

June 1, 2018

H. Jay Sarles, Lead Independent Director
c/o Edward M. Schulman, EVP, General Counsel and Secretary
AvalonBay Communities, Inc.
Ballston Tower
671 N. Glebe Road, Suite 800
Arlington, VA 22203

Dear Mr. Sarles:

I am writing on behalf of the Council of Institutional Investors (CII) to communicate that our support for AvalonBay's decision to provide shareholders the right to propose bylaw amendments does not extend to the 1% ownership threshold requirement, which unnecessarily limits their ability to exercise that right.

CII is a nonprofit, nonpartisan association of public, corporate and union employee benefit funds, other employee benefit plans, foundations and endowments with combined assets under management exceeding \$3.5 trillion. Our member funds include major long-term shareholders with a duty to protect the retirement savings of millions of workers and their families. Our associate members include a range of asset managers with more than \$25 trillion in assets under management, most also with long-term investment horizons.¹

In a November 13, 2017 8-K filing, the board announced that it amended the company's bylaws to allow shareholders to propose and amend the bylaws under a majority voting standard.² But the new right requires shareholders to meet a 1% ownership threshold in excess of SEC Rule 14a-8.³ With a nearly \$23 billion market cap, 1% ownership in AvalonBay connotes a \$230 million investment.

In the 8-K, the board disclosed that 21 shareholders representing 73% of outstanding shares meet the 1% ownership threshold. Additionally, 45 more shareholders representing 19% of outstanding shares meet a 0.2% threshold that would allow them to form a group of five shareholders to propose a bylaw amendment. Together, you note, these groups comprise 66 shareholders owning more than 93% of outstanding shares.

But these numbers say more about the concentration of ownership in the company than the ability of a large proportion of shareholders to propose bylaw amendments under the required ownership threshold. As of January 31, AvalonBay disclosed that it had 496 shareholders of

¹ For more information about the Council of Institutional Investors (CII), including its members, please visit <http://www.cii.org/members>.

² AvalonBay Communities, Inc. Form 8-K, November 13, 2017, https://www.sec.gov/Archives/edgar/data/915912/000110465917067936/a17-26097_18k.htm.

³ Continuously hold *at least \$2,000 in market value*, or 1%, of the company's securities entitled to be voted on the proposal at the meeting for at least one year by the date the proposal is submitted, (emphasis added).

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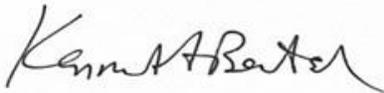
record. The ownership threshold therefore confines the ability to even propose bylaw amendments to a small group of 21–66 of 496 record shareholders. Just 4% of the company’s shareholders of record could satisfy the 1% threshold themselves. And of course, the company has far more beneficial owners of its common stock since most shares are held in street name by the broker, bank or dealer that is listed as shareholder of record.

CII’s corporate governance best practices endorse a “meaningful ability [of shareholders] to propose bylaw amendments that become effective upon the approval of a majority of outstanding shares.”⁴ While we applaud AvalonBay’s decisive step in the right direction by opening the bylaw amendment process to shareholders, a “meaningful ability” envisions shareholder participation more inclusive than the limited 4%—and in reality far less—currently eligible.

We suggest providing shareholders with an unencumbered right to propose bylaw amendments. Across companies, we see restrained shareholder use of proposals to amend bylaws, and we note that for a shareholder-sponsored bylaw to be approved at AvalonBay, it must win support from a majority of outstanding shares.

Please share this letter with the full board. We would appreciate a response and, if you would find it helpful, the opportunity to discuss this matter with you. Please contact me at ken@cii.org or (202) 261-7098, or CII Director of Research Glenn Davis at glenn@cii.org or (202) 261-7097, with any questions.

Sincerely,

A handwritten signature in black ink that reads "Ken Bertsch". The signature is written in a cursive, slightly slanted style.

Ken Bertsch
Executive Director

⁴ Policies on Corporate Governance, section 1.5, Council of Institutional Investors, http://www.cii.org/corp_gov_policies.