

AvalonBay Communities - When Should the Next Building Start?

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Audience: MBA students and working professionals

Case convention: This is an author-created management decision exercise. No private meeting or deliberation is represented. The disclosed company facts are historical; the decision prompt is hypothetical. Use only information public by the cutoff.

The decision

On February 27, 2025, AvalonBay Communities (AVB) filed its annual report for the year ended December 31, 2024. The apartment owner and developer had reported solid same-store results, but the performance varied across its markets. Its newest written outlook called for positive residential revenue growth in 2025, while operating expenses were expected to rise faster at the midpoint. AVB was also carrying projects under construction and an earlier-stage pipeline of rights to develop more homes.

The choice was not whether to finish work already underway. The question was how quickly to convert discretionary development rights into new starts during the coming year. A faster pace could secure sites and capture expected renter demand before competitors. A slower pace could preserve flexibility while supply, costs and market rents became clearer. Acquisitions and sales offered another way to reshape the portfolio, though the public information did not establish that any specific available property would beat a new development.

AVB had started construction on nine communities in 2024. That is a historical reference point, not a company target for 2025. Should its leaders plan to start fewer, about the same number, or more projects in 2025? What evidence and rules should govern that choice?

A portfolio with different decision clocks

AVB develops, acquires, owns and operates apartment communities in selected U.S. metropolitan areas. In its annual report, the company said it favored markets with growing employment in higher-wage sectors, high homeownership costs, and a diverse quality of life. Management believed these characteristics could support superior long-run risk-adjusted returns. The statement describes AVB's investment thesis; the filing does not independently validate it. [S1, Item 1, pp. 1-2]

At December 31, 2024, AVB reported interests in 306 communities with 93,518 homes. Its portfolio table divided those communities among current operating assets, development communities and earlier-stage Development Rights. The categories matter to the decision:

- **Current communities:** 278 communities and 84,058 homes, including 253 same-store communities and 16 other stabilized communities. Nine unconsolidated communities were included in current communities.
- **Development communities:** 28 communities and 9,460 homes under construction or in lease-up, under the filing's classification.
- **Development Rights:** 28 opportunities that, if all developed as expected, could add 8,801 homes.

The company described Development Rights as opportunities in different early stages: it could have an option or conditional contract to acquire land, control a site through a ground lease, own land, or be the designated developer in a public-private partnership. At year-end, seven land parcels held by AVB had \$151.9 million in acquisition and related capitalized costs; other reported predevelopment costs were associated with rights where AVB controlled a parcel or could add phases on land at current communities. Some projects had just begun design work, while others were close to construction. The 28 rights were not interchangeable, nor were they all owned land. [S1, Item 2, pp. 23-24, 29-30]

AVB said it assessed whether to invest in or continue pursuing each right using financial, demographic and other analyses. If the company did not proceed, it generally would not recover capitalized pursuit costs unless it recovered something through a land sale, which it could not guarantee. When a right was no longer considered probable, unrecoverable capitalized predevelopment costs were expensed. In 2024, one Northern California right was written off for \$8.9 million. [S1, Item 2, pp. 29-30]

Projects already under construction were further along the commitment curve. In 2024, AVB completed nine communities with 2,981 homes at a total capitalized cost of \$1.286 billion, and started nine projects with 2,921 homes and estimated total capitalized cost of \$1.053 billion. At December 31, 17 wholly owned communities were under construction, expected to add 6,004 homes and 59,000 square feet of commercial space at an estimated total capitalized cost, including land, of \$2.253 billion. The company cautioned it might not meet budget or construction schedules. [S2, "Development Activity," pp. 5-6; S1, Item 2, pp. 27-28]

The 17 wholly owned projects under construction are not the same as the 28 development communities in the portfolio classification, which also includes certain completed communities in lease-up and other classified interests. Both figures should be read with their stated dates and definitions.

The 2024 operating picture

Across its same-store residential communities, AVB reported 2024 revenue growth of 3.4%, expense growth of 5.0%, and net operating income (NOI) growth of 2.7%. Results differed by region.

Exhibit 1. FY2024 same-store residential performance by AVB region

Year-over-year percentage change; company-reported same-store definitions.

Region	Revenue	Expenses	NOI
New England	4.4%	1.9%	5.5%
Metro NY/NJ	3.6%	6.0%	2.5%

Region	Revenue	Expenses	NOI
Mid-Atlantic	3.4%	9.2%	0.9%
Southeast Florida	1.8%	3.3%	1.0%
Denver	1.3%	(2.9%)	3.0%
Pacific Northwest	4.1%	4.4%	4.0%
Northern California	1.6%	6.2%	(0.2%)
Southern California	4.5%	3.7%	4.9%
Other Expansion Regions	(0.8%)	(0.6%)	(0.9%)
Total	3.4%	5.0%	2.7%

Source: [S2], “Same Store Residential Communities,” regional tables; see also [S1], Item 7, pp. 39-41. Growth in existing communities does not reveal the return on a new project. The geographic pattern also complicates a simple “established markets are strong, expansion markets are weak” conclusion. Denver, Pacific Northwest and Southern California showed positive NOI growth; Northern California and Other Expansion Regions were flat or negative. The “Other Expansion” category represents only part of AVB’s expansion footprint.

High occupancy did not remove pricing uncertainty. AVB’s economic occupancy-the company’s measure of billed and collected rent relative to potential rent-was in the mid-90% range across its same-store regions. But regional revenue reflects multiple components, including rent per occupied home, occupancy, concessions, bad debt and other income. A strong annual NOI result cannot identify which component will persist or what a new community can achieve during lease-up. [S1, Item 7, pp. 39-41; S3, Attachments 2-3]

What management expected for 2025

AVB’s initial February 2025 outlook called for same-store residential revenue growth of 2.0%-4.0%, expense growth of 3.0%-5.2%, and NOI growth of 1.3%-3.5%. The Core Funds from Operations (Core FFO) forecast was \$11.14-\$11.64 per share, with a midpoint of \$11.39 versus \$11.01 for 2024. The company’s per-share bridge attributed positive contributions to same-store revenue and development/other stabilized NOI, with expected offsets from operating expenses and capital markets/transaction activity. These are management forecasts, not realized results. Core FFO is a company-defined non-GAAP performance measure; it is not GAAP earnings, free cash flow or a development project’s return. [S2, “2025 Outlook,” pp. 8-10; S3, Attachments 13-14]

The outlook did not prescribe a 2025 development-start count. AVB had funding flexibility: at year-end it reported \$108.6 million of unrestricted cash, no borrowings on its revolving credit facility or commercial paper program, a \$2.25 billion revolver, and annualized net debt to Core EBITDA of 4.2x. It also used debt, dispositions and forward equity as capital sources. These figures describe access and leverage; they do not show the marginal cost of capital for a new project or establish that every potential investment is attractive. [S2, “Financial Position and Liquidity,” pp. 7-8; S3, Attachments 8 and 14]

Peers see both opportunity and supply risk

Equity Residential (EQR), a large apartment REIT with both coastal and expansion markets, reported 2024 same-store revenue growth of 3.0%, expense growth of 2.9%, and NOI growth of 3.1%. It expected 2025 same-store revenue growth of 2.25%-3.25%. EQR's management described operating conditions in expansion markets as challenging amid historically high new supply, while expressing confidence that growth could improve after supply was absorbed. It also acquired newer assets in Atlanta and Denver while selling older coastal assets, and guided to \$1.5 billion in acquisitions and \$1.0 billion in dispositions for 2025. [S4, "Recent Highlights," "Full Year 2025 Guidance," and "Investment Activity"]

UDR reported 2024 same-store NOI growth of 2.1% in the fourth quarter and 1.5% for the full year, with wide differences across its regions. Its fourth-quarter NOI results ranged from 5.1% growth in Mid-Atlantic to declines of 1.1% in Southeast and 0.5% in Southwest. It expected 2025 same-store NOI growth of 0.5%-3.0%. [S5, "Outlook" and regional same-store tables, pp. 1-4]

The peers' results add context but do not provide a matched comparison. Their same-store properties, region boundaries, portfolio weights and transaction definitions differ. EQR's management view about future supply is an expectation rather than proof of market-wide absorption or a forecast for AVB's assets.

The capital-allocation choice

AVB can continue to pursue its long-run market thesis, but development entails a sequence of decisions. A right may be held while design, permitting and market information develop. Once a project starts, more capital is committed; completion and lease-up then expose AVB to construction execution, operating costs and renter demand. The company must weigh those stages against competitors' decisions and other uses of capital.

Two broad approaches are available for the next year:

1. **Maintain a pace near the 2024 reference point.** Continue converting selected rights into starts at roughly the recent rate when projects meet AVB's investment analyses. This can preserve access to sites and future income, and may avoid waiting while competitors advance. It also accepts more construction and lease-up exposure while some markets face elevated deliveries and the 2025 outlook shows expense pressure.
2. **Reduce the pace until project evidence improves.** Defer more discretionary starts, preserve rights where the contractual terms allow, and require stronger evidence on local supply, achieved rents, construction cost and lease-up conditions before committing further capital. This may avoid starting into weak economics, but risks lost time, expiring rights, added carrying costs, sunk predevelopment spending, or competitors taking demand and sites. Some costs already incurred may not be recovered.

Neither route requires halting the 17 wholly owned projects under construction. Either approach can still include selected starts, acquisitions or dispositions when project-level analysis supports them. AVB did not publicly disclose enough project-by-project economics to tell investors what exact starts should be approved or which rights should be relinquished.

Assignment

You are advising AVB's capital allocation committee on a policy for discretionary development starts in 2025. Recommend whether the company should target fewer, about the same, or more than the nine starts reported for 2024. Explain:

- what information should determine where to start, wait or abandon a Development Right;
- how regional operating results and the 2025 outlook should affect the decision, without treating same-store results as a new-project forecast;
- how competitor construction and capital rotation should change the cost of waiting;
- what signals would cause you to revise the policy during the year.

Identify the most important missing information. Do not assume all 28 rights are equally mature, equally reversible or located in markets with the same supply conditions. The 2024 count is an historical comparator, not a target or company forecast.

Source notes

- **[S1]** AvalonBay Communities, Inc., FY2024 Form 10-K, accession 0000915912-25-000005, filed February 27, 2025. [SEC filing](#).
- **[S2]** AvalonBay Communities, Inc., Q4/FY2024 earnings release and initial FY2025 outlook, Exhibit 99.1 to Form 8-K, accession 0000915912-25-000003, February 5, 2025. [SEC exhibit](#).
- **[S3]** AvalonBay Communities, Inc., Q4 2024 supplemental discussion and financial attachments, Exhibit 99.2 to Form 8-K, accession 0000915912-25-000003, February 5, 2025. [SEC exhibit](#).
- **[S4]** Equity Residential, “Equity Residential Reports Fourth Quarter 2024 Results,” February 3, 2025. [Company release](#).
- **[S5]** UDR, Inc., Q4/FY2024 earnings release, Exhibit 99.1 to Form 8-K, accession 0000074208-25-000007, February 5, 2025. [SEC exhibit](#).

All amounts and historical results are company-reported and retain each source’s scope and definitions. Dollar amounts are rounded where displayed. The related research dossier records academic mechanisms and evidence limits; the student assignment above does not assume the findings determine the answer.