AVALONBAY COMMUNITIES INC
Form 10-Q
November 03, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2017

Commission file number 1-12672

AVALONBAY COMMUNITIES, INC.
(Exact name of registrant as specified in its charter)

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

Ballston Tower
671 N. Glebe Rd, Suite 800
Arlington, Virginia 22203
(Address of principal executive offices, including zip code)

(703) 329-6300
(Registrant's telephone number, including area code)

(Former name, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past ninety (90) days.
Yes ý No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ý No o

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

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

Emerging growth company o

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

138,087,866 shares of common stock, par value $0.01 per share, were outstanding as of October 31, 2017.

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AVALONBAY COMMUNITIES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	9/30/2017 (unaudited)	12/31/2016
ASSETS		
Real estate:		
Land and improvements	$4,074,105	$3,941,250
Buildings and improvements	15,180,825	14,314,981
Furniture, fixtures and equipment	592,776	532,994
	19,847,706	18,789,225
Less accumulated depreciation	(4,079,946)	(3,743,632)
Net operating real estate	15,767,760	15,045,593
Construction in progress, including land	1,559,357	1,882,262
Land held for development	85,863	84,293
Real estate assets held for sale, net	33,173	20,846
Total real estate, net	17,446,153	17,032,994
Cash and cash equivalents	36,042	214,994
Cash in escrow	181,069	114,983
Resident security deposits	33,477	32,071
Investments in unconsolidated real estate entities	155,428	175,116
Deferred development costs	48,546	40,179
Prepaid expenses and other assets	277,122	256,934
Total assets	$18,177,837	$17,867,271
LIABILITIES AND EQUITY		
Unsecured notes, net	$5,407,091	$4,463,302
Variable rate unsecured credit facility	242,000	—
Mortgage notes payable, net	1,478,939	2,567,578
Dividends payable	196,079	185,397
Payables for construction	84,338	100,998
Accrued expenses and other liabilities	310,633	274,676
Accrued interest payable	56,837	38,307
Resident security deposits	58,768	57,023
Liabilities related to real estate assets held for sale	600	808
Total liabilities	7,835,285	7,688,089
Commitments and contingencies		
Redeemable noncontrolling interests	8,739	7,766
Equity:		
Preferred stock, $0.01 par value; $25 liquidation preference; 50,000,000 shares authorized at September 30, 2017 and December 31, 2016; zero shares issued and outstanding at September 30, 2017 and December 31, 2016	—	—
	1,381	1,373

Common stock, $0.01 par value; 280,000,000 shares authorized at September 30, 2017 and December 31, 2016; 138,086,893 and 137,330,904 shares issued and outstanding at September 30, 2017 and December 31, 2016, respectively		
Additional paid-in capital	10,228,648	10,105,654
Accumulated earnings less dividends	144,647	94,899
Accumulated other comprehensive loss	(40,863)	(30,510)
Total equity	10,333,813	10,171,416
Total liabilities and equity	$18,177,837	$17,867,271

See accompanying notes to Condensed Consolidated Financial Statements.

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AVALONBAY COMMUNITIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(Dollars in thousands, except per share data)

	For the three months ended		For the nine months ended	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
Revenue:				
Rental and other income	$549,507	$514,891	$1,600,047	$1,522,705
Management, development and other fees	993	1,320	3,290	4,310
Total revenue	550,500	516,211	1,603,337	1,527,015
Expenses:				
Operating expenses, excluding property taxes	129,590	124,789	379,319	360,318
Property taxes	57,698	52,338	164,195	153,512
Interest expense, net	47,741	47,871	147,138	137,862
Loss on extinguishment of debt, net	—	—	24,162	2,461
Depreciation expense	144,990	131,729	427,050	391,414
General and administrative expense	11,655	11,928	38,808	35,343
Expensed acquisition, development and other pursuit costs, net of recoveries	789	3,804	2,087	8,702
Casualty and impairment loss (gain), net	—	—	11,688	(3,935)
Total expenses	392,463	372,459	1,194,447	1,085,677
Income before equity in income of unconsolidated real estate entities, gain on sale of communities and other real estate, and income taxes	158,037	143,752	408,890	441,338
Equity in income (loss) of unconsolidated real estate entities	52,568	(342)	70,386	54,779
Gain on sale of communities	27,738	202,163	159,754	284,582
(Loss) gain on sale of other real estate	(120)	10,778	246	10,921
Income before income taxes	238,223	356,351	639,276	791,620
Income tax expense	24	22	102	95
Net income	238,199	356,329	639,174	791,525
Net loss attributable to noncontrolling interests	49	63	174	242
Net income attributable to common stockholders	$238,248	$356,392	$639,348	$791,767
Other comprehensive income (loss):				
Income (loss) on cash flow hedges	359	719	(15,654)	(73,826)
Cash flow hedge losses reclassified to earnings	1,767	1,748	5,301	4,682
Comprehensive income	$240,374	$358,859	$628,995	$722,623
Earnings per common share - basic:				
Net income attributable to common stockholders	$1.73	$2.60	$4.64	$5.77
Earnings per common share - diluted:				

Net income attributable to common stockholders	$1.72	$2.59	$4.63	$5.76
Dividends per common share	$1.42	$1.35	$4.26	$4.05

See accompanying notes to Condensed Consolidated Financial Statements.

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AVALONBAY COMMUNITIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)
(Dollars in thousands)

	For the nine months ended	
	9/30/2017	9/30/2016
Cash flows from operating activities:		
Net income	$639,174	$791,525
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation expense	427,050	391,414
Amortization of deferred financing costs	5,729	5,664
Amortization of debt premium	(6,254)	(14,146)
Loss on extinguishment of debt, net	24,162	2,461
Amortization of stock-based compensation	13,979	12,103
Equity in (income) loss of, and return on, unconsolidated real estate entities and noncontrolling interests, net of eliminations	(21,627)	11,756
Casualty and impairment loss (gain), net	8,568	(3,935)
Abandonment of development pursuits	388	1,598
Cash flow hedge losses reclassified to earnings	5,301	4,682
Gain on sale of real estate assets	(200,110)	(348,675)
Increase in cash in operating escrows	(16,205)	(4,563)
Increase in resident security deposits, prepaid expenses and other assets	(27,384)	(16,127)
Increase in accrued expenses, other liabilities and accrued interest payable	64,802	26,970
Net cash provided by operating activities	917,573	860,727
Cash flows from investing activities:		
Development/redevelopment of real estate assets including land acquisitions and deferred development costs	(743,275)	(869,342)
Acquisition of real estate assets, including partnership interest	(228,011)	(393,916)
Capital expenditures - existing real estate assets	(41,809)	(43,020)
Capital expenditures - non-real estate assets	(5,308)	(5,513)
Proceeds from sale of real estate, net of selling costs	336,542	404,731
Increase in cash in deposit escrows	(51,479)	(59,263)
Insurance proceeds for property damage claims	13,268	17,196
Mortgage note receivable lending	(14,244)	(11,074)
(Decrease) increase in payables for construction	(16,660)	1,311
Distributions from unconsolidated real estate entities	89,305	94,748
Investments in unconsolidated real estate entities	(14,560)	(2,449)
Net cash used in investing activities	(676,231)	(866,591)
Cash flows from financing activities:		
Issuance of common stock, net	110,117	14,147
Dividends paid	(576,685)	(541,485)
Net borrowings under unsecured credit facility	242,000	170,000
Issuance of mortgage notes payable	185,100	—
Repayment of unsecured notes, including prepayment penalties	—	(250,000)
Repayments of mortgage notes payable, including prepayment penalties	(1,287,636)	(161,095)
Issuance of unsecured notes	948,616	474,838

Payment of deferred financing costs	(11,743)	(10,910)
Payment of capital lease obligation	(18,683)	—
Receipts (payments) for termination of forward interest rate swaps	391	(14,847)
Payments related to tax withholding for share-based compensation	(10,460)	(7,659)
Distributions to DownREIT partnership unitholders	(32)	(30)
Contributions from joint venture and profit-sharing partners	1,038	—
Distributions to joint venture and profit-sharing partners	(317)	(303)
Preferred interest obligation redemption and dividends	(2,000)	(1,400)
Net cash used in financing activities	(420,294)	(328,744)
Net decrease in cash and cash equivalents	(178,952)	(334,608)
Cash and cash equivalents, beginning of period	214,994	400,507
Cash and cash equivalents, end of period	$36,042	$65,899
Cash paid during the period for interest, net of amount capitalized	$124,585	$137,720

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See accompanying notes to Condensed Consolidated Financial Statements.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

Supplemental disclosures of non-cash investing and financing activities:

During the nine months ended September 30, 2017:

- As described in Note 4, "Equity," 201,314 shares of common stock were issued as part of the Company's stock-based compensation plans, of which 128,482 shares related to the conversion of performance awards to restricted shares, and the remaining 72,832 shares valued at $13,079,000 were issued in connection with new stock grants; 2,466 shares valued at $452,000 were issued through the Company's dividend reinvestment plan; 60,165 shares valued at $10,514,000 were withheld to satisfy employees' tax withholding and other liabilities; and 3,045 restricted shares with an aggregate value of $528,000 previously issued in connection with employee compensation were canceled upon forfeiture.

- Common stock dividends declared but not paid totaled $196,079,000.

- The Company recorded an increase of $458,000 in redeemable noncontrolling interest with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units. For further discussion of the nature and valuation of these items, see Note 10, "Fair Value."

- The Company recorded an increase in prepaid expenses and other assets of $1,422,000 and an increase in accrued expenses and other liabilities of $1,998,000, and a corresponding adjustment to other comprehensive income, and reclassified $5,301,000 of cash flow hedge losses from other comprehensive income to interest expense, net, to record the impact of the Company's derivative and hedge accounting activity.

- As discussed in Note 5, "Investments in Real Estate Entities," the Company recognized a non-cash charge of $16,361,000 to write-off the net book value of the fixed assets destroyed by the fire that occurred in February 2017 at the Company's Avalon Maplewood Development Community ("Maplewood"), concurrently recording a receivable for the net third-party insurance recovery, of which the Company has a receivable of $2,965,000 for the remaining portion of expected property damage insurance proceeds not received during the nine months ended September 30, 2017.

During the nine months ended September 30, 2016:

- The Company issued 196,491 shares of common stock as part of the Company's stock-based compensation plans, of which 115,618 shares related to the conversion of performance awards to restricted shares, and the remaining 80,873 shares valued at $13,129,000 were issued in connection with new stock grants; 44,327 shares valued at $3,894,000 were issued in conjunction with the conversion of deferred stock awards; 1,689 shares valued at $304,000 were issued through the Company's dividend reinvestment plan; 53,214 shares valued at $8,316,000 were withheld to satisfy employees' tax withholding and other liabilities; and 3,848 restricted shares with an aggregate value of $627,000 previously issued in connection with employee compensation were canceled upon forfeiture.

- Common stock dividends declared but not paid totaled $185,384,000.

- The Company recorded an increase of $529,000 in redeemable noncontrolling interest with a corresponding decrease to accumulated earnings less dividends to adjust the redemption value associated with the put options held by joint venture partners and DownREIT partnership units.

- The Company recorded a decrease in prepaid expenses and other assets of $2,689,000 and an increase in accrued expenses and other liabilities of $53,591,000, and a corresponding loss to other comprehensive income of $56,280,000, and reclassified $4,682,000 of cash flow hedge losses from other comprehensive income to interest expense, net, to record the impact of the Company's derivative and hedge accounting activity.

- The Company assumed fixed rate indebtedness with a principal amount of $67,904,000 in conjunction with the acquisition of Avalon Hoboken.

- The Company assumed fixed rate indebtedness with a principal amount of $70,507,000 in conjunction with the acquisition of Avalon Columbia Pike.

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AVALONBAY COMMUNITIES, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. Organization, Basis of Presentation and Significant Accounting Policies

Organization and Basis of Presentation

AvalonBay Communities, Inc. (the "Company," which term, unless the context otherwise requires, refers to AvalonBay Communities, Inc. together with its subsidiaries), is a Maryland corporation that has elected to be treated as a real estate investment trust ("REIT") for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"). The Company focuses on the development, redevelopment, acquisition, ownership and operation of multifamily communities primarily in New England, the New York/New Jersey metro area, the Mid-Atlantic, the Pacific Northwest, and Northern and Southern California.

At September 30, 2017, the Company owned or held a direct or indirect ownership interest in 263 operating apartment communities containing 76,076 apartment homes in 11 states and the District of Columbia, of which ten communities containing 3,343 apartment homes were under redevelopment. In addition, the Company owned or held a direct or indirect ownership interest in 23 communities under development that are expected to contain an aggregate of 6,888 apartment homes when completed. The Company also owned or held a direct or indirect ownership interest in land or rights to land on which the Company expects to develop an additional 25 communities that, if developed as expected, will contain an estimated 8,392 apartment homes.

The interim unaudited financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally included in financial statements required by GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited financial statements should be read in conjunction with the financial statements and notes included in the Company's 2016 Annual Report on Form 10-K. The results of operations for the three and nine months ended September 30, 2017 are not necessarily indicative of the operating results for the full year. Management believes the disclosures are adequate to ensure the information presented is not misleading. In the opinion of management, all adjustments and eliminations, consisting only of normal, recurring adjustments necessary for a fair presentation of the financial statements for the interim periods, have been included.

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

Earnings per Common Share

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

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	For the three months ended		For the nine months ended	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
Basic and diluted shares outstanding				
Weighted average common shares - basic	137,715,192	136,997,756	137,457,293	136,901,164
Weighted average DownREIT units outstanding	7,500	7,500	7,500	7,500
Effect of dilutive securities	584,354	499,798	541,399	533,642
Weighted average common shares - diluted	138,307,046	137,505,054	138,006,192	137,442,306
Calculation of Earnings per Share - basic				
Net income attributable to common stockholders	$238,248	$356,392	$639,348	$791,767
Net income allocated to unvested restricted shares	(672)	(872)	(1,794)	(2,036)
Net income attributable to common stockholders, adjusted	$237,576	$355,520	$637,554	$789,731
Weighted average common shares - basic	137,715,192	136,997,756	137,457,293	136,901,164
Earnings per common share - basic	$1.73	$2.60	$4.64	$5.77
Calculation of Earnings per Share - diluted				
Net income attributable to common stockholders	$238,248	$356,392	$639,348	$791,767
Add: noncontrolling interests of DownREIT unitholders in consolidated partnerships	11	10	32	30
Adjusted net income attributable to common stockholders	$238,259	$356,402	$639,380	$791,797
Weighted average common shares - diluted	138,307,046	137,505,054	138,006,192	137,442,306
Earnings per common share - diluted	$1.72	$2.59	$4.63	$5.76

All options to purchase shares of common stock outstanding as of September 30, 2017 and 2016 are included in the computation of diluted earnings per share.

As discussed under "Recently Issued and Adopted Accounting Standards," as of January 1, 2017, the Company adopted the provisions of ASU 2016-09 using the modified retrospective approach to recognize forfeitures as they occur. Prior to the adoption of this standard, the Company was required to estimate the forfeiture of stock options and recognized compensation cost net of the estimated forfeitures. The estimated forfeitures included in compensation cost were adjusted to reflect actual forfeitures at the end of the vesting period. This change in accounting principle had an immaterial effect on the Company's financial position and no adjustment to retained earnings or the Company's diluted shares outstanding, as prescribed under the modified retrospective approach. Refer to "Change in Accounting Principle" for discussion of the impact to the accompanying Condensed Consolidated Statements of Cash Flows.

Derivative Instruments and Hedging Activities

The Company enters into interest rate swap and interest rate cap agreements (collectively, "Hedging Derivatives") for interest rate risk management purposes and in conjunction with certain variable rate secured debt to satisfy lender requirements. The Company does not enter into Hedging Derivative transactions for trading or other speculative purposes. The Company assesses the effectiveness of qualifying cash flow and fair value hedges, both at inception and on an on-going basis. Hedge ineffectiveness is reported as a component of general and administrative expenses. The fair values of Hedging Derivatives that are in an asset position are recorded in prepaid expenses and other assets. The fair value of Hedging Derivatives that are in a liability position are included in accrued expenses and other liabilities. The Company does not present or disclose the fair value of Hedging Derivatives on a net basis. Fair value changes for derivatives that are not in qualifying hedge relationships are reported as a component of interest expense, net. For the Hedging Derivative positions that the Company has determined qualify as effective cash flow hedges, the Company has recorded the effective portion of cumulative changes in the fair value of Hedging Derivatives in other comprehensive income (loss). Amounts recorded in other comprehensive income (loss) will be reclassified into earnings in the periods in which earnings are affected by the hedged cash flow. The effective portion of the change in fair value of the Hedging Derivatives that the Company has determined qualified as effective fair value hedges is reported as an adjustment to the carrying amount of the corresponding debt being hedged. See Note 10, "Fair Value," for further discussion of derivative financial instruments.

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Legal and Other Contingencies

Maplewood Casualty Loss

In February 2017, a fire occurred at the Company's Avalon Maplewood Development Community, located in Maplewood, NJ, which was under construction and not yet occupied. The Company believes that liabilities to third parties resulting from the fire will not be material and will, in any event, be substantially covered by insurance subject to a deductible. The Company has commenced reconstruction of the damaged and destroyed portions of the community. See Note 5, "Investments in Real Estate Entities," for further discussion of the casualty gains and losses associated with the Maplewood casualty loss.

Edgewater Casualty Loss

In January 2015, a fire occurred at the Company's Avalon at Edgewater apartment community located in Edgewater, New Jersey ("Edgewater"). Edgewater consisted of two residential buildings. One building, containing 240 apartment homes, was destroyed. The second building, containing 168 apartment homes, suffered minimal damage and has been repaired.

The Company has established protocols for processing claims from third parties who suffered losses as a result of the fire, and many third parties have contacted the Company's insurance carrier and settled their claims. See Part II, Item 1, "Legal Proceedings," for further discussion of the lawsuits associated with the Edgewater casualty loss.

Three class action lawsuits have been filed against the Company on behalf of occupants of the destroyed building and consolidated in the United States District Court for the District of New Jersey. The Company has agreed with class counsel to the terms of a settlement which provides a claims process (with agreed upon protocols for instructing the adjuster as to how to evaluate claims) and, if needed, an arbitration process to determine damage amounts to be paid to individual claimants covered by the class settlement. In July 2017 the District Court granted final approval of the settlement and all claims were submitted to the independent claims adjuster by September 11, 2017. A total of 66 units (consisting of residents who did not previously settle their claims and who did not opt out of the class settlement) are included in the class action settlement and bound by its terms. However, only 42 units submitted claims. The independent claims adjuster is currently reviewing the claims submitted, which total approximately $6,800,000, and it is expected that awards should be issued within the next two months. A fourth class action, being heard in the same federal court, was filed against the Company on behalf of residents of the second Edgewater building that suffered minimal damage. In addition to the class action lawsuits described above, 19 lawsuits representing approximately 143 individual plaintiffs have been filed and are currently pending in the Superior Court of New Jersey Bergen County - Law Division. All of these state court cases, except for one that was recently filed, have been consolidated by the court. All of these plaintiffs, except for two, formally opted out of the class action settlement described above and have decided to continue their individual actions. The Company believes that it has meritorious defenses to the extent of damages claimed in all of the suits. The 18 consolidated lawsuits currently have a trial date of January 2, 2018. There are also six subrogation lawsuits that have been filed against the Company by insurers of Edgewater residents who obtained renters insurance; it is the Company's position that in the majority of the applicable leases the residents waived subrogation rights. One of these lawsuits has been dismissed on that basis, one is pending in the Superior Court of New Jersey, Bergen County - Law Division and the other four have been consolidated and are currently pending in the United States District Court for the District of New Jersey. The District Court denied the Company's motions seeking dismissal on this basis. The Company will reassess the viability of this defense after conducting additional discovery.

Having settled many third party claims through the insurance claims process, the Company currently believes that any potential remaining liability to third parties (including any potential liability to third parties determined in accordance with the class settlement described above) will not be material to the Company and will in any event be substantially covered by the Company's insurance policies. However, the Company can give no assurances in this regard and continues to evaluate this matter. See Note 5, "Investments in Real Estate Entities," and Part II, Item 1, "Legal Proceedings," for further discussion of the casualty gains and losses and lawsuits associated with the Edgewater casualty loss.

Other Matters

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

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Acquisitions of Investments in Real Estate

The Company accounts for acquisitions of investments in real estate in accordance with the authoritative guidance for the initial measurement, which first requires that the Company determine if the real estate investment is the acquisition of an asset or a business combination. Under either model, the Company must identify and determine the fair value of any assets acquired, liabilities assumed and any noncontrolling interest in the acquiree. Typical assets and liabilities acquired include land, building, furniture, fixtures and equipment, debt and identified intangible assets and liabilities, consisting of the value of above or below market leases and in-place leases. In making estimates of fair values for purposes of allocating purchase price, the Company utilizes various sources, including its own analysis of recently acquired and existing comparable properties in its portfolio and other market data. Consideration for acquisitions is typically in the form of cash unless otherwise disclosed. For a business combination, the Company records the assets acquired and liabilities assumed based on the fair value of each respective item. For an asset acquisition, the allocation of the purchase price is based on the relative fair value of the net assets. The Company expenses all applicable acquisition costs for a business combination and capitalizes all applicable acquisition costs for an asset acquisition. Subsequent to the adoption of ASU 2017-01 on October 1, 2016, the Company expects that acquisitions of individual operating communities will generally be viewed as asset acquisitions.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to amounts in prior years' notes to financial statements to conform to current year presentations as a result of changes in held for sale classification and disposition activity.

Recently Issued Accounting Standards

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU expands hedge accounting for both nonfinancial and financial risk components and aligns the recognition and presentation of the effects of the hedging instrument and the hedged item in the financial statements. This update also simplifies the application of hedge accounting guidance and eases the administrative burden of hedge documentation requirements and assessing hedge effectiveness. The guidance will be effective in the first quarter of 2019, allows for early adoption, and will be applied prospectively at adoption. The Company is assessing whether the new standard will have a material effect on its financial position or results of operations.

In February 2017, the FASB issued ASU 2017-05, Other Income-Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. This ASU clarifies the scope of the nonfinancial asset guidance and the derecognition of all businesses and nonprofit activities (except those related to conveyances of oil and gas mineral rights or contracts with customers). In addition, the amendments eliminate the exception in the financial asset guidance for transfers of investments (including equity method investments) in real estate entities and supersedes the guidance in the Exchanges of a Nonfinancial Asset for a Noncontrolling Ownership Interest. The amendments also provide guidance on the accounting of partial sales of nonfinancial assets and contributions of nonfinancial assets to a joint venture or other noncontrolled investee. The new standard allows for either a retrospective or modified retrospective approach. The guidance will be effective in the first quarter of 2018 and allows for early adoption. The Company is assessing whether the new standard will have a material effect on its financial position or results of operations.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU addresses eight specific cash flow issues including debt prepayment or debt extinguishment costs, proceeds from the settlement of insurance claims, distributions received from equity method investees and separately identifiable cash flows and application of the predominance principle. The new standard requires a retrospective approach. The guidance will be effective in the first quarter of 2018 and allows for early adoption. The Company adopted this guidance as of January 1, 2017. The new standard did not have a material effect on the Company's Condensed Consolidated Statements of Cash Flows.

In March 2016, the FASB issued ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting, which simplifies several aspects of share-based payment transactions, including income tax consequences, classification of awards as equity or liability, statement of cash flows classification and policy election options for forfeitures. Upon adoption of the standard, the Company elected to account for forfeitures when they occur instead of estimating the forfeitures.

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The Company adopted this guidance as of January 1, 2017, using the modified retrospective approach. The new standard did not have a material effect on the Company's financial position, results of operations or earnings per share as discussed in "Earnings per Common Share."

In February 2016, the FASB issued ASU 2016-02, Leases, amending the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The guidance will be effective in the first quarter of 2019 and allows for early adoption. The new standard requires a modified retrospective transition approach for all leases existing at the date of initial application, with an option to use certain transition relief.

ASU 2016-02 provides for transition relief, which includes not electing to (i) reassess whether any expired or existing contract is a lease or contains a lease, (ii) reassess the lease classification of any expired or existing leases and (iii) expense any capitalized initial direct costs for any existing leases. The Company anticipates adoption of the standard to have a material impact on its financial position resulting from the recognition of the right to use asset and corresponding lease obligation for its long-term ground leases, currently accounted for as operating leases. The Company will continue to assess the impact of the new standard.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers and in August 2015, the FASB issued ASU 2015-14, Revenue from Contracts with Customers-Deferral of the Effective Date, which defers the effective date of the new revenue recognition standard until the first quarter of 2018. Subsequently, the FASB has issued multiple ASUs clarifying ASU 2014-09 and ASU 2015-14. Under the new standard, revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable, and collectability is probable. Revenue is generally recognized net of allowances and any taxes collected from customers and subsequently remitted to governmental authorities. The majority of the Company's revenue is derived from rental income, which is scoped out from this standard and will be accounted for under ASU 2016-02, Leases, discussed above. The Company's other revenue streams, which are being evaluated under this ASU, include but are not limited to management fees, other income from residents determined not to be within the scope of ASU 2016-02 and gains and losses from real estate dispositions. The Company will continue to assess the impact of the new standard and will adopt it as of January 1, 2018 using the modified retrospective approach.

Change in Accounting Principle

As of January 1, 2017, the Company adopted ASU 2016-09, Compensation-Stock Compensation: Improvements to Employee Share-Based Payment Accounting, as discussed above. The guidance requires payments related to tax withholding for share-based compensation to be presented separately as a financing activity on the Condensed Consolidated Statements of Cash Flows, and was adopted retrospectively.

The impact of the change in accounting principle for the nine months ended September 30, 2016 on the accompanying Condensed Consolidated Statements of Cash Flows is (i) an increase in the increased accrued expenses, other liabilities and accrued interest payable of $7,659,000, and (ii) an associated increase in net cash provided by operating activities, as well as (iii) an increase in payments related to tax withholding for share-based compensation of $7,659,000, and (iv) an associated increase in net cash used in financing activities. For the nine months ended September 30, 2017, payments related to tax withholding for share-based compensation were $10,460,000.

2. Interest Capitalized

The Company capitalizes interest during the development and redevelopment of real estate assets. Capitalized interest associated with the Company's development or redevelopment activities totaled $16,223,000 and $19,889,000 for the three months ended September 30, 2017 and 2016, respectively, and $51,323,000 and $60,522,000 for the nine months ended September 30, 2017 and 2016, respectively.

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3. Mortgage Notes Payable, Unsecured Notes and Credit Facility

The Company's mortgage notes payable, unsecured notes, variable rate unsecured term loans ("Term Loans") and Credit Facility, as defined below, as of September 30, 2017 and December 31, 2016 are summarized below. The following amounts and discussion do not include the mortgage notes related to the communities classified as held for sale, if any, as of September 30, 2017 and December 31, 2016, as shown in the accompanying Condensed Consolidated Balance Sheets (dollars in thousands) (see Note 6, "Real Estate Disposition Activities").

	9/30/2017	12/31/2016
Fixed rate unsecured notes (1)	$4,900,000	$4,200,000
Term Loans (1)	550,000	300,000
Fixed rate mortgage notes payable - conventional and tax-exempt (2)	617,285	1,668,496
Variable rate mortgage notes payable - conventional and tax-exempt (2)	889,158	908,262
Total mortgage notes payable, unsecured notes and Term Loans	6,956,443	7,076,758
Credit Facility	242,000	—
Total mortgage notes payable, unsecured notes, Term Loans and Credit Facility	$7,198,443	$7,076,758

(1) Balances at September 30, 2017 and December 31, 2016 exclude $9,392 and $8,930, respectively, of debt discount, and $33,517 and $27,768, respectively, of deferred financing costs, as reflected in unsecured notes, net on the accompanying Condensed Consolidated Balance Sheets.

(2) Balances at September 30, 2017 and December 31, 2016 exclude $16,280 of debt discount and $1,866 of debt premium, respectively, and $11,224 and $11,046, respectively, of deferred financing costs, as reflected in mortgage notes payable on the accompanying Condensed Consolidated Balance Sheets.

The following debt activity occurred during the nine months ended September 30, 2017:

- In February 2017, the Company repaid $17,300,000 of variable rate debt secured by Avalon Mountain View at par at its scheduled maturity date.

- In February 2017, the Company entered into a $250,000,000 variable rate unsecured term loan (the "$250 million Term Loan"), of which $100,000,000 matures in February 2022 with stated pricing of LIBOR plus 0.90%, and $150,000,000 matures in February 2024 with stated pricing of LIBOR plus 1.50%. In April 2017, the Company borrowed the $250,000,000 available under the $250 million Term Loan.

- In May 2017, the Company repaid $670,590,000 aggregate principal amount of 6.26% fixed rate secured notes secured by 11 communities, representing the majority of the Fannie Mae pool 2 secured indebtedness assumed as part of the Archstone acquisition, which had a contractual maturity date of November 2017 but opened for prepayment at par on April 30, 2017. In conjunction with the repayment, the Company recognized a gain of $10,839,000, primarily composed of the write-off of unamortized premium. The Company refinanced the secured borrowings for three of these communities for an aggregate principal amount of $185,100,000, with a contractual fixed interest rate of 3.61% and maturity dates of June 2027.

- In May 2017, the Company issued $400,000,000 principal amount of unsecured notes in a public offering under its existing shelf registration statement for net proceeds of approximately $396,016,000. The notes mature in May 2027 and were issued at a 3.35% interest rate.

- In June 2017, the Company issued $300,000,000 principal amount of unsecured notes in a public offering under its existing shelf registration statement for net proceeds of approximately $297,372,000. The notes mature in July 2047 and were issued at a 4.15% interest rate.

In June 2017, the Company repaid $556,313,000 aggregate principal amount of 5.86% fixed rate secured notes secured by 12 wholly-owned operating communities, representing the remaining debt in the Company's Freddie Mac cross-collateralized pool financing originated in 2009, in advance of their May 2019 maturity date. In conjunction with the repayment, the Company recognized a charge of $34,965,000, consisting of prepayment penalties of $33,515,000 and the non-cash write-off of deferred financing costs of $1,450,000.

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At September 30, 2017, the Company has a $1,500,000,000 revolving variable rate unsecured credit facility with a syndicate of banks (the "Credit Facility") which matures in April 2020. The Company may extend the maturity for up to nine months, provided the Company is not in default and upon payment of a $1,500,000 extension fee. The Credit Facility bears interest at varying levels based on the London Interbank Offered Rate ("LIBOR"), rating levels achieved on the Company's unsecured notes and on a maturity schedule selected by the Company. The current stated pricing is LIBOR plus 0.825% per annum (2.06% at September 30, 2017), assuming a one month borrowing rate. The annual facility fee is 0.125% (or approximately $1,875,000 annually based on the $1,500,000,000 facility size and based on the Company's current credit rating). The Company had $242,000,000 outstanding under the Credit Facility as of September 30, 2017 and no borrowings outstanding under the Credit Facility as of December 31, 2016. The Company had $44,282,000 and $46,711,000 outstanding in letters of credit that reduced the borrowing capacity as of September 30, 2017 and December 31, 2016, respectively.

In the aggregate, secured notes payable mature at various dates from November 2017 through July 2066, and are secured by certain apartment communities (with a net carrying value of $2,204,341,000, excluding communities classified as held for sale, as of September 30, 2017). As of September 30, 2017, the Company has guaranteed a $100,000,000 secured note payable held by a wholly-owned subsidiary; such secured note payable is consolidated for financial reporting purposes. The weighted average interest rate of the Company's fixed rate secured notes payable (conventional and tax-exempt) was 4.0% and 4.4% at September 30, 2017 and December 31, 2016, respectively. The weighted average interest rate of the Company's variable rate secured notes payable (conventional and tax-exempt), the Term Loans and its Credit Facility, including the effect of certain financing related fees, was 2.6% and 2.3% at September 30, 2017 and December 31, 2016, respectively.

Scheduled payments and maturities of secured notes payable and unsecured notes outstanding at September 30, 2017 are as follows (dollars in thousands):

Year	Secured notes payments	Secured notes maturities		Unsecured notes maturities	Stated interest rate of unsecured notes	
2017	2,223	21,601	(1)	—	N/A	
2018	7,258	76,667		—	N/A	
2019	4,696	114,723		—	N/A	
2020	3,624	118,729		250,000	6.100	%
				400,000	3.625	%
2021	3,551	27,844		250,000	3.950	%
				300,000	LIBOR + 1.450%	
2022	3,795	—		450,000	2.950	%
				100,000	LIBOR + 0.90%	
2023	4,040	—		350,000	4.200	%
				250,000	2.850	%
2024	4,310	—		300,000	3.500	%
				150,000	LIBOR + 1.50%	
2025	4,585	84,835		525,000	3.450	%
				300,000	3.500	%
2026	4,894	—		475,000	2.950	%
				300,000	2.900	%
Thereafter	213,751	805,317		350,000	3.900	%
				400,000	3.350	%
				300,000	4.150	%
	$256,727	$1,249,716		$5,450,000		

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(1) See Note 11, "Subsequent Events," for further discussion.

The Company was in compliance at September 30, 2017 with customary financial and other covenants under the Credit Facility, the Term Loans and the Company's fixed rate unsecured notes.

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4. Equity

The following summarizes the changes in equity for the nine months ended September 30, 2017 (dollars in thousands):

	Common stock	Additional paid-in capital	Accumulated earnings less dividends	Accumulated other comprehensive loss	Total equity
Balance at December 31, 2016	$ 1,373	$ 10,105,654	$ 94,899	$ (30,510)	$ 10,171,416
Net income attributable to common stockholders	—	—	639,348	—	639,348
Loss on cash flow hedges, net	—	—	—	(15,654)	(15,654)
Cash flow hedge loss reclassified to earnings	—	—	—	5,301	5,301
Change in redemption value of redeemable noncontrolling interest	—	—	(458)	—	(458)
Dividends declared to common stockholders	—	—	(587,819)	—	(587,819)
Issuance of common stock, net of withholdings	8	100,625	(1,323)	—	99,310
Amortization of deferred compensation	—	22,369	—	—	22,369
Balance at September 30, 2017	$ 1,381	$ 10,228,648	$ 144,647	$ (40,863)	$ 10,333,813

As of September 30, 2017 and December 31, 2016, the Company's charter authorized a total of 280,000,000 shares of common stock and 50,000,000 shares of preferred stock for issuance.

During the nine months ended September 30, 2017, the Company:

i. issued 41,123 shares of common stock in connection with stock options exercised;
ii. issued 2,466 common shares through the Company's dividend reinvestment plan;
iii. issued 201,314 common shares in connection with restricted stock grants and the conversion of performance awards to restricted shares;
iv. issued 568,424 shares under CEP IV as discussed below;
v. withheld 60,165 common shares to satisfy employees' tax withholding and other liabilities;
vi. issued 5,872 common shares through the Employee Stock Purchase Plan; and
vii. canceled 3,045 common shares of restricted stock upon forfeiture.

Any deferred compensation related to the Company's stock option, restricted stock and performance award grants during the nine months ended September 30, 2017 is not reflected on the accompanying Condensed Consolidated Balance Sheet as of September 30, 2017, and will not be reflected until recognized as compensation cost.

In December 2015, the Company commenced a fourth continuous equity program ("CEP IV") under which the Company may sell (and/or enter into forward sale agreements for) up to $1,000,000,000 of its common stock from time to time. Actual sales will depend on a variety of factors to be determined by the Company, including market conditions, the trading price of the Company's common stock and determinations by the Company of the appropriate sources of funding for the Company. In conjunction with CEP IV, the Company engaged sales agents who will receive compensation of up to 2.0% of the gross sales price for shares sold. The Company expects that, if entered into, it will physically settle each forward sale agreement on one or more dates specified by the Company on or prior to the maturity date of that particular forward sale agreement, in which case the Company will expect to receive aggregate net cash proceeds at settlement equal to the number of shares underlying the particular forward agreement multiplied by the relevant forward sale price. However, the Company may also elect to cash settle or net share settle a forward sale agreement. In connection with each forward sale agreement, the Company will pay the relevant forward seller, in the form of a reduced initial forward sale price, a commission of up to 2.0% of the sales prices of all borrowed shares of common stock sold. As of September 30, 2017, there are no outstanding forward sales agreements. During the nine months ended September 30, 2017, the Company sold 568,424 shares at an average sales price of $188.39 per share, for net proceeds of $105,478,000. As of September 30, 2017, the Company had $892,915,000 of shares remaining authorized for issuance under this program.

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5. Investments in Real Estate Entities

Investment in Unconsolidated Real Estate Entities

As of September 30, 2017, the Company had investments in five unconsolidated real estate entities with ownership interest percentages ranging from 20.0% to 31.3%, excluding development joint ventures and joint ventures formed with Equity Residential as part of the Archstone acquisition. The Company accounts for its investments in unconsolidated real estate entities under the equity method of accounting. The significant accounting policies of the Company's unconsolidated real estate entities are consistent with those of the Company in all material respects.

During the nine months ended September 30, 2017, AvalonBay Value Added Fund II, L.P. ("Fund II") sold its final three communities:

- Eaves Gaithersburg, located in Gaithersburg, MD, containing 684 apartment homes, was sold for $117,000,000. The Company's share of the gain was $8,697,000.

- Briarwood Apartments, located in Owings Mills, MD, containing 348 apartment homes, was sold for $64,750,000. The Company's share of the gain was $7,873,000.

- Avalon Watchung, located in Watchung, NJ, containing 334 apartment homes, was sold for $90,300,000. The Company's share of the gain was $9,752,000.

In conjunction with the disposition of these communities during the nine months ended September 30, 2017, Fund II repaid the remaining $127,179,000 of secured indebtedness at par in advance of its scheduled maturity date.

The Company has an equity interest of 31.3% in Fund II, and upon achievement of a threshold return, the Company has a right to incentive distributions for its promoted interest based on the current returns earned by Fund II, which currently represents 40.0% of further Fund II distributions, which is in addition to its proportionate share of the remaining 60.0% of distributions. During the three and nine months ended September 30, 2017, the Company recognized income of $19,977,000 and $26,742,000, respectively, for its promoted interest, which is reported as a component of equity in income (loss) of unconsolidated real estate entities on the accompanying Condensed Consolidated Statements of Comprehensive Income.

During the nine months ended September 30, 2017, Archstone Multifamily Partners AC LP (the "U.S. Fund") sold Eaves Sunnyvale, located in Sunnyvale, CA, containing 192 apartment homes, for $107,000,000. The Company's share of the gain was $13,788,000. In conjunction with the disposition of this community, during the nine months ended September 30, 2017, the U.S. Fund repaid $32,542,000 of secured indebtedness in advance of its scheduled maturity date. This resulted in a charge for a prepayment penalty and the write-off of deferred financing costs, of which the Company's portion was $406,000, which is reported as a reduction of equity in income (loss) of unconsolidated real estate entities on the accompanying Condensed Consolidated Statements of Comprehensive Income.

The following is a combined summary of the financial position of the entities accounted for using the equity method discussed above as of the dates presented (dollars in thousands):

	9/30/2017 (unaudited)	12/31/2016 (unaudited)
Assets:		
Real estate, net	$ 699,440	$ 954,493
Other assets	46,168	49,519

Total assets	$ 745,608	$ 1,004,012
Liabilities and partners' capital:		
Mortgage notes payable, net and credit facility	$ 525,170	$ 689,573
Other liabilities	13,446	16,537
Partners' capital	206,992	297,902
Total liabilities and partners' capital	$ 745,608	$ 1,004,012

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The following is a combined summary of the operating results of the entities accounted for using the equity method discussed above for the periods presented (dollars in thousands):

	For the three months ended		For the nine months ended	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
	(unaudited)		(unaudited)	
Rental and other income	$24,568	$30,771	$79,999	$101,534
Operating and other expenses	(9,378)	(12,069)	(30,386)	(39,206)
Gain on sale of communities	107,067	—	136,514	180,256
Interest expense, net (1)	(7,867)	(7,919)	(21,415)	(37,857)
Depreciation expense	(5,938)	(8,081)	(20,059)	(26,027)
Net income	$108,452	$2,702	$144,653	$178,700

(1) Amounts for the three and nine months ended September 30, 2017 include charges for prepayment penalties and write-offs of deferred financing costs of $1,601 and $1,591, respectively. Amount for the nine months ended September 30, 2016 includes charges for prepayment penalties and write-offs of deferred financing costs of $12,321.

In conjunction with the formation of Fund II and North Point II JV, LP ("AVA North Point"), and the acquisition of the U.S. Fund, Multifamily Partners AC JV LP (the "AC JV") and Brandywine Apartments of Maryland, LLC ("Brandywine"), the Company incurred costs in excess of its equity in the underlying net assets of the respective investments. These costs represent $35,752,000 and $38,015,000 at September 30, 2017 and December 31, 2016, respectively, of the Company's respective investment balances. These amounts are being amortized over the lives of the underlying assets as a component of equity (loss) in income of unconsolidated entities on the accompanying Condensed Consolidated Statements of Comprehensive Income.

During the nine months ended September 30, 2017, the Company acquired a parcel of land for an investment of $19,200,000 from Sudbury Development, LLC (“Sudbury”), a joint venture in which the Company has a 60.0% ownership interest. The Company has a continuing involvement with Sudbury, formed to pursue entitlements and conduct pre-development activity for a mixed-used development project, while the venture completes the planned infrastructure and site work.

Investments in Consolidated Real Estate Entities

In September 2017, the Company acquired two consolidated communities:

- The Lodge Denver West, located in Lakewood, CO, contains 252 apartment homes and was acquired for a purchase price of $76,750,000.

- Avalon Dunn Loring, located in Vienna, VA, contains 440 apartment homes and 27,000 square feet of retail space was acquired for $151,000,000.

The Company accounted for these as asset acquisitions and recorded the acquired assets and assumed liabilities, including identifiable intangibles, at their relative fair values based on the purchase price and acquisition costs incurred. The Company used third party pricing or internal models for the values of the land, a valuation model for the values of the buildings and debt, and an internal model to determine the fair values of the remaining real estate assets and in-place leases. Given the heterogeneous nature of multifamily real estate, the fair values for the land, debt, real estate assets and in-place leases incorporated significant unobservable inputs and therefore are considered to be Level

3 prices within the fair value hierarchy.

In conjunction with the development of Avalon Brooklyn Bay, the Company entered into a joint venture agreement to construct a mixed-use building that will contain rental apartments, for-sale residential condominium units and related common elements. The Company owns a 70.0% interest in the venture and will have all of the rights and obligations associated with the rental apartments, and the venture partner owns the remaining 30.0% interest and will have all of the rights and obligations associated with the for-sale residential condominium units. The Company is responsible for the development and construction of the structure, and is providing a loan to the venture partner for the venture partner's share of costs. As of September 30, 2017, the Company has a receivable from the venture partner in the form of a variable rate mortgage note, secured by the for-sale residential condominium units under construction, in the amount of $41,485,000 for outstanding principal and interest, reported as a component of prepaid expenses and other assets on the accompanying Condensed Consolidated Balance Sheets. The Company recognizes interest income on the accrual basis. The loan will be repaid by the venture partner with the proceeds the partner receives from the sales of the

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residential condominium units which are expected to occur during 2018. The venture is considered a VIE, and the Company consolidates its interest in the rental apartments and common areas.

Expensed Acquisition, Development and Other Pursuit Costs and Impairment of Long-Lived Assets

The Company capitalizes pre-development costs incurred in pursuit of new development opportunities for which the Company currently believes future development is probable ("Development Rights"). Future development of these Development Rights is dependent upon various factors, including zoning and regulatory approval, rental market conditions, construction costs and the availability of capital. Initial pre-development costs incurred for pursuits for which future development is not yet considered probable are expensed as incurred. In addition, if the status of a Development Right changes, making future development by the Company no longer probable, any capitalized pre-development costs are expensed. The Company expensed costs related to the abandonment of Development Rights, as well as costs incurred in pursuing the acquisition or disposition of assets for which such acquisition and disposition activity did not occur, in the amounts of $789,000 and $2,170,000 for the three months ended September 30, 2017 and 2016, respectively, and $2,087,000 and $3,522,000 for the nine months ended September 30, 2017 and 2016, respectively. These costs are included in expensed acquisition, development and other pursuit costs, net of recoveries on the accompanying Condensed Consolidated Statements of Comprehensive Income. Abandoned pursuit costs can vary greatly, and the costs incurred in any given period may be significantly different in future periods.

The Company evaluates its real estate and other long-lived assets for impairment when potential indicators of impairment exist. Such assets are stated at cost, less accumulated depreciation and amortization, unless the carrying amount of the asset is not recoverable. If events or circumstances indicate that the carrying amount of a property or long-lived asset may not be recoverable, the Company assesses its recoverability by comparing the carrying amount of the property or long-lived asset to its estimated undiscounted future cash flows. If the carrying amount exceeds the aggregate undiscounted future cash flows, the Company recognizes an impairment loss to the extent the carrying amount exceeds the estimated fair value of the property or long-lived asset. Based on periodic tests of recoverability of long-lived assets for the three and nine months ended September 30, 2017 and 2016, the Company did not recognize any impairment losses for wholly-owned operating real estate assets.

The Company assesses its portfolio of land held for both development and investment for impairment if the intent of the Company changes with respect to either the development of, or the expected holding period for, the land. During the nine months ended September 30, 2017, the Company recognized an impairment charge of $9,350,000 relating to a land parcel which the Company had acquired for development in 2004, which was sold during the three months ended September 30, 2017. During the nine months ended September 30, 2016, the Company recognized $10,500,000 of aggregate impairment charges related to three ancillary land parcels. These charges were determined as the excess of the Company's carrying basis over the expected sales price for each parcel, and these charges are included in casualty and impairment (gain) loss, net on the accompanying Condensed Consolidated Statements of Comprehensive Income.

The Company evaluates its unconsolidated investments for other than temporary impairment, considering both the extent and amount by which the carrying value of the investment exceeds the fair value, and the Company's intent and ability to hold the investment to recover its carrying value. The Company also evaluates its proportionate share of any impairment of assets held by unconsolidated investments. There were no other than temporary impairment losses recognized by any of the Company's investments in unconsolidated real estate entities during the three and nine months ended September 30, 2017 and 2016.

Casualty Gains and Losses

During the nine months ended September 30, 2017, the Company recorded a casualty loss of $19,481,000 composed of a charge of $16,361,000 to write-off the net book value of the fixed assets destroyed in the Maplewood casualty loss, and an accrual for demolition and additional incident expenses of $3,120,000. The casualty loss was partially offset by $17,143,000 of expected third-party property damage insurance proceeds. The net casualty loss of $2,338,000 for the nine months ended September 30, 2017 is included in casualty and impairment (gain) loss, net on the accompanying Condensed Consolidated Statements of Comprehensive Income. See discussion in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies, Legal and Other Contingencies," for further discussion of the Maplewood casualty loss.

During the three months ended September 30, 2017, the Company reached a final insurance settlement for the property damage and lost income for the Maplewood casualty loss of $19,696,000, after self-insurance and deductibles. Of this amount, $7,076,000 and $13,268,000 were received during the three and nine months ended September 30, 2017, respectively. As part of the settlement, the Company recognized $3,495,000 as business interruption insurance proceeds, which is recorded as a component of rental and other income on the accompanying Condensed Consolidated Statements of Comprehensive Income.

During the nine months ended September 30, 2016, the Company reached a final insurance settlement for the property damage and lost income for the Edgewater casualty loss. In 2015 and 2016, the Company received aggregate insurance proceeds for Edgewater of $73,150,000, after self-insurance and deductibles. During the nine months ended September 30, 2016, the Company received the final $29,008,000 of insurance proceeds, of which $8,702,000 was recognized as casualty and impairment (gain) loss, net on the accompanying Condensed Consolidated Statements of Comprehensive Income, and $20,306,000 as business interruption insurance proceeds, which is recorded as a component of rental and other income on the accompanying Condensed Consolidated Statements of Comprehensive Income. See discussion in Note 1, "Organization, Basis of Presentation and Significant Accounting Policies, Legal and Other Contingencies," and Part II, Item 1, "Legal Proceedings," for further discussion of the Edgewater casualty loss.

During the nine months ended September 30, 2016, the Company recorded a net casualty gain of $5,732,000 related to the severe winter storms that occurred in the Company’s Northeast markets in 2015, which is comprised of $8,493,000 in third-party insurance proceeds received, partially offset by incremental costs of $2,761,000. These amounts are included in casualty and impairment (gain) loss, net on the accompanying Condensed Consolidated Statements of Comprehensive Income.

6. Real Estate Disposition Activities

The following real estate sales occurred during the nine months ended September 30, 2017:

- In January 2017, the Company sold two undeveloped land parcels, located in Newcastle, WA, that are adjacent to one of the Company's Development Communities, and 421-a tax certificates, representing the right to qualify for certain property tax exemptions in New York City, for an aggregate sales price of $22,286,000. The Company's gain on the dispositions was $366,000, reported in (loss) gain on sale of other real estate on the accompanying Condensed Consolidated Statements of Comprehensive Income.

- In March 2017, the Company sold Avalon Pines, located in Coram, NY, containing 450 homes, and the adjacent golf course for $140,000,000. The Company's gain on the disposition was $87,949,000, reported in gain on sale of communities on the accompanying Condensed Consolidated Statements of Comprehensive Income.

- In June 2017, the Company sold AVA University District, located in Seattle, WA, containing 283 homes, for $112,500,000. The Company's gain on the disposition was $42,596,000, reported in gain on sale of communities on the accompanying Condensed Consolidated Statements of Comprehensive Income.

- In July 2017, the Company sold an undeveloped land parcel, located in Vienna, VA, for $15,500,000. The Company recognized a loss on the disposition of $120,000, reported in (loss) gain on sale of other real estate on the accompanying Condensed Consolidated Statements of Comprehensive Income.

- In September 2017, the Company sold Avalon Danbury, located in Danbury, CT, containing 234 homes, for $52,000,000. The Company's gain on the disposition was $27,829,000, reported in gain on sale of communities on the accompanying Condensed Consolidated Statements of Comprehensive Income. The sale of Avalon Danbury is expected to be part of a tax deferred exchange under which the Company has restricted the cash proceeds in an escrow account, classified as cash in escrow on the accompanying Condensed Consolidated Balance Sheet.

At September 30, 2017, the Company had one community that qualified as held for sale.

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7. Segment Reporting

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

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

The Company's segment disclosures present the measure(s) used by the chief operating decision maker for purposes of assessing each segment's performance. The Company's chief operating decision maker is comprised of several members of its executive management team who use net operating income ("NOI") as the primary financial measure for Established Communities and Other Stabilized Communities. NOI is defined by the Company as total property revenue less direct property operating expenses (including property taxes), and excluding corporate-level income (including management, development and other fees), corporate-level property management and other indirect operating expenses, investments and investment management expenses, expensed acquisition, development and other pursuit costs, net of recoveries, interest expense, net, loss on extinguishment of debt, net, general and administrative expense, equity in (income) loss of unconsolidated real estate entities, depreciation expense, corporate income tax expense, casualty and impairment loss (gain), net, (loss) gain on sale of real estate assets and net operating income from real estate assets sold or held for sale. Although the Company considers NOI a useful measure of a community's or communities' operating performance, NOI should not be considered an alternative to net income or net cash flow from operating activities, as determined in accordance with GAAP. NOI excludes a number of income and expense categories as detailed in the reconciliation of NOI to net income.

A reconciliation of NOI to net income for the three and nine months ended September 30, 2017 and 2016 is as follows (dollars in thousands):

	For the three months ended		For the nine months ended	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
Net income	$238,199	$356,329	$639,174	$791,525
Indirect operating expenses, net of corporate income	15,752	14,946	48,472	46,960
Investments and investment management expense	1,501	1,205	4,277	3,545
Expensed acquisition, development and other pursuit costs, net of recoveries	789	3,804	2,087	8,702
Interest expense, net	47,741	47,871	147,138	137,862
Loss on extinguishment of debt, net	—	—	24,162	2,461
General and administrative expense	11,655	11,928	38,808	35,343
Equity in (income) loss of unconsolidated real estate entities	(52,568)	342	(70,386)	(54,779)
Depreciation expense	144,990	131,729	427,050	391,414
Income tax expense	24	22	102	95
Casualty and impairment loss (gain), net	—	—	11,688	(3,935)
Gain on sale of real estate	(27,618)	(212,941)	(160,000)	(295,503)
Net operating income from real estate assets sold or held for sale	(1,874)	(10,039)	(9,633)	(33,175)
Net operating income	$378,591	$345,196	$1,102,939	$1,030,515

The following is a summary of NOI from real estate assets sold or held for sale for the periods presented (dollars in thousands):

	For the three months ended		For the nine months ended	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
Rental income from real estate assets sold or held for sale	$3,044	$16,388	$15,582	$53,582
Operating expenses from real estate assets sold or held for sale	(1,170)	(6,349)	(5,949)	(20,407)
Net operating income from real estate assets sold or held for sale	$1,874	$10,039	$9,633	$33,175

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

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The following table provides details of the Company's segment information as of the dates specified (dollars in thousands). The segments are classified based on the individual community's status at the beginning of the given calendar year. Therefore, each year the composition of communities within each business segment is adjusted. Accordingly, the amounts between years are not directly comparable. Segment information for total revenue and NOI for the three and nine months ended September 30, 2017 and 2016 has been adjusted to exclude the real estate assets that were sold from January 1, 2016 through September 30, 2017, or otherwise qualify as held for sale as of September 30, 2017, as described in Note 6, "Real Estate Disposition Activities." Segment information for gross real estate as of September 30, 2017 and 2016 has not been adjusted to exclude real estate assets that were sold or otherwise qualified as held for sale subsequent to the respective balance sheet dates.

	For the three months ended				For the nine months ended				
	Total revenue	NOI	% NOI change from prior year		Total revenue	NOI	% NOI change from prior year		Gross real estate (1)
For the period ended September 30, 2017									
Established									
New England	$58,941	$38,055	3.0	%	$174,348	$111,931	2.6	%	$1,846,937
Metro NY/NJ	91,699	61,932	1.6	%	271,262	184,434	2.0	%	2,969,873
Mid-Atlantic	56,321	38,782	1.8	%	168,098	116,272	1.8	%	2,069,486
Pacific Northwest	21,528	15,687	5.1	%	62,773	45,519	5.4	%	734,407
Northern California	84,634	64,557	1.3	%	251,985	192,861	1.9	%	2,824,608
Southern California	85,226	60,024	2.3	%	252,229	180,383	4.3	%	3,013,215
Total Established	398,349	279,037	2.1	%	1,180,695	831,400	2.7	%	13,458,526
Other Stabilized (2)	71,150	49,177	N/A		208,729	146,242	N/A		3,086,022
Development / Redevelopment	76,964	50,377	N/A		195,041	125,297	N/A		4,766,894
Land Held for Development	N/A	N/A	N/A		N/A	N/A	N/A		85,863
Non-allocated (3)	993	N/A	N/A		3,290	N/A	N/A		95,621
Total	$547,456	$378,591	9.7	%	$1,587,755	$1,102,939	7.0	%	$21,492,926
For the period ended September 30, 2016									
Established									
New England	$59,321	$37,657	0.6	%	$174,731	$111,497	5.9	%	$1,845,679
Metro NY/NJ	91,181	61,905	1.2	%	268,781	183,155	1.8	%	3,206,696
Mid-Atlantic	58,928	40,029	0.4	%	174,922	120,623	1.4	%	2,335,116
Pacific Northwest	18,627	13,541	12.1	%	54,085	39,165	8.1	%	736,377
Northern California	80,783	61,560	5.9	%	238,867	182,658	8.0	%	2,657,020
Southern California	73,570	52,527	11.1	%	217,686	155,242	10.3	%	2,667,875
Total Established	382,410	267,219	4.4	%	1,129,072	792,340	4.4	%	13,448,763
Other Stabilized (4)	52,971	34,653	N/A		175,186	125,027	N/A		2,325,539
Development / Redevelopment	63,122	43,324	N/A		164,865	113,148	N/A		3,994,361
Land Held for Development	N/A	N/A	N/A		N/A	N/A	N/A		519,626
Non-allocated (3)	1,320	N/A	N/A		4,310	N/A	N/A		74,374
Total	$499,823	$345,196	20.2	%	$1,473,433	$1,030,515	37.3	%	$20,362,663

(1) Does not include gross real estate assets held for sale of $53,723 and $135,054 as of September 30, 2017 and 2016, respectively.

(2) Total revenue and NOI for the three and nine months ended September 30, 2017 includes $3,495 in business interruption insurance proceeds related to the Maplewood casualty loss.

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

(4) Total revenue and NOI for the nine months ended September 30, 2016 includes $20,306 in business interruption insurance proceeds related to the Edgewater casualty loss.

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8. Stock-Based Compensation Plans

As part of its long term compensation plans, the Company has granted stock options, performance awards and restricted stock. Detail of the outstanding awards and activity is presented below.

Information with respect to stock options granted under the Company's 1994 Stock Option and Incentive Plan (the "1994 Plan") and its Second Amended and Restated 2009 Equity Incentive Plan (the "2009 Plan") for the nine months ended September 30, 2017, is as follows:

	2009 Plan shares	Weighted average exercise price per share	1994 Plan shares	Weighted average exercise price per share
Options Outstanding, December 31, 2016	177,333	$ 124.25	22,541	$ 77.91
Exercised	(27,360)	110.47	(13,763)	96.61
Forfeited	—	—	—	—
Options Outstanding, September 30, 2017 (1)	149,973	$ 126.77	8,778	$ 48.60

(1) All options outstanding are exercisable as of September 30, 2017.

Information with respect to performance awards granted is as follows:

	Performance awards	Weighted average grant date fair value per award
Outstanding at December 31, 2016	251,163	$ 136.74
Granted (1)	81,708	176.59
Change in awards based on performance (2)	49,323	119.26
Converted to restricted stock	(128,482)	118.75
Forfeited	(1,942)	159.39
Outstanding at September 30, 2017	251,770	$ 155.25

(1) The amount of restricted stock that ultimately may be earned is based on the total shareholder return metrics related to the Company's common stock for 49,374 performance awards and financial metrics related to operating performance and leverage metrics of the Company for 32,334 performance awards.

(2) Represents the change in the number of performance awards earned based on actual performance achievement for the performance period.

The Company used a Monte Carlo model to assess the compensation cost associated with the portion of the performance awards granted in 2017 for which achievement will be determined by using total shareholder return measures. The assumptions used are as follows:

	2017
Dividend yield	3.2%
Estimated volatility over the life of the plan (1)	15.3% - 19.7%
Risk free rate	0.69% - 1.61%
Estimated performance award value based on total shareholder return measure	$175.86

(1) Estimated volatility over the life of the plan is using 50% historical volatility and 50% implied volatility.

For the portion of the performance awards granted in 2017, for which achievement will be determined by using financial metrics, the compensation cost was based on the grant date fair value of $179.07, and the Company's estimate of corporate achievement for the financial metrics.

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Information with respect to restricted stock granted is as follows:

	Restricted stock shares	Restricted stock shares weighted average grant date fair value per share	Restricted stock shares converted from performance awards
Outstanding at December 31, 2016	136,705	$ 158.51	176,698
Granted - restricted stock shares	72,832	179.58	128,482
Vested - restricted stock shares	(72,345)	153.35	(70,595)
Forfeited	(2,388)	173.29	(657)
Outstanding at September 30, 2017	134,804	$ 172.39	233,928

Total employee stock-based compensation cost recognized in income was $13,245,000 and $11,555,000 for the nine months ended September 30, 2017 and 2016, respectively, and total capitalized stock-based compensation cost was $7,644,000 and $7,790,000 for the nine months ended September 30, 2017 and 2016, respectively. At September 30, 2017, there was a total unrecognized compensation cost of $31,278,000 for unvested restricted stock and performance awards, which does not include forfeitures, and is expected to be recognized over a weighted average period of 3.7 years.

9. Related Party Arrangements

Unconsolidated Entities

The Company manages unconsolidated real estate entities for which it receives asset management, property management, development and redevelopment fee revenue. From these entities, the Company earned fees of $993,000 and $1,320,000 during the three months ended September 30, 2017 and 2016, respectively, and $3,290,000 and $4,310,000 for the nine months ended September 30, 2017 and 2016, respectively. These fees are recognized on an accrual basis when earned in accordance with the accounting guidance applicable to revenue recognition, and are included in management, development and other fees on the accompanying Condensed Consolidated Statements of Comprehensive Income. In addition, the Company has outstanding receivables associated with its property and construction management role of $2,663,000 and $5,239,000 as of September 30, 2017 and December 31, 2016, respectively.

Director Compensation

The Company recorded non-employee director compensation expense relating to restricted stock grants and deferred stock awards in the amount of $368,000 and $260,000 in the three months ended September 30, 2017 and 2016, respectively, and $1,127,000 and $877,000 in the nine months ended September 30, 2017 and 2016, respectively, as a component of general and administrative expense. Deferred compensation relating to these restricted stock grants and deferred stock awards to non-employee directors was $782,000 and $531,000 on September 30, 2017 and December 31, 2016, respectively.

10. Fair Value

Financial Instruments Carried at Fair Value

Derivative Financial Instruments

Currently, the Company uses interest rate swap and interest rate cap agreements to manage its interest rate risk. These instruments are carried at fair value in the Company's financial statements. In adjusting the fair value of its derivative contracts for the effect of counterparty nonperformance risk, the Company has considered the impact of its net position with a given counterparty, as well as any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. The Company minimizes its credit risk on these transactions by dealing with major, creditworthy financial institutions which have an A or better credit rating by the Standard & Poor's Ratings Group. As part of its on-going control procedures, the Company monitors the credit ratings of counterparties and the exposure of the Company to any single entity, thus reducing credit risk concentration. The Company believes the likelihood of realizing losses from counterparty nonperformance is remote. Although the Company has determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, such as interest rate, term to maturity and volatility, the credit valuation adjustments associated with its derivatives use Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. As of September 30, 2017, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and has determined it is not significant. As a result, the Company has determined that its derivative valuations are classified in Level 2 of the fair value hierarchy.

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The Company recognized a gain of $753,000 for hedge ineffectiveness for the nine months ended September 30, 2017, included as a component of interest expense, net on the Condensed Consolidated Statements of Comprehensive Income. Hedge ineffectiveness did not have a material impact on earnings of the Company for any prior period.

The following table summarizes the consolidated derivative positions at September 30, 2017 (dollars in thousands):

	Non-designated Hedges Interest Rate Caps	Cash Flow Hedges Interest Rate Caps	Cash Flow Hedges Interest Rate Swaps
Notional balance	$ 690,053	$ 35,256	$ 300,000
Weighted average interest rate (1)	2.7 %	3.6 %	N/A
Weighted average swapped/capped interest rate	6.1 %	5.9 %	2.4 %
Earliest maturity date	Jan 2018	Apr 2019	May 2018
Latest maturity date	Sep 2022	Apr 2019	May 2018

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

During the three and nine months ended September 30, 2017, the Company entered into $50,000,000 and $300,000,000, respectively, of forward interest rate swap agreements executed to reduce the impact of variability in interest rates on a portion of the Company's expected debt issuance activity in 2018. As of September 30, 2017, the Company has $300,000,000 in aggregate outstanding forward interest rate swap agreements. At maturity of the remaining outstanding swap agreements, the Company expects to cash settle the contracts and either pay or receive cash for the then current fair value. Assuming that the Company issues the debt as expected, the hedging impact from these positions will then be recognized over the life of the issued debt as a yield adjustment.

As described in this paragraph, during the nine months ended September 30, 2017, the Company settled an aggregate of $800,000,000 of forward interest rate swap agreements, receiving net aggregate payments of $391,000. In conjunction with the refinancing of three secured borrowings in May 2017, in April 2017, the Company settled $185,100,000 of forward interest rate swap agreements designated as cash flow hedges of the interest rate variability of the secured notes, making a payment of $2,326,000. In conjunction with the Company's May 2017 unsecured note issuance, the Company settled $400,000,000 of forward interest rate swap agreements designated as cash flow hedges of the interest rate variability on the forecasted issuance of the unsecured notes, making a payment of $1,361,000. In conjunction with the Company's June 2017 unsecured note issuance, the Company settled $214,900,000 of forward interest rate swap agreements designated as cash flow hedges of the interest rate variability on the forecasted issuance of the unsecured notes, receiving a payment of $4,078,000. The Company has deferred $376,000, the effective portion of the fair value change of these swaps, in accumulated other comprehensive loss on the accompanying Condensed Consolidated Balance Sheets, and will recognize the impact as a component of interest expense, net, over the 10 year period of interest payments hedged.

Excluding derivatives executed to hedge secured debt on communities classified as held for sale, the Company had seven derivatives designated as cash flow hedges and 14 derivatives not designated as hedges at September 30, 2017. Fair value changes for derivatives not in qualifying hedge relationships for the three and nine months ended September 30, 2017 and 2016 were not material. During the nine months ended September 30, 2017, the Company deferred $15,654,000 of losses for cash flow hedges reported as a component of other comprehensive loss.

The following table summarizes the deferred losses reclassified from accumulated other comprehensive income as a component of interest expense, net (dollars in thousands):

	For the three months ended		For the nine months ended	
	9/30/2017	9/30/2016	9/30/2017	9/30/2016
Cash flow hedge losses reclassified to earnings	$1,767	$ 1,748	$5,301	$ 4,682

The Company anticipates reclassifying approximately $7,012,000 of hedging losses from accumulated other comprehensive loss into earnings within the next 12 months to offset the variability of cash flows of the hedged item during this period. The Company did not have any derivatives designated as fair value hedges as of September 30, 2017 and 2016.

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Redeemable Noncontrolling Interests

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

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

Financial Instruments Not Carried at Fair Value

Cash and Cash Equivalents

Cash and cash equivalent balances are held with various financial institutions within principal protected accounts. The Company monitors credit ratings of these financial institutions and the concentration of cash and cash equivalent balances with any one financial institution and believes the likelihood of realizing material losses related to cash and cash equivalent balances is remote. Cash and cash equivalents are carried at their face amounts, which reasonably approximate their fair values and are Level 1 within the fair value hierarchy.

Other Financial Instruments

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

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

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

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

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Description	Total Fair Value 9/30/2017	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-Designated Hedges				
Interest Rate Caps	$14	$—	$14	$—
Cash Flow Hedges				
Interest Rate Swaps - Assets	1,422	—	1,422	—
Interest Rate Swaps - Liabilities	(1,998)	—	(1,998)	—
Puts	(5,928)	—	—	(5,928)
DownREIT units	(1,338)	(1,338)	—	—
Indebtedness				
Unsecured notes	(4,999,985)	(4,999,985)	—	—
Secured notes payable and unsecured term loan	(2,098,870)	—	(2,098,870)	—
Total	$(7,106,683)	$(5,001,323)	$(2,099,432)	$(5,928)

Description	Total Fair Value 12/31/2016	Quoted Prices in Active Markets for Identical Asset (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Non-Designated Hedges				
Interest Rate Caps	$79	$—	$79	$—
Cash Flow Hedges				
Interest Rate Caps	2	—	2	