



CREATING A BETTER WAY TO LIVE

2018 CORPORATE RESPONSIBILITY REPORT



Governance and Ethics

AvalonBay is committed to sound corporate governance practices and the highest ethical standards. Our Board of Directors includes 10 members, 9 of whom are non-employee directors. The company has adopted a variety of best practices in corporate governance, including the following:

- All directors are independent, other than the CEO
- Annual election of directors and majority voting in uncontested elections
- Policy on recoupment of incentive compensation (Clawback Policy)
- Strong lead independent director position
- Director and executive officer stock ownership guidelines
- Director and officer prohibition against hedging, pledging or borrowing against company stock
- Policy regarding stockholder approval of future severance agreements
- Executive sessions of independent directors at each regularly scheduled board meeting
- Regular succession planning
- No former employees serve as directors
- No shareholder rights plan and policy regarding adoption of future plans
- Internal audit group reports directly to the Audit Committee of the Board of Directors
- Formal conflict of interest and insider trading policies for all associates
- Code of conduct contains an anti-fraud policy that all directors and associates sign and attest to annually
- As a publicly traded company, our financial statements undergo independent quarterly reviews and annual external audits prior to filing with the SEC
- Annual review of enterprise and fraud risks presented to and discussed with the Audit Committee and/or the full Board
- Policy on political contributions and government relations
- Responsible procurement principles

Code of Business Conduct and Ethics

We believe it is critically important to maintain a corporate culture that demands integrity and reflects ethical values. Accordingly, significant resources are dedicated to ensuring compliance with our code of business conduct and ethics. To facilitate enforcement of the code, AvalonBay maintains a confidential, anonymous hotline for associates to report any concerns about financial or reporting improprieties, workplace issues or ethical matters. We adhere to a strict non-retaliation policy in order to protect any associate who makes a report in good faith. And our Associate Perspective Survey also asks questions relating to ethics, compliance and safety.

In addition, AvalonBay:

- Requires that all associates sign and reaffirm their knowledge of the AvalonBay code of business conduct and ethics on an annual basis
- Provides a formal onboarding procedure to ensure associates become acclimated to AvalonBay's culture, policies and procedures

Ethics and Compliance Training

We recognize that maintaining our high standards of ethics requires consistent ethical behavior by our associates. We conduct annual training to ensure they understand what it means to be an AvalonBay associate, our expectation of conduct and performance, and our commitment to human rights. All AvalonBay associates must take the standards of business conduct training upon hire, and the organization recertifies all associates every two years. Associates in key business positions recertify on an annual basis.

- In 2018, AvalonBay associates completed 4,407 hours of training related to human rights, including courses on respectful workplace, anti-harassment, ethics and fair housing and accessibility
- All associates are required to read and sign the AvalonBay code of business conduct and ethics annually. Upon hire, associates are provided with an electronic copy of the associate handbook, which also details conduct and behavior expectations

Internal Audit

Our Internal Audit group, which consists of approximately 10 full-time equivalent associate positions, functions independently within the company and reports directly to the Audit Committee of the Board of Directors. Its staffing composition consists of a variety of professionally experienced, qualified and credentialed associates. All have accounting or business-based bachelor's degrees, some possess master's degrees and the professional certifications consist of Certified Public Accountants (CPAs), Certified Internal Auditors (CIAs), Certified Fraud Examiners (CFE), Certified Information Systems Auditors (CISAs) and Certified Information System Security Professionals (CISSPs). The internal audit group performs continuous independent reviews and audits of key business, operational, financial and information technology activities, including but not limited to development, construction, capital expenditures, our shared services center (Customer Care Center), IT controls and security, and community operations. The group reports the results of its activities, including audit findings and opportunities for internal control enhancement, to the Audit Committee, executive management and key process owners. Audits of corporate processes such as payroll, cash management, risk management, benefits, marketing, IT, and the Company's overall segregation of duties and control environment are also conducted. Other key functions performed by Internal Audit to support an ethical environment, culture and the company's commitment to integrity include:

- Administering the Sarbanes-Oxley (SOX) compliance process. This includes testing and verifying the design and effectiveness of more than 200 key business process and IT internal controls that reside over the Company's financial reporting. This process also includes reviewing more than 50 process owner certified quarterly and annual internal control/fraud attestations, the results of which support the SEC required CEO/CFO internal control certification section of its 10-Q and 10-K financial statement filings
- Performing an annual, entity-level control assessment based on the Committee of Sponsoring Organizations' (COSO) internal control framework. This also includes conducting an annual fraud risk survey and fraud control assessment based on key risks identified in the Association of Certified Fraud Examiners' (ACFE) report to the Nations on Occupational Fraud and Abuse
- Managing the Company's whistle-blower hotline, EthicsPoint, which also provides access to every report to the Audit Committee of the Board of Directors to ensure full transparency
- Taking an active and engaged role in helping monitor and oversee the company's compliance and risk management and mitigation; investigations; and IT infrastructure, controls and system upgrades and implementations. This includes serving on the Company's Enterprise Risk Management, Cyber-Security, Quality Assessment and other key governance based committees

Vendor Code of Conduct and Responsible Supply Chain Principles

We expect our vendors to conduct their business interactions with integrity, and we developed a vendor code of conduct that requires:

- Accurate record keeping and reporting
- Safeguarding of assets and information
- A prohibition against bribes and kickbacks, and limits on gifts
- Avoidance of conflicts of interest
- A prohibition against insider trading
- A prohibition against AvalonBay associates directly conducting personal business with any vendor
- A requirement for prompt reporting of any violation to AvalonBay

For construction and national contracts, a competitive bid process during which many factors are considered is generally required. We continue to develop a new software system to enhance transparency, controls and management capabilities in construction and development processes.

We continue to make progress on the integration of our public, responsible procurement principles into business processes. In 2018, we surveyed 26 AVB vendors of strategic importance against our principles and ensured compliance with their intent. This represented an increase of 24% over our 2017 survey. We also require vendors to sign the principles in all contract vehicles and in new vendor agreements.

Information Security

2018 proved to be another record-breaking year for cybercrime. Cyber security and data privacy related issues are increasing throughout the world. With the full support of executive management, the IT department has been implementing a steady stream of IT and Cyber Security improvements that will help us continue to protect our data and systems from cyber threats. The list below is the work we have planned around information security in 2019:

- Migration to Next Generation Endpoint Protection
- Enhanced security testing of our consumer facing websites
- Improved password protections
- New data encryption capabilities
- Migration to Windows 10

Sound Investment Management

New investment proposals, including development, acquisition, redevelopment and disposition activity, are submitted to the Management Investment Committee for review and approval. The investment packages are compiled with independent input from different functional groups within the company and include operating and capital budgets, detailed schedules and pro formas, and an assessment of major risks and opportunities. Transactions that exceed certain size or return thresholds are also submitted to the Investment and Finance Committee of the Board of Directors, or to the full Board in certain cases.

Corporate Responsibility Governance

The Vice President of Corporate Responsibility (VPCR) reports to our Chief Investment Officer (CIO) and leads both the environmental sustainability and strategic philanthropy programs for AvalonBay. The VPCR is responsible for:

- Implementing all CR programming and transparently reporting on progress
- Regularly reviewing with the company's CIO CR objectives and the potential impacts of climate change on our business
- Keeping an active log of business-related CR risks and opportunities, including environmental, climate-related and social risks
- Providing an annual update on CR issues and progress to our Board of Directors and other senior officers and executives

In late 2018, we added a new full-time member to the Corporate Responsibility team, responsible for focusing on our social investment (Building Strong Communities), our communications strategy and our public CR Reporting.

The process related to risk and opportunities includes integration of asset-level concerns and initiatives designed either to mitigate risks or take advantage of opportunities (or both) which are funded through maintenance Capex funds, redevelopment funds or a dedicated Sustainability Capex Fund. Our target payback period for sustainability projects is six-and-a-half years, leading to a roughly 15% internal rate-of-return target on most projects. These projects often entail energy/water consumption reduction, waste reduction and reduction of our carbon footprint related to building construction and operation. Increasingly we are funding projects that achieve our renewable energy strategy and support de-carbonization of our buildings, in support of our new Science Based Targets.

The process for identifying risks/opportunities includes a periodic survey of company officers and less frequent surveys of a wider group of company stakeholders, including customers, associates, suppliers and board members, among others. In 2017 the VPCR conducted a comprehensive review of our portfolio for risks related to climate change, stronger storms and other natural disasters. This review was presented to the AVB Board of Directors in 2018, and now forms the basis of an internal resiliency plan for the company.

CR Governance Structure

CR governance includes the following deliberative bodies, all of which are chaired by the VPCR:

CR Committee

- A select interdisciplinary group representing multiple functional groups
- Responsible for implementing the CR strategy and steering initiatives throughout the year
- Meets every other month

Philanthropy Committee

- Includes the CEO, Chief Investment Officer (CIO), Chief Administrative Officer (CAO), Chief Operating Officer (COO), Senior VP of Human Resources and Senior VP of Brand Strategy and Marketing
- Steers our strategic philanthropy investments and Building Strong Communities program
- Meets two times a year

Within each region we also engage leadership from development and residential services, who team up to create a strategic regional community investment plan and partnering approach.

In addition, the CIO and VPCR report CR matters to, and engage in an annual dialogue with, the Nominating and Corporate Governance Committee of the Board of Directors. Progress against our 2020 goals is reviewed, and the board provides input on strategic direction.

Stakeholders

We view our CR efforts through their impact on our key stakeholders. In addition to the section outlining our environmental sustainability initiatives, full sections of this report are dedicated to three particular stakeholder groups: our associates, the communities in which we do business and our residents.

Our newly updated materiality analysis, which asks a variety of stakeholders for input on our CR priorities, follows this section.

A summary of our work related to other key stakeholder groups is outlined here.

Investors

To increase transparency for investors on CR issues, we respond to the Global Real Estate Sustainability Benchmark (GRESB), which provides us with an industry benchmark for our CR initiatives and ESG program. We also publicly respond to the CDP with a transparent accounting of our environmental performance. Each year we have our environmental data third-party verified.

Vendors, Suppliers, Contractors

AvalonBay spends more than \$2 billion annually on external goods and services. A little more than half is attributable to capital investment for new and existing communities, with the remainder consisting of goods and services used to support corporate functions and ongoing property operations. Our supply chain ranges from thousands of local vendors around the country to a more discrete number of regional and national vendors in the following categories:

- Construction trade contractors
- Product manufacturers and distributors of construction materials, building equipment and products used in property operations
- Service providers and professional firms for construction, development, property operations and corporate support
- Business providers for marketing materials, IT hardware, etc.

Depending on the nature of these relationships, the supply chain within a particular spend category may vary from direct purchase to indirect procurement via contractors (either locally sourced or via a national agreement). Most categories for construction and redevelopment are competitively bid and managed at the project level. However, products that are used as standards in construction and redevelopment projects are sourced centrally via an RFP process and then purchased indirectly through contractors. Traditionally, property operations categories with a total spend of over \$250,000 that are scalable across multiple communities are sourced and contracted centrally via an RFP process. Contracted categories undergo regular review and management to ensure competitive pricing, service and value.

Additionally, many nationally contracted vendors are ranked and measured for performance to target metrics. Our suppliers are essential to our success, and we strive to better understand their sustainability efforts as we build stronger long-term relationships. We hold an ongoing dialogue with these partners by publicly stating our responsible supply chain principles and surveying top-tier vendors on their sustainability and corporate responsibility practices, along with including those principles in national and regional agreements. Our Responsible Procurement Principles can be found here: <https://www.avaloncommunities.com/supply-chain-policy>

We have integrated these principles into our procurement processes and continue to deepen this engagement. We have now achieved over 90% coverage in screening major new suppliers against environmental and labor practices, human rights and societal impact criteria. Here are some highlights of the procurement team's accomplishments in 2018:

- Followed standardized sourcing strategy guidelines and process
- Continued use of electronic sourcing and contracting modules for all centrally contracted suppliers
- Continued vendor ranking and key performance metrics for top suppliers
- Financial and Safety vendor prequalification questionnaire for over 200 construction vendors
- Surveyed top vendors to understand their responsible procurement and supply chain behaviors
- Supported programs to implement LED replacements, solar installation, and partner with national providers to continue optimization of recycling and waste streams

Materiality Analysis and Management Approach

Our materiality analysis is an important component of our approach to managing CR progress and reporting. In general, our management approach consists of:

- Determining materiality (based on internal and external stakeholder input) with periodic updates, most recently in 2018
- Establishing long-term goals aligned with our materiality analysis
- Establishing an annual CR plan that puts in place initiatives and strategies to achieve our long-term goals

The mechanisms in place for monitoring the effectiveness of this approach include internal stakeholder feedback and benchmarking against industry peers. We also track progress and gaps against our submissions to external raters like GRESB and the CDP. Results are communicated to our associates via periodic updates and externally in our annual CR report.

Materiality Analysis

Our last materiality analysis was conducted in 2014, so in 2018, we set out to determine what CR factors are currently of most significance to our stakeholders. In order to do this, we conducted an updated, in-depth materiality analysis with key AvalonBay stakeholders: associates, residents, suppliers and vendors, shareholders, local governments and community leaders, company officers, and the AvalonBay Board of Directors.

We chose these stakeholders because they are the largest set who have a long-term, abiding stake in the company and/or who directly impact our environmental, social and governance (ESG) progress. The results of the analysis are seen in the following figure.

In the 2018 assessment we added several new indicators which are becoming more important to our stakeholders:

- Healthy Buildings –Well Buildings
- Climate Change
 - Understanding the Effects of Sea Level Rise
 - Understanding the Effects of Stronger Storms
 - Creating Climate Change Resiliency and Mitigation Strategies
- Impact Investing (Social Investment with a Return)

The new survey resulted in very similar materiality priorities as the previous version with a few key differences:

- Several indicators moved up in importance to our external stakeholders: Data Security, Employee Well-Being/Health and Safety, and Affordable Housing
- Two indicators moved down in importance to our external stakeholders: Corporate Giving and Political Contributions
- Three indicators moved up in importance to our internal stakeholders: Screening Suppliers for Environmental Criteria, Response to External Raters of ESG Performance, and Board Composition and Governance

This materiality analysis now informs our GRI-G4 reporting structure in all reports going forward and will be taken into account for future strategic planning and goal setting.

AvalonBay Materiality Matrix



Scores for each subgroup within internal and external groups are given equal weight in combined results. The top right quadrant represents the most significant areas.

- Internal group: director level associates, officers and Board of Directors
- External group: suppliers, investors, residents and local government/community