well as successful appeals in the prior year periods in the Company's West Coast markets. For communities in California, property tax changes are determined by the change in the California Consumer Price Index, with increases limited by law (Proposition 13). We evaluate property tax increases internally and also engage third-party consultants to assist in our evaluations. We appeal property tax increases when appropriate.

Corporate-level property management and other indirect operating expenses increased $10,574,000, or 15.2%, and $2,521,000, or 3.8%, in 2018 and 2017, respectively, as compared to the prior year. The increase in 2018 was primarily due to advocacy contributions not present in the prior year, increased compensation related costs and spending on corporate initiatives in the current year. The increase in 2017 was primarily due to increased compensation related costs, partially offset by severance costs in 2016 not present in 2017.

Investments and investment management expense increased by $1,773,000, or 29.9%, and $1,114,000, or 23.1%, in 2018 and 2017, respectively, as compared to the prior years. The increase in 2018 was primarily due to severance costs, which were not present in the prior year, and an increase in compensation expense. The increase in 2017 was primarily due to an increase in compensation expense.

Expensed acquisition, development and other pursuit costs, net of recoveries primarily reflect abandoned pursuit costs as well as acquisition costs related to business acquisitions that occurred prior to the adoption of ASU 2017-01 as of October 1, 2016. Subsequent to the adoption of ASU 2017-01, we expect that acquisitions of individual operating communities will generally be viewed as asset acquisitions, and result in acquisition costs being capitalized instead of expensed. Abandoned pursuit costs include costs incurred for development pursuits not yet considered probable for development, as well as the abandonment of Development Rights and costs related to abandoned acquisition and disposition pursuits. These costs can be volatile, particularly in periods of increased acquisition pursuit activity, periods of economic downturn or when there is limited access to capital, and the costs may vary significantly from period to period. These aggregate costs increased $1,573,000, or 57.5%, in 2018, and decreased $7,186,000, or 72.4%, in 2017, as compared to the prior years. The increase in 2018 was primarily due to increased abandoned development pursuit costs and the non-cash write-off of asset management fee intangibles associated with the disposition of communities in the U.S. Fund and the AC JV. The decrease in 2017 was due to a decrease in acquisition costs related to communities acquired during the prior year periods that were expensed prior to the adoption of ASU 2017-01, decreased development pursuit costs, as well as the non-cash write-off of asset management fee intangibles associated with the disposition of communities in the U.S. Fund in the prior year period in excess of amounts recognized in the current year period.

Interest expense, net increased $21,313,000, or 10.7%, and $12,151,000, or 6.5%, in 2018 and 2017, respectively, as compared to the prior years. This category includes interest costs offset by capitalized interest pertaining to development and redevelopment activity, amortization of premium/discount on debt, and interest income. The increase in 2018 was primarily due to a decrease in amounts of interest capitalized resulting from a decrease in development and redevelopment activity, as well as an increase in outstanding unsecured indebtedness, partially offset by a decrease in secured indebtedness. The increase in 2017 was primarily due to a decrease in amounts of interest capitalized resulting from a decrease in development activity, as well as an increase in outstanding unsecured indebtedness.

Loss on the extinguishment of debt, net reflects prepayment penalties, the write-off of unamortized deferred financing costs and premiums from our debt repurchase and retirement activity, or payments to acquire our outstanding debt at amounts above or below the carrying basis of the debt acquired. The loss of $17,492,000 for 2018 was due to:

- a prepayment penalty of $8,579,000 and the non-cash write-off of deferred financing costs of $347,000 associated with the early repayment of $250,000,000 principal amount of 6.10% unsecured notes; and

- the aggregate prepayment penalty of $3,308,000 and the non-cash write-off of deferred financing costs of $5,258,000 on the repayment or refinancing of $244,546,000 principal amount of mortgage notes secured by six wholly-owned operating communities.

The loss of $25,472,000 for 2017 was primarily due to:

- prepayment penalties of $33,515,000 and the non-cash write-off of deferred financing costs of $1,450,000 associated with the repayment of $556,313,000 aggregate principal amount of fixed rate mortgage notes secured by 12 wholly-owned operating communities in advance of their May 2019 maturity dates; partially offset by

- a gain of $10,839,000, primarily composed of the write-off of unamortized premium on the repayment of $670,590,000 principal amount of fixed rate mortgage notes secured by 11 wholly-owned operating communities in advance of their November 2017 maturity dates.

Depreciation expense increased $47,046,000, or 8.1%, and $52,716,000, or 9.9%, in 2018 and 2017, respectively, as compared to the prior years. The increases in 2018 and 2017 were primarily due to the addition of newly developed and acquired apartment communities.

General and administrative expense (“G&A”) increased $5,692,000, or 11.2%, and $4,902,000, or 10.7%, in 2018 and 2017, respectively, as compared to the prior years. The increase in 2018 was primarily due to an increase in compensation related expenses and a decrease in legal recoveries. The increase in 2017 was primarily due to an increase in compensation related expenses, professional fees, and sales and use tax expense.

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Casualty and impairment loss (gain), net of $215,000 for 2018 primarily consists of an impairment charge of $826,000 recognized for a land parcel we had acquired for development and no longer intend to develop, partially offset by $554,000 of legal settlement proceeds relating to construction defects at a community acquired as part of the Archstone Acquisition. The loss of $6,250,000 for 2017 consists of a $9,350,000 impairment charge recognized for a land parcel we had acquired for development in 2004 and sold in July 2017, and the net impact of the Maplewood casualty loss, net of associated insurance receivables, of $2,338,000, partially offset by $5,438,000 of legal settlement proceeds relating to construction defects at a community acquired as part of the Archstone Acquisition.

Equity in income of unconsolidated real estate entities decreased $55,474,000, or 78.4%, and increased $5,782,000, or 8.9%, in 2018 and 2017, respectively, as compared to the prior years. The decrease in 2018 was primarily due to gains on the sale of communities in various ventures and the recognition of income for the Company's promoted interest from Fund II in the prior year period, coupled with the resulting decreased NOI from the ventures in the current year period, due to disposition activity in 2017 and 2018. The increase in 2017 was primarily due to the recognition of income for the Company's promoted interest, partially offset by decreased gains on the sale of communities in various ventures in the current year, and decreased NOI from the ventures due to disposition activity in 2016 and 2017.

Gain on sale of communities increased in 2018 and decreased in 2017 as compared to the prior years. The amount of gain realized in a given period depends on many factors, including the number of communities sold, the size and carrying value of the communities sold and the market conditions in the local area. The gain of $374,976,000 in 2018 was primarily due to the sale of eight wholly-owned operating communities and the recognition of the gain associated with the contribution of five wholly-owned operating communities to the NYC Joint Venture, a venture in which we retained a 20.0% interest. The gain of $252,599,000 in 2017 was primarily due to the sale of six wholly-owned operating communities.

Gain (loss) on other real estate transactions of $345,000 in 2018 was primarily composed of gains on ancillary real estate. The loss of $10,907,000 in 2017 was primarily composed of the non-cash write-off of prepaid rent associated with the purchase of land previously subject to a ground lease.

Liquidity and Capital Resources

We employ a disciplined approach to our liquidity and capital management. When we source capital, we take into account both our view of the most cost effective alternative then available and our desire to maintain a balance sheet that provides us with flexibility. Our principal short-term liquidity needs are to fund:

- development and redevelopment activity in which we are currently engaged;
- the minimum dividend payments on our common stock required to maintain our REIT qualification under the Code;
- debt service and principal payments either at maturity or opportunistically before maturity; and
- normal recurring operating expenses and corporate overhead expenses.

Factors affecting our liquidity and capital resources are our cash flows from operations, financing activities and investing activities (including dispositions) as well as general economic and market conditions. Operating cash flow has historically been determined by: (i) the number of apartment homes currently owned, (ii) rental rates, (iii) occupancy levels and (iv) operating expenses with respect to apartment homes. The timing and type of capital markets activity in which we engage, as well as our plans for development, redevelopment, acquisition and disposition activity, are affected by changes in the capital markets environment, such as changes in interest rates or the availability of cost-effective capital. We regularly review our liquidity needs, the adequacy of cash flows from operations and other expected liquidity sources to meet these needs.

We had cash and cash equivalents and restricted cash of $217,864,000 at December 31, 2018, an increase of $15,958,000 from $201,906,000 at December 31, 2017. The following discussion relates to changes in cash and cash equivalents and restricted cash due to operating, investing and financing activities, which are presented in our Consolidated Statements of Cash Flows included elsewhere in this report.

Operating Activities—Net cash provided by operating activities increased to $1,301,111,000 in 2018 from $1,256,257,000 in 2017. The change was driven primarily by increased NOI from existing, acquired and newly developed communities.

Investing Activities—Net cash used in investing activities totaled $596,651,000 in 2018. The net cash used was primarily due to:

- investment of $1,139,954,000 in the development and redevelopment of communities;
- acquisition of four operating communities for $338,620,000; and

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- capital expenditures of $86,932,000 for our operating communities and non-real estate assets.

These amounts are partially offset by:

- proceeds from the sale of real estate, including the contribution of five communities to the NYC Joint Venture, of $883,313,000; and
- net distributions from unconsolidated real estate entities of $24,499,000.

Financing Activities—Net cash used in financing activities totaled $688,502,000 in 2018. The net cash used was primarily due to:

- payment of cash dividends in the amount of $805,239,000;
- the repayment of unsecured notes in the amount of $258,579,000; and
- the repayment of secured notes in the amount of $255,452,000.

These amounts are partially offset by:

- proceeds from the issuance of unsecured notes in the amount of $299,442,000, less deferred financing costs of $16,258,000;
- the issuance of secured notes in the amount of $295,939,000; and
- the issuance of common stock in the amount of $52,261,000, primarily through CEP IV.

Variable Rate Unsecured Credit Facility

We have a $1,500,000,000 revolving variable rate unsecured credit facility with a syndicate of banks (the "Credit Facility") which matures in April 2020. We may extend the maturity for up to nine months, provided we are not in default and upon payment of a $1,500,000 extension fee. 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 0.825% per annum (3.34% at January 31, 2019 assuming a one month borrowing rate). The annual facility fee is 0.125% (or approximately $1,875,000 annually based on the $1,500,000,000 facility size and based on our current credit rating).

We had $106,000,000 outstanding under the Credit Facility and had $40,010,000 outstanding in letters of credit that reduced our borrowing capacity as of January 31, 2019.

Financial Covenants

We are subject to financial and other covenants contained in the Credit Facility, the Term Loan and the indenture under which our unsecured notes were issued. The principal financial covenants include the following:

- limitations on the amount of total and secured debt in relation to our overall capital structure;
- limitations on the amount of our unsecured debt relative to the undepreciated basis of real estate assets that are not encumbered by property-specific financing; and
- minimum levels of debt service coverage.

We were in compliance with these covenants at December 31, 2018.

In addition, our secured borrowings may include yield maintenance, defeasance, or prepayment penalty provisions, which would result in us incurring an additional charge in the event of a full or partial prepayment of outstanding principal before the scheduled maturity. These provisions in our secured borrowings are generally consistent with other similar types of debt instruments issued during the same time period in which our borrowings were secured.

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Continuous Equity Offering Program

In December 2015, we commenced a fourth continuous equity program ("CEP IV") under which we may sell up to $1,000,000,000 of our common stock from time to time. Actual sales will depend on a variety of factors to be determined, including market conditions, the trading price of our common stock and determinations of the appropriate sources of funding. In conjunction with CEP IV, we engaged sales agents who will receive compensation of up to 2.0% of the gross sales price for shares sold. CEP IV also allows us to enter into forward sale agreements up to $1,000,000,000 in aggregate sales price of our common stock. We expect that we will physically settle each forward sale agreement on one or more dates prior to the maturity date of that particular forward sale agreement, in which case we will expect to receive aggregate net cash proceeds at settlement equal to the number of shares underlying the particular forward agreement multiplied by the relevant forward sale price. However, we may also elect to cash settle or net share settle a forward sale agreement. In connection with each forward sale agreement, we will pay the relevant forward seller, in the form of a reduced initial forward sale price, commission of up to 2.0% of the sales prices of all borrowed shares of common stock sold. In 2018, we sold 244,924 shares at an average sales price of $189.14 per share, for net proceeds of $45,629,000. As of January 31, 2019, we had $846,591,000 of shares remaining authorized for issuance under this program and no forward sales agreements outstanding.

Forward Interest Rate Swap Agreements

In 2018, we entered into $250,000,000 of forward interest rate swap agreements executed to reduce the impact of variability in interest rates on a portion of our expected debt issuance activity in 2019, which are outstanding as of December 31, 2018. At maturity of the outstanding swap agreements, we expect to cash settle the contracts and either pay or receive cash for the then current fair value. Assuming that we issue the debt as expected, the hedging impact from these positions will then be recognized over the life of the issued debt as a yield adjustment.

In conjunction with our March 2018 unsecured note issuance, we settled $300,000,000 of forward interest rate swap agreements entered into in 2017 and designated as cash flow hedges of interest variability on the forecasted issuance of the unsecured notes, receiving a payment of $12,598,000.

Future Financing and Capital Needs—Debt Maturities

One of our principal long-term liquidity needs is the repayment of long-term debt at maturity. For both our unsecured and secured notes, a portion of the principal of these notes may be repaid prior to maturity. Early retirement of our unsecured or secured notes could result in gains or losses on extinguishment. If we do not have funds on hand sufficient to repay our indebtedness as it becomes due, it will be necessary for us to refinance or otherwise provide liquidity to satisfy the debt at maturity. This refinancing may be accomplished by uncollateralized private or public debt offerings, equity issuances, additional debt financing that is secured by mortgages on individual communities or groups of communities or borrowings under our Credit Facility. Although we believe we will have the capacity to meet our currently anticipated liquidity needs, we cannot assure you that additional debt financing or debt or equity offerings will be available or, if available, that they will be on terms we consider satisfactory.

The following debt activity occurred during 2018:

- In February 2018, we repaid $15,174,000 principal amount of 6.60% fixed rate debt secured by Avalon Oaks West in advance of its scheduled maturity date, incurring a charge of $426,000, consisting of a prepayment penalty of $152,000 and the non-cash write-off of unamortized deferred financing costs of $274,000.

- In February 2018, we repaid $11,038,000 principal amount of 4.61% fixed rate debt secured by AVA Pasadena at par in advance of its scheduled maturity date.

- In March 2018, we issued $300,000,000 principal amount of unsecured notes in a public offering under our existing shelf registration statement for net proceeds of approximately $296,210,000. The notes mature in April 2048 and were issued at a 4.35% interest rate. The effective interest rate of the notes for the first 10 years is 3.97%, including the impact of an interest rate hedge and offering costs, and for the remainder of the term the effective interest rate is 4.39%.

- In April 2018, we repaid $13,380,000 principal amount of 3.06% fixed rate debt secured by Avalon Andover at par at its scheduled maturity date.

- In June 2018, we repaid $15,295,000 principal amount of 6.90% fixed rate debt secured by Avalon Orchards in advance of its scheduled maturity date, incurring a charge of $635,000, consisting of a prepayment penalty of $282,000 and the non-cash write-off of unamortized deferred financing costs of $353,000.

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- In August 2018, we repaid $95,859,000 aggregate principal amount of variable rate debt secured by Avalon Calabasas, of which $51,449,000 was repaid at par at its scheduled maturity date, and $44,410,000 was repaid at par in advance of its April 2028 maturity date. We recognized a non-cash charge of $1,690,000 for the write-off of unamortized debt discount.

- In December 2018, we repaid $250,000,000 principal amount of 6.10% unsecured notes in advance of its March 2020 scheduled maturity, recognizing a charge of $8,926,000, consisting of a prepayment penalty of $8,579,000 and a non-cash write-off of deferred financing costs of $347,000.

- In December 2018, in conjunction with the formation of the NYC Joint Venture as discussed in Note 5, "Investments in Real Estate Entities" of our Consolidated Financial Statements, the following financing activities took place:

We repaid $93,800,000 of variable rate debt secured by Avalon Bowery Place I in advance of its November 2037 maturity date. In conjunction with the repayment, we recognized a charge of $5,837,000, consisting of a prepayment penalty of $2,874,000 and the non-cash write-off of unamortized deferred financing costs of $2,963,000.

We entered into a $93,800,000 fixed rate note secured by Avalon Bowery Place I, with a contractual interest rate of 4.01%, maturing in January 2029.

We entered into a $39,639,000 fixed rate note secured by Avalon Bowery Place II, with a contractual interest rate of 4.01%, maturing in January 2029.

We entered into a $12,500,000 fixed rate note secured by Avalon Morningside Park, with a contractual interest rate of 3.95%, maturing in January 2029.

We entered into a $150,000,000 fixed rate note secured by Avalon West Chelsea and AVA High Line, a dual-branded community, with contractual interest rate of 4.01%, maturing in January 2029.

The NYC Joint Venture then assumed the aggregate $295,939,000 of new borrowings discussed above, as well as the previously outstanding $100,000,000 fixed rate note secured by Avalon Morningside Park with a contractual interest rate of 3.50%.

The following table details our consolidated debt maturities for the next five years, excluding our Credit Facility and amounts outstanding related to communities classified as held for sale, for debt outstanding at December 31, 2018 and 2017 (dollars in thousands). We are not directly or indirectly (as borrower or guarantor) obligated in any material respect to pay principal or interest on the indebtedness of any unconsolidated entities in which we have an equity or other interest.

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Community	All-In interest rate (1)	Principal maturity date	Balance Outstanding (2) 12/31/2017	12/31/2018	Scheduled Maturities 2019	2020	2021	2022	2023	Thereafter
Tax-exempt bonds										
Fixed rate										
Avalon Oaks West	7.55 %	Apr-2043 (3)	$ 15,213	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Avalon at Chestnut Hill	6.16 %	Oct-2047	38,097	37,561	566	596	629	663	699	34,408
Avalon Westbury	3.86 %	Nov-2036 (4)	62,200	62,200	—	—	—	—	—	62,200
			115,510	99,761	566	596	629	663	699	96,608
Variable rate										
Eaves Mission Viejo	2.58 %	Jun-2025 (5)	7,635	7,635	—	—	—	—	—	7,635
AVA Nob Hill	2.83 %	Jun-2025 (5)	20,800	20,800	—	—	—	—	—	20,800
Avalon Campbell	3.14 %	Jun-2025 (5)	38,800	38,800	—	—	—	—	—	38,800
Eaves Pacifica	3.18 %	Jun-2025 (5)	17,600	17,600	—	—	—	—	—	17,600
Avalon Bowery Place I	4.24 %	Nov-2037 (6)	93,800	—	—	—	—	—	—	—
Avalon Acton	2.74 %	Jul-2040 (5)	45,000	45,000	—	—	—	—	—	45,000
Avalon Morningside Park	3.36 %	May-2046 (7)	100,000	—	—	—	—	—	—	—
Avalon Clinton North	3.40 %	Nov-2038 (5)	147,000	147,000	—	—	—	—	—	147,000
Avalon Clinton South	3.40 %	Nov-2038 (5)	121,500	121,500	—	—	—	—	—	121,500
Avalon Midtown West	3.31 %	May-2029 (5)	100,500	100,500	—	—	—	—	—	100,500
Avalon San Bruno I	3.29 %	Dec-2037 (5)	64,450	64,450	—	—	—	—	—	64,450
Avalon Calabasas	2.68 %	Apr-2028 (3)	44,410	—	—	—	—	—	—	—
			801,495	563,285	—	—	—	—	—	563,285
Conventional loans										
Fixed rate										
$250 million unsecured notes	6.19 %	Mar-2020 (3)	250,000	—	—	—	—	—	—	—
$250 million unsecured notes	4.04 %	Jan-2021	250,000	250,000	—	—	250,000	—	—	—
$450 million unsecured notes	4.30 %	Sep-2022	450,000	450,000	—	—	—	450,000	—	—
$250 million unsecured notes	3.00 %	Mar-2023	250,000	250,000	—	—	—	—	250,000	—
$400 million unsecured notes	3.78 %	Oct-2020	400,000	400,000	—	400,000	—	—	—	—
$350 million unsecured notes	4.30 %	Dec-2023	350,000	350,000	—	—	—	—	350,000	—
$300 million unsecured notes	3.66 %	Nov-2024	300,000	300,000	—	—	—	—	—	300,000
$525 million unsecured notes	3.55 %	Jun-2025	525,000	525,000	—	—	—	—	—	525,000
$300 million unsecured notes	3.62 %	Nov-2025	300,000	300,000	—	—	—	—	—	300,000
$475 million unsecured notes	3.35 %	May-2026	475,000	475,000	—	—	—	—	—	475,000
$300 million unsecured notes	3.01 %	Oct-2026	300,000	300,000	—	—	—	—	—	300,000
	3.95 %	Oct-2046	350,000	350,000	—	—	—	—	—	350,000

$350 million unsecured notes											
$400 million unsecured notes	3.50 %	May-2027		400,000	400,000	—	—	—	—	—	400,000
$300 million unsecured notes	4.09 %	Jul-2047		300,000	300,000	—	—	—	—	—	300,000
$450 million unsecured notes	3.32 %	Jan-2028		450,000	450,000	—	—	—	—	—	450,000
$300 million unsecured notes	3.97 %	Apr-2048		—	300,000	—	—	—	—	—	300,000
Avalon Orchards	7.80 %	Jul-2033	(3)	15,579	—	—	—	—	—	—	—
Avalon Walnut Creek	4.00 %	Jul-2066		3,557	3,699	—	—	—	—	—	3,699
AVA Pasadena	4.06 %	Jun-2018	(3)	11,073	—	—	—	—	—	—	—
Eaves Los Feliz	3.68 %	Jun-2027		41,400	41,400	—	—	—	—	—	41,400
Eaves Woodland Hills	3.67 %	Jun-2027		111,500	111,500	—	—	—	—	—	111,500
Avalon Russett	3.77 %	Jun-2027		32,200	32,200	—	—	—	—	—	32,200
Avalon San Bruno II	3.85 %	Apr-2021		29,533	28,999	565	591	27,844	—	—	—
Avalon Westbury	4.88 %	Nov-2036	(4)	16,450	15,095	1,430	1,495	1,575	1,655	1,740	7,200
Avalon San Bruno III	3.18 %	Jun-2020		53,315	52,090	1,264	50,826	—	—	—	—
Avalon Andover	3.28 %	Apr-2018		13,498	—	—	—	—	—	—	—
Avalon Natick	3.15 %	Apr-2019		13,831	13,482	13,482	—	—	—	—	—
Avalon Hoboken	3.55 %	Dec-2020		67,904	67,904	—	67,904	—	—	—	—
Avalon Columbia Pike	3.24 %	Nov-2019		68,637	67,085	67,085	—	—	—	—	—
				5,828,477	5,833,454	83,825	520,816	279,419	451,655	601,740	3,895,999

Community	All-In interest rate (1)	Principal maturity date	Balance Outstanding (2)		Scheduled Maturities					
			12/31/2017	12/31/2018	2019	2020	2021	2022	2023	Thereafter
Variable rate										
Avalon Calabasas	2.40%	Aug-2018	52,092	—	—	—	—	—	—	—
Avalon Natick	4.51%	Apr-2019 (5)	35,039	34,155	34,155	—	—	—	—	—
Archstone Lexington	4.18%	Oct-2020	21,700	21,700	—	21,700	—	—	—	—
Term Loan - $100 million	3.44%	Feb-2022	100,000	100,000	—	—	—	100,000	—	—
Term Loan - $150 million	3.98%	Feb-2024	150,000	150,000	—	—	—	—	—	150,000
$300 million unsecured notes	3.05%	Jan-2021	300,000	300,000	—	—	300,000	—	—	—
			658,831	605,855	34,155	21,700	300,000	100,000	—	150,000
Total indebtedness - excluding Credit Facility			$7,404,313	$7,102,355	$118,546	$543,112	$580,048	$552,318	$602,439	$4,705,892

(1) Includes credit enhancement fees, facility fees, trustees' fees, the impact of interest rate hedges, offering costs, mark to market amortization and other fees.

(2) Balances outstanding represent total amounts due at maturity, and exclude deferred financing costs and debt discount for the unsecured notes of $44,007 and $47,236 as of December 31, 2018 and 2017, respectively, deferred financing costs and debt discount associated with secured notes of $18,085 and $27,607 as of December 31, 2018 and 2017, respectively, as reflected on our Consolidated Balance Sheets included elsewhere in this report.

(3) During 2018, we repaid this borrowing in advance of its scheduled maturity date.

(4) Maturity date reflects the contractual maturity of the underlying bond. There is also an associated earlier credit enhancement maturity date.

(5) Financed by variable rate debt, but interest rate is capped through an interest rate protection agreement.

(6) During 2018, we refinanced this borrowing in advance of its scheduled maturity date and it was subsequently assumed by the NYC Joint Venture, in which we own a 20.0% interest, as discussed above.

(7) During 2018, this borrowing was assumed by the NYC Joint Venture, in which we own a 20.0% interest, as discussed above.

Future Financing and Capital Needs—Portfolio and Capital Markets Activity

In 2019, we expect to meet our liquidity needs from a variety of internal and external sources, including (i) real estate dispositions, (ii) cash balances on hand as well as cash generated from our operating activities, (iii) borrowing capacity under our Credit Facility and (iv) secured and unsecured debt financings. Additional sources of liquidity in 2019 may include the issuance of common and preferred equity. Our ability to obtain additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the real estate industry, our credit ratings and credit capacity, as well as the perception of lenders regarding our long or short-term financial prospects.

Before beginning new construction or reconstruction activity, including activity related to communities owned by unconsolidated joint ventures, we intend to plan adequate financing to complete these undertakings, although we cannot assure you that we will be able to obtain such financing. In the event that financing cannot be obtained, we may have to abandon Development Rights, write off associated pre-development costs that were capitalized and/or forego reconstruction activity. In such instances, we will not realize the increased revenues and earnings that we expected from such Development Rights or reconstruction activity and significant losses could be incurred.

From time to time we use joint ventures to hold or develop individual real estate assets. We generally employ joint ventures primarily to mitigate asset concentration or market risk and secondarily as a source of liquidity. We may also use joint ventures related to mixed-use land development opportunities where our partners bring development and operational expertise to the venture. Each joint venture or partnership agreement has been individually negotiated, and our ability to operate and/or dispose of a community in our sole discretion may be limited to varying degrees depending on the terms of the joint venture or partnership agreement. We cannot assure you that we will achieve our objectives through joint ventures.

In evaluating our allocation of capital within our markets, we sell assets that do not meet our long-term investment criteria or when capital and real estate markets allow us to realize a portion of the value created over our ownership periods and redeploy the proceeds from those sales to develop and redevelop communities. Because the proceeds from the sale of communities may not be immediately redeployed into revenue generating assets that we develop, redevelop or acquire, the immediate effect of a sale of a community for a gain is to increase net income, but reduce future total revenues, total expenses and NOI until such time as the proceeds have been redeployed into revenue generating assets. We believe that the temporary absence of future cash flows from communities sold will not have a material impact on our ability to fund future liquidity and capital resource needs.