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| **Company: AvalonBay Communities Inc** | **Ticker: AVB Current Price: $ 173.30** | **Industry: Financial Sub Industry: Apartment REITs** |
| Target Price: $ 200.14Stop Loss: $154.2752 Week High/ Low:$186.89 / $ 156.10 | TTM P/FFO: 22.07Forward P/FFO: 22.3FFO/share: $7.84 | Beta: .82Credit Rating: A- (S&P)Rating Outlook: Stable | Market Cap: $23.7bAvg Vol ( 12 M): 750,782Dividend Yield:2.87 % |

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| **Company Background:**  |
| AvalonBay Communities, Inc. is a real estate investment trust (REIT) focusing on the management and development of residential apartment complexes. The communities and luxury properties are located in 11 states and the District of Columbia. As of Dec. 2014, AvalonBay had an interest in 277 communities with a total of 82,487 units, including 26 communities under construction, and three communities under reconstruction. --Valueline |
| **Industry Outlook:**  |
| Many REITs reported average occupancy figures of over 95% for the first half of 2015, allowing a push on new rents to higher levels. Rental rate increases have been burdened in recent periods with new development supply entering the market. New development keeps going up so this fact could help keep rental rates from significantly increasing despite the change in market trends in their preference for renting especially amongst young adults. This increased supply may increase competition as well amongst apartment owners. Longer term, residential REITs largely have a positive outlook. As the economy continues to improve and employment stays low residential apartment will have a positive correlation. For the year 2014, the S&P Residential REITs Index was up35.3% compared to a 10.9% gain for the S&P 1500 Index. –SP Net Advantage |
| **Investment Thesis:**  |
| The buy opinion for AvalonBay is based on extremely strong balance sheet compared to industry, confidence in management and positive outlook for industry. Essentially investing in AVB stems from this positive outlook in the prevalence of renting in the US. If this trend proves to be ongoing then AVB will be uniquely situated to gain from that environment. Despite an expanding supply rental rates are on track to improve 5% in the year. Currently AVB has 26 communities under construction and has development rights already established that could add 10,000 units to the portfolio, half of which is in the Metro NY area a historically strong real estate market. Their financial leverage allows them to be more flexible in the short-term than competitors, which is favorable given the unknowns in the capital markets.  |
| **Investment Risks:**  |
| * Increases in Interest rates sometimes have a reactionary sell off of REITs
* Lack of rental interest
* Worsening economy and employment figures leading to dampening demand
* Over concentration in NY area leading to increased exposure to local rental market
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| **3-5 take away from last quarter investor call transcript:**  |
| * Solid numbers in third quarter including great topline growth. Double digit growth in core FFO for the 4th year out of the last 5
* Current prices for apartments may be at a premium, while they don’t use this has a significant source of revenue they do use this to fund development projects
* Southern California and mid-Atlantic are still in early stages of their recovery and or expansion cycle
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| **Financial Performance:** | **Discounted Cash Flow**  |
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|  | 2010-15 | 2016-20 |
| Avg Revenue growth  | 14% | 5% |
| Avg EBITDA Margin  | 60% | 65% |
| Avg Net Income Margin  | 32% | 36% |
| Avg Debt/Equity  | 64% | 64% |
| Avg FCF / Margin  | -12% | 51% |
| Cost of Debt  | 2% |
| Tax Rate | n/a |
| Cost of Equity  | 6.43% |
| WACC | 6.5% |
| Perpetuity growth rate  | 4.4% |

**Analyst Opinion**

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| --- | --- | --- |
| Buy:38 | Hold: 11 | Sell:1 |
|  | Rating  | Target  |
| S&P Net Advantage  | N/A | N/A |
| Morning Star | \*\* | $140 |
| Value Line  | Timeliness:2 | $185-250 |

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| **Relative Valuation** | **Total Return** |
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|  | AVB | Industry | S&P 500 |
| YTD | 8.86 | 8.65 | 2.70 |
| 2014 | 13.19 | 11.56 | 13.69 |
| Last 3 Years  | 44.99 | 50.43 | 17.14 |
| Last 5 Years  | 86.55 | 87.68 | 13.69 |

**CSR Characteristics**

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|  | AVB | Industry  |
| Business Ethics Policy | 1 | 1 |
| Governance Disclosure Score | 57.14 | 53.79 |
| ESG Disclosure:  | 32.64 | 18.13 |
| Social Disclosure Score | 43.86 | 13.82 |
| Environmental Disclosure Score |  |  |
| Human Rights & Equal Opportunity | 1 | 1 |

**Prepared by Edward Laclaustra (Nov 12, 2015) using Bloomberg, Value Line, S&P Net Advantage, Morning Star, Yahoo Finance** |