

AVALONBAY COMMUNITIES INC  
Form DEF 14A  
April 05, 2017

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.

(Name of Registrant as Specified In Its Charter)

(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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(4) Proposed maximum aggregate value of transaction:

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Check box if any part of the fee is offset as provided by Exchange Act Rule 0 11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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Dear Fellow Stockholders:

I welcome you to join me and the entire Board of Directors at our 2017 Annual Meeting of Stockholders, which will be held on May 18, 2017, at our offices in Arlington, Virginia.

At this year's meeting we will vote on the election of ten directors and the ratification of Ernst & Young as the Company's independent auditor, as well as the adoption of an amended and restated equity incentive plan. We will also conduct a non-binding advisory vote to approve the compensation of the Company's named executive officers and a non-binding advisory vote on the frequency of such a stockholder vote.

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 7, 2017 Sincerely,

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

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AvalonBay Communities, Inc.

Ballston Tower, 671 N. Glebe Road, Suite 800

Arlington, VA 22203

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON MAY 18, 2017

NOTICE IS HEREBY GIVEN that the 2017 Annual Meeting of Stockholders (the "Annual Meeting") of AvalonBay Communities, Inc., a Maryland corporation (the "Company"), will be held on Thursday, May 18, 2017, 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 ten directors to serve until the 2018 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., Richard J. Lieb, Timothy J. Naughton, Peter S. Rummell, H. Jay Sarles, Susan Swanezy 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 2017.
3. To consider and vote upon approval of the Company's Second Amended and Restated 2009 Equity Incentive Plan.
4. 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.
5. To cast a non-binding, advisory vote on the frequency of a stockholders' advisory vote on the Company's named executive officer compensation.
6. 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 6, 2017, 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.

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 three 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.

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A copy of our Annual Report on Form 10 K for the fiscal year ended December 31, 2016 and our 2016 Annual Report to Stockholders accompany this Notice.

By Order of the Board of Directors  
Arlington, Virginia Edward M. Schulman  
April 7, 2017 Secretary

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## 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 2016 performance, please review the Company’s Annual Report on Form 10 K for the year ended December 31, 2016, and the Company’s 2016 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 7, 2017.

## 2017 Annual Meeting of Stockholders Information

Date and Time: Thursday, May 18, 2017, 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 6, 2017

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. Approval of Company’s Second Amended and Restated 2009 Equity Incentive Plan	FOR	11-20
4. Non-Binding, Advisory Vote to Approve Executive Compensation	FOR	21
5. Non-Binding, Advisory Vote on Frequency of Vote on Executive Compensation	EVERY YEAR	22

## Executive Compensation

## Election of Directors (Proposal 1)

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

Name	Age	Director Since	Independent	Current Committees*	Proposed Committees*
Timothy J. Naughton	54	2005		IFC	IFC
Glyn F. Aeppel	57	2013	X	AC, IFC (Chair)	IFC (Chair), NCG
Terry S. Brown	54	2015	X	AC, IFC	AC, IFC
Alan B. Buckelew	67	2011	X	AC (Chair), IFC	AC (Chair), CC
Ronald L. Havner, Jr.	58	2014	X	AC, IFC	AC, IFC
Richard J. Lieb	57	2016	X		AC, IFC
Peter S. Rummell	70	2007	X	IFC, NCG	IFC, NCG
H. Jay Sarles**	70	2005	X	CC, NCG (Chair)	CC, NCG (Chair)



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Susan Swanezy	58	2016	X		AC, IFC
W. Edward Walter	60	2008	X	CC (Chair), NCG	CC (Chair), NCG

\* IFC = Investment and Finance Committee, AC = Audit Committee, CC = Compensation Committee, NCG = Nominating and Corporate Governance Committee. Immediately following the Annual Meeting, the Board expects to make the changes to committee assignments reflected above.

\*\* Lead Independent Director

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 2017.

Approval of Amended and Restated Equity Incentive Plan (Proposal 3)

The Board of Directors recommends a vote FOR approval of the Company's Second Amended and Restated 2009 Equity Incentive Plan.

Advisory Vote to Approve Executive Compensation (Proposal 4)

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 54.

Advisory Vote on Frequency of Advisory Vote on Executive Compensation (Proposal 5)

The Board of Directors recommends a vote in favor of holding stockholder advisory votes on compensation EVERY YEAR (as opposed to every two years or every three years).

Corporate Governance Best Practices

All directors are independent other than the CEO

Annual election of all directors and majority voting in uncontested elections

Policy on recoupment of incentive compensation (clawback policy)

Lead Independent Director

Director and executive officer stock ownership guidelines

Director and executive officer prohibition against hedging, pledging or borrowing against Company stock

Policy regarding stockholder approval of future severance agreements that provide for severance benefits above a certain level

Executive sessions of independent directors at each regularly scheduled Board meeting

Regular succession planning, including guidelines on director and committee chairman tenure

No former employees serve as directors

No employment agreements with officers

Proxy access provision in Bylaws

No stockholder rights plan ("poison pill") and policy regarding adoption of future plans

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

Policy on political contributions and government relations

Policy to encourage and reimburse directors for attendance at director education events

Published comprehensive sustainability and corporate social responsibility report

Annual advisory vote to ratify independent auditor

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**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 2017 Annual Meeting of Stockholders to be held on Thursday, May 18, 2017, 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 “2017 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 2016 Annual Report to Stockholders and our Annual Report on Form 10-K for the year ended December 31, 2016 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 6, 2017, 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 137,480,293 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 12, 2017, 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 [2017AnnualMeeting@AvalonBay.com](mailto:2017AnnualMeeting@AvalonBay.com). Please include the following information: (a) your name and mailing address, (b) whether you need special assistance at the meeting and (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 6, 2017. 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 cooperation with these rules.

**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, 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 ten directors of the Company, (2) consider and vote upon ratification of the selection of Ernst & Young LLP as the Company’s independent auditors for 2017, (3) consider and vote upon a resolution to approve the Company’s Second Amended and Restated 2009 Equity Incentive Plan, (4) consider and vote upon a resolution to approve, on a non binding, advisory basis, the Company’s named executive officer compensation, (5) consider and vote upon a resolution, on a non-binding, advisory basis, to determine the frequency of advisory votes on executive officer compensation and (6) 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 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 (i) FOR the election of the nominees for director of the Company named in this Proxy Statement, (ii) FOR the ratification of the selection of Ernst & Young LLP as the Company's independent auditors for 2017, (iii) FOR approval of the Second Amended and Restated 2009 Equity Incentive Plan, (iv) FOR the non-binding, advisory resolution to approve the Company's named executive officer compensation, and (v) in favor of EVERY YEAR on the non-binding advisory resolution on the frequency of advisory votes on executive 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 2016 Annual Report to Stockholders and a copy of the Company's Annual Report on Form 10-K for the year ended December 31, 2016, 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)).

## II. PROPOSALS

### Proposal 1: Election of Directors

The Board of Directors currently consists of eleven members. As previously announced, Lance R. Primis, a current director, has decided not to stand for re-election. The Board of Directors has nominated for election the other ten current directors, and has reduced the size of the Board to ten to eliminate the resulting vacancy, effective immediately following the Annual Meeting. Accordingly, ten nominees will stand for election at the Annual Meeting and if elected will serve until the 2018 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., Richard J. Lieb, Timothy J. Naughton, Peter S. Rummell, H. Jay Sarles, Susan Swanezy 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 ten 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, a majority of the total votes

cast 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, director or executive officer of the Company.

Employee Director Nominee:

Timothy J. Naughton

Mr. Naughton, 55, 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. 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 serves as a director of Welltower Inc., a publicly traded investor in healthcare real estate, and Park Hotels & Resorts, Inc., a publicly traded hotel real estate investment trust. Mr. Naughton serves as Chairman of the National Association of Real Estate Investment Trusts ("NAREIT"), is a member of The Real Estate Round Table, is a 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, 58, 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 is a director of Simon Property Group, Inc., a publicly traded retail real estate company. She 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, 55, 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, 68, has been a director of the Company since September 2011. He was appointed Chief Information Officer of Carnival Corporation, a publicly traded cruise line holding company, in December 2016. From 2013 to 2016 he served as Carnival's Chief Operating Officer. 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 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, 59, has been a director of the Company since September 2014. Mr. Havner is the Chairman of the Board and Chief Executive Officer of Public Storage, a publicly traded real estate investment trust that primarily acquires, develops, owns and operates self storage facilities, where he also served as President from 2002 through 2016. 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 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 100% attendance at Board and Committee meetings during 2016. In accordance with the Board's standard practice, 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 a significant percentage 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.

Richard J. Lieb

Mr. Lieb, 57, has been a director of the Company since September 2016. Mr. Lieb has been a Managing Director and Chairman of Real Estate at Greenhill & Co., LLC, a publicly traded investment bank, since November 2016. Mr. Lieb previously served Greenhill in a variety of senior positions, most recently as head of Greenhill's Real Estate, Gaming and Lodging Group. Mr. Lieb was also Greenhill's Chief Financial Officer from 2008 to 2015. Prior to joining Greenhill in 2005, Mr. Lieb

spent more than 20 years with Goldman, Sachs & Co., where he headed its Real Estate Investment Banking Department from 2000 to 2005. Mr. Lieb is also a director of CBL & Associates Properties, Inc., and VEREIT, Inc., both publicly traded REITs. The Board has concluded that Mr. Lieb should serve as a director based on his experience working with real estate clients on a wide range of capital markets, capital allocation, strategic planning and corporate transaction matters.

Peter S. Rummell

M. Rummell, 71, 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, 71, 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 is a director of Ameriprise Financial, Inc., a publicly traded financial planning services company. 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.

#### Susan Swanezy

Ms. Swanezy, 58, has been a director of the Company since September 2016. Since 2010 she has been a partner at Hodes Weill & Associates L.P., a global advisory boutique firm focused on the real estate management industry. Previously Ms. Swanezy served as Managing Director, Global Head of Capital Raising for Real Estate Products at Credit Suisse Group AG, and held a variety of positions at Deutsche Bank AG and its affiliates, including serving as a Partner and Managing

Director – Client Relations for RREEF, the real estate investment management business of Deutsche Bank's Asset Management division. The Board has concluded that Ms. Swanezy should serve as a director because of her broad

and varied experience in evaluating real estate companies, investment opportunities and real estate asset allocation strategies.

W. Edward Walter

Mr. Walter, 61, has been a director of the Company since September 2008. He has been 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 since November 2014. He served as President and Chief Executive Officer of Host Hotels & Resorts, Inc. ("Host"), a publicly traded premier lodging real estate company, from October 2007 through December 2016. 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 was a member of the Board of Directors of Host from October 2007 through December 2016. Mr. Walter is also past

Chairman of the Board of Directors of the National Kidney Foundation, a Director of the Real Estate Round Table, the Chairman of the Federal City Council, and a member of the Board of Visitors of the Georgetown University Law Center. 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 chief executive officer of a publicly traded corporation with significant real estate investment holdings and operations.

## 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 2017. Ernst & Young was also the Company's principal independent auditors for fiscal year 2016. 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 2017 but will consider whether it should select a different auditor for fiscal year 2018. 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 2017 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 2017 unless contrary instructions are set forth on the enclosed proxy card. A majority of the total

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 2017.





Proposal 3: Approval of AvalonBay Communities, Inc. Second Amended and Restated 2009 Equity Incentive Plan

The Board of Directors believes that stock based incentive awards can play an important role in the success of the Company. Stock-based incentive awards play an integral role in our pay-for-performance philosophy. Additionally, stock-based compensation helps the Company remain competitive in retaining and attracting highly qualified employees upon whom the future growth and success of the Company depend. The Company grants annual stock bonus and annual performance awards from its equity incentive plan. The purpose of the equity incentive plan is to promote the success and enhance the value of the Company by linking the personal interests of employees, officers and directors of the Company to those of the Company's stockholders.

On February 16, 2017, the Board, upon the recommendation of the Compensation Committee, approved an amendment and restatement of the Company's 2009 Stock Option and Incentive Plan.

As so amended and restated, the name of the plan would be the AvalonBay Communities, Inc. Second Amended and Restated 2009 Equity Incentive Plan (the "Amended 2009 Plan"). The Board's approval of the Amended 2009 Plan is subject to the approval of the Company's stockholders, which is being sought by this proposal. The effective date of the Amended 2009 Plan will be the date of stockholder approval; for ease of exposition, in the discussion below it is assumed that the Amended 2009 Plan is approved on, and therefore the effective date of the plan will be, May 18, 2017.

The Amended 2009 Plan provides flexibility to the Compensation Committee to use various equity based incentive awards as compensation tools to motivate the Company's workforce. A copy of the Amended 2009 Plan is attached as Exhibit A to this proxy statement and is incorporated herein by reference.

Stockholder Friendly Features of the Amended 2009 Plan and Company Practices

▲ Awards are subject to clawback policy. Awards under the Amended 2009 Plan will be subject to recoupment under certain circumstances. See Policy on Recoupment of Incentive Compensation (Clawback Policy).

◆ "Double-trigger" change of control vesting. The Amended 2009 Plan provides that, except as otherwise provided in an award agreement, two events are needed for outstanding equity awards to vest on an accelerated basis in the case of a sale event: (i) consummation of a sale event and (ii) termination of employment/non-employee director service, other than for cause, in connection with or within 24 months following the sale event. Upon a sale event, outstanding performance awards vest at target and convert to restricted stock awards.

•**No liberal share recycling.** The Amended 2009 Plan prohibits the reuse of shares withheld or delivered to satisfy the exercise price of an option or stock appreciation right or to satisfy tax withholding requirements. The Amended 2009 Plan also prohibits “net share counting” upon the exercise of options of stock appreciation rights (“SARs”). Finally, the Amended 2009 Plan does not allow shares repurchased on the open market with the proceeds from the payment of the option price of an option to replenish the Plan.

•**No repricing or cash-buyout of stock options or SARs.** The Amended 2009 Plan prohibits the direct or indirect repricing of stock options or SARs without stockholder approval. No cash buyback of underwater stock options are permitted without prior stockholder approval.

•**Fungible share pool.** The Amended 2009 Plan uses a fungible share pool under which each share issued pursuant to an option or SAR will reduce the number of shares available by one share, and each share issued pursuant to awards other than options and SARs will reduce the number of shares available by 2.17 shares.

•**Minimum Vesting.** The Amended 2009 Plan provides that the minimum vesting period for awards made to employees under the plan is generally one year (awards may vest incrementally over the year), provided that up to five percent of the shares reserved and available for issuance as of May 18, 2017 are not subject to such restriction.

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◆No Dividends on Unearned Performance Awards. The Company's current form of agreement for performance awards provides that such awards are subject to a three-year performance period and an additional three-year time vesting requirement; and provides that dividends are not paid on unearned performance awards but are paid only on the restricted shares of stock from and after the time that they are issued after an award is earned.

◆Limit on Non-employee Director Compensation (Cash and Stock). The Amended 2009 Plan provides that stockholders, by their approval of the plan, are approving cash and stock awards to non-employee directors that have a combined value of up to \$500,000 each in any one calendar year. See "Director Compensation Table" for a discussion of the actual compensation paid to non-employee directors in 2016 and the compensation expected to be paid to directors in 2017.

### Summary of Material Features and Analysis

The material features and analysis of the Amended 2009 Plan as proposed are:

◆The Amended 2009 Plan will "re-set" the number of shares that are available for issuance pursuant to new awards made after May 18, 2017. On February 16, 2017, the date the Board of Directors approved the Amended 2009 Plan, the number of shares reserved and available for issuance of new awards under the plan was 436,550. The Amended 2009 Plan will increase this number to 8,000,000. No existing reserved and available shares (i.e., the 436,550 shares, as adjusted after February 16, 2017 and before the stockholder approval of the Amended 2009 Plan) will "roll into" the Amended 2009 Plan to supplement this 8,000,000 number. However, outstanding awards that are forfeited or expire unexercised or unearned (such as unvested restricted shares that are forfeited, stock options that expire unexercised, or shares underlying performance awards that are unearned) will be available for future issuance under the plan.

In determining the number of proposed shares issuable under the Amended 2009 Plan, the Compensation Committee and the Board considered a number of factors, including:

- Historical equity award grant practices
- Reasonable expected dilution on a "full-value" basis compared to other S&P 500 REITs
- Projected share usage anticipating growth in employee population and long-term incentive amounts

◆As mentioned earlier, the Company has a fungible limit where awards other than stock options and SARs are counted at 2.17. Given the Company's practice since January 1, 2014, of generally granting only restricted stock and performance awards, which are considered as "full value" awards, the new 8,000,000 reserve provides capacity for 3,686,636 such awards. In this regard, it should be noted that the Company's compensation framework has been revised in recent years to de-emphasize employee stock options, and the last employee stock options were awarded in 2013.

The table below summarizes the potential dilution based on the proposed amendment and restatement:

Component (As of December 31, 2016)	Total Shares	Basic Dilution (1)
A. Stock Options Issued and Outstanding	199,874	0.15%
B. Restricted Stock Outstanding	313,403	0.23%
C. Performance Shares Outstanding (at Target)	251,163	0.18%
Total Stock Awards Outstanding (A+B+C)	764,440	0.56%
D. Reserved and Available for New Awards if Amended 2009 Plan is approved on May 18, 2017	8,000,000	5.82%
	Effectively 3,686,636 with 2.17 multiplier for “full value” awards such as restricted stock and performance awards	Effectively 2.68% with 2.17 multiplier for “full value” awards such as restricted stock and performance awards

(1) Denominator is equal to the common shares outstanding on March 10, 2017 of 137,480,659.

¶ The Amended 2009 Plan revises the minimum vesting requirements for awards made to employees under the plan. As revised, the minimum required vesting period for awards made to employees under the plan is generally one year (awards may vest incrementally over the year), provided that up to five percent of the shares reserved and available for issuance as of May 18, 2017 are not subject to such restriction. While this provision in the Amended 2009 Plan will give the Company additional flexibility, it should be noted that the Company’s practice has been to award annual stock bonus awards that vest ratably over three years and multiyear performance awards with three year performance cycles followed by additional time-vesting requirements, and the Company has no current plan to change that practice.

¶ The Amended 2009 Plan provides that stockholders, by their approval of the plan, are approving cash and stock awards to non-employee directors that have a combined value of up to \$500,000 each in any one calendar year. See “Director Compensation Table” for a discussion of the actual compensation paid to non-employee directors in 2016 and the compensation expected to be paid to directors in 2017.

¶ Any material amendment to the Amended 2009 Plan is subject to approval by our stockholders.

¶ The term of the Amended 2009 Plan will expire on May 15, 2027.

## Historical Burn Rate

The “burn rate” is one measure of how fast a company uses the supply of shares authorized for issuance under its stock plan. The Company’s three-year average burn rate (without the multiplier of 2.17 for full value awards such as restricted stock) is 0.12% or 0.25% with the multiplier. The following table shows the Company’s historical burn rate.

Fiscal Year	Time-Based Restricted Stock (Annual & Discretionary)	Earned Performance Awards	Total Full Value Awards	Full Value Awards with Multiplier of 2.17	Weighted Common Shares Outstanding	Annual Burn Rate without Multiplier	Annual Burn Rate with Multiplier
	(A)	(B)	(C)=(A)+(B)	(D)=(C)x 2.17	(E)	(C)/(E)	(D)/(E)
2016	81,400	115,618	197,018	427,529	136,928,251	0.14%	0.31%
2015	61,953	95,826	157,779	342,380	133,565,711	0.12%	0.26%
2014	98,954	16,209	115,163	249,904	130,586,718	0.09%	0.19%
Three-year Average						0.12%	0.25%

Note: The Company did not grant any stock options to participants in the past three years

## Qualified Performance Based Compensation under Code Section 162(m)

To ensure that certain awards granted under the Amended 2009 Plan to a “Covered Employee” (as defined in the Internal Revenue Code of 1986 (the “Tax Code”)) qualify as “performance based compensation” under Section 162(m) of the Code, the Amended 2009 Plan provides that the Compensation Committee may require that the vesting of such awards be conditioned on the satisfaction of performance criteria that may include any or all of the following:

- (1) earnings before interest, taxes, depreciation and amortization;
- (2) net income (loss) (either before or after interest, taxes, depreciation and/or amortization);
- (3) changes in the market price of the stock;
- (4) cash flow (including, but not limited to, operating cash flow and free cash flow);
- (5) funds from operations or similar measure;
- (6) sales or revenue;
- (7) acquisitions or strategic transactions;
- (8) operating income (loss);
- (9) return on capital, assets, equity, or investment;
- (10) total stockholder returns or total returns to stockholders;

- (11) gross or net profit levels;
- (12) productivity;
- (13) expense;
- (14) margins;
- (15) operating efficiency;
- (16) customer satisfaction;
- (17) working capital;
- (18) earnings per share of stock;
- (19) lease up performance, net operating income performance or yield on development or redevelopment communities;
- (20) leverage (measured as a ratio based on debt, debt net of cash balances, or interest expense to earnings before interest, taxes, depreciation and amortization (EBITDA) or to total market capitalization or similar measures); and/or
- (21) economic value-added

any of which under the preceding clauses (1) through (21) may be measured either in absolute terms or as compared to any incremental increase or as compared to results of a peer group.

The Compensation Committee will select the particular performance criteria within 90 days following the commencement of a performance cycle. The Compensation Committee may appropriately adjust any evaluation of the Company's or a peer's performance under a Performance Criterion to exclude or minimize the effect of any of the following events that occurs during a Performance Cycle: (I) asset write-downs or impairments, (II) litigation or claim judgments or settlements, (III) the effect of changes in tax law, accounting principles or other such laws or provisions affecting reporting results, (IV) accruals for reorganizations and restructuring programs, (V) any item of an unusual nature or of a type that indicates infrequency of occurrence, or both, including those described in the Financial Accounting Standards Board's authoritative guidance and/or in Management's Discussion and Analysis of Financial Condition and Results of Operations appearing the Company's annual report to stockholders for the applicable year, (VI) special or non-routine dividends, including those that result from large asset sales, and (VII) other items that are typically adjusted, including in earnings releases, third party publications or metrics that are focused on core or recurring operating results and that are based on the above criterion.

Subject to adjustments for stock splits and similar events, the maximum award granted to any one individual that is intended to qualify as "performance based compensation" under Section 162(m) of the Code will not exceed 300,000 shares of Common Stock for any performance cycle and the maximum number of shares that can be awarded in the form of options or stock appreciation rights to any one individual in any calendar year will not exceed 600,000 shares of Common Stock. If a performance based award is payable in cash, it cannot exceed \$4,000,000 for any performance cycle.

#### Summary of Other Terms of the Amended 2009 Plan

The following description of certain features of the Amended 2009 Plan is intended to be a summary only. The summary is qualified in its entirety by the full text of the Amended 2009 Plan that is attached hereto as Exhibit A.

**Plan Administration.** The Amended 2009 Plan is administered by the Compensation Committee. The Compensation Committee has full power to select, from among the individuals eligible for awards, the individuals to whom awards will be granted, to make any combination of awards to participants, and to determine the specific terms and conditions of each award, subject to the provisions of the Amended 2009 Plan. The Compensation Committee may delegate to our Chief Executive Officer (or other executive officers) the authority to grant awards to employees who are not subject to the reporting and other provisions of Section 16 of the Securities Exchange Act of 1934 (the "Exchange Act") and not a Covered Employee under Section 162(m) of the Code, subject to certain limitations and guidelines.

**Eligibility.** Persons eligible to participate in the Amended 2009 Plan will be those full or part-time officers, employees, non-employee directors and other key persons (including consultants and prospective employees) of the Company and its subsidiaries as selected from time to time by the

Compensation Committee in its discretion. As of the date of this proxy statement, the Company has approximately 3,000 employees, 70 of whom are officers, and ten non-employee directors (nine immediately following the 2017 Annual Meeting). With respect to Company associates, the Company's recent practice has been to generally make equity incentive awards to associates who have attained the officer, director or senior director level; approximately 195 associates are eligible to receive awards pursuant to this practice.

**Stock Options.** The Amended 2009 Plan permits the granting of (1) options to purchase Common Stock intended to qualify as incentive stock options under Section 422 of the Code and (2) options that do not so qualify. No more than 8,000,000 shares will be issued in the form of incentive stock options. Options granted under the Amended 2009 Plan will be non-qualified options if they fail to qualify as incentive options or exceed the annual limit on incentive stock options. Incentive stock options may only be granted to employees of the Company and its subsidiaries. Non-qualified options may be granted to any persons eligible to receive incentive options and to non-employee directors and key persons. The option exercise price of each option will be determined by the Compensation Committee but may not be less than 100% of the fair market value



of the Common Stock on the date of grant. Fair market value for this purpose will be the last reported sale price of the shares of Common Stock on the NYSE on the date of grant. The exercise price of an option may not be reduced after the date of the option grant, other than to appropriately reflect changes in our capital structure.

The term of each option will be fixed by the Compensation Committee and may not exceed ten years from the date of grant. The Compensation Committee will determine at what time or times each option may be exercised. Options may be made exercisable in installments and the exercisability of options may be accelerated by the Compensation Committee. In general, unless otherwise permitted by the Compensation Committee, no option granted under the Amended 2009 Plan is transferable by the optionee other than by will or by the laws of descent and distribution, and options may be exercised during the optionee's lifetime only by the optionee, or by the optionee's legal representative or guardian in the case of the optionee's incapacity.

Upon exercise of options, the option exercise price must be paid in full either in cash, by certified or bank check or other instrument acceptable to the Compensation Committee or by delivery (or attestation to the ownership) of shares of Common Stock of the Company that are beneficially owned by the optionee. Subject to applicable law, the exercise price may also be delivered to the Company by a broker pursuant to irrevocable instructions to the broker from the optionee. In addition, the Compensation Committee may permit non-qualified options to be exercised using a net exercise feature which reduces the number of shares issued to the optionee by the number of shares with a fair market value equal to the exercise price.

To qualify as incentive options, options must meet additional federal tax requirements, including a \$100,000 limit on the value of shares subject to incentive options that first become exercisable by a participant in any one calendar year.

**Stock Appreciation Rights.** The Compensation Committee may award stock appreciation rights subject to such conditions and restrictions as the Compensation Committee may determine. Stock appreciation rights entitle the recipient to shares of Common Stock equal to the value of the appreciation in the stock price of a designated number of shares of our Common Stock over the

exercise price. The exercise price is the fair market value of the Common Stock on the date of grant.

**Restricted Stock.** The Compensation Committee may award shares of Common Stock to participants subject to such conditions and restrictions as the Compensation Committee may determine. These conditions and restrictions may include the achievement of certain performance goals (as summarized above) and/or continued employment with us through a specified restricted period. However, in the event these awards granted to employees have a performance based goal, the restriction period will be at least one year, and in the event these awards granted to employees have a time-based restriction (without any prior performance condition to the grant or vesting thereof), the restriction period will be at least one year, but vesting can occur incrementally over the one-year period. Awards made to employees after May 18, 2017 for up to 5% of the awards reserved and available for issuance as of that date may be awarded, in total, without regard to such minimum restriction or vesting period.

**Restricted Stock Units.** The Compensation Committee may award restricted stock units to any participants. Restricted stock units are ultimately payable in the form of shares of Common Stock and may be subject to such conditions and restrictions as the Compensation Committee may determine. These conditions and restrictions may include the achievement of certain performance goals (as summarized above) and/or continued employment with the Company through a specified vesting period. However, in the event these awards granted to employees have a performance based goal, the restriction period will be at least one year, and in the event these awards granted to employees have a time-based restriction (without any prior performance condition to the grant or vesting thereof), the restriction period will be at least one year, but vesting can occur incrementally over the one-year period. Awards made to employees after May 18, 2017 for up to 5% of the awards reserved and available for issuance as of that date may be awarded, in

total, without regard to such minimum restriction or vesting period. In the Compensation Committee's sole discretion, it may permit a participant to make an advance election to receive a portion of his or her future cash compensation otherwise due in the form of a restricted stock unit award, subject to the participant's compliance with the procedures established by the Compensation Committee and requirements of Section 409A of the Code. During

the deferral period, the deferred stock awards may be credited with dividend equivalent rights.

**Unrestricted Stock Awards.** The Compensation Committee may also grant shares of Common Stock which are free from any restrictions under the Amended 2009 Plan. Unrestricted stock may be granted to any participant in recognition of past services or other valid consideration and may be issued in lieu of cash compensation due to such participant. However, any such grant of restricted stock that is made to employees must comply with the limitation that no more than 5% of the awards reserved and available for issuance as of May 17, 2017 may, in total, be issued without regard to the minimum one-year restriction or vesting period.

**Performance Share Awards.** The Compensation Committee may grant performance share awards to any participant which entitle the recipient to receive shares of Common Stock upon the achievement of certain performance goals (as summarized above) and such other conditions as the Compensation Committee shall determine. The period during which performance is to be measured for such awards shall not be less than one year, provided however that Awards made to employees after May 18, 2017 for up to 5% of the awards reserved and available for issuance as of that date may be awarded, in total, without regard to a minimum restriction or vesting period.

**Dividend Equivalent Rights.** The Compensation Committee may grant dividend equivalent rights to participants which entitle the recipient to receive credits for dividends that would be paid if the recipient had held specified shares of Common Stock. Dividend equivalent rights may be granted as a component of another award (other than a stock option or stock appreciation right) or as a freestanding award. Dividend equivalent rights may be settled in cash, shares of Common Stock or a combination thereof, in a single installment or installments, as specified in the award.

**Cash-Based Awards.** The Compensation Committee may grant cash bonuses under the Amended 2009 Plan to participants. The cash bonuses may be subject to the achievement of certain performance goals (as summarized above).

**Sale Event.** The Amended 2009 Plan provides that upon the effectiveness of a “sale event” as such term is defined in the Amended 2009 Plan, and except as otherwise provided by the Compensation Committee in an award agreement,

all awards will be terminated unless the parties agree to assume or continue the awards with appropriate adjustments. In the event that awards are assumed, continued or substituted in connection with a Sale Event, then the award will become fully vested and nonforfeitable in the event that the grantee's employment or other business relationship with the Company is terminated (i) by the Company without cause or (ii) by the grantee for Good Reason, in either case in connection with or within 24 months following the Sale Event, except as may otherwise be provided in the relevant award agreement. In case awards are not assumed, the Company may make or provide for a cash payment to participants holding options and stock appreciation rights equal to the difference between the per share cash consideration and the exercise price of the options or stock appreciation rights.

**Adjustments for Stock Dividends, Stock Splits, Etc.** The Amended 2009 Plan requires the Compensation Committee to make appropriate adjustments to the number of shares of Common Stock that are subject to the Amended 2009 Plan, and to any outstanding awards and/or to the price for each share of Common Stock subject to outstanding awards of stock options and stock appreciation rights to reflect stock dividends, stock splits, extraordinary cash dividends and similar events.

**Tax Withholding.** Participants in the Amended 2009 Plan are responsible for the payment of any federal, state or local taxes that the Company is required by law to withhold upon the exercise of options or stock appreciation rights or vesting of other awards. Subject to approval by the Compensation Committee, participants may elect to have tax withholding obligations satisfied by authorizing the Company to withhold shares of Common Stock to be issued pursuant to the exercise or vesting.

Clawback Policy. Awards made under the Amended 2009 Plan are subject to the Company's clawback policy as in effect from time to time.

Amendments and Termination. The Board may at any time amend or discontinue the Amended 2009 Plan and the Compensation Committee may at any time amend or cancel any outstanding award for the purpose of satisfying changes in the law or for any other lawful purpose. However, no such action may adversely affect any rights under any outstanding award without the holder's consent. To the extent required under the rules of the

NYSE, any amendments that materially change the terms of the Amended 2009 Plan will be subject to approval by our stockholders. Amendments shall also be subject to approval by our stockholders if and to the extent determined by the Compensation Committee to be required by the Code to preserve the qualified status of incentive options or to ensure that compensation earned under the Amended 2009 Plan qualifies as performance based compensation under Section 162(m) of the Code.

Effective Date of Amended 2009 Plan. The Board adopted the Amended 2009 Plan on February 16, 2017, and the Amended 2009 Plan becomes effective on the date it is approved by stockholders. No awards may be granted under the Amended 2009 Plan after May 15, 2027. If the Amended 2009 Plan is not approved by stockholders, the plan as currently in effect will continue until it expires, and awards may be granted thereunder, in accordance with its terms.

#### New Plan Benefits

The following table provides information concerning the benefits that were received by the following persons and groups during 2017 through March 31, 2017: each named executive officer; all current executive officers, as a group; all current directors who are not executive officers, as a group; and all employees who are not executive officers, as a group.

Name and Position	Restricted Stock/Units (1)		Performance Shares (2)	
	Dollar Value	Number	Dollar Value	Number
	(\$) (3)	#	(\$) (4)	#
Timothy Naughton, Chairman and CEO	\$564,966	3,155	\$4,499,990	25,405
Kevin O'Shea, CFO	\$576,247	3,218	\$1,049,850	5,927
Matthew Birenbaum, Chief Investment Officer	\$748,154	4,178	\$1,049,850	5,927
Sean Breslin, Chief Operating Officer	\$668,289	3,732	\$1,049,850	5,927
Stephen Wilson, EVP	\$662,022	3,697	\$549,990	3,105

## Development

All Current Executives, as a group (9 executives)	\$4,530,113	25,298	\$9,984,648	56,369
All Current Non-Employee Directors, as a group (5)	\$52,243	285	-	-
All current employees who are not executive officers, as a group	\$8,008,369	44,722	\$4,169,472	23,539

- (1) Does not include dividend equivalent units issued in lieu of dividends on restricted units on the Company's regular dividend payment dates.
- (2) Reflects grants of target performance shares for the 2017 – 2019 Performance Period; these shares may not be earned if threshold performance is not achieved.
- (3) The value of restricted stock awards and deferred stock units is based solely on the closing price of our Common Stock on the NYSE on the date of grant; as a result, no assumptions were used in the calculation of this value. Based on the closing price of Common Stock of \$179.07 on February 16, 2017 for officer grants. Based on the closing price of Common Stock of \$183.31 on March 1, 2017 for director grants.
- (4) Based on the Monte Carlo value as of February 16, 2017 for performance awards based solely on the TSR metrics of \$175.86 per unit and based on the closing price of Common Stock on February 16, 2017 of \$179.07 for performance awards representing Operating Metrics.
- (5) Reflects quarterly retainers paid on March 1, 2017, for those directors who elected deferred stock units in lieu of cash compensation. See "Director Compensation and Director Stock Ownership Guidelines" for additional information on non-employee director compensation.

## Tax Aspects under the Tax Code

The following is a summary of the principal federal income tax consequences of certain transactions under the Amended 2009 Plan. It does not describe all federal tax consequences under the Amended 2009 Plan, nor does it describe state or local tax consequences.

**Incentive Options.** No taxable income is generally realized by the optionee upon the grant or exercise of an incentive option. If shares of Common Stock issued to an optionee pursuant to the exercise of an incentive option are sold or transferred after two years from the date of grant and after one year from the date of exercise, then (i) upon sale of such shares, any amount realized in excess of the option price (the amount paid for the shares) will be taxed to the optionee as a long-term capital gain, and any loss sustained will be a long-term capital loss, and (ii) the Company will not be entitled to any deduction for federal income tax purposes. The exercise of an incentive option will give rise to an item of tax preference that may result in alternative minimum tax liability for the optionee.

If shares of Common Stock acquired upon the exercise of an incentive option are disposed of prior to the expiration of the two-year and one-year holding periods described above (a “disqualifying disposition”), generally (i) the optionee will realize ordinary income in the year of disposition in an amount equal to the excess (if any) of the fair market value of the shares of Common Stock at exercise (or, if less, the amount realized on a sale of such shares of Common Stock) over the option price thereof, and (ii) we will be entitled to deduct such amount. Special rules will apply where all or a portion of the exercise price of the incentive option is paid by tendering shares of Common Stock.

If an incentive option is exercised at a time when it no longer qualifies for the tax treatment described above, the option is treated as a non-qualified option. Generally, an incentive option will not be eligible for the tax treatment described above if it is exercised more than three months following termination of employment (or one year in the case of termination of employment by reason of disability). In the case of termination of employment by reason of death, the three month rule does not apply.

**Non-Qualified Options.** No income is realized by the optionee at the time the option is granted. Generally (i) at exercise, ordinary income is

realized by the optionee in an amount equal to the difference between the option price and the fair market value of the shares of Common Stock on the date of exercise, and we receive a tax deduction for the same amount, and (ii) at disposition, appreciation or depreciation after the date of exercise is treated as either short-term or long-term capital gain or loss depending on how long the shares of Common Stock have been held. Special rules will apply where all or a portion of the exercise price of the non-qualified option is paid by tendering shares of Common Stock. Upon exercise, the optionee will also be subject to Social Security taxes on the excess of the fair market value over the exercise price of the option.

**Other Awards.** The Company generally will be entitled to a tax deduction in connection with an award under the Amended 2009 Plan in an amount equal to the ordinary income realized by the participant at the time the participant recognizes such income. Participants typically are subject to income tax and recognize such tax at the time that an award is exercised, vests or becomes non-forfeitable, unless the award provides for a further deferral.

**Parachute Payments.** The vesting of any portion of an option or other award that is accelerated due to the occurrence of a change of control may cause a portion of the payments with respect to such accelerated awards to be treated as “parachute payments” as defined in the Tax Code. Any such parachute payments may be non-deductible to the Company, in whole or in part, and may subject the recipient to a non-deductible 20 percent federal excise tax on all or a portion of such payment (in addition to other taxes ordinarily payable).

**Limitation on Deductions.** Under Section 162(m) of the Tax Code, the Company’s deduction for certain awards under the Amended 2009 Plan may be limited to the extent that the Chief Executive Officer or other executive officer whose compensation is required to be reported in the summary compensation table (other than the Principal Financial Officer) receives compensation in excess of \$1 million a year (other than performance based compensation that otherwise meets the requirements of Section 162(m) of the Tax Code). The Amended 2009 Plan is structured to allow certain awards to qualify as performance based compensation.



## Equity Compensation Plan Information

The Company maintains the 2009 Stock Option and Incentive Plan (the “2009 Plan”) and the 1996 Non-Qualified Employee Stock Purchase Plan (the “ESPP”), pursuant to which common stock or other equity awards may be issued or granted to eligible persons. The following table gives information as of December 31 2016 about equity awards under the 2009 Plan, the Company's prior 1994 Stock Option and Incentive Plan (the “1994 Plan”) under which awards were previously made, and the ESPP:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Plan category			
Equity compensation plans approved by security holders (1)	717,741	(2) \$ 119.03	(3) 878,622 (5)
Equity compensation plans not approved by security holders (4)	—	N/A	692,812
Total	717,741	\$ 119.03	(3) 1,571,434

(1) Consists of the 2009 Plan and the 1994 Plan.

(2) Includes 15,541 deferred units granted under the 2009 Plan and the 1994 Plan, which, subject to vesting requirements, will convert in the future to common stock on a one-for-one basis. Also includes the maximum number of shares that may be issued upon settlement of outstanding Performance Awards awarded to officers and maturing on December 31, 2016, 2017 and 2018. Does not include 313,403 shares of restricted stock that are outstanding and that are already reflected in the Company's outstanding shares.

(3) Excludes performance awards and deferred units granted under the 2009 Plan and the 1994 Plan, which, subject to vesting requirements, will convert in the future to common stock on a one-for-one basis.

(4) Consists of the Non-Qualified ESPP.

(5) The number of shares reserved and available for issuance under the 2009 Plan (shown in the table as of December 31, 2016) will be increased from its current number to 8,000,000 if the proposal to amend and restate the 2009 Plan is approved by Stockholders at the 2017 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 approval of adoption of the AvalonBay Communities, Inc. Second Amended and Restated 2009 Equity Incentive Plan unless contrary instructions are set forth on the enclosed proxy card. Under Maryland law, this proposal requires the affirmative vote of a majority of all of the votes cast on the matter. Under NYSE rules, for

purposes of the vote to approve our Second Amended and Restated 2009 Equity Incentive Plan, an abstention constitutes a vote cast but a broker non-vote does not. Accordingly, a broker non-vote will not be counted in determining the outcome of the vote on this matter, while an abstention will have the same effect as a vote against this matter.

The Board of Directors unanimously recommends a vote FOR approval of the AvalonBay Communities, Inc. Second Amended and Restated 2009 Equity Incentive Plan.

Proposal 4: Non Binding, Advisory Vote on Executive Compensation

The Compensation Discussion and Analysis beginning on page 31 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 2016 compensation of our Chief Executive Officer and other officers named in the Summary Compensation Table on page 54 (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 and 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.

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 will 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 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.

Proposal 5: Non-Binding Advisory Vote on Frequency of Advisory Vote on Executive Compensation

The stockholders of the Company are entitled to cast a non-binding advisory vote at least every six years on how frequently the Company will submit a non-binding, advisory proposal to approve the compensation of the Company's Named Executive Officers similar to Proposal 4. The prior vote on this matter was held in 2011 and the Board recommended that the non-binding advisory vote on executive compensation be held every year (rather than every two years or every three years) and the stockholders elected to have such vote annually. Accordingly the Board is again asking

the stockholders to vote on whether the stockholders of the Company shall have an advisory vote on the compensation of the Company's Named Executive Officers as set forth in the Company's proxy statement every year, every two years or every three years. The Company believes that it is appropriate to continue to hold such a vote every year so that the Board receives feedback from the Company's stockholders on executive compensation decisions in a timely manner.

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. Because there are three alternatives, it is possible that none of the three alternatives will receive a majority of votes cast. In that case, the results of the advisory vote regarding frequency of a shareholder advisory vote on executive compensation shall be determined by whichever of the choices — every year, every two years, or every three years —

receives the greatest number of votes cast. Under Maryland law, abstentions and broker non-votes are treated as not voting. Accordingly, an abstention or broker non-vote will have no effect on the outcome of the vote. If no voting specification is made on a properly returned or voted proxy card, the proxies named on the proxy card will vote for a frequency of EVERY YEAR for future advisory votes regarding executive compensation.

The Board of Directors unanimously recommends a vote for a frequency of "Every Year" for the advisory vote on the compensation of 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.

### 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 “Corporate 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 51, 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 eleven directors, ten of whom are candidates for election. As previously announced, Lance R. Primis, a current director, has decided not to stand for re election. The Board of Directors met five times during 2016. The Board of Directors schedules regular executive sessions at each of its meetings during which the Company’s independent directors meet without management participation. During 2016, 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 who were nominees were in attendance at the 2016 Annual Meeting of Stockholders.

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, five new directors have joined the AvalonBay Board on or subsequent to the 2013 Annual Meeting of Stockholders: Glyn Aepfel, Ron Havner, Terry Brown, Richard Lieb and Susan Swanezy (with the last two joining in 2016).

In 2016, the Company's Board of Directors amended the Company's Corporate Governance Guidelines to incorporate new term 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 Chief Executive Officer).



#### 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 and Havner. Following the Annual Meeting the Board expects that Mr. Lieb and Ms. Swanezy will be appointed to the Audit Committee and that Ms. Aeppel will rotate off the Audit Committee. 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 has reported 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 2016. 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. Following the Annual Meeting, Mr. Primis will no longer serve as a director and the Board expects that Mr. Buckelew will be appointed to the Compensation Committee. 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, the Company’s Amended and Restated 2009 Equity Incentive Plan, as currently in effect and as the same may be amended pursuant to a proposal at this Annual Meeting (collectively, the “Equity Incentive Plans”). The Compensation Committee also reviews

employment agreements and arrangements with senior officers. In addition, our Equity 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 Equity 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 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 four times during 2016. 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. Sarles (Chair), Primis, Rummell, and Walter. Following the Annual Meeting, Mr. Primis will no longer serve as a director and the Board expects that Ms. Aeppel will be appointed to the Nominating and Corporate Governance Committee. The Board of Directors has determined that the members of the Nominating and Corporate Governance Committee are “independent” under the rules of the NYSE. The Nominating and Corporate 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 Corporate Governance Committee met four times during 2016. The Board of Directors has adopted a written charter for the Nominating and Corporate Governance Committee. A copy of the Nominating and Corporate 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 Corporate 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 Corporate Governance Committee may employ a

variety of methods for identifying and evaluating nominees for director. The Nominating and Corporate 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 Corporate Governance Committee will consider various potential candidates for director which may come to the Nominating and Corporate 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 Corporate 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 Corporate 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 Nominations for Directors and Proposals for Annual Meetings” for a summary of these requirements. When nominations are properly submitted, the Nominating and Corporate 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 Corporate 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 Corporate 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. Stockholders may also nominate directors in accordance with the proxy access provisions of the Company's Bylaws, as described in "Other

Matters - Stockholder Nominations for Directors and Proposals for the Annual Meeting”.

If you would like the Nominating and Corporate 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.

#### 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. Following the Annual Meeting, the Board expects that Mr. Lieb and Ms. Swanezy will be appointed to the Investment and Finance Committee and Mr. Buckelew will rotate off the Investment and Finance Committee. 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 three times during 2016.

#### 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.

## 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 current and proposed member of these committees satisfies these additional standards.



## Stockholder Engagement

We consider our relationship with our stockholders to be an important part of the Company's success and we value the outlook and opinions of our investors. During 2016 our management reached out to stockholders who collectively held over 60% of the Company's outstanding stock for the purpose of discussing the Company's practices and policies with respect to environmental, social and governance matters ("ESG") and management spoke with stockholders holding 43.5% of outstanding stock regarding such issues, in addition to speaking with Institutional Shareholder Services and Glass Lewis. These discussions addressed governance matters including board composition and refreshment, executive compensation and sustainability efforts. The feedback from stockholders 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 ESG issues that matter most to our stockholders and to enable the Company to address them effectively.

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 Corporate 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 and on the Company’s internal controls over financial reporting. 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 2016 and 2017, the Audit Committee reviewed and discussed the audited financial statements and E&Y’s evaluation of the Company’s internal control over financial reporting with management and the independent auditors. The Audit Committee has discussed with the independent auditors the matters required to be discussed by the Auditing Standards adopted

by the Public Company Accounting Oversight Board (“PCAOB”). 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. 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, 2016, 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 L. Havner, Jr.

## Fiscal 2015 and 2016 Audit Fee Summary

During fiscal years 2015 and 2016, the Company retained its principal independent auditors, Ernst & Young, to provide services in the categories and for the approximate fee amounts shown below:

2015	2016
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Audit fees	\$ 1,716,930	\$ 1,777,045
Audit related fees(1)	\$ 534,084	\$ 561,856
Tax fees(2)	\$ 849,025	\$ 796,260
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.

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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

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.

## 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 2016 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 2016 Achievements

Summary of our Executive Compensation Program

Our Executive Compensation Philosophy

Our Named Executive Officers in 2016

Compensation Overview

Chairman and CEO 2016 Compensation At a Glance

Chairman and CEO 2016 Target Opportunity Mix

Impact of the Company’s Performance on our Named Executive Officer Compensation

Realized Pay for 2016 Performance

Our Compensation Programs Incorporate Best Practices

#### ADDITIONAL DISCUSSION

Consideration of the Results of the 2016 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 2016 Performance and Pay

Annual Cash and Stock Incentive Program

Long Term Incentive Program

2016 Compensation Determinations

2017 Compensation Determinations

INTRODUCTION AND EXECUTIVE SUMMARY:

Summary of 2016 Achievements

Summary: 2016 was a strong year for AvalonBay, in which our operating and development capabilities, together with favorable apartment fundamentals, helped us deliver a sixth consecutive year of healthy operating results. Some highlights for the year include: