

AVALONBAY COMMUNITIES INC  
Form DEF 14A  
April 07, 2016

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[Proxy Statement Table of Contents](#)

[Table of Contents](#)

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

**AVALONBAY COMMUNITIES, INC.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Table of Contents

Dear Fellow Stockholders:

I welcome you to join me and the entire Board of Directors at our 2016 Annual Meeting of Stockholders, which will be held on May 19, 2016, at our offices in Arlington, Virginia.

At this year's meeting we will vote on the election of nine directors and the ratification of Ernst & Young as the Company's independent auditor. We will also conduct a non-binding advisory vote to approve the compensation of the Company's named executive officers.

Your vote is important. Whether or not you plan to attend the meeting, we want your shares to be represented. Please vote your shares as soon as possible electronically through the Internet, by telephone, or by completing, signing and returning the proxy card enclosed with the Proxy Statement. More detailed instructions on how to vote are provided on page four of the Proxy Statement.

To attend the meeting a government-issued photo identification is required and we encourage you to register in advance for admission to the meeting. To register in advance, please follow the instructions on page three of the Proxy Statement.

Our Board of Directors values your participation as a stockholder and appreciates your continued support of AvalonBay.

April 8, 2016

Sincerely,

**Timothy J. Naughton**  
*Chairman of the Board  
and Chief Executive Officer*

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Table of Contents

**AvalonBay Communities, Inc.**  
**Ballston Tower, 671 N. Glebe Road, Suite 800**  
**Arlington, VA 22203**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**TO BE HELD ON MAY 19, 2016**

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NOTICE IS HEREBY GIVEN that the 2016 Annual Meeting of Stockholders (the "Annual Meeting") of AvalonBay Communities, Inc., a Maryland corporation (the "Company"), will be held on Thursday, May 19, 2016, at 8:00 a.m., local time, at the offices of the Company, Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, VA 22203, for the following purposes:

1. To elect the following nine directors to serve until the 2017 Annual Meeting of Stockholders and until their respective successors are elected and qualify: Glyn F. Aeppel, Terry S. Brown, Alan B. Buckelew, Ronald L. Havner, Jr., Timothy J. Naughton, Lance R. Primis, Peter S. Rummell, H. Jay Sarles, and W. Edward Walter.
2. To consider and vote upon ratification of the selection of Ernst & Young LLP by the Audit Committee of the Company's Board of Directors to serve as the Company's independent auditors for 2016.
3. To consider and vote upon a resolution to approve, on a non-binding, advisory basis, the compensation of certain executives of the Company as more fully described in the accompanying proxy statement.
4. To transact such other business as may be properly brought before the Annual Meeting and at any postponements or adjournments thereof.

The Board of Directors has fixed the close of business on March 7, 2016, as the record date for determining the stockholders entitled to receive notice of and to vote at the Annual Meeting and at any postponements or adjournments thereof. Only holders of record of the Company's common stock, par value \$0.01 per share (the "Common Stock"), at that time will be entitled to receive notice of and to vote at the Annual Meeting and at any postponements or adjournments thereof.

We request that you authorize a proxy to vote your shares by completing and signing the enclosed proxy card, which is being solicited by the Board of Directors, and by mailing it promptly in the enclosed postage-prepaid envelope. You may also authorize a proxy to vote your shares by telephone or over the Internet by following the instructions on your proxy card. Any proxy delivered by a holder of Common Stock may be revoked by delivering written notice to the Company stating that the proxy is revoked or by delivery of a properly executed, later dated proxy. Holders of record of Common Stock who attend the Annual Meeting may vote in person, even if they have previously delivered a signed proxy or authorized a proxy by telephone or over the Internet, but the presence (without further action) of a stockholder at the Annual Meeting will not constitute revocation of a previously delivered proxy.

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**If you plan to attend the meeting, we encourage you to register in advance for admission to the meeting. To register, please follow the instructions set forth on page 3 of the accompanying proxy statement. All meeting attendees must present government-issued photo identification, such as a driver's license or passport, at the meeting.**

A copy of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 and our 2015 Annual Report to Stockholders accompany this Notice.

By Order of the Board of Directors

Edward M. Schulman  
*Secretary*

Arlington, Virginia  
April 8, 2016

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Table of Contents

## Proxy Statement Table of Contents

	Page
<b><u>Proxy Summary</u></b>	
<b><u>I. Some Questions You May Have Regarding This Proxy Statement</u></b>	
<b><u>II. Proposals</u></b>	
<u>Proposal 1 Election of Directors</u>	6
<u>Required Vote and Recommendation</u>	6
<u>Information Regarding Nominees</u>	6
<u>Proposal 2 Ratification of Selection of Independent Auditors</u>	10
<u>Required Vote and Recommendation</u>	10
<u>Proposal 3 Non-Binding, Advisory Vote on Executive Compensation</u>	10
<u>Required Vote and Recommendation</u>	11
<u>Other Matters</u>	11
<b><u>III. Corporate Governance And Related Matters</u></b>	
<u>Code of Ethics and Corporate Governance Guidelines</u>	12
<u>Board of Directors and its Committees</u>	12
<u>Stockholder Engagement</u>	16
<u>Contacting the Board</u>	17
<u>Report of the Audit Committee</u>	17
<u>Fiscal 2014 and 2015 Audit Fee Summary</u>	18
<u>Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors</u>	18
<u>Transactions with Related Persons, Promoters and Certain Control Persons</u>	18
<b><u>IV. Executive Compensation</u></b>	
<u>Compensation Discussion and Analysis</u>	19
<u>Compensation Committee Report</u>	42
<u>Compensation Committee Interlocks and Insider Participation</u>	42
<u>Summary Compensation Table</u>	43
<u>Grants of Plan Based Awards</u>	44
<u>Outstanding Equity Awards at Fiscal Year End</u>	46
<u>Option Exercises and Stock Vested</u>	48
<u>Nonqualified Deferred Compensation</u>	49
<u>Potential Payments Upon Termination or Sale Event</u>	52
<u>Director Compensation and Director Stock Ownership Guidelines</u>	56
<b><u>V. Officers, Stock Ownership And Other Information</u></b>	
<u>Executive and Senior Officers</u>	59
<u>Security Ownership of Certain Beneficial Owners and Management</u>	62
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	63
<b><u>VI. Other Matters</u></b>	
<u>Solicitation of Proxies</u>	64
<u>Stockholder Nominations for Directors and Proposals for Annual Meetings</u>	64



Table of Contents

## Proxy Summary

*This summary highlights certain information about AvalonBay Communities, Inc., a Maryland corporation (the "Company"), and its Annual Meeting of Stockholders and summarizes information contained elsewhere in this proxy statement. This summary does not contain all of the information that you should consider and you should read the entire proxy statement before voting. For more complete information regarding the Company's 2015 performance, please review the Company's Annual Report on Form 10-K for the year ended December 31, 2015, and the Company's 2015 Annual Report to Stockholders, both of which are being sent to stockholders with this Proxy Statement. This proxy statement and the accompanying Notice of Annual Meeting and proxy card are first being sent to stockholders on or about April 8, 2016.*

### 2016 Annual Meeting of Stockholders Information

**Date and Time:** Thursday, May 19, 2016, at 8:00 a.m. local time  
**Place:** The offices of the Company, Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, VA 22203  
**Record Date:** March 7, 2016

### Meeting Agenda and Voting Matters

Proposal	Board's Voting Recommendation	Page References
1. Election of Directors	FOR EACH NOMINEE	6 9
2. Ratification of Selection of Independent Auditors	FOR	10
3. Non-Binding, Advisory Vote to Approve Executive Compensation	FOR	10 11

### Election of Directors (Proposal 1)

The Board of Directors recommends a vote FOR each director nominee.

Name	Age	Director Since	Independent	Committees*
Timothy J. Naughton	54	2005		IFC
Glyn F. Aepfel	57	2013	X	AC, IFC (Chair)
Terry S. Brown	54	2015	X	AC, IFC
Alan B. Buckelew	67	2011	X	AC (Chair), IFC
Ronald L. Havner, Jr.	58	2014	X	AC, IFC
Lance R. Primis	69	1998	X	CC, NCG (Chair)
Peter S. Rummell	70	2007	X	IFC, NCG
H. Jay Sarles**	70	2005	X	CC, NCG
W. Edward Walter	60	2008	X	CC, IFC

\* IFC = Investment and Finance Committee, AC = Audit Committee, CC = Compensation Committee, NCG = Nominating and Corporate Governance Committee



\*\* Lead Independent Director

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Table of Contents

Immediately following the Annual Meeting, the Board expects that Mr. Sarles will be appointed Chair of the NCG in addition to his role as Lead Independent Director and member of the Compensation Committee.

## Ratification of Selection of Auditors (Proposal 2)

The Board of Directors recommends a vote FOR ratification of the selection of Ernst & Young by the Audit Committee of the Company's Board of Directors to serve as the Company's independent auditors for 2016.

## Advisory Vote to Approve Executive Compensation (Proposal 3)

The Board of Directors recommends a vote FOR the resolution to approve, on a non-binding, advisory basis, the compensation paid to the Company's Chief Executive Officer and other officers named in the Summary Compensation Table on Page 43 (the "Named Executive Officers").

# Corporate Governance Best Practices

- ü All directors are independent other than the CEO
- ü Annual election of all directors and majority voting in uncontested elections
- ü Policy on recoupment of incentive compensation (clawback policy)
- ü Lead Independent Director
- ü Director and executive officer stock ownership guidelines
- ü Director and executive officer prohibition against hedging, pledging or borrowing against Company stock
- ü Policy regarding stockholder approval of future severance agreements
- ü Executive sessions of independent directors at each regularly scheduled Board meeting
- ü Regular succession planning, including guidelines on director and committee chairman tenure
- ü No former employees serve as directors
- ü No employment agreements with officers
- ü Proxy access adopted in Bylaws
- ü No shareholder rights plan ("poison pill") and policy regarding adoption of future plans
- ü

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Double trigger equity compensation vesting in the event of a change in control

ü

Policy on political contributions and government relations

ü

Board education policy

ü

Published comprehensive sustainability and corporate social responsibility report

ü

Annual advisory vote to approve executive compensation

ü

Annual advisory vote to ratify independent auditor

Table of Contents

## I. Some Questions You May Have Regarding This Proxy Statement

**Q. Why am I receiving these materials?**

A. The accompanying proxy is solicited on behalf of the Board of Directors of the Company. We are providing these proxy materials to you in connection with our 2016 Annual Meeting of Stockholders to be held on Thursday, May 19, 2016, at 8:00 a.m., local time, at the offices of the Company, Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, Virginia 22203, and any postponements or adjournments thereof (the "Annual Meeting" or the "2016 Annual Meeting"). As a Company stockholder, you are invited to attend the Annual Meeting and are entitled and requested to vote on the proposals described in this proxy statement. Directions on how to attend the Annual Meeting in person are available on the Company's Internet website at [www.avalonbay.com](http://www.avalonbay.com).

**Q. How can I access the proxy materials electronically?**

A. This proxy statement, our 2015 Annual Report to Stockholders and our Annual Report on Form 10-K for the year ended December 31, 2015 are available online at [www.proxyvote.com](http://www.proxyvote.com). Instead of receiving copies of our future annual reports, proxy statements, and proxy cards by mail, stockholders can elect to receive an email that will provide electronic links to our proxy materials and an electronic link to the proxy voting site. Choosing to receive your future proxy materials online will save us the cost of printing and mailing documents to you and help conserve natural resources. You may sign up for electronic delivery by visiting [www.proxyvote.com](http://www.proxyvote.com). If you elect to receive these materials by electronic delivery, you may change your election at any time.

**Q. Who may vote at the Annual Meeting?**

A. You may vote all the shares of our common stock, par value \$0.01 per share ("Common Stock"), that you owned at the close of business on March 7, 2016, the record date for determining stockholders entitled to receive notice of, and to vote on, these matters (the "Record Date"). On the Record Date, the Company had 137,162,449 shares of Common Stock outstanding and entitled to vote at the meeting. You may cast one vote for each share of Common Stock held by you on all matters.

**Q. How do I obtain admission to the Annual Meeting?**

A. **If you plan to attend the Annual Meeting, we encourage you to register in advance. All meeting attendees must present government-issued photo identification, such as a driver's license or passport, at the meeting. In addition, if you are authorized to represent a corporate or institutional stockholder, you must also present written evidence you are the authorized representative of such stockholder. Please submit your request to register on or before Friday, May 13, 2016, by mailing or faxing a request to the Company's Corporate Secretary at 671 N. Glebe Road, Suite 800, Arlington, VA 22203, facsimile: 703-329-4830 or sending an email to [2016AnnualMeeting@AvalonBay.com](mailto:2016AnnualMeeting@AvalonBay.com). Please include the following information: (a) your name and mailing address, (b) whether you need special assistance at the meeting, (c) if your shares are held for you in the name of your broker, bank or other nominee, evidence of your stock ownership (such as a current letter from your broker or a photocopy of a current brokerage or other account statement) as of March 7, 2016. The meeting facilities will open at 7:30 a.m., local time, to facilitate your registration and security clearance. For your security you will not be permitted to bring any packages, briefcases, large pocketbooks or bags into the meeting. Also, cellular phones, audio (tape or digital) recorders, video and still cameras, pagers, laptops and other portable electronic devices as well as pets may not be permitted into the meeting. Thank you in advance for your patience and cooperation with these rules.**

Table of Contents

**Q. What constitutes a quorum at the Annual Meeting?**

A. The presence, in person or by proxy, of holders of a majority of all of the shares of Common Stock entitled to vote is necessary to constitute a quorum for the transaction of business at the Annual Meeting. Abstentions and "broker non-votes" will be counted for purposes of determining whether a quorum is present for the transaction of business at the Annual Meeting. A "broker non-vote" refers to a share represented at the meeting held by a broker, as to which instructions have not been received from the beneficial owner or person entitled to vote such shares and with respect to which, on one or more but not all matters, the broker does not have discretionary voting power to vote such share.

Note that under New York Stock Exchange ("NYSE") rules, if you hold shares through a bank, broker or other institution and you do not provide your voting instructions to them at least 10 days before the Annual Meeting, that firm has the discretion to vote your shares on proposals that the NYSE has determined are routine, such as the ratification of the appointment of the independent public accounting firm. A bank, broker or institution that holds your shares cannot vote your shares on non-routine matters at the Annual Meeting, such as the election of directors, approval of compensation-related matters, or a proposal submitted by a stockholder, without your voting instructions.

**Q. What proposals will be voted on at the Annual Meeting?**

A. At the Annual Meeting, stockholders will be asked to: (1) elect nine directors of the Company, (2) consider and vote upon ratification of the selection of Ernst & Young LLP as the Company's independent auditors for 2016, (3) consider and vote upon a resolution to approve, on a non-binding, advisory basis, the Company's named executive officer compensation and (4) transact such other business as may be properly brought before the Annual Meeting, in each case as specified in the Notice of Annual meeting and more fully described in this proxy statement.

**Q. How do I vote?**

A. Whether you hold shares directly as the stockholder of record or indirectly as the beneficial owner of shares held for you by a broker or other nominee (i.e., in "street name"), you may direct your vote without attending the Annual Meeting. You may vote by granting a proxy or, for shares you hold in street name, by submitting voting instructions to your broker or nominee. In most instances, you will be able to do this over the Internet, by telephone or by mail. Please refer to the summary instructions below and those included on your proxy card or, for shares you hold in street name, the voting instruction card provided by your broker or nominee.

**By Internet** If you have Internet access, you may authorize your proxy from any location in the world by following the "By Internet" instructions on the proxy card or, if applicable, the Internet voting instructions that may be described on the voting instruction card sent to you by your broker or nominee.

**By Telephone** If you are calling from the United States or Canada, you may authorize your proxy by following the "By Telephone" instructions on the proxy card or, if applicable, the telephone voting instructions that may be described on the voting instruction card sent to you by your broker or nominee.

**By Mail** You may authorize your proxy by signing your proxy card and mailing it in the enclosed, postage-prepaid and addressed envelope. For shares you hold in street name, you may sign the voting instruction card included by your broker or nominee and mail it in the envelope provided.

For shares held directly in your name, you may change your proxy instructions at any time prior to the vote at the Annual Meeting. You may do this by granting a new properly executed and later-dated proxy, by filing a written revocation with the Secretary of the Company at the address of the Company set forth above, or by attending the Annual Meeting and voting in person. Attendance at the Annual



Table of Contents

Meeting without further action will not cause your previously granted proxy to be revoked. You may change your proxy instructions for shares you beneficially own by submitting new voting instructions to your broker or nominee in the manner and within the time periods they prescribe.

If a properly signed proxy is submitted but not marked as to a particular item, the proxy will be voted FOR the election of the nine nominees for director of the Company named in this Proxy Statement, FOR the ratification of the selection of Ernst & Young LLP as the Company's independent auditors for 2016, and FOR the non-binding, advisory resolution to approve the Company's named executive officer compensation. It is not anticipated that any matters other than those set forth in the Proxy Statement will be presented at the Annual Meeting. If other matters are presented, proxies will be voted in the discretion of the proxy holders.

Q.

**What is householding?**

A.

If you and other residents at your mailing address own shares of Common Stock in street name, your broker, bank or other nominee may have sent you a notice that your household will receive only one annual report, notice of annual meeting and proxy statement. This procedure is known as "householding" and is intended to reduce the volume of duplicate information stockholders receive and also reduce our printing and postage costs. If you consented or were deemed to have consented to householding, your broker, bank or other nominee may send one copy of our annual report, notice of annual meeting and proxy statement to your address for all residents that own shares of common stock in street name. If you wish to revoke your consent to householding, you must contact your broker, bank or other nominee. If you are receiving multiple copies of our annual report, notice of annual meeting and proxy statement, you may be able to request householding by contacting your broker, bank or other nominee.

If you wish to request extra copies free of charge of our annual report or proxy statement, please send your request to the Corporate Secretary at the address below, call us with your request at 703-329-6300 or visit the "Investor relations" section of our website at [www.avalonbay.com](http://www.avalonbay.com).

The Company's 2015 Annual Report to Stockholders and a copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission ("SEC"), are being mailed to stockholders concurrently with this Proxy Statement. The Annual Report to Stockholders and Form 10-K, however, are not part of the proxy solicitation materials. **A copy of any or all exhibits to the Company's Annual Report on Form 10-K, and a copy of the Company's Code of Business Conduct and Ethics, may be obtained free of charge by writing to the Company at its principal executive offices at the following address: AvalonBay Communities, Inc., Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, VA 22203, Attention: Corporate Secretary or by accessing the "Investor relations" section of the Company's website ([www.avalonbay.com](http://www.avalonbay.com)).**

Table of Contents

## II. PROPOSALS

### Proposal 1: Election of Directors

The Board of Directors currently consists of ten members. As previously announced, John J. Healy, Jr., a current director, has decided not to stand for re-election. The Board of Directors has nominated for election the other nine current directors, and has reduced the size of the Board to nine to eliminate the resulting vacancy, effective immediately following the Annual Meeting. Accordingly, nine nominees will stand for election at the Annual Meeting and if elected will serve until the 2017 Annual Meeting of Stockholders and until their successors are elected and qualify. The following individuals have been nominated by the Board of Directors to serve as directors: Glyn F.

Aepfel, Terry S. Brown, Alan B. Buckelew, Ronald L. Havner, Jr., Timothy J. Naughton, Lance R. Primis, Peter S. Rummell, H. Jay Sarles, and W. Edward Walter (each, a "Nominee" and, collectively, the "Nominees"). The Board of Directors anticipates that each of the Nominees, if elected, will serve as a director. However, if any person nominated by the Board of Directors is unable to serve or for good cause will not serve, the proxies will be voted for the election of such other person as the Board of Directors may recommend. You may not vote for more than nine directors at the Annual Meeting.

#### Required Vote and Recommendation

Only holders of record of Common Stock as of the close of business on the Record Date are entitled to vote on this proposal. Proxies will be voted for all of the Nominees unless contrary instructions are set forth on the enclosed proxy card. Under the Company's Bylaws, the affirmative vote of a

majority of the total votes cast for and affirmatively withheld as to each Nominee is required to elect such Nominee. Under Maryland law, abstentions and broker non-votes are not treated as votes cast. Accordingly, an abstention or broker non-vote will have no effect on the result of the vote.

***The Board of Directors unanimously recommends a vote FOR all of the Nominees.***

#### Information Regarding Nominees

The following biographical descriptions set forth information with respect to the Nominees, based on information furnished to the Company by each Nominee, and include the specific experience, qualifications, attributes and skills that led to the

Board's conclusion that each should serve as a director in light of the Company's business and structure. There is no family relationship between any Nominee or executive officer of the Company.

Employee Director Nominee

##### Timothy J. Naughton

Mr. Naughton, 54, is the Company's Chairman of the Board, Chief Executive Officer and President and has been a director of the Company since September 2005. He has served as Chairman of the Board since May 2013, as Chief Executive Officer since January 2012, and as President since February 2005. Previously, Mr. Naughton's prior roles included serving as the Company's Chief

Operating Officer, Chief Investment Officer, and Regional Vice President Development and Acquisitions. Mr. Naughton has been with the Company and its predecessors since 1989. Mr. Naughton has served as a director of Welltower Inc., a publicly traded investor in healthcare real estate, since December 2013, serves as an officer (First Vice Chair) of the



Table of Contents

National Association of Real Estate Investment Trusts ("NAREIT"), is a member of The Real Estate Round Table, is a member and past chairman of the Multifamily Council of the Urban Land Institute ("ULI"), and is a member of the Real Estate Forum. Mr. Naughton received his Masters of Business Administration from Harvard Business School in 1987 and earned his undergraduate degree in Economics with High Distinction from

the University of Virginia, where he was elected to Phi Beta Kappa. The Board has concluded that Mr. Naughton should serve as a director based on his history with and knowledge of the Company, his performance and achievements as Chairman of the Board, President and Chief Executive Officer of the Company, and his strong background in the real estate business, including years of experience in both property investment and development.

Non-Employee Director Nominees

Glyn F. Aeppel

Ms. Aeppel, 57, has been a director of the Company since May 2013, and has more than 30 years of experience in property acquisitions, development and financing. Ms. Aeppel established a hotel investment and advisory company, Glencove Capital, in June 2010 and serves as its President and Chief Executive Officer. From October 2008 to May 2010, Ms. Aeppel served as Chief Investment Officer of Andre Balazs Properties, an owner, developer and operator of luxury hotels. From April 2006 to October 2008, she served as Executive Vice President of Acquisitions and Development for Loews Hotels and as a member of its Executive Committee. From April 2004 to April 2006, she was a principal of Aeppel and Associates, a hospitality advisory development company, during which time she

assisted Fairmont Hotels and Resorts in expanding in the United States and Europe. Prior to April 2004, Ms. Aeppel held executive positions with Le Meridien Hotels, Interstate Hotels & Resorts, Inc., FFC Hospitality, LLC, Holiday Inn Worldwide and Marriott Corporation. Ms. Aeppel has been nominated for election to the board of Simon Property Group, Inc., a publicly traded retail real estate company, at its annual meeting of stockholders in May 2016. Ms. Aeppel also serves on the board of Exclusive Resorts, a private luxury resort and vacation rental home company. The Board has concluded that Ms. Aeppel should serve as a director based on her broad background and long experience in property acquisitions, branding, development and financing.

Terry S. Brown

Mr. Brown, 54, has been a director of the Company since January 1, 2015, and is the Chairman and Chief Executive Officer of Asana Partners, a private real estate investment company, which he helped found in 2015. Prior to that he was Chairman and Chief Executive Officer of EDENS, one of the country's leading private owners, operators and developers of real estate. Mr. Brown joined EDENS as its CEO in 2002. Before joining Edens he was Chief Executive Officer of Andersen Corporate Finance LLC (NASD

broker-dealer subsidiary of Arthur Andersen LLP) where he was responsible for strategy and investment banking activities on a global basis across the real estate, manufacturing, technology, services and energy industries. The Board has concluded that Mr. Brown should serve as a director based on his significant experience in a sector of the real estate industry that is complementary to the Company's multifamily platform.

Alan B. Buckelew

Mr. Buckelew, 67, has been a director of the Company since September 2011. He has been the Chief Operations Officer of Carnival Corporation, a publicly traded cruise line holding company, since December 2013. Prior to that he was President of Princess Cruises, Inc. from 2004 to 2013,

overseeing the brand and operations of Princess Cruises.

Mr. Buckelew also served as Chief Operating Officer for Cunard Line from 2004 to 2007. Prior to these roles, Mr. Buckelew served from 2000 to 2004 as Executive Vice President of Corporate

Table of Contents

Services for Princess Cruises, with responsibility for the Company's strategic planning, marketing and yield management functions. The Board has concluded that Mr. Buckelew should serve as a

director based on his significant experience as an executive in an industry that, like multifamily apartment communities, is capital intensive and consumer-driven.

Ronald L. Havner, Jr.

Mr. Havner, 58, has been a director of the Company since September 2014. Mr. Havner is the Chairman of the Board, Chief Executive Officer and President of Public Storage, a publicly traded real estate investment trust that primarily acquires, develops, owns and operates self-storage facilities. He was elected Vice Chairman and Chief Executive Officer of Public Storage in 2002 and was elected Chairman of the Board in August 2011. Mr. Havner has been Chairman of the Board of PS Business Parks, Inc., a publicly traded real estate company, since March 1998, and has served as a director of California Resources Corp., a publicly traded oil and natural gas exploration and production company, since 2014. Mr. Havner was the 2014 Chairman of the Board of Governors of NAREIT.

In considering the nomination of Mr. Havner for re-election to the Board, the Nominating and Corporate Governance Committee (the "Nominating and Governance Committee") and the full Board considered whether Mr. Havner's role at Public Storage and PS Business Parks, together with his service on the Board of California Resources Corp., would allow him to dedicate sufficient time and focus on his duties as a director of AvalonBay. The Board considered Mr. Havner's performance as a valued and reliable member of the Board and its Committees over the past year, including his attendance at 16 of 17 possible Board and Committee meetings (Mr. Havner missed one brief Investment and Finance Committee telephonic call). In accordance with the Board's standard practice, prior to joining the

Board and each year thereafter Mr. Havner reviews three years' of regularly scheduled AvalonBay Board and Committee meeting dates so that he has time to arrange his schedule to provide for availability at AvalonBay meetings.

In determining that Mr. Havner's other commitments would not prevent him from dedicating sufficient time and attention to the Company, the Board and the Nominating and Governance Committee considered the substantial overlap between his duties at Public Storage and at PS Business Parks. Public Storage owns 42% of PS Business Parks, PS Business Parks' financial records are reflected in Public Storage's financial statements under the equity method of accounting, and there are a number of contractual relationships between the two entities, including a cost sharing and administration services agreement.

The Board and the Nominating and Governance Committee also believe that Mr. Havner provides great value to the Board and is an important contributor to discussions and decision-making. Mr. Havner is a highly respected and experienced member of the real estate industry with current executive experience with a leading developer and operator. Accordingly, the Board has concluded that Mr. Havner should serve as a director based upon his business and investment expertise acquired in successfully leading an equity REIT for over a decade and his demonstrated reliability and commitment to service on the Board.

Lance R. Primis

Mr. Primis, 68, has been a director of the Company since June 1998. Since 1997, Mr. Primis has been the managing partner of Lance R. Primis & Partners, LLC, a management consulting firm with clients in the media industry. From 1969 to 1996, Mr. Primis was employed in various positions by The New York Times Company, including the positions of President and Chief Operating Officer, which he held from 1992 to 1996. Mr. Primis was

the President and General Manager of The New York Times from 1988 to 1992. The Board has concluded that Mr. Primis should serve as a director based on his experience managing a public company with significant and varied operations and his performance in the role of Lead Independent Director. Mr. Primis served as the Lead Independent Director of the Company from 2003 through May 2015.

Table of Contents

**Peter S. Rummell**

Mr. Rummell, 70, has been a director of the company since September 2007. He is currently a private investor and most recently served as the Chief Executive Officer of the Jack Nicklaus Companies in Palm Beach, Florida, from August 2008 through May 2009. The Jack Nicklaus Companies runs Mr. Nicklaus's worldwide golf course design and related licensing business. Prior to that, from January 1997 until his retirement in July 2008, Mr. Rummell was Chairman and CEO of The St. Joe Company, one of Florida's largest real estate operating companies and the state's largest private landowner. From 1985 until 1996,

Mr. Rummell served as President of Disney Development and then as Chairman of Walt Disney Imagineering, the division responsible for Disney's worldwide creative design, real estate, research and development activities. From 1983 until 1985, he was Vice Chairman of the Rockefeller Center Management Corporation in New York City. Mr. Rummell is a past chairman of the ULI. The Board has concluded that Mr. Rummell should serve as a director based on his experience in leadership positions of companies with significant real estate holdings and operations and his broad knowledge of the real estate industry.

**H. Jay Sarles**

Mr. Sarles, 70, has been a director of the Company since September 2005, and has served as the Lead Independent Director of the Company since May 2015 (see "Board of Directors and its Committees Leadership Structure and Lead Independent Director"). He retired from full time business leadership positions in 2005, having most recently served as vice chairman of Bank of America Corporation. Prior to that he served as Vice Chairman and Chief Administrative Officer of Fleet Boston Financial ("Fleet") with responsibility for administrative functions, risk management, technology and operations, treasury services, corporate strategy and mergers and acquisitions. During his 37 years at Fleet, Mr. Sarles oversaw

virtually all of Fleet's businesses at one time or another, including the company's wholesale banking business from 2001 to 2003. These included commercial finance, real estate finance, capital markets, global services, industry banking, middle market and large corporate lending, small business services and investment banking businesses. Mr. Sarles has served as a director of Ameriprise Financial, Inc., a publicly traded financial planning services company, since September 2005. The Board has concluded that Mr. Sarles should serve as a director based on his extensive experience as an executive officer with a variety of responsibilities at a large financial institution with varied operations.

**W. Edward Walter**

Mr. Walter, 60, has been a director of the Company since September 2008. He has served as President and Chief Executive Officer of Host Hotels & Resorts, Inc. ("Host"), a publicly traded premier lodging real estate company, since October 2007. From 2003 until October 2007, he served as Executive Vice President and Chief Financial Officer of Host. From 1996 until 2003, he served in various senior management positions with Host, including Chief Operating Officer. Mr. Walter has been a member of the Board of Directors of Host since October 2007. Mr. Walter is also past Chairman of the Board of Directors of the National Kidney Foundation, a Trustee of Friendship Public Charter Schools, a Director of

the Real Estate Round Table, an officer of the Federal City Council, and Chair of the American Hotel & Lodging Association's CEO Advocacy Steering Committee. In addition, he is the Robert and Lauren Steers Chair in Real Estate at the Steers Center for Global Real Estate at Georgetown University's McDonough School of Business. The Board has concluded that Mr. Walter should serve as a director based on his demonstrated business, financial and organizational experience as both the past chief financial officer and current chief executive officer of a publicly traded corporation with significant real estate investment holdings and operations.

Table of Contents

## Proposal 2: Ratification of Selection of Independent Auditors

The Board recommends that the stockholders ratify the Audit Committee's selection of Ernst & Young LLP ("Ernst & Young") as the independent auditors of the Company for fiscal year 2016. Ernst & Young was also the Company's principal independent auditors for fiscal year 2015. If the selection of Ernst & Young is not ratified, the Audit Committee anticipates that it will nevertheless engage Ernst & Young as auditors for fiscal year 2016 but will consider whether it should select a different auditor for fiscal year 2017. If the selection

of Ernst & Young is ratified by the stockholders, the Audit Committee may nevertheless determine, based on changes in fees, personnel or for other reasons, to engage a firm other than Ernst & Young for the 2016 audit.

Representatives of Ernst & Young are expected to be present at the Annual Meeting and will have the opportunity to make a statement, if they desire to do so, and to respond to appropriate questions.

### Required Vote and Recommendation

Only holders of record of Common Stock as of the close of business on the Record Date are entitled to vote on this proposal. Proxies will be voted for ratification of the selection of Ernst & Young as the Company's independent auditors for fiscal year 2016 unless contrary instructions are set forth on the enclosed proxy card. A majority of the votes

cast on the proposal at the Annual Meeting is required to ratify the selection of Ernst & Young. Under Maryland law, abstentions and broker non-votes are not treated as votes cast. Accordingly, an abstention or broker non-vote will have no effect on the result of the vote.

***The Board of Directors unanimously recommends a vote FOR the ratification of the selection of Ernst & Young as the Company's independent auditors for fiscal year 2016.***

## Proposal 3: Non-Binding, Advisory Vote on Executive Compensation

The Compensation Discussion and Analysis beginning on page 19 of this proxy statement describes the Company's executive officer compensation program and decisions made by the Compensation Committee and the Board of Directors with respect to the 2015 compensation of our Chief Executive Officer and other officers named in the Summary Compensation Table on page 43 (the "Named Executive Officers"). As noted in the Compensation Discussion and Analysis, the Company's goals for its executive compensation program are (i) to attract, motivate and retain experienced, effective executives, (ii) to direct the performance of those executives with clearly defined goals and measures of achievement and (iii) to align the interests of management with the interests of our stockholders.

At our 2011 Annual Meeting of Stockholders, our stockholders voted on a proposal regarding the frequency of holding a non-binding, advisory vote on the compensation of our named executive officers (a "Say-on-Pay Vote"), among other

matters. A majority of the votes cast on the frequency proposal were cast in favor of holding a Say-on-Pay Vote every year, which was consistent with the recommendation of our Board of Directors. Our Board currently intends for the Company to hold a Say-on-Pay Vote every year at least until the 2017 Annual Meeting of Stockholders, which is the next required advisory vote on the frequency of holding a Say-on-Pay Vote.

While the vote on the following resolution is advisory in nature and therefore will not bind us to take any particular action, our Board of Directors intends to carefully consider the stockholder vote resulting from the proposal in making future decisions regarding our compensation program. The Board of Directors is asking stockholders to cast a non-binding, advisory vote on the following resolution:

"RESOLVED, that the compensation paid to the Company's Named Executive Officers, as

Table of Contents

disclosed pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, compensation tables and any related

material disclosed in this proxy statement, is hereby APPROVED, on a non-binding, advisory basis, by the stockholders of the Company."

**Required Vote and Recommendation**

Only holders of record of Common Stock as of the close of business on the Record Date are entitled to vote on this proposal. Proxies will be voted for adoption of the resolution approving the compensation disclosed unless contrary instructions are set forth on the enclosed proxy card. A majority of the votes cast on the proposal at the Annual Meeting is required to provide

non-binding advisory approval of the compensation paid to the Company's Named Executive Officers. Under Maryland law, abstentions and broker non-votes are not treated as votes cast. Accordingly, an abstention or broker non-vote will have no effect on the result of the vote.

*The Board of Directors unanimously recommends a vote FOR the resolution to approve, on a non-binding, advisory basis, the compensation paid to the Company's Named Executive Officers.*

**Other Matters**

The Board of Directors does not know of any matters other than those described in this Proxy Statement that will be presented for action at the Annual Meeting. If other matters are presented, proxies will be voted in the discretion of the proxy holders.

**Regardless of the number of shares you own, your vote is very important to the Company. Please complete, sign, date and promptly return the enclosed proxy card or authorize a proxy by telephone or over the Internet to vote your shares by following the instructions on your proxy card.**

Table of Contents

## III. Corporate Governance And Related Matters

### Code of Ethics and Corporate Governance Guidelines

The Company has adopted a Code of Business Conduct and Ethics (the "Code"). The Code constitutes a "code of ethics," as defined by the SEC, that applies to the Company's Board of Directors as well as its Chief Executive Officer, Chief Financial Officer, principal accounting officer, controller, and other employees of the Company. In addition, the Company has adopted Corporate Governance Guidelines. Copies of the Code and the Corporate Governance Guidelines are available on the "Investor relations" section of the Company's website ([www.avalonbay.com](http://www.avalonbay.com)) under "Governance Documents." 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. Additional information on corporate governance policies is included in "Compensation Policies" on page 40, including information on the following Company policies: Executive Stock Ownership Guidelines; Prohibition Against Hedging, Pledging or Borrowing against Company Stock; Severance Policy; and Policy on Recoupment of Incentive Compensation (Clawback Policy).

### Board of Directors and its Committees

#### Board of Directors

The Board of Directors currently consists of ten directors, nine of whom are candidates for election. As previously announced, John J. Healy, Jr., a current director, has decided not to stand for re-election. The Board of Directors met five times during 2015. The Board of Directors schedules regular executive sessions at each of its meetings in which the Company's independent directors meet without management participation. During 2015, each of the directors attended at least 75% of the total number of meetings of the Board of Directors and meetings of the committees of the Board of Directors of which he or she was a member. The Board's policy is that each director attend the Company's annual meetings of stockholders at which he or she is a nominee, and all directors were in attendance at the 2015 Annual Meeting of Stockholders with the exception of Peter Rummell.

As discussed below under Nominating and Corporate Governance Committee, the Board considers a variety of factors when choosing candidates for Board appointment or nomination. While the Board values long-tenured directors who know the Company and management well, the Board also believes that it is important to assure that from time to time vacancies occur on the Board that create opportunities for new directors

who may bring different or more recent experiences or expertise to the Board. Consistent with this philosophy, three new directors have joined the AvalonBay Board on or subsequent to the 2013 Annual Meeting of Stockholders: Glyn Aeppel, Ron Havner and Terry Brown.

On February 11, 2016, the Company's Board of Directors amended the Company's Corporate Governance Guidelines to incorporate new term limit expectations that reflect the Board's view of the importance of board succession planning. Specifically, the Corporate Governance Guidelines, as amended, (i) express an expectation that a director will not be re-nominated after the completion of 12 full years of service or within the several years that follow; (ii) express an expectation that the Lead Independent Director will serve in that role for approximately three to five years, and (iii) express an expectation that Committee chairs will serve for three to five years. In each case, the guideline is flexible and the exact timing for any transition will depend on the needs of the Board at the time and the timing of identification and nomination of a successor. The Board would not expect to apply this guideline to an employee director (at the present time, the only employee on the Company's Board is the CEO).

Table of Contents

Audit Committee

The Board of Directors has established an Audit Committee. The current members of this committee are Mr. Buckelew (Chair), Ms. Aeppel and Messrs. Brown, Havner and Healy. Following the Annual Meeting, Mr. Healy will no longer serve as a director. The Board of Directors has determined that Mr. Buckelew is an "audit committee financial expert" as defined by the SEC, based on his MBA, experience as Chief Financial Officer at Princess Cruises, and the fact that the Internal Audit function of Carnival Corporation reports to him. The designation of Mr. Buckelew by the Board as an "audit committee financial expert" is not intended to be a representation that he is an expert for any purpose as a result of this designation, nor is it intended to impose on him any duties, obligations or liabilities that are greater than the duties, obligations or liabilities imposed on him as a member of the Audit Committee and the Board in the absence of this designation. The Board of Directors has determined that the

members of the Audit Committee, including the audit committee financial expert, are "independent" under the rules of the NYSE. The Audit Committee, among other functions, has the sole authority to appoint and replace the independent auditors, is responsible for the compensation and oversight of the work of the independent auditors, reviews the results of the audit engagement with the independent auditors, and reviews and discusses with management and the independent auditors quarterly and annual financial statements and major changes in accounting and auditing principles. The Audit Committee met seven times during 2015. The Board of Directors has adopted a written charter for the Audit Committee. A copy of the Audit Committee charter is available on the "Investor relations" section of the Company's website ([www.avalonbay.com](http://www.avalonbay.com)) under "Corporate Governance Documents."

Compensation Committee

The Board of Directors has established a Compensation Committee. The current members of this committee are Messrs. Walter (Chair), Primis and Sarles. The Board of Directors has determined that the members of the Compensation Committee are "independent" under the rules of the NYSE. The Compensation Committee, among other functions, reviews, designs and determines management compensation structures, programs and amounts, establishes corporate and management performance goals and objectives, and reviews and makes recommendations to the Board of Directors regarding the Company's incentive compensation plans, including the Company's 1994 Stock Incentive Plan and the Company's 2009 Stock Option and Incentive Plan (collectively, the "Stock Incentive Plans"). The Compensation Committee also reviews employment agreements and arrangements with senior officers. In addition, our Stock Incentive Plans provide that the Committee, in its discretion, may delegate to the Chief Executive Officer of the

Company all or part of the Committee's authority and duties under the Stock Incentive Plans with respect to awards, including the granting of awards to individuals who are not subject to the reporting and other provisions of Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act"). The Compensation Committee has engaged Steven Hall & Partners, an executive compensation consulting firm, to provide it with independent advice and counsel on executive and board compensation, as well as competitive pay practices. Steven Hall & Partners does not provide any services directly to the Company or its management. The Compensation Committee met six times during 2015. The Board of Directors has adopted a written charter for the Compensation Committee. A copy of the Compensation Committee charter is available on the "Investor relations" section of the Company's website ([www.avalonbay.com](http://www.avalonbay.com)) under "Corporate Governance Documents."

Nominating and Corporate Governance Committee

The Board of Directors has established a Nominating and Corporate Governance Committee. The current members of this committee are Messrs. Primis (Chair), Rummell,

Sarles and Healy. Following the Annual Meeting, Mr. Healy will no longer serve as a director and the Board expects to appoint Jay Sarles to serve as the Chairman of the Nominating and Governance

Table of Contents

Committee, along with its remaining current members. The Board of Directors has determined that the members of the Nominating and Governance Committee are "independent" under the rules of the NYSE. The Nominating and Governance Committee's functions include: identifying individuals qualified to become Board members; considering policies relating to Board and committee meetings; recommending the establishment or dissolution of Board committees; reviewing and considering succession plans with respect to the positions of Chairman of the Board and Chief Executive Officer (including through periodic evaluation and discussion with the Board of internal candidates for such succession); reviewing policies and activities in the areas of political contributions, charitable giving and corporate responsibility; and addressing other issues regarding corporate governance. The Nominating and Governance Committee met five times during 2015. The Board of Directors has adopted a written charter for the Nominating and Governance Committee. A copy of the Nominating and Governance Committee charter is available on the "Investor relations" section of the Company's website ([www.avalonbay.com](http://www.avalonbay.com)) under "Corporate Governance Documents."

In evaluating and determining whether to recommend a person as a candidate for election as a director, the Nominating and Governance Committee considers the qualifications set forth in the Company's corporate governance guidelines, which include the nominee's business and professional background; history of leadership or contributions to other organizations; functional skill set and expertise; general understanding of marketing, finance, accounting and other elements relevant to the success of a publicly-traded company in today's business environment; and service on other boards of directors. In addition, the Board may consider diversity of background, experience and thought in evaluating and recommending candidates for election. The Board believes that diversity is important because a variety of points of view can contribute to a more effective decision-making process. The Nominating and Governance Committee may employ a variety of methods for identifying and evaluating nominees for director. The Nominating and Governance Committee may assess the size of the Board, the need for particular expertise on the Board, the upcoming election cycle of the Board and whether any vacancies are expected, due to retirement or otherwise. In the event that vacancies are anticipated or otherwise arise, the Nominating and

Governance Committee will consider various potential candidates for director which may come to the Nominating and Governance Committee's attention through current Board members, professional search firms, stockholders or other persons. These candidates are evaluated at regular or special meetings of the Nominating and Governance Committee, and may be considered at any time during the year.

In exercising its function of recommending individuals for nomination by the Board for election as directors, the Nominating and Governance Committee will consider nominees recommended by stockholders. The procedure by which stockholders may submit such recommendations is set forth in the Company's Bylaws. See "Other Matters – Stockholder Proposals for Annual Meetings" for a summary of these requirements. When nominations are properly submitted, the Nominating and Governance Committee will consider candidates recommended by stockholders under the criteria summarized above. Following verification of the stockholder status of persons proposing candidates, the Nominating and Governance Committee makes an initial analysis of the qualifications of any candidate recommended by stockholders or others pursuant to the criteria summarized above to determine whether the candidate is qualified for service on the Board of Directors before deciding to undertake a complete evaluation of the candidate. If any materials are provided by a stockholder or professional search firm in connection with the nomination of a director candidate, such materials are forwarded to the Nominating and Governance Committee as part of its review. The same identifying and evaluating procedures apply to all candidates for director nomination, including candidates submitted by stockholders. In the case of stockholder nominations, the Board may also consider the specific information required to be provided by the nominating stockholder pursuant to the requirements of the Company's Bylaws.

If you would like the Nominating and Governance Committee to consider a prospective candidate, please submit the candidate's name and qualifications and other information in accordance with the requirements for director nominations by stockholders in the Company's Bylaws to: AvalonBay Communities, Inc., Ballston Tower, 671 N. Glebe Road, Suite 800, Arlington, VA 22203, Attention: Corporate Secretary.



Table of Contents

Investment and Finance Committee

The Board of Directors has established an Investment and Finance Committee. The current members of this committee are Ms. Aeppel (Chair), and Messrs. Brown, Buckelew, Havner, Naughton, and Rummell. The Investment and Finance Committee was formed, among other things, to review and monitor the acquisition, disposition, development and redevelopment of the Company's communities, and review and monitor

the financial structure, capital sourcing strategy and financial plans and projections of the Company. The Investment and Finance Committee has authority, subject to certain limits and guidelines set by the Board of Directors and Maryland law, to approve investment and financing activity. The Investment and Finance Committee met five times during 2015.

Leadership Structure and Lead Independent Director

Timothy J. Naughton, our Chief Executive Officer and President, also serves as the Company's Chairman of the Board. The Board believes that the Company is best served by having Mr. Naughton serve as Chairman of the Board in addition to Chief Executive Officer and President, as opposed to appointing one of the other current directors or a future director to serve as Chairman of the Board. Among other benefits, Mr. Naughton's role as Chief Executive Officer and President enables him, working with the Lead Independent Director, to act as a bridge between management and the Board, helping management and the Board to act with a common purpose. Mr. Naughton's combined roles as Chief Executive Officer, President and Chairman of the Board promote unified leadership and direction for the

Company. To help assure sound corporate governance practices, the Board of Directors established the position of Lead Independent Director in 2003 and Mr. Sarles currently serves in that role. Mr. Sarles' role as Lead Independent Director includes presiding at all meetings of the Board of Directors at which the Chairman of the Board is not present, serving as a liaison between the Chairman of the Board and the independent directors, establishing and approving meeting agendas for the Board, having the authority to call meetings of the independent directors, conferring with the Chairman of the Board and the Chief Executive Officer regularly, and acting as a contact person for stockholders and others who wish to communicate with the independent directors.

Board of Directors Risk Oversight

The Company and the Board have a number of practices with regard to Board oversight of risk management matters. The charter of each of the Company's Board committees provides that each committee shall, from time to time to the extent that committee deems appropriate, review risk and compliance matters relevant to that committee and report the results of such review to the full Board. As required by NYSE rules, the charter of the Audit Committee states that the Audit Committee will assist with Board oversight of risk and compliance matters, and in any event will review the perceived major financial risk exposures of the Company and the steps management has taken to monitor and control such exposures. At most regularly scheduled Board meetings, the Board reviews key matters relating to the Company's finances, liquidity, operations and investment activity. On an annual basis, the Board engages in a broader discussion about company-wide risk management.

Although it is not the primary reason for the selection of the current leadership structure by the Board, the Company and the Board believe that the current leadership structure of the Board, including both a Chairman of the Board and a separate Lead Independent Director, helps facilitate these risk oversight functions by providing multiple channels for risk related concerns and comments. The Company's operations involve various risks that could have adverse consequences, including those described in the Company's Annual Report on Form 10-K and other filings with the SEC. The Board recognizes that it is neither possible nor prudent to eliminate all risk. Despite the risk oversight activities described above, there can be no assurance that the Company's current practices have identified every potential material risk, are sufficient to address these risks, or that any risks will not result in a material adverse effect on the Company's business or operations.

Table of Contents

Independence of the Board

The NYSE has adopted independence standards for companies listed on the NYSE, which apply to the Company. These standards require a majority of the Board of Directors to be independent and every member of the Audit Committee, Compensation Committee and Nominating and Governance Committee to be independent. NYSE standards provide that a director is considered independent only if the Board of Directors "affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company)." In addition, NYSE rules and related NYSE commentary generally provide that:

A director who is an employee, or whose immediate family member is an executive officer, of the Company is not independent until three years after the end of such employment relationship;

A director who receives, or whose immediate family member receives, more than \$120,000 per year in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after he or she ceases to receive more than \$120,000 per year in such compensation; compensation received by an immediate family member for service as an employee of the Company (other than an executive officer) need not be considered in determining independence under this test;

A director is not independent if (A) the director is a current partner or employee of a firm that is the Company's internal or external auditor; (B) the director has an immediate family member who is a current partner of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and personally works on the Company's audit; or (D) the director or an immediate

family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time;

A director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's present executives serve on that company's compensation committee is not independent until three years after the end of such service or the employment relationship; and

A director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payments from, the Company for property or services in an amount which, in a single fiscal year, exceeds the greater of \$1 million or 2% of such other company's consolidated gross revenues, is not independent until three years after falling below such threshold.

To determine which of its members is independent, the Board of Directors used the above standards and also considered whether a director had any other past or present relationships with the Company which created conflicts or the appearance of conflicts.

Based on consideration of the foregoing and the absence of any other such transactions, relationships or arrangements found as a result of this review, the Board determined that all nominees for directors are independent, except for Mr. Naughton, who currently serves as the Company's Chairman of the Board, Chief Executive Officer and President.

NYSE rules provide for additional independence standards that apply to members of the Audit Committee and the Compensation Committee. The Board has determined that each member of these committees satisfies these additional standards.

Stockholder Engagement

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The Company considers its relationship with its stockholders to be an important part of its success and we value the outlook and opinions of our investors. In connection with the proxy access

stockholder proposal the Company received last year for consideration at the 2015 Annual Stockholders' Meeting, both before and after the meeting our management engaged in discussions

Table of Contents

with a number of stockholders owning a significant percentage of our stock to discuss governance issues, including but not limited to, proxy access. The feedback was conveyed to and discussed with the Nominating and Governance Committee and full Board.

The goal of these conversations was to ensure that management and the Board understood and considered the issues that matter most to our stockholders and to enable the Company to address them effectively.

Based in part on the feedback received during these engagements and communicated to the Board, the Board adopted a proxy access bylaw last year. The proxy access bylaw provides that, subject to the eligibility, procedural and disclosure requirements set forth in the bylaws, a stockholder, or group of up to 20 stockholders, owning 3% or

more of the Company's outstanding common stock continuously for at least 3 years, can require the Company to include in its proxy materials for an annual meeting director nominations for up to 20% of the number of seats on the board of directors before the nomination, rounding down to the nearest whole number, but not less than two nominees. Two or more funds that are part of the same family of funds under common management and investment control count as one stockholder for purposes of determining whether a group of stockholders exceeds 20.

In addition to conversations with our stockholders, the Company receives correspondence throughout the year from stockholders and stockholder advocacy groups and responds and/or shares this correspondence with the Nominating and Governance Committee and the full Board where requested or otherwise appropriate.

## Contacting the Board

Any stockholder or other interested party may contact any of our directors, including the Lead Independent Director or our independent directors as a group, by writing to them at the following address. The envelope in which you send your

letter should clearly specify the name of the individual director or group of directors to whom your letter is addressed. Any communications received in this manner will be forwarded as addressed.

[Name of Director or Group of Directors]

c/o AvalonBay Communities, Inc.  
Ballston Tower  
671 N. Glebe Road, Suite 800  
Arlington, VA 22203

Attention: Corporate Secretary

## Report of the Audit Committee

The Audit Committee of the Board of Directors of AvalonBay Communities, Inc., a Maryland corporation (the "Company"), reviews the financial reporting process of the Company on behalf of the Board of Directors. Management has primary responsibility for this process, including the Company's system of internal controls, and for the preparation of the Company's consolidated financial statements in accordance with generally accepted accounting principles. The Company's independent auditors, and not the Audit Committee, are responsible for auditing and expressing an opinion on the conformity of the Company's audited financial statements to generally accepted accounting principles.

In this context, during 2015 and 2016, the Audit Committee reviewed and discussed the audited financial statements with management and the independent auditors. The Audit Committee has discussed with the independent auditors the matters required to be discussed by Auditing Standard N. 61, as amended, as adopted by the Public Company Accounting Oversight Board (PCAOB) in Rule 3200T. In addition, the Audit Committee received from the independent auditors the written disclosures required by the PCAOB regarding the independent auditor's communications with the Audit Committee regarding independence, and the Audit Committee discussed with the independent auditors their independence from the Company and its management.

Table of Contents

Relying on the reviews, disclosures and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, for filing with the SEC, and the Board of Directors has approved this recommendation.

*Submitted by the Audit Committee*

Alan B. Buckelew (Chair)  
 Glyn F. Aeppel  
 Terry S. Brown  
 Ronald J. Havner, Jr.  
 John J. Healy, Jr.

## Fiscal 2014 and 2015 Audit Fee Summary

During fiscal years 2014 and 2015, the Company retained its principal independent auditors, Ernst & Young, to provide services in the categories and for the approximate fee amounts shown below:

Audit fees	\$	1,704,665	\$	1,716,930
Audit related fees(1)	\$	938,310	\$	534,084
Tax fees(2)	\$	640,106	\$	849,025
All other fees	\$	0	\$	0

(1) Audit related fees include fees for services traditionally performed by the auditor such as subsidiary audits, employee benefit audits, and accounting consultation.

(2) Tax fees include preparation and review of subsidiary tax returns and taxation advice.

## Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services. Pre-approval is provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is subject to a specific budget.

The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis.

## Transactions with Related Persons, Promoters and Certain Control Persons

The Company's Code of Business Conduct and Ethics, adopted by the Company's Board of Directors and evidenced in writing, provides that no employee of the Company, including an executive officer or director, may engage in activities that create a conflict of interest with the Company unless all relevant details have been disclosed and an appropriate waiver permitting the conduct has been received. An activity constitutes a conflict of interest under the Code if (i) the activity could adversely affect or compete with the Company, (ii) any interest, connection or benefit to the employee or director from the activity could reasonably be expected to cause such employee or director to consider anything other than the best interest of the Company when deliberating and

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voting on Company matters or (iii) any interest, connection or benefit to the employee or director from the activity could give such employee or director or a member of his or her family an improper benefit that he or she obtains on account of his or her position within the Company. An executive officer or member of the Board of Directors may only receive a waiver from the Board or any designated committee of the Board, and any waiver granted to an executive officer or director will be disclosed to the Company's stockholders to the extent required by law or NYSE rules. The Nominating and Governance Committee of the Board (or any other committee that is designated) is responsible for administering the Code for executive officers and directors.

Table of Contents

## IV. Executive Compensation

### Compensation Discussion and Analysis

This Compensation Discussion and Analysis ("CD&A") provides a description of (i) how the Board of Directors and the Company think about compensation for the Company's executive officers, and (ii) what decisions were made in setting 2015 compensation, including the establishment of goals and aligning of compensation with performance and shareholder interests.

Specifically, the CD&A contains the following sections:

#### INTRODUCTION AND EXECUTIVE SUMMARY

- Summary of 2015 Achievements
- Summary of our Executive Compensation Program
  - Our Executive Compensation Philosophy
  - Our Named Executive Officers (NEOs) in 2015
  - Compensation Overview
  - Chairman and CEO 2015 Compensation At-a-Glance
  - Chairman and CEO 2015 Target Opportunity Mix
  - Impact of the Company's Performance on our NEO Compensation
  - Realized Pay for 2015 Performance
  - Our Compensation Programs Incorporate Best Practices

#### ADDITIONAL DISCUSSION

- Consideration of the Results of the 2015 Stockholder Advisory Vote on Executive Compensation
- Our Decision Making Process
  - Who is Involved in Compensation Decisions
  - How We Review Market Compensation
  - How We Select and Use Peer Groups
  - Who Are our Compensation Consultants
  - What We Pay and Why: Elements of Compensation
  - How We Establish Goals and Determine Achievement for Incentive Compensation
- Review of 2015 Performance and Pay
  - Annual Cash and Stock Incentive Program
  - Long-Term Incentive Program
- 2015 Compensation Determinations
- 2016 Compensation Determinations

#### INTRODUCTION AND EXECUTIVE SUMMARY:

##### Summary of 2015 Achievements

**Summary:** In 2015, our operating and development capabilities, supported by continued sound apartment fundamentals, allowed us to again deliver strong operating results. Some highlights for the year include:

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**Operating Activity:** Rental revenue for Established Communities for 2015 increased 5.0% over the prior year period. NOI for Established Communities increased 5.8% for the same period.

**Development Activity:** We completed 13 new development communities, representing a total capital investment of approximately \$1.3 billion. These new communities were delivered at an average cost basis of approximately \$310,000 per apartment home, below the current market value of our existing 18 year old stabilized portfolio. We also started 13 new apartment communities that are projected to contain approximately 3,800 apartment homes, at a total capital cost of \$1.2 billion.



Table of Contents

At year-end 2015, we had \$2.9 billion in projected total capital cost under construction and our development rights pipeline consisted of 32 communities, representing \$3.3 billion in projected total capital cost.

**Redevelopment Activity:** During 2015, the Company completed the redevelopment of four communities containing an aggregate of 1,144 apartment homes, for a total capital cost of \$59.5 million, excluding costs incurred prior to redevelopment. We also commenced the redevelopment of 13 communities containing an aggregate of 4,115 apartment homes, for a projected total capital cost of \$129.9 million, excluding costs incurred prior to redevelopment.

**Dividend Growth:** In January 2016 we announced a dividend increase of 8%. Since the first quarter of 2011 we have increased our quarterly dividend value by just over 50%.

**Capital Markets Activity:** We raised approximately \$1.9 billion by borrowing approximately \$875 million, issuing \$660 million of new equity (using a forward equity contract executed in late 2014), and sourcing \$345 million through asset sales.

**Portfolio Management:** During 2015 the Company sold three wholly-owned communities. These communities, containing 851 apartment homes, were sold for an aggregate sales price of approximately \$265.5 million resulting in an aggregate gain in accordance with GAAP of \$115.6 million.

Also during 2015, real estate ventures in which the Company had a direct investment, or in which the Company held a residual profits interest, sold eight communities containing 2,870 apartment homes, resulting in an aggregate gain in accordance with GAAP for the Company of \$33.5 million.

**Earnings and Core FFO Growth:** Earnings per share for the year was \$5.51. "Core FFO" increased by 11.4% over the prior year to \$7.55. For the two years ended December 31, 2015 (the period measured for this metric in our maturing performance awards), our Core FFO grew at a 10.1% annualized rate (future maturing awards use a three-year measurement period).

**Other Achievements:** The Company was ranked #1 for its positive online reputation among the top 50 multifamily rental housing providers in the United States based on J. Turner Research's most recent Online Reputation Assessment Power Rankings.

Our Employee Engagement and Manager Effectiveness results from our 2015 Associate Perspective survey were very strong, placing us in the top 10% of companies surveyed by IBM-Kenexa.

In the area of corporate responsibility, AvalonBay was named the 2015 Residential Leader in the Light by NAREIT. The Leader in the Light award recognizes companies that have demonstrated a superior commitment to sustainability and environmental responsibility. In addition, the Company was named a leader in residential real estate by the annual Global Real Estate Sustainability Benchmark (GRESB) survey. AvalonBay also was awarded a Green Star by GRESB for its top ratings in the various environmental categories.

The GRESB survey evaluates hundreds of real estate companies in such areas as management, policy, development, governance, sustainability, and environmental and social programs/policies. In every category, AvalonBay scored well above the average score of its peers in residential real estate, ranking second in the United States. Its rating was also above the global industry average in almost every category, ranking third worldwide. In attaining the coveted Green Star for environmental achievement, AvalonBay ranked in the top quartile in terms of implementation and measurement, management and policy, and development. AvalonBay's overall 2015 GRESB score marks the third consecutive year of improvement in the rankings, beginning with its first year of participation in 2013.

**Definitions and Reconciliations:** For definitions and reconciliations of FFO, Core FFO, Established Communities, and NOI, see pages 40-42 and F-26-F27, respectively, of the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

Table of Contents

Summary of our Executive Compensation Program

**Our Executive Compensation Philosophy**

AvalonBay's Total Compensation Program is designed to:

Attract, retain and motivate talent within the company,

Align the interests of management with the interests of shareholders,

Direct performance with clearly defined goals and measures of achievement, and

Assure that compensation is aligned with performance

**Our Named Executive Officers (NEOs) in 2015**

This Compensation Discussion and Analysis describes the compensation of the following named executive officers:

<b>Timothy Naughton</b>	Chairman, CEO and President
<b>Kevin O'Shea</b>	Chief Financial Officer
<b>Matthew Birenbaum</b>	Chief Investment Officer
<b>Sean Breslin</b>	Chief Operating Officer
<b>Stephen Wilson</b>	Executive Vice President, Development

**Compensation Overview**

Our executive compensation programs covering the NEOs are designed to attract and retain key talent, to motivate behaviors that align with shareholders' interests and to pay for performance. A substantial majority of the target pay of our NEOs is variable and contingent on performance.

**Chairman & CEO 2015 Compensation At-A-Glance**

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**Base Salary.** Mr. Naughton, our Chairman and CEO, continued to have a base salary of \$950,000 in 2015, which remained unchanged since 2013 when he was appointed as Chairman of the Board.

**Cash Bonus.** Mr. Naughton's target cash bonus for 2015 was \$1,425,000 or 150% of base salary. Seventy-five percent of the target cash bonus is based on corporate performance factors and 25% is based on individual performance. The

achievement levels for the corporate performance and individual factors were judged to be 136.8% and 115%, respectively, resulting in a final cash bonus for 2015 of \$1,871,738.

**Performance Awards.** Two performance awards with performance periods ending in 2015 were made. The 2013 - 2015 performance awards are tied to total shareholder return (TSR) and the 2014 - 2015 performance awards are tied to

Table of Contents

operating metrics. The Company achieved 133.5% of target payout for the TSR measures and 173% of target payout for the operating metrics. Based on the closing stock price of the Company's

common stock on the NYSE on February 12, 2016 of \$164.42, the earned performance awards (paid out in restricted shares subject to three-year time vesting) are valued at \$6,057,397.

**Chairman & CEO 2015 Target Opportunity Mix**

**Impact of Company's Performance on NEO Compensation**

A substantial portion of our NEOs' compensation is linked to performance, both short-term and long-term.

Annual Cash Bonus: The Board believes that Core FFO per Share is a key measure of the Company's performance and accordingly it was given a 50% weighting in determining achievement of the corporate component of the 2015 Annual Bonus goals. The following table shows that the Company's target goal for Core FFO per Share has increased in each of the past three years, from \$6.15 per share in 2013 to \$7.35 in 2015. Not only has the Company exceeded the target goal established for each of the past three years, but the following year's threshold goal has also been set higher than the previous year's actual performance.



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## Table of Contents

Other corporate goals for the Annual Bonus included:

- (i) the operating performance of development and redevelopment activities, as compared to the original budgeted performance (15%);
- (ii) the development yield performance for communities stabilized during the year as compared to the pre-established target yield for such developments (10%); and
- (iii) the effectiveness of management and progress on various corporate initiatives (25%).

Annual Stock Bonus: The Annual Stock Bonus was driven by business unit performance for each of the NEOs except for the CEO. The Annual Stock Bonus was not a pay component for the CEO's pay structure in 2015.

Performance Shares: Our performance shares with performance periods ending in 2015 consisted of two awards:

### 1.

**Three-year Total Shareholder Return (TSR)** ending December 2015 based on:

AvalonBay's return on an absolute basis

AvalonBay's three-year TSR vs. NAREIT Equity REIT Index

AvalonBay's three-year TSR vs. NAREIT Apartment Index

Absolute 3-yr TSR	33.4%	6.0%	9.0%	12.0%	13.8%	Capped at Max
AVB 3-yr TSR vs. NAREIT Equity REIT Index	33.3%	-3.0%	1.0%	5.0%	2.5%	Above Target
AVB 3-yr TSR vs. NAREIT Apt Index	33.3%	-2.0%	1.0%	4.0%	-1.3%	Above Threshold
<b>Final Achievement %</b>					<b>133.5%</b>	

### 2.

**Two-year Operating Metrics<sup>8</sup>** ending December 2015 based on:

Core FFO per share growth vs Peers

Net Debt-to-Core EBITDA vs Peers

66.6%	-4.0%	0.0%	4.0%	2.9%	Above Target
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Core FFO per share growth  
vs Peers

Neb Debt-to-Core EBITDA vs Peers	33.4%	1.0X	0.0X	-1.0X	-0.8X	Above Target
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**Final Achievement %** **173.0%**

\*

In 2014 the Board phased in multi-year operating metrics awards, including a two-year performance award period ending December 31, 2015. 2014 is the last year where we awarded performance awards with a two year performance period.

### Realized Pay for 2015 Performance

The following table shows one way in which our Compensation Committee looks at the compensation paid and awarded to each of the named executive officers for service and performance with respect to 2015. This table differs from the Summary Compensation Table provided on page 43, which includes several items that are driven by accounting and actuarial assumptions that are not necessarily reflective of the compensation actually realized by the executive in a particular year. The primary difference between this supplemental table and the Summary Compensation Table is the timing and method used to value multi-year performance awards units and stock awards.

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### Table of Contents

SEC rules require that the grant date fair value of all performance award units and stock awards be reported in the Summary Compensation Table in the row for the year in which they were granted, regardless of which year the awards were made with respect to or (in the case of performance awards) which year the awards pay out in the form of restricted shares. As a result, a significant portion of the total compensation for 2015 reported in the Summary Compensation Table relates to restricted stock awards made for performance in 2014 or, in the case of performance awards, awards for which performance has not yet been determined and for which the value is uncertain (and which may end up having no realized value at all).

In contrast, the table immediately below is provided to illustrate the actual cash and restricted shares received by each named executive officer for service and performance in 2015 and the restricted shares realized for performance awards vesting on December 31, 2015. Note that the amounts reported below differ substantially from the amounts determined under SEC rules and reported in the Summary Compensation Table on page 43 and this table is not a substitute for the Summary Compensation Table. Total compensation figures reported below are higher than the Summary Compensation Table primarily due to the fact that there were above target payouts for the performance awards that concluded in 2015.

Timothy Naughton Chief Executive Officer	2015	950,000	1,871,738	6,057,397	40,581	8,919,716
Kevin O'Shea Chief Financial Officer	2015	480,769	604,720	1,329,165	9,115	2,423,769
Matthew Birenbaum Chief Investment Officer	2015	490,385	625,800	1,793,755	9,115	2,919,055
Sean Breslin Chief Operating Officer	2015	490,385	629,800	1,722,649	9,023	2,851,857
Stephen Wilson EVP, Development	2015	425,000	624,240	1,593,763	11,143	2,654,146

(1) Amounts in this column reflect the cash awards made in February 2016 with respect to performance under the Annual Bonus program in 2015.

(2)



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Amounts in this column reflect the value of shares of restricted stock awarded in February 2016 (i) with respect to performance under the Annual Bonus program in 2015, and (ii) for achievement under the long-term incentive performance awards maturing on December 31, 2015, all with a value per share of \$164.42, the closing price of the Company's common stock on the NYSE on February 12, 2016.

- (3) Amounts in this column include the same components described in the "All Other Compensation" column of the Summary Compensation Table.

### **Our Compensation Programs Incorporate Best Practices**

The Company implements and maintains leading practices in its executive compensation programs. These practices include the following:

Pay for performance

Market-based approach for evaluating and reviewing executive pay

Caps on annual and long-term incentives

Limited perquisites

Table of Contents

No employment agreements for executive officers

Clawback policy on annual and long-term incentives

Double trigger provisions for change in control (starting with equity awards granted in 2016)

Stock ownership requirements

Performance awards are subject to three year performance periods to ensure long-term performance is assessed

Performance awards also have three year additional time vesting after the performance period is completed to ensure retention of officers and continued alignment with shareholders' interests

Separate board and management compensation consultants

Prohibition on hedging and pledging of company stock by directors, officers and employees

Table of Contents

## ADDITIONAL DISCUSSION

### Consideration of the Results of the 2015 Stockholder Advisory Vote on Executive Compensation

As previously announced at the 2015 Annual Meeting of Stockholders, the Company's executive officer compensation for 2014 was approved by over 93% of the votes cast on the matter. The Compensation Committee and the Company considered these results to be an endorsement by stockholders of the Company's compensation structure, target level and actual executive compensation.

Also as previously announced, in accordance with a majority of the votes cast at the 2011 Annual Meeting of Stockholders, the Company intends to hold an advisory stockholder vote on its executive compensation annually. The Company intends to hold an advisory vote on the frequency of such advisory votes on executive compensation at its 2017 Annual Meeting of Stockholders.

### Our Decision Making Process

#### Who is Involved in Compensation Decisions

Review and approve the Company's business plan	Reviews and approves achievement of performance goals for Section 16(b) officers after the full Board approves and reviews the business plan
Review and approve the compensation of the CEO and the Section 16(b) officers	Recommends to the independent members of the Board the target and actual total compensation of the CEO and Section 16(b) officers
Provides guidance on executive compensation programs in terms of prevailing market practice	
Steven Hall & Partners is the Board's independent compensation consultant	Provide feedback on various executive pay practices and governance during periodic meetings with management.

### How We Review Market Compensation

In determining the total compensation for each NEO, which is the sum of base salary, bonus and long-term incentives, the Compensation Committee generally considers a number of factors on a subjective basis, including:

- (i) the scope of the officer's responsibilities within the Company and in relation to comparable officers at various companies within the peer group described below;
- (ii) the experience of the officer within our industry and at the Company;
- (iii) performance of the named executive officer and his or her contribution to the Company;
- (iv) the Company's financial budget and general level of wage increases throughout the Company for the coming year;
- (v) a review of historical compensation information for the individual officer;
- (vi)

the recommendations of the Chief Executive Officer (other than with regard to his own compensation); and

Table of Contents

- (vii) data regarding compensation paid to officers with comparable titles, positions or responsibilities at REITs that are considered by the Compensation Committee to be comparable for these purposes.

An officer's target compensation is not mechanically set to be a particular percentage of the peer group average, although, as noted, the Compensation Committee does review the officer's compensation relative to the peer group to help the Compensation Committee perform the subjective analysis described above.

Peer group data is not used as the determining factor in setting compensation for the following reasons:

- (a) the officer's role and experience within the Company may be different from the role and experience of comparable officers at the peer companies;
- (b) the actual compensation for comparable officers at the peer companies may be the result of a year of over performance or under performance by the peer group;
- (c) the target compensation for comparable officers at peer companies may not have the same rigor as the Company; and
- (d) the Compensation Committee believes that ultimately the decision as to appropriate target compensation for a particular officer should be made based on the full review described above.

Our incentive programs are designed so that actual performance in excess of the performance targets results in payouts above target and actual performance below the performance targets results in payouts below target or no payout, but there are caps on above-target payouts.

How We Select and Use Peer Groups

Companies for Market Compensation Purposes:

The Company regularly reviews the reference peer group described below it uses when evaluating the appropriate levels of executive compensation in order to maintain consistency and relevancy. In determining the peer group composition, the following elements are considered.

The final peers selected have one or more of the following characteristics:

Asset Focus (multi-family/complexity of operations): contains a meaningful portfolio of multifamily properties and/or intense property management operations

Size: defined as total capitalization (equity plus debt) within 0.5x to 2.0x of AvalonBay

Talent: contains companies where we compete for talent

During 2014 the Company added three new companies to its peer group for comparison of 2015 compensation for the following reasons:

Essex Property Trust, Inc. acquired BRE Properties on April 1, 2014 and is a direct multi-family peer

Federal Realty Inv Trust competes with the Company for talent

Welltower Inc. matches well in terms of the size parameter

The Company now uses the following 16 companies in its peer group for comparison of total compensation.

Table of Contents

Companies for Performance Award Measurement Purposes

The Company uses a different peer group for determining performance under its performance awards. The peer group for determining the level of total target compensation is based in part on size parameters since the Company is competing with similar sized companies for executive talent. For the performance awards, size is less of a consideration and more emphasis is placed on multi-family peers since operating performance and shareholder return are more appropriately compared with direct competitors in our specific industry.

For the 2015 - 2017 performance awards relating to three-year relative total shareholder return, the following indices are used:

FTSE NAREIT Apartment Total Return Index represents REITs in the multifamily housing industry across the U.S.

FTSE NAREIT Equity REITS Index represents a comprehensive family of REIT performance indexes that spans a variety of commercial real estate space (such as retail, office, storage and multifamily) across the U.S.

For the 2015 - 2017 performance awards relating to operating metrics, the following multifamily REITs are used as peer companies:

Apartment Investment and Management Company

Associated Estates Realty Corporation

Mid-America Apartment Communities, Inc.

Camden Property Trust

Equity Residential

Essex Property Trust, Inc.

Home Properties, Inc.

Post Properties, Inc.

UDR, Inc.

These companies were chosen because they are in the multifamily industry.



Table of Contents

Who Are our Compensation Consultants

The Compensation Committee has engaged Steven Hall & Partners, an executive compensation consulting firm, to provide it with advice and counsel on executive and board compensation, as well as competitive pay practices. Steven Hall & Partners did not provide any services directly to the Company or its management. The Company uses the services of FPL Associates, another compensation consulting firm, to provide it with advice and competitive pay practices and data. The Compensation Committee undertook an assessment of whether any material conflict of interest exists in connection with the services of Steven Hall & Partners to the Compensation Committee or the services of FPL Associates to management and concluded that there was no such material conflict of interest.

What We Pay and Why: Elements of Compensation

Our executive compensation program contains the following pay components:

Base Salary payable in cash

Annual Incentive Award payable in cash and stock contingent upon achievement of performance measures and goals

Long-term Incentive Awards payable in the form of performance based awards with pre-established measures and goals

Fixed Compensation	Base Salary	This amount, payable in cash, is generally established each year in February and effective in March	Competitive base salaries help attract and retain key talent
Performance-based Compensation	Annual Incentive Award	Threshold, target and maximum targets and goals are established in February of each year and payouts are made in the following year  Two forms of payments – cash and (with the exception of the CEO) restricted stock that vests ratably over three years	Drive Company and business unit performance  Motivate individual performance  Retain the services of the executive
	Long-term Incentive Awards	A target number of performance awards is granted with final payouts that may increase or decrease contingent upon absolute and relative TSR and operating performance against peer groups  Final payouts are subject to additional three-year time-vesting requirement	Align executive officers' compensation with the interests of shareholders  Maximize the company's performance and reward management's long-term perspective

Table of Contents

How We Establish Goals and Determine Achievement for Incentive Compensation

**Setting Goals:** At the beginning of the year, the Board of Directors reviews and approves the Company's business plan and budget. Subsequently, the Company's management proposes corporate goals for that year for the annual bonus program and long-term incentive program. The Compensation Committee reviews these proposed goals, adopts any revisions it may deem appropriate, and recommends the final corporate goals to the full Board of Directors for ratification and approval by a vote of the independent directors who qualify for membership on the Compensation Committee.

Annual business unit goals are drafted by the head of each business unit and reviewed, modified and approved by the Chief Executive Officer.

The individual goals for the annual bonus program are determined in a similar manner, with the exception that the goals for the Chief Executive Officer are determined by the Compensation Committee and ratified by the independent directors of the Board who would qualify for membership on the Compensation Committee.

**Determining Achievement:** At the end of each year, the Chief Executive Officer reviews and recommends to the Compensation Committee his assessment of the achievement of corporate goals for both the annual bonus program and the long-term incentive program, and the business unit and individual goals for the annual bonus program for the other named executive officers. Recommendations for bonus awards and compensation changes for the Chief Executive Officer and all executive officers are approved by the Compensation Committee and are then ratified by the independent directors who qualify for membership on the Compensation Committee.

**Design of the Annual Cash Incentive Program:** Our annual bonus program emphasizes short term goals and is paid with a cash bonus and, for officers whose business unit performance is measured for bonus compensation purposes, an award of restricted stock that vests over three years. All the NEOs have an annual cash bonus component for 2015. All the NEOs, except for the CEO, have an annual stock bonus component that are tied to their business unit performance in 2015.

Three components are measured to determine performance under the 2015 Annual Cash Incentive Program:

Corporate performance

Business Unit performance (applies to all NEOs except the CEO)

Individual performance

**Why These Performance Measures are Selected:**

Core FFO per Share

Core FFO per Share (or similar measures such as Operating FFO) is a key metric used by many REITS and tracked by equity research analysts

Core FFO per Share is reported in our quarterly guidance to the market

Growth in Core FFO translates to confidence in the Company's stock price

Development & Redevelopment Net Operating Income (NOI)

Development is a core business to AvalonBay

Development & Redevelopment NOI are profit related measures where AvalonBay seeks to grow

Development Yield

Development yield is a return measure that reflects on our development underwriting, capital allocation and value creation

Management's Performance against Goals

This component is a qualitative assessment of senior management's performance against pre-established corporate-wide initiatives as well as general performance during the year



Table of Contents

Review of 2015 Performance and Pay

**Annual Cash and Stock Incentive Program:**

The goals, metrics and achievement for the corporate component of the 2015 Annual Cash Incentive Program are graphically illustrated in the following charts. Total performance under all corporate goals was determined to be 136.8% of target.

**Core FFO Per Share (50%)**

Performance: Actual 2015 Core FFO  
was \$7.55 per share

**Development NOI (10%)**

Performance: Actual 2015 Development NOI  
was 0.9% below budget

**Redevelopment NOI (5%)**

Performance: Actual 2015 Redevelopment NOI  
was 0.8% above budget

**Development Yield Metric (10%)**

**Effectiveness of Management and  
Progress on Corporate Initiatives (25%)**

Performance: Actual yield  
was 0.09% below the target yield

Performance: Effectiveness of Management  
was determined by the Compensation  
Committee to be 113% of target.

Table of Contents

**Individual Goals and Achievement for Annual Cash Component**

Individual goals for the officers include the executive's leadership and managerial performance, as well as specific objectives, and are evaluated on a subjective basis annually. Individual performance for Mr. Naughton was determined by the Compensation Committee. The Committee also determined individual performance for the other named executive officers after receiving recommendations from Mr. Naughton. The Compensation Committee determinations were ratified and approved by the independent members of the Board who are qualified to serve on the Compensation Committee.

Mr. Naughton's individual goals for 2015 included (i) planning for leadership succession and structure; (ii) monitoring and managing risks related to development and balance sheet and liquidity management; (iii) upgrading the Company's capabilities in the areas of technology and construction; and (iv) providing a greater focus on innovation.

Individual goals for Mr. O'Shea in 2015 primarily related to his transitioning into his role as Chief Financial Officer and included (i) management of the Company's capital plan; (ii) providing effective oversight of the accounting, financial reporting, financial planning and analysis, risk management, tax, treasury, and investment management functions; (iii) providing oversight of the Company's shared service center; (iv) providing administrative oversight of the Company's internal audit group; and (v) directing the Company's investor relations efforts.

Mr. Birenbaum's individual goals in 2015 included (i) reviewing and revising our portfolio management review process; (ii) supporting talent management efforts across the Company, including identification and support of high potential leaders; (iii) managing the Company's Management Investment Committee and investment strategy through a year of heavy transaction volume; (iv) supporting investor relations efforts; and (v) improving the quality and consistency of execution in the Company's development and construction efforts.

Mr. Breslin's individual goals in 2015 included (i) implementing certain sales, associate engagement and engineering and maintenance initiatives for the Residential Services group;

(ii) effectively managing the lease up performance of the Company's Development and Redevelopment communities; (iii) enhancing the Company's Net Promoter Score ("NPS") and Online Reputation customer satisfaction metrics; and (iv) increasing the efficiency of the Company's digital marketing efforts.

Mr. Wilson's individual goals in 2015 included: (i) effectively managing and staffing the West Coast and Mid Atlantic Development groups, with particular focus on building bench strength and succession planning, (ii) focusing on construction execution and lease up performance; (iii) replenishing the West Coast and Mid Atlantic development rights pipeline with a balanced mix of new opportunities; and (iv) managing development and construction risks.

The achievement of individual goals by each of the named executive officers in 2015 was determined to be within 20% of individual target performance

**Annual Stock Bonus Component**

As noted above, Messrs. O'Shea, Birenbaum, Breslin and Wilson each received an annual stock bonus based in part upon the achievement of the business unit goals. Mr. Naughton did not participate in the annual stock bonus component for 2015.

Mr. O'Shea: Mr. O'Shea's business unit component was based on the achievements of the Financial Services group, for which Mr. O'Shea has direct supervisory responsibility. The Financial Services Group includes the areas of capital markets, accounting, financial reporting, financial planning and analysis, risk management, tax, internal audit (for which he has administrative oversight), investor relations, and investment fund management, as well as our call center operations which support our apartment communities. The major goals of the Financial Services Group in 2015 included: (i) sourcing an attractive mix of debt and equity capital from the capital and transaction markets to fund our capital uses, primarily related to our investment and financing activity; (ii) executing the Company's accounting, financial reporting, tax and risk management activities; (iii) executing and enhancing the Company's budgeting and forecasting process; (iv) executing our internal audit program; (iv) ongoing management of the Company's investment management funds; and (v) executing the Company's investor relations activities. For

Table of Contents

2015, the overall achievement for Mr. O'Shea's business unit was determined to be 108.1% of target.

**Mr. Birenbaum:** Mr. Birenbaum's business unit component was based on the achievements of the Market Research, Design, Sustainability/Corporate Responsibility (CR) and Investments groups, for which Mr. Birenbaum has direct oversight responsibility. The major goals of these groups in 2015 included: (i) development of new portfolio modeling and allocation tools to enhance portfolio management decisions; (ii) completion of updated design prototypes and refresh of product standards; (iii) bringing energy and water conservation projects to scale across the portfolio, improving the Company's reporting of CR data, and launching the new Building Strong Communities corporate philanthropy program; and (iv) execution of the annual disposition plan consistent with the annual capital plan and portfolio management objectives, including a significant expansion of the disposition plan to take advantage of favorable market conditions. For 2015, the overall achievement for Mr. Birenbaum's business unit was determined to be 121.1% of target.

**Mr. Breslin:** Mr. Breslin's business unit component was based on the achievements of the Residential Services, Redevelopment & Asset Management

and Marketing, Consumer Insight and Brand Strategy functions, for which Mr. Breslin had direct oversight responsibility for during 2015. The major goals of these groups in 2015 included: (i) the achievement of certain absolute and relative revenue, expense and net operating income targets for the Company's portfolio of properties; (ii) redevelopment start volume and the completion of redevelopment communities at stabilized yields at or above pro forma expectations; and (iii) the execution of the Company's marketing and brand strategy business plan for the year. For 2015, the overall achievement for Mr. Breslin's business units was determined to be 120.6% of target.

**Mr. Wilson:** Mr. Wilson's business unit component was based on the achievements of the West Coast and Mid Atlantic Development groups, as Mr. Wilson was the senior executive with oversight of those groups. Mr. Wilson's business unit was evaluated against the following goals: (i) sourcing of new development rights, (ii) construction start volume and projected stabilized yields relative to target yields; (iii) construction completion volume as determined by total capital cost and actual stabilized yields relative to target yields; and (iv) actual construction costs relative to budgeted costs and actual schedule performance relative to budgeted schedule performance. For 2015, the overall achievement for Mr. Wilson's business unit was determined to be 175.4% of target.

**Long-Term Incentive Program:**

**Design of the Long-Term Incentive Program:** Under our multi-year, long-term incentive award program, performance awards are granted each year with a target number of restricted stock units that may be reduced or increased at the end of the three year performance period depending on achievement against established metrics. At the end of the performance period, the performance awards are subject to an additional three-year time vesting requirement.

Officers have the right to elect, prior to the end of a performance period, that employee stock options (valued at the Black-Scholes value of an option at the end of the performance period, as adjusted for changes in the stock price through the date of the actual award) be awarded in lieu of 25% of the value of the restricted stock that would otherwise be awarded in respect of that year's annual bonus and maturing performance award. Restricted stock and options awarded at the end of the performance period are subject to vesting over three years.

Table of Contents

The metrics under the performance awards made in 2015 with a three-year performance period ending on December 31, 2017 are as follows:

	<b>Threshold</b>	<b>Target</b>	<b>Maximum</b>	<b>Percent of Total Award</b>
Absolute metric	4%	8%	12%	33.4%
Relative to FTSE NAREIT Equity REITs Index	400 bp	+0 bp	+400 bp	33.3%
Relative to FTSE NAREIT Apartments Index	300 bp	+0 bp	+300 bp	33.3%

	<b>Threshold</b>	<b>Target</b>	<b>Maximum</b>	<b>Percent of Total Award</b>
Core FFO per share growth vs. peers	400 bp	Equal to Peer Avg.	+400 bp	62.5%
Net Debt-to-Core EBITDA ratio vs. peers	1.5x	Equal to Peer Avg.	1.5x	37.5%

(1) For results between threshold and target, or between target and maximum, payouts shall be based on interpolation.

(2) The absolute and relative metrics above reflect the metrics used for the awards made in 2015 for the performance period maturing on December 31, 2017.



(3)

A basis point (bp) equals one one-hundredth of one percent. 100 bp equals 1.0%.

(4)

The peers used in calculating each of the Operating Performance Metrics include: Apartment Investment and Management Company, Associated Estates Realty Corporation, Mid-America Apartment Communities, Inc., Camden Property Trust, Equity Residential, Essex Property Trust, Inc., Home Properties, Inc., Post Properties, Inc. and UDR, Inc. For two companies that were acquired during the performance period, their operating metrics were factored in for the portion of the performance period for which they were publicly traded companies that published operating results.

Table of Contents

**Why these Performance Measures are Selected**

The Performance Awards strengthen the alignment with long-term shareholder value creation. Our NEOs have the opportunity to earn shares of AvalonBay Common Stock with a value that adjusts based on absolute increases in AvalonBay's stock price as well as AvalonBay's TSR relative to the FTSE NAREIT Equity REITs Index and FTSE NAREIT Apartments Index. These two indices are selected because they represent the REIT apartment industry and the broader REIT industry.

Operating metrics in the form of Core FFO per share growth and Net Debt-to-Core EBITDA ratio against peers are chosen to motivate our officers to focus on critical operating performance objectives that AvalonBay believes will translate into sustainable shareholder returns over the long term.

Table of Contents

**How the Company Performed for Performance Awards Ending December 2015**

The goals, metrics and achievement for the performance awards maturing on December 31, 2015 are graphically illustrated in the following charts:

**Absolute Total Shareholder Return**  
(measured over 3 years)

**Total Shareholder Return Relative to  
FTSE NAREIT Equity REITs Index**  
(measured over 3 years)

Performance: 13.80% (Capped at Maximum)

Performance: 2.5% (Above Target)

**Total Shareholder Return Relative to FTSE NAREIT Apartments Index**  
(measured over 3 years)

Performance: 1.30% (Above Threshold)

**Core FFO/Share Growth vs. Peers**  
(in percentage difference from peer  
average) (measured over 2 years)

**Net Debt-to-Core EBITDA vs. Peers**  
(measured over 2 years)

Performance: 2.9% (Above Target)

Performance: 0.8x (Above Target)

Table of Contents

## 2015 Compensation Determinations

The following tables provide information on the NEOs' 2015 Compensation:

**Review of 2015 Base Salary**

Mr. Naughton	950,000
Mr. O'Shea	500,000
Mr. Birenbaum	500,000
Mr. Breslin	500,000
Mr. Wilson	425,000

**Review of 2015 Annual Cash Bonus:**

Mr. Naughton	75%		25%
Mr. O'Shea	40%	40%	20%
Mr. Birenbaum	40%	40%	20%
Mr. Breslin	40%	40%	20%
Mr. Wilson	40%	40%	20%

Mr. Naughton	712,500	1,425,000	2,850,000	1,871,738
Mr. O'Shea	250,000	500,000	1,000,000	604,720
Mr. Birenbaum	250,000	500,000	1,000,000	625,800
Mr. Breslin	250,000	500,000	1,000,000	629,800
Mr. Wilson	212,500	425,000	850,000	624,240

**Review of 2015 Annual Stock Bonus where business unit component weighs 100%:**

Mr. Naughton	-	-	-	-
Mr. O'Shea	162,500	325,000	650,000	351,195
Mr. Birenbaum	207,500	415,000	830,000	502,565
Mr. Breslin	256,250	512,500	1,025,000	618,075
Mr. Wilson	252,500	505,000	1,010,000	885,770

Table of Contents**2013 2015 Performance Awards Update**

The following table shows the actual performance shares earned at the completion of the three-year performance period that are subject to an additional three year vesting requirement.

Mr. Naughton	20,061	133.50%	26,781
Mr. O'Shea	2,697	133.50%	3,600
Mr. Birenbaum	3,241	133.50%	4,327
Mr. Breslin	2,822	133.50%	3,767
Mr. Wilson	1,596	133.50%	2,131

**2014 2015 Performance Awards Update**

The following table shows the actual performance shares earned at the completion of the transitional two-year performance period that are subject to an additional three year vesting requirement.

Mr. Naughton	5,815	173.0%	10,060
Mr. O'Shea	1,357	173.0%	2,348
Mr. Birenbaum	2,038	173.0%	3,526
Mr. Breslin	1,706	173.0%	2,951
Mr. Wilson	1,257	173.0%	2,175

**2016 Compensation Determinations**

The following compensation determinations were made for 2016 for the named executive officers:

**Base Salary for 2016, effective March 1, 2016:**

Mr. Naughton	950,000
--------------	---------

Mr. O'Shea	550,000
Mr. Birenbaum	550,000
Mr. Breslin	550,000
Mr. Wilson	475,000



Table of Contents**The target, threshold and maximum 2016 annual bonus for each NEO:**

Mr. Naughton	712,500	1,425,000	2,850,000	300,000	600,000*	1,200,000
Mr. O'Shea	275,000	550,000	1,100,000	270,000	540,000	1,080,000
Mr. Birenbaum	275,000	550,000	1,100,000	300,000	600,000	1,200,000
Mr. Breslin	275,000	550,000	1,100,000	325,000	650,000	1,300,000
Mr. Wilson	237,500	475,000	950,000	250,000	500,000	1,000,000

\*

Starting in 2016, Mr. Naughton will be eligible for a target stock bonus component of \$600,000 tied to pre-established performance measures and goals. Details will be provided in the 2017 proxy statement.

**The target, threshold and maximum number of performance units granted in 2016 that may be earned for the performance period 2016-2018:**

Mr. Naughton	9,658	19,316	38,632	5,231	10,461	20,922
Mr. O'Shea	1,852	3,703	7,406	1,003	2,005	4,010
Mr. Birenbaum	2,058	4,115	8,230	1,114	2,228	4,456
Mr. Breslin	1,943	3,886	7,772	1,052	2,104	4,208
Mr. Wilson	1,143	2,286	4,572	619	1,238	2,476

(1)

The target number of units is derived from the following target dollar values: \$4,225,000 for Mr. Naughton; \$810,000 for Mr. O'Shea, \$900,000 for Mr. Birenbaum, \$850,000 for Mr. Breslin and \$500,000 for Mr. Wilson. To derive the target number of units, in each case 60% of the target dollar value (representing the portion of the award tied to TSR Metrics) was divided by the Monte Carlo value as of February 11, 2016 (the approval date) for a unit based solely on the TSR metrics (\$131.24 per unit) and 40% of the target dollar value (representing the portion of the award tied to Operating Metrics) was divided by the closing price of Common Stock on February 11, 2016 (\$161.56).

## Other Benefits

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Pursuant to our Deferred Compensation Plan, certain employees, including the named executive officers, may defer up to 25% of base annual salary and up to 50% of annual cash bonus on a pre-tax basis and receive a tax-deferred return on those deferrals. Deferral elections are made by eligible employees during an open enrollment period each year for amounts to be earned in the following year. Participating employees direct the deemed investment of their deferral accounts by selecting among certain available investments in mutual funds.

We have an employee stock purchase plan that allows our employees the opportunity to purchase up to \$25,000 of our Common Stock per year at a 15% discount to the lower of the closing price of the Common Stock, as reported on the NYSE, on the first business day of the purchase period or the closing price of the Common Stock on the last day of the purchase period. For 2015 there were two purchase periods, January 1 to June 10<sup>th</sup> and July 1 to December 10<sup>th</sup> with the opportunity to purchase up to \$12,500 of our Common Stock at the discounted rate previously mentioned during each of the two purchase periods (up to \$25,000 annually).

Table of Contents

In addition, we maintain a 401(k) retirement savings plan and annually match 50% of the first six percent of base salary and cash bonus contributed to such plan by any employee (subject to certain tax limitations). We offer medical, dental

and vision plans, a portion of the cost of which is paid by the employee. We also provide life insurance, accidental dismemberment insurance, and short-term and long-term disability insurance for each employee.

Compensation Policies

**Executive Stock Ownership Guidelines.** The Company believes that stock ownership by its executive officers is important and has established formal Executive Stock Ownership Guidelines for officers who are at the executive vice president level or above or are subject to reporting under Section 16 of the Exchange Act. These guidelines provide that persons holding the title of Chairman of the Board, Chief Executive Officer or President are expected to maintain ownership of Common Stock (including unvested restricted shares) equal to six times their base salary. The multiples that apply to other covered officers are as follows: Chief Financial Officer and Executive Vice Presidents three times; Senior Vice Presidents one and one-half times; Vice Presidents one time. The full text of the Executive Stock Ownership Guidelines, which includes the time periods by which such ownership must be achieved and a retention policy during periods of non-achievement, is posted on the "Investor Relations" section of the Company's website ([www.avalonbay.com](http://www.avalonbay.com)) under "Corporate Governance Documents." The Company also has Director Stock Ownership Guidelines as discussed in "Director Compensation and Director Stock Ownership Guidelines" of the proxy statement.

**Prohibition Against Hedging, Pledging or Borrowing Against Company Stock.** The Company has adopted a formal policy prohibiting its executive officers and directors from (i) borrowing money from a broker or other lender that is secured by Company securities, and (ii) holding Company securities in a brokerage account that has outstanding "margin" debt. In addition, the policy prohibits sales of Company securities by an executive officer or director if he or she does not own the security at the time of the sale (a "Short Sale"), and prohibits the buying or selling of puts or calls in respect of any Company securities.

**Severance Policy.** The Board has adopted a Policy Regarding Shareholder Approval of Future Severance Agreements (the "Severance Policy"). The Severance Policy generally provides that the Company will not, without stockholder approval or ratification, enter into or bind the Company to the terms of any future severance agreement with a senior executive officer that provides for severance benefits in excess of 2.99 times the sum of the officer's base salary plus annual bonus. The Severance Policy, which is posted on the "Investor Relations" section of the Company's website ([www.avalonbay.com](http://www.avalonbay.com)) under "Corporate Governance Documents," provides additional detail regarding the application of this policy.

**Policy on Recoupment of Incentive Compensation (Clawback Policy).** The Board has adopted a Policy for Recoupment of Incentive Compensation (i.e., a compensation clawback policy), which applies to senior officers (generally senior vice presidents and above). Pursuant to this policy, in the event the Company is required to prepare an accounting restatement due to the material non-compliance of the Company with any financial reporting requirement, then an independent committee of the Board of Directors may require any covered officer to repay to the Company all or part of any "Excess Compensation" that such officer had previously received. Excess Compensation is defined as that part of the incentive compensation received by a covered officer during the 3-year period preceding the publication of the restated financial statement that was in excess of the amount that such officer would have received had such incentive compensation been calculated based on the financial results reported in the restated financial statement. The full text of the policy is posted on the "Investor Relations" section of the Company's website ([www.avalonbay.com](http://www.avalonbay.com)) under "Corporate Governance Documents."

Table of Contents

[Practices with regard to dates and pricing of stock and option grants](#)

The Compensation Committee determines the number of shares underlying options and shares of restricted stock to award to officers as part of annual compensation. Those members of the Board of Directors who would qualify for service on the Compensation Committee review and ratify these awards at the Board's regularly scheduled February meeting. The award date for options and stock grants is generally the date of ratification, but may be delayed to a date after such ratification if there is a pending announcement by the Company of material non-public information, such as an earnings release. The exercise price of each option granted is the closing price of our Common Stock on the award date. In all cases, our options are granted: (i) on the dates described above;

(ii) on the date of a new hire's start with the Company as approved by the CEO in advance of the start date; or (iii) on the date of approval by the CEO for retention or recognition purposes up to a Board-authorized maximum value of \$250,000. Option exercise prices are determined by the NYSE closing price of our Common Stock on the date of grant. Additionally, all officers must receive prior authorization for any purchase or sale of our Common Stock (unless made pursuant to a previously approved Rule 10b5-1 plan), which, in the case of open market transactions, is generally only given during approved trading windows that are generally established in advance based upon earnings release dates.

[Risk Considerations](#)

The Compensation Committee reviewed and considered risks arising from the Company's compensation policies and practices for its employees. This review included consideration of the following specific elements of the Company's executive compensation policies and procedures:

annual bonus and long-term incentive awards are based upon pre-existing, defined goals;

annual goals contain multiple financial targets, including performance against a pre-approved budget;

performance goals include both absolute performance and performance relative to industry peers;

annual goals balance financial and non-financial performance;

goals include corporate, business unit, and individual performance goals;

performance goals include achievement against both single year and multiyear metrics;

executive compensation is structured as a mix among salary, cash bonus, and equity awards;

equity awards vest over time;

bonus and long-term equity programs include maximum payouts or "caps";

all unvested equity awards are forfeited upon a termination for cause or voluntary termination under certain circumstances;

the metrics that are included in our long-term performance awards include a goal addressing appropriate leverage ratios;

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achievement of metrics is not determined on an "all or nothing" basis, but rather goals may be achieved on a graduated basis based on performance against the stated target; and

while awards are generally made in relation to performance against specific goals, the Compensation Committee retains the discretion to adjust annual bonuses of cash and restricted stock as may be warranted by specific circumstances.

Following this review, the Compensation Committee concluded that any risks arising from the Company's compensation policies and practices are not reasonably likely to have a material adverse effect on the Company at this time.

Table of Contents

**Section 162(m)**

The SEC requires that this report comment upon the Company's policy with respect to Section 162(m) of the Internal Revenue Code of 1986, as amended, which limits the deductibility on the Company's tax return of compensation over \$1 million to the CEO and any of its three other most highly paid executive officers (other than the CFO) unless, in general, the compensation is paid pursuant to a plan which is performance-related, non-discretionary and has been approved by the Company's stockholders. The Company believes that, because it qualifies as a REIT under the Code and pays dividends sufficient to minimize federal income taxes, the payment of compensation that does not satisfy the requirements of

Section 162(m) will generally not affect the Company's net income. If that compensation does not qualify for a deduction under Section 162(m), there could be a modest effect on the Company's dividend requirements to qualify as a REIT or on the tax characterization of such dividends. The Company does not believe that Section 162(m) will materially affect its dividend requirements or the taxability of stockholder distributions, although no assurance can be given in this regard due to the variety of factors that affect the tax position of each stockholder. For these reasons, the Compensation Committee's compensation policy and practices are not directly guided by considerations relating to Section 162(m).

**Compensation Committee Report**

The Compensation Committee of the Board of Directors of AvalonBay Communities, Inc., a Maryland corporation, has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K of the Securities and Exchange Commission with management and, based on such review and discussions, the Compensation Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

*Submitted by the Compensation Committee*

W. Edward Walter (Chair)  
Lance R. Primis  
H. Jay Sarles

**Compensation Committee Interlocks and Insider Participation**

The Compensation Committee currently consists of Lance R. Primis, H. Jay Sarles, and W. Edward Walter. None of them has served as an officer of the Company or any of its subsidiaries. No

member of the Compensation Committee has any other business relationship or affiliation with the Company or any of its subsidiaries (other than his service as a director).

Table of Contents**Summary Compensation Table**

The table below summarizes the compensation amounts paid in or earned by each of the named executive officers for the fiscal years ended December 31, 2015, December 31, 2014 and December 31, 2013, except in the cases of Messrs. O'Shea and Wilson, who became named executive officers in 2014.

Executives are eligible to defer a portion of their salaries and bonuses under our Deferred Compensation Plan. The amounts shown below are before any deferrals under the Nonqualified Deferred Compensation Plan.

(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)
Timothy J. Maughton Chief Executive Officer	2015	950,000		4,441,381(8)		1,871,738		40,581	7,303,700
	2014	950,000		5,000,940		1,446,969		40,536	7,438,440
	2013	921,154		7,189,042	1,461,866	1,666,359		43,982	11,282,400
Kevin P. O'Shea Chief Financial Officer	2015	480,769		829,772(9)		604,720		9,115	1,924,370
	2014	395,192		1,094,180		457,600		8,735	1,955,700
	2013								
Matthew H. Sirenbaum Chief Investment Officer	2015	490,385		1,095,481(10)		625,800		9,115	2,220,780
	2014	440,385		1,521,982		526,140		8,735	2,497,240
	2013	395,192		1,312,165	314,019	405,888		8,585	2,435,840
Sean J. Breslin Chief Operating Officer	2015	490,385		1,201,249(11)		629,800		9,023	2,330,450
	2014	445,192		1,484,115		524,700		8,683	2,462,690

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	2013	418,269	1,531,444	466,327	423,708	8,533	2,848,28
Stephen W. Wilson VP, Development	2015	425,000	1,451,958(12)		624,240	11,143	2,512,34
	2014	420,192	1,364,299		632,910	10,085	2,427,48
	2013						

(1)

The amounts shown as salary in column (c) reflect actual payments received in each indicated year, which may vary slightly from the salary described in the Compensation Discussion and Analysis as a result of (i) the number of pay periods in each calendar year and (ii) the fact that salary increases do not go into effect until early March of each year.

(2)

The amounts in column (e) and column (f) include restricted stock and option awards actually granted during the fiscal year for service in the prior fiscal year. For example, the row for 2015 includes the value of stock awards made in February 2015 with respect to 2014 service.

(3)

The amounts in column (e) reflect the aggregate grant date fair value for awards made in the fiscal years ended December 31, 2013, December 31, 2014, and December 31, 2015 computed in accordance with FASB ASC Topic 718 for restricted stock awards and performance unit awards made pursuant to the Company's 2009 Stock Option and Incentive Plan. The value of restricted stock awards is based solely on the closing price of our Common Stock on the NYSE on the date of grant and no assumptions were used in the calculation of this value. The value of performance unit awards based on Operating Metrics made in 2015, which were made for measurement periods January 1, 2015 - December 31, 2017 is based on the closing price of our Common Stock on the NYSE on the date of grant of \$166.23. The value of performance unit awards based on TSR Metrics made in 2015, which were made for the measurement period 2015-2017 is based on the Monte Carlo value of \$139.18. The total value of 2015-2017 performance unit award, if earned at maximum and valued at the closing price of our Common Stock on the NYSE on the date of grant, for the named executive officers is: Mr. Naughton \$9,435,215; Mr. O'Shea \$1,451,520; Mr. Birenbaum \$1,786,640; Mr. Breslin \$1,786,640; and Mr. Wilson \$1,116,733. The total value of Mr. Naughton's 2014-2016 performance unit award, if earned at maximum and valued at the closing price of our Common Stock on the date of grant, is \$647,684.

(4)

The amounts in column (f) reflect the aggregate grant date fair value for awards made pursuant to the Company's 2009 Stock Option and Incentive Plan in the fiscal years ended December 31, 2013, December 31, 2014, and December 31, 2015 computed in accordance with FASB ASC Topic 718. Assumptions used in the calculation of this amount are included in footnote 10 to the Company's audited financial statements included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2016.

(5)

The amounts shown in column (g) reflect the cash awards to the named individuals determined by the Compensation Committee in February of the following year (based upon the achievement of the performance metrics established in the year indicated, as more fully described in the Compensation Discussion and Analysis above) and ratified by the members of the full Board of Directors who would be qualified to serve on



the Compensation Committee.

Table of Contents

- (6) All earnings under the Company's nonqualified deferred compensation program are determined by reference to returns of actual mutual funds and the Company does not consider such earnings to be above market.
- (7) For 2015, the amounts shown in column (i) include, for each named executive officer (a) amounts contributed by the Company to the named executive officers' 401(k) accounts in the amount of \$7,950 each, and (b) premiums paid by the Company in 2015 for a Company-owned life insurance on the life of Mr. Naughton for which the Company has endorsed the policy so that any death benefit, in excess of the cumulative premiums paid by the Company, will be paid to the beneficiaries of the deceased, which premiums were \$32,631 (such amount representing payment of a whole-life premium which builds cash value in the Company-owned policy to support future repayment of the cumulative premiums; see "Potential Payments Upon Termination or Sale Event Endorsement Split Dollar Agreements"). The amount shown includes premiums paid by the Company for a standard term life insurance policy in the face amount of \$750,000 for: Mr. O'Shea \$1,165; Mr. Birenbaum \$1,165; Mr. Breslin \$1,073; and Mr. Wilson \$3,193.
- (8) Stock awards for Mr. Naughton in 2015 include the following: one performance unit award consisting of 28,380 total target performance units maturing at the end of 2017 and one performance unit award consisting of 1,842 target performance units maturing at the end of 2016, both of which are subject to time-based vesting thereafter.
- (9) Stock awards for Mr. O'Shea in 2015 include the following: 1,037 shares of restricted stock awarded in respect of 2014 performance; one performance unit award consisting of 4,366 total target performance units maturing at the end of 2017 which is subject to time-based vesting thereafter.
- (10) Stock awards for Mr. Birenbaum in 2015 include the following: 1,704 shares of restricted stock awarded in respect of 2014 performance; one performance unit award consisting of 5,374 total target performance units maturing at the end of 2017 which is subject to time-based vesting thereafter.
- (11) Stock awards for Mr. Breslin in 2015 include the following: 2,314 shares of restricted stock awarded in respect of 2014 performance; one performance unit award consisting of 5,374 total target performance units maturing at the end of 2017 which is subject to time-based vesting thereafter.
- (12) Stock awards for Mr. Wilson in 2015 include the following: 5,490 shares of restricted stock awarded in respect of 2014 performance; one performance unit award consisting of 3,359 total target performance units maturing at the end of 2017 which is subject to time-based vesting thereafter.

## Grants of Plan-Based Awards

The table below sets out the grants made to the named executive officers in 2015 under the Company's 2009 Stock Option and Incentive Plan.

### Grants of Plan-Based Awards

Name (a)	Grant Date (b)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards(1)			Estimated Future Payouts Under Equity Incentive Plan Awards(2)			All Other Stock Awards Number (i)	All Other Exercise Options Number (j)	Grant Date Fair Value of Stock Options and Awards (\$)(4) (l)
		Threshold (\$) (c)	Target (\$) (d)	Maximum (\$) (e)	Threshold (#) (f)	Target (#) (g)	Maximum (#) (h)			
Mr. Naughton	2/12/2015	712,500	1,425,000	2,850,000						
	2/26/2015				14,190	28,380	56,760			4,224,919
	4/06/2015				921	1,842	3,684			216,462
Mr. O'Shea	2/12/2015	412,500	825,000	1,650,000						
	2/26/2015				2,183	4,366	8,732			649,966
	2/12/2015							1,037		179,805
Mr. Birenbaum	2/12/2015	457,500	915,000	1,830,000						
	2/26/2015				2,687	5,374	10,748			800,025
	2/12/2015							1,704		295,457
Mr. Breslin	2/12/2015	506,250	1,012,500	2,025,000						
	2/26/2015				2,687	5,374	10,748			800,025
	2/12/2015							2,314		401,224
Mr. Wilson	2/12/2015	465,000	930,000	1,860,000						
	2/26/2015				1,680	3,359	6,718			500,047
	2/12/2015							5,490		951,911

(1)

The amounts shown in columns (c), (d) and (e) reflect the threshold, target and maximum payment levels for 2015 under our annual bonus plan, which were established on February 12, 2015. The annual bonus is paid in cash and restricted stock except in the case of

Table of Contents

Mr. Naughton for whom the annual bonus is paid in cash only. The actual cash bonuses received by each of the named executive officers for performance in 2014, paid in 2015, are set out in column (g) of the *Summary Compensation Table*.

(2)

The amounts shown in columns (f), (g) and (h) reflect the threshold, target and maximum number of performance units awarded in 2015 for the performance period 2015-2017 under the long-term incentive performance program. The grant date fair value of 2015-2017 awards is based on the closing price on the grant date of \$166.23 for the operating metric portion of the award and the Monte Carlo value of \$139.18 for the TSR metric portion of the award. Dividends are not paid on outstanding performance units. The April 6, 2015 grant of performance units represents the performance period of 2014 - 2016.

(3)

The number of shares of restricted stock shown in column (i) granted on February 12, 2015 represent the actual number of shares of restricted stock granted to the named executive officers, with respect to performance in 2014, and do not represent compensation for performance in 2015. Dividends are payable on the shares at the same rate as dividends paid on all outstanding shares of our Common Stock.

(4)

For the February 12, 2015 grants of restricted stock, the value was calculated based on the closing price of the Common Stock on the date of grant of \$173.39.

Table of Contents

## Outstanding Equity Awards at Fiscal Year-End

Name (a)	Grant Date	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options				Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#)(4)	Market Value of Stock That Have Not Vested (\$)(5)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (#)(6)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)(5)
		Exercisable (#)(b)	Unexercisable (#)(c)	Underlying Securities (#)(d)	Options Exercised (#)(e)					Equity Incentive Plan Awards: Number of Unearned Shares, Units or Rights That Have Not Vested (#)(6)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Rights That Have Not Vested (\$)(5)
Mr. Naughton	2/8/2007	19,667				143.34	2/8/2017				
	2/11/2008	26,005				86.40	2/11/2018				
	2/11/2010	15,015				74.20	2/11/2020				
	2/16/2011	16,683				115.83	2/16/2021				
	2/16/2012	18,602				132.95	2/16/2022	1,615	297,370		
	2/13/2013	19,028	9,514			130.23	2/13/2023	31,820(7)	5,859,017		
	3/13/2013	17,756	8,878			126.78	3/13/2023	4,228	778,502		
	2/13/2014							3,396	625,305		
	2/13/2014							1,542	283,928		
	2/28/2014							10,060(8)	1,852,348	48,460	8,922,940
	4/01/2014							510	93,906		
	2/12/2015							28,965	5,333,325		
	2/26/2015									56,760	10,451,219
	4/06/2015									3,684(9)	678,335
Mr. O'Shea	2/16/2012							303	55,791		
	2/13/2013		764			130.23	2/13/2023	4,005(7)	737,441		
	3/13/2013		4,439			126.78	3/13/2023	2,114	389,251		
	2/13/2014							434	79,912		
	2/13/2014							502	92,433		
	2/28/2014							2,348(8)	432,337	8,142	1,499,186
	4/01/2014							43	7,918		
	2/12/2015							1,037	190,943		
	2/12/2015							4,964	914,021		
2/26/2015									8,732	1,607,823	
Mr. Birenbaum											

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2/13/2013	2,689	2,251	130.23	2/13/2023	4,817(7)	886,955		
3/13/2013	362	1,682	126.78	3/13/2023	789	145,279		
2/13/2014					615	113,240		
2/13/2014					1,007	185,419		
2/28/2014					3,526(8)	649,242	11,050	2,034,637
4/01/2014					83	15,283		
2/12/2015					1,704	313,758		
2/12/2015					6,722	1,237,722		
2/26/2015							10,748	1,979,029

Mr. Breslin	2/8/2007	696	143.34	2/8/2017				
	2/16/2012	752	132.95	2/16/2022	660	121,526		
	2/13/2013	5,096	2,548					