

AVALONBAY COMMUNITIES INC

Form 424B5

September 09, 2014

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**The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not a solicitation of an offer to buy these securities in any jurisdiction in which the offer or sale is not permitted.**

**Subject to Completion, dated September 9, 2014**

**PRELIMINARY PROSPECTUS SUPPLEMENT  
(To Prospectus dated February 27, 2012)**

**4,500,000 Shares**

## **COMMON STOCK**

We expect to enter into a forward sale agreement with Goldman, Sachs & Co., which we refer to in this capacity as the forward purchaser. The forward purchaser or its affiliate is, at our request, borrowing from third parties and selling to the underwriters an aggregate of 4,500,000 shares of our common stock in connection with the forward sale agreement. If the forward purchaser or its affiliate is unable, after using commercially reasonable efforts, to borrow and sell the full number of such shares of common stock, or if the forward purchaser, in its sole judgment, determines that it would incur a stock loan cost in excess of a specified threshold to do so, we will issue and sell to the underwriters, at the initial price to public less the underwriting discount, a number of shares of our common stock equal to the number of shares of common stock that the forward purchaser or its affiliate does not so borrow and sell. We will not initially receive any proceeds from the sale of shares of our common stock by the forward purchaser or its affiliate. We expect to physically settle the forward sale agreement and receive proceeds from the sale of those shares of common stock upon one or more such physical settlements no later than September 8, 2015. We may also elect to cash settle or net share settle all or a portion of our obligations under the forward sale agreement if we conclude it is in our best interest to do so. If we elect to cash settle the forward sale agreement, we may not receive any proceeds and we may owe cash to the forward purchaser in certain circumstances. If we elect to net share settle the forward sale agreement, we will not receive any proceeds, and we may owe shares of common stock to the forward purchaser in certain circumstances. See "Underwriting Forward Sale Agreement."

Our common stock is listed on the New York Stock Exchange under the symbol "AVB." On September 8, 2014, the last reported sale price of our common stock on the New York Stock Exchange was \$156.64 per share.

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*Investing in our common stock involves risks. See "Risk Factors" beginning on page S-4 of this prospectus supplement and page 1 of the accompanying prospectus.*

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	PRICE \$	PER SHARE
	Per Share	Total
Initial price to public	\$	\$
Underwriting discount	\$	\$
Proceeds, before expenses, to us <sup>(1)</sup>	\$	\$

(1) We expect to receive net proceeds from the sale of the shares of our common stock, before fees and estimated expenses, of \$ million upon full physical settlement of the forward sale agreement, which we expect will occur no later than September 8, 2015. For the purposes of calculating the aggregate net proceeds to us, we have assumed that the forward sale agreement will be fully physically settled based on the initial forward sale price of \$ per share, which is the public offering price less the underwriting discount shown above. The forward sale price is subject to adjustment pursuant to the terms of the forward sale agreement, and the actual proceeds, if any, to us will be calculated as described in this prospectus supplement. Although we expect to settle the forward sale agreement entirely by the full physical delivery of shares of our common stock in exchange for cash proceeds, we may elect cash settlement or net share settlement for all or a portion of our obligations under the forward sale agreement. See "Underwriting Forward Sale Agreement" for a description of the forward sale agreement.

We have granted the underwriters a 30-day option from the date of this prospectus supplement, exercisable in whole or in part from time to time, to purchase up to an additional 675,000 shares of our common stock at the initial price to public less the underwriting discount. We may elect, in our sole discretion if such option is exercised, that such additional shares of common stock be sold by the forward purchaser or its affiliate to the underwriters (in which case we will enter into an additional forward sale agreement with the forward purchaser in respect of the number of shares that are subject to the exercise of the underwriters' option to purchase additional shares of common stock). Unless the context requires otherwise, the term "forward sale agreement" as used in this prospectus supplement includes any additional forward sale agreement that we elect to enter into in connection with the exercise, by the underwriters, of their option to purchase additional shares of common stock. In the event that we enter into an additional forward sale agreement and elect that any additional shares be sold by the forward purchaser or its affiliate to the underwriters, if the forward purchaser or its affiliate is unable, after using commercially reasonable efforts, to borrow and deliver for sale on the anticipated closing date for the exercise of such option the full number of shares of our common stock with respect to which such option has been exercised, or if the forward purchaser, in its sole judgment, determines that it would incur a stock loan cost in excess of a specified threshold to do so, then we will issue and sell to the underwriters a number of shares equal to the number of shares that the forward purchaser or its affiliate does not so borrow and sell.

**The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

The underwriters expect to deliver the shares of common stock to purchasers on or about September , 2014.

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**Goldman, Sachs & Co.**

The date of this prospectus supplement is September , 2014.

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When we refer to "AvalonBay," "the Company," "we," "us," or "our" or similar expressions in this prospectus supplement, we mean AvalonBay Communities, Inc. and its subsidiaries.

This prospectus supplement is a supplement to the accompanying prospectus. If information in this prospectus supplement is inconsistent with the prospectus, this prospectus supplement will apply and supersede the information in the prospectus. It is important for you to read and carefully consider all information contained in this prospectus supplement, the accompanying prospectus and any related free writing prospectus prepared by us or on our behalf. You should also read and carefully consider the information in the documents we have referred you to in "Where You Can Find More Information and Documents Incorporated By Reference."

We have not, and the underwriters and forward purchaser have not, authorized any dealer, salesperson or other person to give any information or to make any representation other than those contained in or incorporated by reference into this prospectus supplement, the accompanying prospectus or any free writing prospectus that we may provide to you. You should rely only on the information contained or incorporated by reference in this prospectus supplement, the accompanying prospectus and any related free writing prospectus prepared by us or on our behalf. This prospectus supplement, the accompanying prospectus and any such free writing prospectus do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the registered securities to

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which they relate, nor do this prospectus supplement, the accompanying prospectus or any such free writing prospectus constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction. You should not assume that the information contained in this prospectus supplement, the accompanying prospectus, the documents incorporated herein and therein by reference and any such free writing prospectus is correct on any date after their respective dates, even though this prospectus supplement, the accompanying prospectus and any such free writing prospectus are delivered or securities are sold on a later date. Our business, financial condition, results of operations and cash flows may have changed since those dates.

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**THE OFFERING**

Issuer	AvalonBay Communities, Inc.
Shares of Common Stock Offered by the Forward Purchaser or Its Affiliate	4,500,000 shares of common stock (or 5,175,000 shares if the underwriters' option to purchase additional shares of common stock is exercised in full and we elect to have the forward purchaser or its affiliate sell the additional shares). <sup>(1)</sup>
Shares of Common Stock to Be Outstanding after Settlement of the Forward Sale Agreement Assuming Full Physical Settlement	136,312,007 shares of common stock (or 136,987,007 shares if the underwriters' option to purchase additional shares of common stock is exercised in full). <sup>(2)</sup>
Use of Proceeds	We will not initially receive any proceeds from the sale of shares of our common stock offered by this prospectus supplement unless (i) an event occurs that requires us to sell our common stock to the underwriters in lieu of the forward purchaser or its affiliate selling our common stock to the underwriters, or (ii) the underwriters exercise their option to purchase additional shares of our common stock and we elect to sell the additional shares of our common stock covered by such option to the underwriters rather than requiring the forward purchaser or its affiliate to borrow and sell such additional shares to the underwriters. We expect to receive net proceeds of approximately \$            million (after deducting fees and estimated expenses related to the forward sale agreement), subject to certain adjustments pursuant to the forward sale agreement, only upon full physical settlement of the forward sale agreement, which we expect to occur no later than September 8, 2015. <sup>(3)</sup> We intend to use the net proceeds, if any, received upon the settlement of the forward sale agreement to fund the development, redevelopment and acquisition of apartment communities and for working capital, capital expenditures and other general corporate purposes, which may include repayment and refinancing of debt. Pending such uses, we will invest the net proceeds, if any, in short-term securities. See "Use of Proceeds" and "Risk Factors."

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- (1) The forward purchaser has advised us that it or its affiliate intends to acquire shares of our common stock to be sold under this prospectus supplement through borrowings from third-party stock lenders. Subject to the occurrence of certain events, we will not be obligated to deliver shares of our common stock, if any, under the forward sale agreement until final settlement of the forward sale agreement, which we expect will occur no later than September 8, 2015. Except in certain circumstances, we have the right to elect cash settlement or net share settlement under the forward sale agreement. See "Underwriting Forward Sale Agreement" for a description of the forward sale agreement. The number of shares of our common stock to be outstanding after settlement of the forward sale agreement is based on 131,812,007 shares of our common stock outstanding as of August 31, 2014.
- (2) Based on 131,812,007 shares of common stock outstanding as of August 31, 2014.
- (3) Calculated as of September     , 2014 (assuming that the forward sale agreement is fully physically settled based on the initial forward sale price of \$            per share by the delivery of 4,500,000 shares of our common stock and that the underwriters have not exercised their option to purchase additional shares of our common stock). The forward sale price is subject to adjustment pursuant to the terms of the forward sale agreement, and the actual proceeds to us, if any, are subject to settlement of the forward sale agreement. Unless the federal funds rate increases substantially prior to the settlement of the forward sale agreement, we expect to receive less than the initial forward sale price per share upon physical settlement of the forward sale agreement.

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Accounting Treatment of the Transaction	Before the issuance of shares of our common stock, if any, upon physical or net share settlement of the forward sale agreement, we expect that the shares issuable upon settlement of the forward sale agreement will be reflected in our diluted earnings per share calculations using the treasury stock method. Under this method, the number of shares of our common stock used in calculating diluted earnings per share is deemed to be increased by the excess, if any, of the number of shares of common stock that would be issued upon full physical settlement of the forward sale agreement over the number of shares of common stock that could be purchased by us in the market (based on the average market price during the period) using the proceeds receivable upon full physical settlement (based on the adjusted forward sale price at the end of the reporting period). Consequently, prior to physical or net share settlement of the forward sale agreement and subject to the occurrence of certain events, we anticipate there will be no dilutive effect on our earnings per share except during periods when the average market price of our common stock is above the applicable adjusted forward sale price, which is initially \$ per share (which is the public offering price less the underwriting spread shown on the cover of this prospectus supplement), subject to increase or decrease based on the federal funds rate, less a spread, and subject to decrease by amounts related to expected dividends on our common stock during the term of the forward sale agreement. However, if we physically or net share settle the forward sale agreement, the delivery of shares of our common stock would result in an increase in the number of shares outstanding and dilution to our earnings per share and return on equity.
NYSE Symbol for Our Common Stock	AVB
Conflicts of Interest	All of the proceeds of this offering (excluding proceeds paid to us with respect to any common stock that we may sell to the underwriters in lieu of the forward purchaser or its affiliate selling our common stock to the underwriters and, if the underwriters exercise their option to purchase additional shares of common stock and we elect to issue the additional shares to cover such option shares directly, the proceeds to us from the issuance of such additional shares) will be paid to the forward purchaser. As a result, the forward purchaser or its affiliate will receive more than 5% of the net proceeds of this offering, not including underwriting compensation. Accordingly, this offering is being made in compliance with the requirements of Rule 5121 (Public Offerings of Securities with Conflicts of Interest) of the Financial Industry Regulatory Authority, Inc. ("FINRA"). Pursuant to that rule, the appointment of a "qualified independent underwriter" is not necessary in connection with this offering, as the shares of common stock have a "bona fide public market" (as such terms are defined in FINRA Rule 5121).

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Dividend Policy

We pay a regular quarterly cash dividend and expect to continue paying a regular quarterly dividend, but the timing and amount of future dividends is subject to the factors discussed in "Risk Factors" and in our Annual Report on Form 10-K under the heading "Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities," which is incorporated into this prospectus supplement and the accompanying prospectus by reference. See "Price Range of Common Stock and Dividends."

Transfer Agent and Registrar  
Risk Factors

The transfer agent and registrar for our common stock is Computershare, Inc.  
An investment in our common stock involves various risks, and prospective investors should carefully consider the matters discussed under the caption entitled "Risk Factors" in this prospectus supplement and in the accompanying prospectus and the documents incorporated by reference before making a decision to invest in our common stock.

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**RISK FACTORS**

*In addition to the other information contained in this prospectus supplement and the accompanying prospectus, you should carefully consider the risks described below, as well as the risks described in the accompanying prospectus under the heading "Risk Factors" and any additional information and risk factors described in the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, including (i) our Annual Report on Form 10-K, (ii) our Quarterly Reports on Form 10-Q and (iii) any other documents we file with the Securities and Exchange Commission (the "SEC") after the date of this prospectus supplement that are deemed incorporated by reference in this prospectus supplement before making an investment decision. These risks are not the only risks we face. Additional risks not presently known to us or that we currently deem immaterial may also adversely affect our business operations. These risks could adversely affect, among other things, our business, financial condition or results of operations, and could cause the trading price of our common stock to decline, resulting in the loss of all or part of your investment.*

**Risks Related to the Forward Sale Agreement**

***Settlement provisions contained in the forward sale agreement could result in substantial dilution to our earnings per share and return on equity or result in substantial cash payment obligations.***

The forward purchaser will have the right to accelerate the forward sale agreement (with respect to all or any portion of the transaction under the forward sale agreement that the forward purchaser determines is affected by such event) and require us to settle on a date specified by the forward purchaser if:

the forward purchaser is unable to, or would incur a materially increased cost to, establish, maintain or unwind its hedge position with respect to the forward sale agreement;

the forward purchaser determines that it is unable, or it is commercially impracticable for it, to continue to borrow a number of shares of our common stock equal to the number of shares of common stock underlying the forward sale agreement or that, with respect to borrowing such number of shares of common stock, it would incur a cost that is greater than the borrow cost specified in the forward sale agreement, subject to a prior notice requirement;

a termination event occurs as a result of us declaring a dividend or distribution on our common stock with a cash value in excess of a specified amount per calendar quarter, or with an ex-dividend date prior to the anticipated ex-dividend date for such cash dividend;

an extraordinary event (as such term is defined in the forward sale agreement and which includes certain mergers and tender offers and the delisting of our common stock) occurs or our board of directors votes to approve or there is a public announcement of, in either case, any action that, if consummated, would constitute such an extraordinary event; or

certain other events of default, termination events or other specified events occur, including, among other things, any material misrepresentation made by us in connection with entering into the forward sale agreement, our bankruptcy or a change in law (as such terms are defined in the forward sale agreement).

The forward purchaser's decision to exercise its right to accelerate the settlement of the forward sale agreement will be made irrespective of our need for capital. In such cases, we could be required to issue and deliver shares of common stock under the physical settlement provisions of the forward sale agreement or, if we so elect and the forward purchaser so permits our election, net share settlement provisions of the forward sale agreement irrespective of our capital needs, which would result in dilution to our earnings per share and return on equity.



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We expect that the forward sale agreement will settle no later than September 8, 2015. However, the forward sale agreement may be settled earlier in whole or in part at our option. The forward sale agreement will be physically settled by delivery of shares of our common stock, unless we elect to cash settle or net share settle the forward sale agreement. Upon physical settlement or, if we so elect, net share settlement of the forward sale agreement, delivery of shares of our common stock in connection with such physical settlement or, to the extent we are obligated to deliver shares of our common stock, net share settlement will result in dilution to our earnings per share and return on equity. If we elect cash settlement or net share settlement with respect to all or a portion of the shares of common stock underlying the forward sale agreement, we expect the forward purchaser (or an affiliate thereof) to purchase a number of shares of common stock necessary to satisfy its or its affiliate's obligation to return the shares of common stock borrowed from third parties in connection with sales of shares of our common stock under this prospectus supplement. In addition, the purchase of shares of our common stock in connection with the forward purchaser or its affiliate unwinding its hedge positions could cause the price of shares of our common stock to increase over such time (or prevent a decrease over such time), thereby increasing the amount of cash we would owe to the forward purchaser (or decreasing the amount of cash that the forward purchaser would owe us) upon a cash settlement of the forward sale agreement or the number of shares of common stock we would deliver to the forward purchaser (or decreasing the number of shares of common stock that the forward purchaser would deliver to us) upon net share settlement of the forward sale agreement.

The forward sale price that we expect to receive upon physical settlement of the forward sale agreement will be subject to adjustment on a daily basis based on a floating interest rate factor equal to the federal funds rate less a spread and will be decreased based on amounts related to expected dividends on our common stock during the term of the forward sale agreement. If the federal funds rate is less than the spread on any day, the interest factor will result in a daily reduction of the forward sale price. As of the date of this prospectus supplement, the federal funds rate was less than the spread. If the market value of our common stock during the relevant valuation period under the forward sale agreement is above the relevant forward sale price, in the case of cash settlement, we would pay the forward purchaser under the forward sale agreement an amount in cash equal to the difference or, in the case of net share settlement, we would deliver to the forward purchaser a number of shares of common stock having a value equal to the difference. Thus, we could be responsible for a potentially substantial cash payment in the case of cash settlement. If the market value of our common stock during the relevant valuation period under the forward sale agreement is below the relevant forward sale price, in the case of cash settlement, we would be paid the difference in cash by the forward purchaser under the forward sale agreement or, in the case of net share settlement, we would receive from the forward purchaser a number of shares of common stock having a value equal to the difference. See "Underwriting Forward Sale Agreement" for information on the forward sale agreement.

***In case of our bankruptcy or insolvency, the forward sale agreement will automatically terminate, and we would not receive the expected proceeds from the sale of shares of our common stock.***

If we file for or consent to a proceeding seeking a judgment in bankruptcy or insolvency or any other relief under any bankruptcy or insolvency law or other similar law affecting creditors' rights, or we or a regulatory authority with jurisdiction over us presents a petition for our winding-up or liquidation, and we consent to such a petition, the forward sale agreement will automatically terminate. If the forward sale agreement so terminates, we would not be obligated to deliver to the forward purchaser any shares of common stock not previously delivered, and the forward purchaser would be discharged from its obligation to pay the relevant forward sale price per share in respect of any shares of common stock not previously settled. Therefore, to the extent that there are any shares of common stock with respect to which the forward sale agreement has not been settled at the time of the

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commencement of any such bankruptcy or insolvency proceedings, we would not receive the relevant forward sale price per share in respect of those shares of common stock.

***The U.S. federal income tax treatment of the cash that we might receive from cash settlement of the forward sale agreement is unclear and could jeopardize our ability to meet the REIT qualification requirements.***

In the event that we elect to settle the forward sale agreement for cash and the settlement price is below the forward sale price, we would be entitled to receive a cash payment from the forward purchaser. Under Section 1032 of the Code (as defined below), generally, no gains and losses are recognized by a corporation in dealing in its own shares, including pursuant to a "securities futures contract," as defined in the Code by reference to the Securities Exchange Act of 1934. Although we believe that any amount received by us in exchange for our stock would qualify for the exemption under Section 1032 of the Code, because it is not entirely clear whether the forward sale agreement qualifies as a "securities futures contract," the U.S. federal income tax treatment of any cash settlement payment we receive is uncertain. In the event that we recognize a significant gain from the cash settlement of the forward sale agreement, we might not be able to satisfy the gross income requirements applicable to REITs (as defined below) under the Code. In that case, we may be able to rely upon the relief provisions under the Code in order to avoid the loss of our REIT status. Even if the relief provisions apply, we will be subject to a 100% tax on the greater of (i) the excess of 75% of our gross income (excluding gross income from prohibited transactions) over the amount of such income attributable to sources that qualify under the 75% test or (ii) the excess of 95% of our gross income (excluding gross income from prohibited transactions) over the amount of such gross income attributable to sources that qualify under the 95% test, as discussed in the accompanying prospectus under "Federal Income Tax Considerations and Consequences of Your Investment Taxation of AvalonBay as a REIT" and "Income Tests Applicable to REITs," multiplied in either case by a fraction intended to reflect our profitability. In the event that these relief provisions were not available, we could lose our REIT status under the Code.

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**FORWARD-LOOKING STATEMENTS**

This prospectus supplement, the accompanying prospectus and any related free writing prospectus, including the information incorporated by reference, contain statements that are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act") and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). You can identify forward-looking statements by the use of the words "believe," "expect," "anticipate," "intend," "estimate," "assume," "project," "plan," "may," "shall," "will," "outlook" and other similar expressions that predict or indicate future events and trends and which do not relate to historical matters. We cannot assure the future results or outcome of the matters described in these statements; rather, these statements merely reflect our current expectations of the approximate outcomes of the matters discussed. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. In addition, these forward-looking statements represent our estimates and assumptions only as of the date of this prospectus supplement. We do not undertake to update these forward-looking statements, and therefore they may not represent our estimates and assumptions after the date of this prospectus supplement. These risks, uncertainties and other factors, which are described below and under the headings "Risk Factors" and "Forward-Looking Statements" in the accompanying prospectus and in the documents incorporated by reference, may cause our actual results, performance or achievements to differ materially from the anticipated future results, performance or achievements expressed or implied by these forward-looking statements.

Some of the factors that could cause our actual results, performance or achievements to differ materially from those expressed or implied by these forward-looking statements include, but are not limited to, the following:

we may fail to secure development opportunities due to an inability to reach agreements with third-parties to obtain land at attractive prices or to obtain desired zoning and other local approvals;

we may abandon or defer development opportunities for a number of reasons, including changes in local market conditions which make development less desirable, increases in costs of development, increases in the cost of capital or lack of capital availability, resulting in losses;

construction costs of a community may exceed our original estimates;

we may not complete construction and lease-up of communities under development or redevelopment on schedule, resulting in increased interest costs and construction costs and a decrease in our expected rental revenues;

occupancy rates and market rents may be adversely affected by competition and local economic and market conditions which are beyond our control;

financing may not be available on favorable terms or at all, and our cash flows from operations and access to cost effective capital may be insufficient for the development of our pipeline which could limit our pursuit of opportunities;

our cash flows may be insufficient to meet required payments of principal and interest, and we may be unable to refinance existing indebtedness or the terms of such refinancing may not be as favorable as the terms of existing indebtedness;

we may be unsuccessful in our management of investment funds and joint ventures, or any real estate investment trust ("REIT") vehicles that are used with any specific fund or joint venture, described in greater detail in our reports filed with the SEC that are incorporated by reference into this prospectus supplement; and

we may be unsuccessful in managing changes in our portfolio composition, including operating outside of our core markets as a result of the Archstone Acquisition (as defined in the reports filed with the SEC that are incorporated by reference into

this prospectus supplement).

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**THE COMPANY**

AvalonBay Communities, Inc. is a REIT and an S&P 500 Index company that owns one of the largest portfolios of high-quality multifamily communities in the United States. We are primarily engaged in developing, acquiring, owning and operating apartment communities in high barrier to entry markets of the United States. We believe that apartment communities are an attractive long-term investment opportunity compared to other real estate investments because a broad potential resident base should help reduce demand volatility over a real estate cycle. We seek to create long-term shareholder value by accessing capital on cost effective terms; deploying that capital to develop, redevelop and acquire apartment communities in high barrier to entry markets; operating apartment communities; and selling communities when they no longer meet our long-term investment strategy or when pricing is attractive. Barriers to entry in our markets generally include a difficult and lengthy entitlement process with local jurisdictions and dense urban or suburban areas where zoned and entitled land is in limited supply.

At June 30, 2014, we owned or held a direct or indirect ownership interests in:

243 operating apartment communities containing 72,767 apartment homes in 11 states and the District of Columbia, of which six communities containing 2,094 apartment homes were under reconstruction;

32 communities under construction that are expected to contain an aggregate of 9,581 apartment homes when completed; and

land or rights to land in which the Company expects to develop an additional 40 communities that, if developed as expected, will contain an estimated 11,350 apartment homes.

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

AvalonBay elected to qualify as a REIT for federal income tax purposes for the taxable year ended December 31, 1994, and has not terminated or revoked that election. As a REIT, with limited exceptions, we will not be taxed under federal and certain state income tax laws at the corporate level on our net income to the extent net income is distributed to our stockholders. We have historically made sufficient distributions to avoid tax on retained income, and we intend 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 Internal Revenue Code of 1986, as amended (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.

Our principal executive offices are located at Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, Virginia 22203, Attention: Chief Financial Officer. Our telephone number is 703-329-6300. Our website is located at [www.avalonbay.com](http://www.avalonbay.com). Information on our website is not deemed to be a part of this prospectus supplement or the accompanying prospectus.

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We expect to use the net proceeds, if any, that we receive upon the settlement of the forward sale agreement to fund a portion of the cost of developing new apartment communities and redeveloping existing apartment communities and for acquisitions. See "Use of Proceeds." In recent years, we have actively pursued investments in new apartment communities, and we expect to continue our development activity during the remainder of 2014 and during 2015, subject to unexpected changes in economic and financial market conditions. Although the Company has not completed its business planning process for 2015, the Company expects that in addition to the information shown in the tables below, it expects to start new development activity with total capital cost in the approximate range of \$1 billion to \$1.5 billion during 2015. That range of expected new development starts in 2015 could increase or decrease for various reasons, and those developments that do start in 2015 would not be expected to be completed by year-end 2015. The tables below summarize our investments in Development Communities, Redevelopment Communities and Development Rights (as defined below) as of June 30, 2014. In addition, during the second quarter of 2014, we acquired an interest in two land parcels for development, one of which was acquired through a joint venture in which we hold a 70% investment interest, for an aggregate investment of \$32,175,000. We expect to commence construction on these land parcels in the next 12 months.

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

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

*Development Rights* are development opportunities in the early phase of the development process for which we either have an option to acquire land or enter into a leasehold interest, for which we are the buyer under a long-term conditional contract to purchase land or where we control the land through a ground lease or own land to develop a new community.

**Development Communities**

As of June 30, 2014, we had 32 Development Communities under construction. We expect these Development Communities, when completed, to add a total of 9,581 apartment homes to our portfolio for a total capitalized cost, including land acquisition costs, of approximately \$3,239,200,000. 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 "Risk Factors" for a discussion of the risks associated with development activity.

The following table presents a summary of our Development Communities as of June 30, 2014. We hold a direct or indirect fee simple ownership interest in these communities unless otherwise noted in the table.

	Number of apartment homes	Projected total capitalized cost(1) (\$ millions)	Construction start	Initial projected occupancy(2)	Estimated completion	Estimated stabilization(3)
1. Avalon Mosaic <i>Tysons Corner, VA</i>	531	\$ 114.5	Q1 2012	Q3 2013	Q4 2014	Q2 2015
2. Avalon West Chelsea/AVA High Line(4) <i>New York, NY</i>	710	276.1	Q4 2011	Q4 2013	Q1 2015	Q3 2015
3. Avalon Arlington North(5) <i>Arlington, VA</i>	228	84.9	Q2 2012	Q4 2013	Q3 2014	Q1 2015

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		Number of apartment homes	Projected total capitalized cost(1) (\$ millions)	Construction start	Initial projected occupancy(2)	Estimated completion(3)	Estimated stabilization(3)
4.	Avalon Dublin Station <i>Dublin, CA</i>	253	77.7	Q2 2012	Q1 2014	Q3 2014	Q1 2015
5.	AVA 55 Ninth <i>San Francisco, CA</i>	273	121.5	Q3 2012	Q1 2014	Q4 2014	Q2 2015
6.	Avalon Canton <i>Canton, MA</i>	196	40.9	Q2 2013	Q1 2014	Q3 2014	Q1 2015
7.	Avalon Huntington Station <i>Huntington Station, NY</i>	303	83.0	Q1 2013	Q1 2014	Q1 2015	Q3 2015
8.	Memorial Heights Villages(5) <i>Houston, TX</i>	318	54.9	Q3 2012	Q1 2014	Q3 2014	Q1 2015
9.	Avalon Alderwood I <i>Lynnwood, WA</i>	367	68.4	Q2 2013	Q2 2014	Q2 2015	Q4 2015
10.	Avalon Exeter(4) <i>Boston, MA</i>	187	123.2	Q2 2011	Q2 2014	Q3 2014	Q1 2015
11.	Avalon Assembly Row/AVA Somerville(4) <i>Somerville, MA</i>	445	122.1	Q2 2012	Q2 2014	Q1 2015	Q3 2015
12.	Avalon Berkeley(5) <i>Berkeley, CA</i>	94	33.7	Q3 2012	Q2 2014	Q3 2014	Q4 2014
13.	Avalon at Stratford <i>Stratford, CT</i>	130	29.7	Q3 2013	Q2 2014	Q4 2014	Q2 2015
14.	AVA Little Tokyo <i>Los Angeles, CA</i>	280	109.8	Q4 2012	Q3 2014	Q2 2015	Q4 2015
15.	Avalon San Dimas <i>San Dimas, CA</i>	156	41.4	Q2 2013	Q3 2014	Q1 2015	Q3 2015
16.	Avalon North Point Lofts(6) <i>Cambridge, MA</i>	103	28.0	Q3 2013	Q3 2014	Q4 2014	Q1 2015
17.	Avalon Wharton <i>Wharton, NJ</i>	247	55.6	Q4 2012	Q1 2015	Q3 2015	Q1 2016
18.	AVA Stuart Street <i>Boston, MA</i>	398	175.7	Q1 2013	Q1 2015	Q3 2015	Q1 2016
19.	Avalon Hayes Valley <i>San Francisco, CA</i>	182	90.2	Q3 2013	Q1 2015	Q2 2015	Q4 2015
20.	Avalon Willoughby	826	444.9	Q3 2013	Q3 2015	Q4 2016	Q2 2017

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Square/AVA DoBro							
<i>Brooklyn, NY</i>							
21.	Avalon Baker Ranch						
	<i>Lake Forest, CA</i>	430	132.9	Q4 2013	Q1 2015	Q1 2016	Q3 2016
22.	Avalon Vista						
	<i>Vista, CA</i>	221					