

GOLDMAN SACHS GROUP INC

Form 424B2

October 16, 2018

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Filed Pursuant to Rule 424(b)(2)

Registration Statement No. 333-219206

GS Finance Corp.

\$10,626,600

Trigger Callable Contingent Yield Notes due 2021

guaranteed by

The Goldman Sachs Group, Inc.

The notes do not pay a fixed coupon and may pay no coupon on a coupon payment date. The amount that you will be paid on your notes is based on the performances of the S&P 500® Index, the Russell 2000® Index and the EURO STOXX 50® Index. Subject to our redemption right, the notes will mature on the stated maturity date (October 15, 2021). We may redeem your notes on any coupon payment date on or after January 16, 2019, regardless of the performance of the indices, at a price equal to the face amount of your notes *plus* any coupon then due.

Unless previously redeemed, if the closing level of each index is *greater than or equal to* 65% of its initial index level (the initial levels are 2,767.13 with respect to the S&P 500® Index, 1,546.679 with respect to the Russell 2000® Index and 3,194.41 with respect to the EURO STOXX 50® Index) on every trading day during the preceding quarterly observation period, you will receive on the applicable coupon payment date a coupon of \$0.2375 for each \$10 face amount of your notes. A quarterly observation period is the period from but excluding an observation end date (or the trade date, in the case of the first period) to and including the next succeeding observation end date. Coupon payment dates are the dates specified on page S-6 of this prospectus supplement. **If the closing level of any index on any trading day during the preceding quarterly observation period is *less than 65%* of its initial index level, you will not receive a coupon payment on the applicable coupon payment date.**

Unless previously redeemed, the amount that you will be paid on your notes at maturity, in addition to the final coupon, if any, is based on the performance of the *lesser* performing index (the index with the lowest index return). The index return for each index is the percentage increase or decrease in the final index level of such index on the final observation end date from its initial index level.

At maturity, for each \$10 face amount of your notes outstanding, you will receive, in addition to any coupon payment then due, an amount in cash equal to:

- if the final index level of each index is *greater than or equal to* 65% of its initial index level, \$10; or
- if the final index level of any index is *less than* 65% of its initial index level, the *sum* of (i) \$10 *plus* (ii) the *product* of (a) the *lesser* performing index return *times* (b) \$10. **You will receive *less than 65%* of the face amount of your notes and you will not receive a final coupon.**

The maximum return on your notes is 2.375% quarterly (or 9.50% per annum). You will not receive more than the face amount of your notes at maturity *plus* the final coupon, if any. If the final index level of any index has declined by more than 35% from the initial index level of such index, regardless of the performance of the other two indices, you will receive *less than* the face amount of your notes. At maturity you could receive significantly less than the face amount of your notes.

You should read the disclosure herein to better understand the terms and risks of your investment, including the credit risk of GS Finance Corp. and The Goldman Sachs Group, Inc. See page S-12.

The estimated value of your notes at the time the terms of your notes are set on the trade date is equal to approximately \$9.79 per \$10 face amount. For a discussion of the estimated value and the price at which Goldman Sachs & Co. LLC would initially buy or sell your notes, if it makes a market in the notes, see the following page.

Original issue date:	October 17, 2018	Original issue price:	100% of the face amount
Underwriting discount:	1.675% of face amount*	Net proceeds to the issuer:	98.325% of the face amount

*UBS Financial Services Inc., the selling agent, will receive a selling concession not in excess of 1.50% of the face amount.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense. The notes are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.

Goldman Sachs & Co. LLC

UBS Financial Services Inc.
Selling Agent

Prospectus Supplement No. 4,493 dated October 12, 2018

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The issue price, underwriting discount and net proceeds listed above relate to the notes we sell initially. We may decide to sell additional notes after the date of this prospectus supplement, at issue prices and with underwriting discounts and net proceeds that differ from the amounts set forth above. The return (whether positive or negative) on your investment in notes will depend in part on the issue price you pay for such notes.

GS Finance Corp. may use this prospectus in the initial sale of the notes. In addition, Goldman Sachs & Co. LLC, or any other affiliate of GS Finance Corp., may use this prospectus in a market-making transaction in a note after its initial sale. **Unless GS Finance Corp. or its agent informs the purchaser otherwise in the confirmation of sale, this prospectus is being used in a market-making transaction.**

Estimated Value of Your Notes

The estimated value of your notes at the time the terms of your notes are set on the trade date (as determined by reference to pricing models used by Goldman Sachs & Co. LLC (GS&Co.) and taking into account our credit spreads) is equal to approximately \$9.79 per \$10 face amount, which is less than the original issue price. The value of your notes at any time will reflect many factors and cannot be predicted; however, the price (not including GS&Co. s customary bid and ask spreads) at which GS&Co. would initially buy or sell notes (if it makes a market, which it is not obligated to do) and the value that GS&Co. will initially use for account statements and otherwise is equal to approximately the estimated value of your notes at the time of pricing, plus an additional amount (initially equal to \$0.16 per \$10 face amount).

Prior to January 14, 2019, the price (not including GS&Co. s customary bid and ask spreads) at which GS&Co. would buy or sell your notes (if it makes a market, which it is not obligated to do) will equal approximately the sum of (a) the then-current estimated value of your notes (as determined by reference to GS&Co. s pricing models) plus (b) any remaining additional amount (the additional amount will decline to zero on a straight-line basis over the period from the time of pricing through January 13, 2019). On and after January 14, 2019, the price (not including GS&Co. s customary bid and ask spreads) at which GS&Co. would buy or sell your notes (if it makes a market) will equal approximately the then-current estimated value of your notes determined by reference to such pricing models.

About Your Notes

The notes are part of the Medium-Term Notes, Series E program of GS Finance Corp. and are fully and unconditionally guaranteed by The Goldman Sachs Group, Inc. This prospectus includes this prospectus supplement and the accompanying documents

listed below. This prospectus supplement constitutes a supplement to the documents listed below and should be read in conjunction with such documents:

- Prospectus supplement dated July 10, 2017
- Prospectus dated July 10, 2017

The information in this prospectus supplement supersedes any conflicting information in the documents listed above. In addition, some of the terms or features described in the listed documents may not apply to your notes.

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Issuer:	GS Finance Corp.
Guarantor:	The Goldman Sachs Group, Inc.
Early redemption right:	we have the right to redeem your notes at our option, in whole but not in part, on each coupon payment date on or after January 16, 2019 at a price equal to 100% of the face amount plus any coupon then due, subject to at least two business days prior notice
Index/Initial index level:	S&P 500® Index / 2,767.13
Index/Initial index level:	Russell 2000® Index / 1,546.679
Index/Initial index level:	EURO STOXX 50® Index / 3,194.41
Trade date:	October 12, 2018
Original issue date:	October 17, 2018
Determination date:	October 12, 2021
Stated maturity date:	unless the notes are previously redeemed, October 15, 2021
Cash settlement amount (in addition to any coupon payment then due):	<ul style="list-style-type: none"> • if the final index level of the lesser performing index is <i>greater than</i> or <i>equal to</i> its downside threshold, \$10; or • if the final index level of the lesser performing index is <i>less than</i> its downside threshold, the <i>sum</i> of (1) \$10 <i>plus</i> (2) the <i>product</i> of (i) \$10 <i>times</i> (ii) the lesser performing index return
Contingent coupon:	\$0.2375/quarter (9.50% p.a.)
Downside threshold:	1,798.635 with respect to the S&P 500® Index, 1,005.341 with respect to the Russell 2000® Index and 2,076.367 with respect to the EURO STOXX 50® Index (in each case, 65% of such index's initial index level (rounded to the nearest one-thousandth))
Coupon barrier:	1,798.635 with respect to the S&P 500® Index, 1,005.341 with respect to the Russell 2000® Index and 2,076.367 with respect to the EURO STOXX 50® Index (in each case, 65% of such index's initial index level (rounded to the nearest one-thousandth))
Final index level:	with respect to each index, the closing level of such index on the determination date, except in the limited circumstances described under Specific Terms of Your Notes Consequences of a Market Disruption Event or a Non-Trading Day on page S-28
Closing level:	with respect to each index on any trading day, the closing level of such index as further described under Specific Terms of Your Notes Special Calculation Provisions Closing Level on page S-31
Quarterly observation period:	the period from but excluding each observation end date (or the trade date, in the case of the first quarterly observation period) to and including the next succeeding observation end date excluding any date or dates on which the calculation agent determines that a market disruption event with respect to any index occurs or is continuing or that the calculation agent determines is not a trading day with respect to any index, as further described under Specific Terms of Your Notes Payment of a

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Contingent Coupon Quarterly Observation Periods on page S-26. Although the quarterly observation periods occur quarterly, there may not be an equal number of trading days in each quarterly observation period

Index return:	with respect to each index on the determination date, the <i>quotient</i> of (i) the final index level <i>minus</i> the initial index level <i>divided by</i> (ii) the initial index level, expressed as a positive or negative percentage
Lesser performing index:	the index with the lowest index return
Lesser performing index return:	the index return of the lesser performing index
Face amount:	\$10 per note
Original issue price:	100% of the face amount
CUSIP / ISIN:	36256M353 / US36256M3530
No listing:	the offered notes will not be listed or displayed on any securities exchange or interdealer market quotation system

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Observation End Dates*	Coupon Payment Dates**
January 14, 2019	January 16, 2019
April 12, 2019	April 16, 2019
July 12, 2019	July 16, 2019
October 15, 2019	October 17, 2019
January 13, 2020	January 15, 2020
April 14, 2020	April 16, 2020
July 13, 2020	July 15, 2020
October 13, 2020	October 15, 2020
January 12, 2021	January 14, 2021
April 12, 2021	April 14, 2021
July 12, 2021	July 14, 2021
October 12, 2021	October 15, 2021

*Subject to adjustment as described under Specific Terms of Your Notes Observation End Dates on page S-28 of this prospectus supplement

**Subject to adjustment as described under Specific Terms of Your Notes Coupon and Coupon Payment Dates on page S-28 of this prospectus supplement

This is the first date on which your notes may be redeemed.

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SUMMARY INFORMATION

We refer to the notes we are offering by this prospectus supplement as the offered notes or the notes. Each of the offered notes has the terms described below and under Specific Terms of Your Notes on page S-25. Please note that in this prospectus supplement, references to GS Finance Corp., we, our and us mean only GS Finance Corp. and do not include its subsidiaries or affiliates, references to The Goldman Sachs Group, Inc., our parent company, mean only The Goldman Sachs Group, Inc. and do not include its subsidiaries or affiliates and references to Goldman Sachs mean The Goldman Sachs Group, Inc. together with its consolidated subsidiaries and affiliates, including us. Also, references to the accompanying prospectus mean the accompanying prospectus, dated July 10, 2017, and references to the accompanying prospectus supplement mean the accompanying prospectus supplement, dated July 10, 2017, for Medium-Term Notes, Series E, in each case of GS Finance Corp. and The Goldman Sachs Group, Inc. References to the indenture in this prospectus supplement mean the senior debt indenture, dated as of October 10, 2008, as supplemented by the First Supplemental Indenture, dated as of February 20, 2015, each among us, as issuer, The Goldman Sachs Group, Inc., as guarantor, and The Bank of New York Mellon, as trustee. This indenture, as so supplemented and as further supplemented thereafter, is referred to as the GSFC 2008 indenture in the accompanying prospectus supplement.

Key Terms

Issuer: GS Finance Corp.

Guarantor: The Goldman Sachs Group, Inc.

Indices: the S&P 500® Index (Bloomberg symbol, SPX Index), as published by S&P Dow Jones Indices LLC, the Russell 2000® Index (Bloomberg symbol, RTY Index), as published by FTSE Russell, and the EURO STOXX 50® Index (Bloomberg symbol, SX5E Index), as sponsored and maintained by STOXX Limited; see The Indices on page S-35

Specified currency: U.S. dollars (\$)

Face amount: each note will have a face amount equal to \$10; \$10,626,600 in the aggregate for all the offered notes; the aggregate face amount of the offered notes may be increased if the issuer, at its sole option, decides to sell an additional amount of the offered notes on a date subsequent to the date of this prospectus supplement

Denominations: \$10 and integral multiples of \$10 in excess thereof

Minimum purchase amount: In connection with the initial offering of the notes, the minimum face amount of notes that may be purchased by any investor is \$1,000

Supplemental plan of distribution: GS Finance Corp. has agreed to sell to Goldman Sachs & Co. LLC (GS&Co.), and GS&Co. has agreed to purchase from GS Finance Corp., the aggregate face amount of the offered notes specified on the front cover of this prospectus supplement. GS&Co. proposes initially to offer the notes to the public at the original issue price set forth on the cover page of this prospectus supplement, and to UBS Financial Services Inc. at such price less a concession not in excess of 1.50% of the face amount. See Supplemental Plan of Distribution on page S-64

Purchase at amount other than face amount: the amount we will pay you for your notes on the stated maturity date or upon any early redemption of your notes will not be adjusted based on the issue price you pay for your notes, so if you acquire notes at a premium (or discount) to face amount and hold them to the stated maturity date or date of early redemption, it could affect your investment in a number of ways. The return on your investment in such notes will be lower (or higher) than it would have been had you purchased the notes at face amount. See Additional Risk Factors Specific to Your Notes If You Purchase Your Notes at a Premium to Face Amount, the Return on Your Investment Will Be Lower Than the Return on Notes Purchased at Face Amount and the Impact of Certain Key Terms of the Notes Will Be Negatively Affected on page S-17 of this prospectus supplement

Supplemental discussion of U.S. federal income tax consequences: you will be obligated pursuant to the terms of the notes in the absence of a change in law, an administrative determination or a judicial ruling to the contrary to characterize each note for all tax purposes as an income-bearing pre-paid derivative contract in respect of the indices, as described under Supplemental Discussion of Federal

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Income Tax Consequences herein. Pursuant to this approach, it is the opinion of Sidley Austin LLP that it is likely that any coupon payment will be taxed as ordinary income in accordance with your regular method of accounting for U.S. federal income tax purposes. If you are a United States alien holder of the notes, we intend to withhold on coupon payments made to you at a 30% rate or at a lower rate specified by an applicable income tax treaty. In addition, upon the sale, exchange, redemption or maturity of your notes, it would be reasonable for you to recognize capital gain or loss equal to the difference, if any, between the amount of cash you receive at such time (excluding amounts attributable to any coupon payment) and your tax basis in your notes.

Cash settlement amount (on the stated maturity date): subject to our early redemption right, for each \$10 face amount of your notes, we will pay you on the stated maturity date, in addition to any coupon payment then due, an amount in cash equal to:

- if the final index level of the lesser performing index is *greater than or equal to* its downside threshold, \$10; or
- if the final index level of the lesser performing index is *less than* its downside threshold, the *sum* of (1) \$10 *plus* (2) the *product* of (i) \$10 *times* (ii) the lesser performing index return

Downside threshold: 1,798.635 with respect to the S&P 500® Index, 1,005.341 with respect to the Russell 2000® Index and 2,076.367 with respect to the EURO STOXX 50® Index (in each case, 65.00% of such index's initial index level (rounded to the nearest one-thousandth))

Early redemption right: we have the right to redeem your notes at our option, in whole but not in part, on each coupon payment date on or after January 16, 2019 at a price equal to 100% of the face amount plus any coupon then due, subject to at least two business days' prior notice

Lesser performing index return: the index return of the lesser performing index

Lesser performing index: the index with the lowest index return

Coupon: subject to our early redemption right, on each coupon payment date, for each \$10 face amount of your notes, we will pay you an amount in cash equal to:

- if the closing level of each index on every trading day during the preceding quarterly observation period is *greater than* or *equal to* its coupon barrier, \$0.2375 (2.375% quarterly or 9.50% per annum); or
- if the closing level of any index on any trading day during the preceding quarterly observation period is *less than* its coupon barrier, \$0.00

No coupon payment or return of principal is guaranteed. As discussed above, we will not pay a coupon on a coupon payment date if the closing level of any index is less than its coupon barrier on any trading day during the preceding quarterly observation period. Also, although quarterly observation periods and coupon payment dates occur quarterly, there may not be an equal number of trading days in each quarterly observation period and there may not be an equal number of days between coupon payment dates. However, the way in which the coupon is determined will not vary based on the actual number of trading days in any quarterly observation period or the actual number of days between coupon payment dates.

Quarterly observation period: the period from but excluding each observation end date (or the trade date, in the case of the first quarterly observation period) to and including the next succeeding observation end date *excluding* any date or dates on which the calculation agent determines that a market disruption event with respect to any index occurs or is continuing or that the calculation agent determines is not a trading day with respect to any index, as further described under **Specific Terms of Your Notes Payment of a Contingent Coupon Quarterly Observation Periods** on page S-26. Although the quarterly observation periods occur quarterly, there may not be an equal number of trading days in each quarterly observation period.

Coupon barrier: 1,798.635 with respect to the S&P 500® Index, 1,005.341 with respect to the Russell 2000® Index and 2,076.367 with respect to the EURO STOXX 50® Index (in each case, 65.00% of such index's initial index level (rounded to the nearest one-thousandth))

Initial index level: 2,767.13 with respect to the S&P 500® Index, 1,546.679 with respect to the Russell 2000® Index and 3,194.41 with respect to the EURO STOXX 50® Index (in each case, the closing level of such index on the trade date)

Final index level: with respect to each index, the closing level of such index on the determination date, except in the limited circumstances described under **Specific Terms of Your Notes Consequences of a Market Disruption Event or a Non-Trading Day** on page S-28

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Closing level: with respect to each index on any trading day, the closing level of such index, as further described under **Specific Terms of Your Notes** **Special Calculation Provisions** **Closing Level** on page S-31

Index return: with respect to each index on the determination date, the *quotient* of (i) the final index level *minus* the initial index level *divided by* (ii) the initial index level, expressed as a positive or negative percentage

Defeasance: not applicable

No listing: the offered notes will not be listed or displayed on any securities exchange or interdealer market quotation system

Business day: as described under **Specific Terms of Your Notes** **Special Calculation Provisions** **Business Day** on page S-30

Trading day: as described under **Specific Terms of Your Notes** **Special Calculation Provisions** **Trading Day** on page S-31

Trade date: October 12, 2018

Original issue date (settlement date): October 17, 2018

Determination date: October 12, 2021, subject to adjustment as described under **Specific Terms of Your Notes** **Payment of Principal on Stated Maturity Date** **Determination Date** on page S-27

Stated maturity date: October 15, 2021, subject to our redemption right and to adjustment as described under **Specific Terms of Your Notes** **Payment of Principal on Stated Maturity Date** **Stated Maturity Date** on page S-27

Observation end dates: the dates specified as such in the table under Coupon payment dates below subject to adjustment as described under Specific Terms of Your Notes Observation End Dates on page S-28. Although the observation end dates occur quarterly, there may not be an equal number of days between observation end dates.

Coupon payment dates: the dates specified in the table below, subject to adjustment as described under Specific Terms of Your Notes Coupon and Coupon Payment Dates on page S-28. Although the coupon payment dates occur quarterly, there may not be an equal number of days between coupon payment dates.

Observation End Dates	Coupon Payment Dates
January 14, 2019	January 16, 2019
April 12, 2019	April 16, 2019
July 12, 2019	July 16, 2019
October 15, 2019	October 17, 2019
January 13, 2020	January 15, 2020
April 14, 2020	April 16, 2020
July 13, 2020	July 15, 2020
October 13, 2020	October 15, 2020
January 12, 2021	January 14, 2021
April 12, 2021	April 14, 2021
July 12, 2021	July 14, 2021
October 12, 2021	October 15, 2021

This is the first date on which your notes may be redeemed.

Regular record dates: the scheduled business day immediately preceding the day on which payment is to be made (as such payment date may be adjusted)

Calculation agent: GS&Co.

CUSIP no.: 36256M353

ISIN no.: US36256M3530

FDIC: the notes are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank

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The following examples are provided for purposes of illustration only. They should not be taken as an indication or prediction of future investment results and are intended merely to illustrate (i) the impact that various hypothetical closing levels of the indices during a quarterly observation period could have on the coupon payable, if any, on the related coupon payment date and (ii) the impact that the various hypothetical closing levels of the lesser performing index on the determination date could have on the cash settlement amount at maturity assuming all other variables remain constant.

The examples below are based on a range of index levels of the lesser performing index that are entirely hypothetical; no one can predict what the index level of any index will be on any day throughout the life of your notes, what the closing level of any index will be on any trading day during any quarterly observation period and what the final index level of the lesser performing index will be on the determination date. The indices have been highly volatile in the past meaning that the index levels have changed substantially in relatively short periods and their performance cannot be predicted for any future period.

The information in the following examples reflects the hypothetical rates of return on the offered notes assuming that they are purchased on the original issue date at the face amount and held to the stated maturity date or date of early redemption. If you sell your notes in a secondary market prior to the stated maturity date, your return will depend upon the market value of your notes at the time of sale, which may be affected by a number of factors that are not reflected in the examples below such as interest rates, the volatility of the indices, the creditworthiness of GS Finance Corp., as issuer, and the creditworthiness of The Goldman Sachs Group, Inc., as guarantor. In addition, the estimated value of your notes at the time the terms of your notes are set on the trade date (as determined by reference to pricing models used by GS&Co.) is less than the original issue price of your notes. For more information on the estimated value of your notes, see *Additional Risk Factors Specific to Your Notes – The Estimated Value of Your Notes At the Time the Terms of Your Notes Are Set On the Trade Date (as Determined By Reference to Pricing Models Used By GS&Co.) Is Less Than the Original Issue Price Of Your Notes* on page S-12 of this prospectus supplement. The information in the examples also reflect the key terms and assumptions in the box below.

Key Terms and Assumptions

Face amount	\$10
Initial index level of the S&P 500® Index	2,767.13
Initial index level of the Russell 2000® Index	1,546.679
Initial index level of the EURO STOXX 50® Index	3,194.41
Downside threshold	1,798.635 with respect to the S&P 500® Index, 1,005.341 with respect to the Russell 2000® Index and 2,076.367 with respect to the EURO STOXX 50® Index (in each case, 65.00% of such index's initial index level (rounded to the nearest one-thousandth))
Coupon barrier	1,798.635 with respect to the S&P 500® Index, 1,005.341 with respect to the Russell 2000® Index and 2,076.367 with respect to the EURO STOXX 50® Index (in each case, 65.00% of such index's initial index level (rounded to the nearest one-thousandth))

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Coupon

\$0.2375 (2.375% quarterly or 9.50% per annum)

Neither a market disruption event nor a non-trading day occurs during any quarterly observation period or on the originally scheduled determination date

No change in or affecting any of the index stocks or the method by which the applicable index sponsor calculates any index

Notes purchased on original issue date at the face amount and held to the stated maturity date

For these reasons, the actual performance of the indices over the life of your notes, the actual index levels on any trading day during a quarterly observation period, as well as the coupon payable, if any, on each coupon payment date, may bear little relation to the hypothetical examples shown below or to the historical index levels shown elsewhere in this prospectus supplement. For information about the index levels during recent periods, see [The Indices Historical Closing Levels of the Indices](#) on page S-55. Before investing in the notes, you should consult publicly available information to determine the index levels between the date of this prospectus supplement and the date of your purchase of the notes.

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Also, the hypothetical examples shown below do not take into account the effects of applicable taxes. Because of the U.S. tax treatment applicable to your notes, tax liabilities could affect the after-tax rate of return on your notes to a comparatively greater extent than the after-tax return on the index stocks.

Hypothetical Coupon Payments

With respect to each \$10 face amount of notes, the examples below show hypothetical coupons, if any, that we would pay on a coupon payment date if the lowest closing levels of the indices during the applicable quarterly observation period were the hypothetical closing levels shown.

Scenario 1

Hypothetical Quarterly Observation Period	Lowest Hypothetical Closing Level of the S&P 500® Index During the Applicable Quarterly Observation Period	Lowest Hypothetical Closing Level of the Russell 2000® Index During the Applicable Quarterly Observation Period	Lowest Hypothetical Closing Level of the EURO STOXX 50® Index During the Applicable Quarterly Observation Period	Hypothetical Coupon Paid on Related Coupon Payment Date						
First	2,500	650	3,200	\$0.0000						
Second	1,700	600	2,000	\$0.0000						
Third	2,000	1,200	3,600	\$0.2375						
Fourth	1,000	1,100	3,000	\$0.0000						
Fifth	2,100	<p>19</p> <p>the Company. All percentages have been calculated as of February 1, 2003 and are based upon 68,149,232 shares of Common Stock outstanding at the close of business on such date (unless otherwise indicated).</p> <table border="1"> <thead> <tr> <th>Name and Business Address of Beneficial Owner</th> <th>Number of Shares of Common Stock Beneficially Owned (1)</th> <th>Percent of Class (%)</th> </tr> </thead> <tbody> <tr> <td> </td> <td> </td> <td> </td> </tr> </tbody> </table>			Name and Business Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned (1)	Percent of Class (%)			
Name and Business Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned (1)	Percent of Class (%)								

Name and Business Address of Beneficial Owner	Number of Shares of Common Stock Beneficially Owned (1)	Percent of Class (%)
Bryce Blair	459,404(2)	*
Bruce A. Choate	49,500(3)	*
Samuel B. Fuller	279,344(4)	*
John J. Healy, Jr.	58,000(5)	*
Leo S. Horey	160,872(6)	*
Gilbert M. Meyer	1,454,965(7)	2.1
Timothy J. Naughton	278,896(8)	*
Charles D. Peebler, Jr.	12,000(9)	*
Lance R. Primis	46,000(10)	*
Thomas J. Sargeant	336,059(11)	*
Allan D. Schuster	61,606(12)	*
Amy P. Williams	12,000(13)	*
All directors and executive officers as a group (14 persons)	3,248,690(14)	4.6
Morgan Stanley 1585 Broadway, New York, NY 10036	5,930,086(15)	8.7
LaSalle Investment Management, Inc. 200 East Randolph Drive, Chicago, IL 60601	5,561,077(16)	8.2
Cohen & Steers Capital Management, Inc. 757 Third Avenue, New York, NY 10017	4,214,840(17)	6.2
* Less than one percent		
(1) Except as otherwise noted, each individual in the table above has the sole voting and investment power over the shares listed.		
(2) Includes (i) 351,743 shares issuable upon the exercise of stock options that		

		<p>vest on or before April 1, 2003 and (ii) 870 shares held indirectly for minor children.</p> <p>(3) Includes 48,000 shares issuable upon the exercise of stock options that vest on or before April 1, 2003. Does not include 14,140 shares issuable in the future under deferred stock awards granted to Mr. Choate in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.</p> <p>(4) Includes 224,564 shares issuable upon the exercise of stock options that vest on or before April 1, 2003.</p> <p>(5) Includes 52,000 shares issuable upon the exercise of stock options that vest on or before April 1, 2003. Does not include 10,204 shares issuable in the future under deferred stock awards granted to Mr. Healy in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.</p> <p>(6) Includes (i) 119,418 shares issuable upon the exercise of stock options that vest on or before April 1, 2003 and (ii) 21,427 shares owned jointly with spouse.</p> <p>(7) Includes (i) 478,400 shares issuable upon the exercise of stock options that vest on or before April 1, 2003 and (ii) 976,565 shares owned jointly with spouse. Does not include 29,180 shares issuable in the future under deferred stock awards granted to Mr. Meyer in lieu of restricted stock awards pursuant to elections made under the Stock Incentive Plan.</p> <p style="text-align: center;">20</p> <hr/> <p>(8) Includes 222,192 shares issuable upon the exercise of stock options that vest on or before April 1, 2003.</p> <p>(9) Includes 7,000 shares issuable upon the exercise of stock options that vest on or</p>
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		<p>before April 1, 2003. Does not include 2,626 shares issuable in the future under deferred stock awards granted to Mr. Peebler in lieu of a restricted stock award pursuant to an election under the Stock Incentive Plan.</p>
	(10)	Includes 37,000 shares issuable upon the exercise of stock options that vest on or before April 1, 2003.
	(11)	Includes (i) 277,199 shares issuable upon the exercise of stock options that vest on or before April 1, 2003, (ii) 1,352 shares held by Mr. Sargeant's spouse and (iii) 1,382 shares held in trust for minor children.
	(12)	Includes 52,366 shares issuable under the exercise of stock options that vest on or before April 1, 2003. Does not include 7,264 shares issuable in the future under deferred stock awards granted to Mr. Schuster in lieu of restricted stock awards pursuant to elections under the Stock Incentive Plan.
	(13)	Includes 7,000 shares issuable upon the exercise of stock options that vest on or before April 1, 2003.
	(14)	Includes 1,903,474 shares issuable upon the exercise of stock options that vest on or before April 1, 2003.
	(15)	<p>The information reported includes 5,307,348 shares beneficially owned by Morgan Stanley Investment Management Inc. ("Morgan Stanley Investment"), a wholly owned subsidiary of Morgan Stanley. Information reported is based upon a Schedule 13G filed with the SEC on February 28, 2003 reporting beneficial ownership as of December 31, 2002. The Schedule 13G indicates that Morgan Stanley Investment is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940 and Morgan Stanley is a parent holding company. The Schedule 13G also indicates that (i) Morgan Stanley has shared dispositive power with respect to 5,930,086 shares and shared voting</p>

power with respect to 4,937,091 shares and (ii) Morgan Stanley Investment has shared dispositive power with respect to 5,676,933 shares and shared voting power with respect to 4,345,653 shares.

(16)

The information reported includes 4,545,495 shares beneficially owned by LaSalle Investment Management (Securities), L.P. ("LaSalle Securities"), a Maryland limited partnership, the limited partner of which is LaSalle Investment Management, Inc. ("LaSalle"). Information reported is based upon a Schedule 13G filed with the SEC on February 13, 2003 reporting beneficial ownership as of December 31, 2002. The Schedule 13G indicates that the reporting entities are investment advisers registered under Section 203 of the Investment Advisers Act of 1940. The Schedule 13G also indicates that (i) LaSalle has shared dispositive power with respect to 1,015,582 shares and shared voting power with respect to 243,458 shares and (ii) LaSalle Securities has shared dispositive power with respect to 4,545,495 shares and shared voting power with respect to 4,367,786 shares.

(17)

The information reported is based upon a Schedule 13G filed with the SEC on February 14, 2003 reporting beneficial ownership as of December 31, 2002. This Schedule 13G indicates that the reporting entity is an investment adviser registered under Section 203 of the Investment Advisers Act of 1940. The Schedule 13G also indicates that the reporting entity has sole dispositive power with respect to all of the shares and sole voting power with respect to 3,617,940 of the shares. The reporting entity has no shared dispositive or shared voting power with respect to the shares.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires persons who are officers of the Company as defined by Section 16, directors and persons who own more than 10% of a registered class of the

Company's equity securities (collectively, "Insiders") to file reports of ownership and changes in ownership with the SEC and one national securities exchange on which such securities are registered. In accordance with Rule 16a-3(c) under the Exchange Act, the Company has designated the NYSE as the national securities exchange with which reports pursuant to Section 16(a) of the Exchange Act need to be filed. Insiders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file. To the Company's knowledge, based solely on a review of copies of such reports and written representations that no other reports were required during the fiscal year ended December 31, 2002, all filing requirements applicable to the Insiders were timely satisfied.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Purchase of Mortgage Loan.

Mr. Blair is a partner of an entity that is the general partner of Arbor Commons Associates Limited Partnership ("Arbor Commons Associates"). Concurrently with Avalon Properties' initial public offering in November 1993 (the "Avalon Properties Offering"), Avalon Properties purchased an existing participating mortgage loan made to Arbor Commons Associates that was originated by CIGNA Investments, Inc. The mortgage loan is secured by Arbor Commons Associates' interests in the Avalon Arbor community. Avalon Properties purchased the mortgage loan from the lender, rather than purchasing the Avalon Arbor community from Arbor Commons Associates, to avoid the current recapture of certain low income housing tax credits by certain unaffiliated third party investors. The mortgage loan accrues interest at a fixed rate of 10.2% per annum, payable at 9% per annum. As of February 1, 2003, the outstanding amount of the mortgage loan, including principal and interest, was approximately \$26.5 million. During 2002, the largest amount outstanding under the loan was approximately \$26.9 million. Under the terms of the loan, the Company (as successor to Avalon Properties) receives (as contingent interest) 50% of the cash flow after the 10.2% accrual rate is paid and 50% of the residual profits upon the sale of the community. In addition, the Company manages the Avalon Arbor community and received approximately \$205,000 in 2002 from Arbor Commons Associates for rendering such management services.

Indebtedness of Management.

During 2002, the Company maintained a loan program that was available on a voluntary basis to any employee who received restricted stock awards under the Stock Incentive Plan ("Grant Awards"). Under the program, the Company loaned amounts to participating employees ("Stock Loans") for the sole purpose of financing the employees' estimated tax withholding liabilities related to the vesting of Grant Awards. Under the terms of the loan program Stock Loans were made for one-year terms; were secured by a pledge to the Company by the borrower of the stock that vested and gave rise to the tax withholding liabilities with respect to which the borrower received the Stock Loan (the "Pledged Stock"); and were a personal full recourse obligation of the borrower such that the Company's recourse under the notes for repayment of the Stock Loans was not limited to the Pledged Stock. Dividends on the Pledged Stock, as well as dividends on all unvested shares of stock that were from the same restricted stock grant as the Pledged Stock, were paid to the Company and applied first towards interest, late fees and other charges, and then to outstanding principal on the Stock Loan. The interest rate for loans made in 2002 was 3.69% (5.43% for Stock Loans made in 2001).

In accordance with the prohibition contained in the Sarbanes-Oxley Act of 2002 against loans by a corporation to its executive officers, Stock Loans to executive officers were not renewed and, accordingly, all Stock Loans to executive officers matured and were fully repaid on or prior to March 1,

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2003. All other employees were permitted to roll over existing loan balances for one additional year, through March 1, 2004. No new amounts were advanced to any employees in 2003 under the Stock Loan Program, and the Company expects to discontinue the program after existing balances are repaid in 2004.

During 2002, the largest amounts outstanding under the Stock Loans made to the Company's executive officers were as follows: Mr. Blair \$201,686; Mr. Naughton \$87,507; Mr. Sargeant \$121,152; Mr. Fuller \$157,180; and Mr. Horey \$123,991.

Pursuant to a Promissory Note and Pledge and Security Agreement dated June 15, 2000, the Company advanced to Mr. Fuller \$450,000, of which approximately \$79,000 was used to repay

amounts he had previously borrowed under the Stock Loan program described above and approximately \$371,000 was used for personal purposes. The loan was subject to interest at the rate of 6.49% per annum, which was the Long Term Applicable Federal Rate in effect at the time the loan was made. This was a full recourse loan, and it was secured by a pledge of shares of Common Stock owned by Mr. Fuller as well as Mr. Fuller's rights in certain employee stock options (including options subject to vesting). Dividends on the Common Stock securing the loan were applied to payment of interest and principal on the loan. During 2002, the largest amount outstanding under this loan was \$371,747. This loan, and all other amounts Mr. Fuller had previously borrowed under the Stock Loan program described above, were paid in full as of December 31, 2002.

Indirect Grant and Sale of Interests in Realeum, Inc.

The Company, together with other leading real estate investment trusts, formed Realeum, Inc. ("Realeum") to develop a web-based property management operating solution. On August 18, 2000, Realeum received third-party venture capital financing, which reduced the Company's equity stake in Realeum to a minority position. In subsequent third-party venture capital financings, the Company has invested approximately \$2,400,000 in Realeum. Following such financings, the Company continued to have a minority equity interest in Realeum. In connection with the formation of Realeum, the Company transferred 991,750 shares of non-voting common stock in Realeum (approximately 12% of the Company's then current holdings in Realeum) to a newly formed entity, AVB Realeum Employee LLC (the "Employee LLC"). The Employee LLC then granted or sold 991,750 "LLC shares," representing all of the membership interests in the Employee LLC, to associates of the Company. Specifically, the Company granted 1,000 LLC shares to 99 associates (including officers of the Company) and sold 891,750 LLC shares to officers of the Company. The value of the non-voting common stock, as determined by the Company and the Realeum Board of Directors, was \$0.33 per share. Although each LLC share in the Employee LLC results in an indirect economic interest in one non-voting share of common stock of Realeum, the Company as managing member of the Employee LLC has complete power over the disposition or, where applicable, voting of the Realeum shares held by the Employee LLC. Messrs. Blair, Naughton, Fuller and Horey purchased 83,317, 58,389, 58,389 and 51,749 LLC shares, respectively. (Mr. Sargeant did not receive a

grant of LLC shares nor did he have the opportunity to purchase LLC shares. However, in his capacity as a director of Realeum, Mr. Sargeant received directly from Realeum a grant of 418,171 restricted shares of Realeum common stock that are subject to vesting.)

The 1,000 LLC shares granted to each of 99 associates vest over four years. Upon a termination of employment, the unvested LLC shares are forfeited (except in the case of a termination by the Company without Cause) and the vested LLC shares are subject to a one-year repurchase right by the Company for fair market value. The LLC shares that were purchased by officers also vest over four years. Upon a termination of employment, the Company will have the right (i) to purchase any vested LLC shares for fair market value during the following year, and (ii) to repurchase any unvested LLC shares for the lesser of (a) fair market value or (b) their original purchase price plus an amount in the

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nature of interest thereon at 8% per annum. As part of his departure arrangements, the Company agreed that it will not repurchase the LLC Shares owned by Mr. Michaux.

Consulting and Non-Competition Arrangement with Mr. Meyer.

In March 2000, the Company and Mr. Meyer announced that Mr. Meyer would retire as Executive Chairman of the Company in May 2000. Although Mr. Meyer ceased his day-to-day involvement with the Company as an executive officer, Mr. Meyer continues to serve as a director and is standing for re-election as a director. In addition, pursuant to a consulting agreement, Mr. Meyer agreed to serve as a consultant to the Company for three years following his retirement. In such capacity he assists with respect to transitional matters that may arise in connection with his retirement, he responds to requests for assistance or information concerning business matters with which he became familiar while employed, and he provides business advice and counsel to the Company with respect to business strategies and acquisitions, dispositions, development and redevelopment of multifamily rental properties. In addition, Mr. Meyer agreed that during the three-year consulting period he would not participate, as an officer, employee, consultant or in any other manner, in the affairs of a

publicly-traded REIT or publicly-traded real estate company that, in either case, is primarily or significantly involved in the ownership, operation, management or rental of multifamily apartment homes. During the three-year consulting and noncompetition arrangement, the Company paid to Mr. Meyer an annual fee of \$1,395,000. In addition, in recognition of extra efforts that were needed during the first four calendar quarters of his retirement on account of transitional matters, the Company paid to Mr. Meyer an additional 5,880 shares of Common Stock per calendar quarter. In addition to the consulting agreement, in connection with Mr. Meyer's retirement the Company also entered into a Mutual Release and Separation Agreement and a Retirement Agreement (see "Employment Agreements and Severance Arrangements"). Pursuant to the Retirement Agreement, additional noncompetition arrangements of a more restrictive nature than described above will apply for so long as Mr. Meyer serves as a director of the Company.

INDEPENDENT PUBLIC ACCOUNTANTS

On May 29, 2002, Arthur Andersen LLP ("Arthur Andersen") was dismissed and Ernst & Young LLP ("Ernst & Young") was engaged as the principal independent accountant for the Company. The decision to change accountants was recommended by the Company's Audit Committee and unanimously approved by the Company's Board of Directors.

The reports of Arthur Andersen on the financial statements of the Company for the years ended December 31, 2001 and 2000 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the Company's fiscal years ended December 31, 2001 and 2000, and the subsequent interim period through May 29, 2002, there were no disagreements with Arthur Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures, which disagreements, if not resolved to the satisfaction of Arthur Andersen, would have caused Arthur Andersen to make reference to the subject matter of the disagreements in connection with its reports. None of the reportable events described in Item 304(a)(1)(v) of Regulation S-K occurred during the fiscal years ended December 31, 2001 and 2000, or the subsequent interim period through May 29, 2002.

During the Company's fiscal years ended December 31, 2001 and 2000, and the subsequent interim period through May 29, 2002, Ernst & Young had not been engaged as an independent accountant to audit either the Company's financial statements or the financial statements of any of its consolidated subsidiaries, nor had Ernst & Young been consulted regarding the application of the Company's accounting principles to a specified transaction, either completed or proposed, or the type of audit

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opinion that might be rendered on the Company's financial statements, or any other matters or reportable events listed in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Representatives of Ernst & Young are expected to be present at the Annual Meeting and will have the opportunity to make a statement if they desire to do so. They are also expected to be available to respond to appropriate questions. Representatives of Arthur Andersen are not expected to be present at the Annual Meeting.

OTHER MATTERS

Solicitation of Proxies

The cost of solicitation of proxies for the Annual Meeting will be paid by the Company. In addition to the solicitation of proxies by mail, the directors, officers and employees of the Company may also solicit proxies personally or by telephone without additional compensation for such activities. The Company will also request persons, firms, and corporations holding shares in their names or in the names of their nominees, which are beneficially owned by others, to send proxy materials to and obtain proxies from such beneficial owners. The Company will reimburse such holders for their reasonable expenses.

Stockholder Proposals for Annual Meetings

Stockholder proposals submitted pursuant to Exchange Act Rule 14a-8 for inclusion in the Company's proxy statement and form of proxy for the 2004 annual meeting of stockholders must be received by the Company by November 28, 2003. Such a proposal must also comply with the requirements as to form and substance established by the SEC for such a proposal to be included in the proxy statement and form of

proxy.

In accordance with our current Bylaws, for a proposal of a stockholder to be raised from the floor and presented at the Company's 2004 annual meeting of stockholders, other than a stockholder proposal intended to be included in our proxy statement and submitted pursuant to Rule 14a-8 of the Exchange Act, a stockholder's notice must be delivered to, or mailed and received at, the principal executive offices of the Company, together with all supporting documentation required by the Company's Bylaws, (A) not prior to November 28, 2003 nor later than December 28, 2003 or (B) in the event that the notice for the 2004 annual meeting of stockholders is sent out more than 30 days prior to or after March 27, 2004, (i) not earlier than the close of business on the 120th day prior to the date on which notice of the date of such meeting is mailed to stockholders, and (ii) not later than the close of business on the later of (x) the 90th day prior to the date of mailing of the notice for such annual meeting or (y) the 10th day following the day on which public announcement of the date of mailing of the notice for such annual meeting is first made. You may contact the Company's Secretary at the address mentioned below for a copy of the relevant Bylaw provisions regarding the requirements for making stockholder proposals and nominating director candidates. Any such proposals should be mailed to: AvalonBay Communities, Inc., 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia 22314, Attention: Secretary.

Other Matters to be Presented

The Board of Directors does not know of any matters other than those described in this Proxy Statement which will be presented for action at the Annual Meeting. If other matters are presented, proxies will be voted in accordance with the discretion of the proxy holders.

Regardless of the number of shares you own, your vote is important to the Company. Please complete, sign, date and promptly return the enclosed proxy card or authorize a proxy by telephone or over the Internet to vote your shares by following the instructions on your proxy card.

**AVALONBAY COMMUNITIES, INC.
AUDIT COMMITTEE CHARTER**

(Adopted by the Board of Directors at a Meeting held on December 12, 2002)

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**AVALONBAY COMMUNITIES, INC.
AUDIT COMMITTEE CHARTER**

Adopted by the Board of Directors at a Meeting held on December 12, 2002

I. General Statement of Purpose

The purposes of the Audit Committee of the Board of Directors (the "*Committee*") of AvalonBay Communities, Inc. (the "*Company*") are to:

assist the Board of Directors (the "*Board*") in its oversight of (1) the integrity of the Company's financial statements, (2) the Company's compliance with legal and regulatory requirements, (3) the qualifications, independence and performance of the Company's independent auditors, and (4) the performance of the Company's internal audit function; and

prepare the report required by the rules of the Securities and Exchange Commission (the "SEC") to be included in the Company's annual proxy statement.

II. Composition and Committee Mechanics

A. Number of Members; Requirements; Limitation on Outside Compensation. The Audit Committee shall consist of at least three (3) members of the Board, each of whom shall satisfy the independence requirements established by the New York Stock Exchange Listed Company

Manual for listing on the exchange. Each member of the Audit Committee shall be financially literate (or shall become financially literate within a reasonable period of time after his or her appointment to the Audit Committee), as such qualification is interpreted by the Board in its business judgment. At least one member of the Audit Committee shall meet the requirements for being a "financial expert" under the rules promulgated by the SEC, unless the Board affirmatively determines otherwise and discloses such matter in the Company's annual proxy statement.

No member of the Audit Committee may simultaneously serve on the audit committee of more than two other issuers having securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "*Exchange Act*"), unless the Board determines that such simultaneous service would not impair the ability of such member to effectively serve on the Audit Committee.

A member of the Audit Committee may not, other than in his or her capacity as a director, receive from the Company any consulting, advisory or other compensatory fee.

B. Appointment and Removal; Chair. The members of the Audit Committee shall be appointed annually, or as needed when vacancies occur, by the Board following consideration of the recommendations of the Nominating and Corporate Governance Committee and may be replaced or removed by the Board with or without cause. Resignation or removal of a Director from the Board, for whatever reason, shall automatically and without any further action constitute resignation or removal, as applicable, from the Audit Committee. The Board shall designate one member of the Audit Committee to be Chairman of the committee. The Chairman shall set the agendas for Committee meetings and, unless not in attendance due to unexpected circumstances, shall chair all regular sessions of the Committee.

C. Delegation to Subcommittees. The Audit Committee may form and delegate authority to subcommittees

consisting of one or more members when appropriate, including the authority to grant preapprovals of audit and permitted non-audit services, provided that decisions of such subcommittee to grant preapprovals shall be presented to the full Audit Committee at its next scheduled meeting.

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III. Meetings

The Audit Committee shall meet as often as it determines is appropriate to carry out its responsibilities under this charter, but not less frequently than quarterly. A majority of the members of the Audit Committee shall constitute a quorum for purposes of holding a meeting and the Audit Committee may act by a vote of a majority of the members present at such meeting. In lieu of a meeting, the Audit Committee may act by unanimous written consent.

Periodically, the Audit Committee shall also meet separately with management, with internal auditors (or other personnel responsible for the internal audit function) and with the independent auditors.

All independent directors who are not members of the Committee may attend meetings of the Committee, but may not vote. In addition, the Committee may invite to its meetings any director, member of management of the Company, and such other persons as it deems appropriate in order to carry out its responsibilities. The Committee may also exclude from its meetings any persons it deems appropriate in order to carry out its responsibilities.

IV. Oversight of the Independent Auditor

The Audit Committee shall have the sole authority to appoint or replace the independent auditor. The Audit Committee shall pre-approve all auditing services and permitted non-audit services (including the fees and terms thereof) to be performed for the Company by its independent

auditor, subject to the de minimus exceptions for non-audit services described in Section 10A(i)(1)(B) of the Exchange Act which are approved by the Audit Committee prior to the completion of the audit.

The Audit Committee shall be directly responsible for the compensation and oversight of the work of the independent auditor (including resolution of disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work.

The independent auditor shall report directly to the Audit Committee.

V. Additional Authority and Responsibilities

The Audit Committee, to the extent it deems necessary or appropriate, shall:

A. Financial Statements and Disclosures

1. Review and discuss with management and the independent auditor the annual audited financial statements, as well as disclosures made in management's discussion and analysis, and recommend to the Board whether the audited financial statements should be included in the Company's Form 10-K.
2. Review and discuss with management and the independent auditor the Company's quarterly financial statements, as well as disclosures made in management's discussion and analysis and the results of the independent auditor's review

		<p>of the quarterly financial statements, prior to the filing of its Form 10-Q.</p> <p>3.</p> <p>Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the Company's financial statements, including any significant changes in the Company's selection or application of accounting principles, any major issues as to the adequacy of the Company's internal controls and any special steps adopted in light of material control deficiencies.</p> <p>A-3</p>
		<p>4.</p> <p>Review and discuss quarterly reports from the independent auditors on:</p> <p>a.</p> <p>All critical accounting policies and practices to be used.</p> <p>b.</p> <p>All alternative treatments of financial information within generally accepted accounting principles that have been discussed with management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor.</p> <p>c.</p> <p>Other material written communications between the</p>

independent auditor and management, such as any management letter or schedule of unadjusted differences.

5. Discuss with management the Company's earnings press releases, including the use of "pro forma" or "adjusted" non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies. Such discussion may be done generally (consisting of discussing the types of information to be disclosed and the types of presentations to be made) and may include, in the Committee's discretion, the discussion of terms commonly used by real estate investment trusts to describe results of operations such as Funds from Operations, same store results, net operating income and EBITDA.

6. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures on the Company's financial statements.

7. Discuss with management the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the Company's risk assessment and risk management policies. The Committee may also review and make recommendations to the full Board of Directors regarding director and officer indemnification and insurance matters.

8.

		<p>Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61 relating to the conduct of the audit, including any difficulties encountered in the course of the audit work, any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.</p> <p>9. Review disclosures made to the Audit Committee by the Company's CEO and CFO during their certification process for the Form 10-K and Form 10-Q about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the Company's internal controls.</p> <p>B. Company's Relationship with the Independent Auditor</p> <p>10. Review and evaluate the lead partner of the independent auditor team.</p> <p>11. Obtain and review a report from the independent auditor at least annually regarding (a) the independent auditor's internal quality-control procedures, (b) any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the independent auditor and the</p>
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		<p>Company. Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of permitted non-audit services is compatible with maintaining the auditor's independence, and taking into account the opinions of management and internal auditors. The</p> <p style="text-align: center;">A-4</p>
		<p>Audit Committee shall present its conclusions with respect to the independent auditor to the Board.</p> <p>12. Ensure the rotation of the lead (or coordinating) audit partner having primary responsibility for the audit and the audit partner responsible for reviewing the audit as required by law. Consider whether, in order to assure continuing auditor independence, it is appropriate to adopt a policy of rotating the independent auditing firm on a regular basis.</p> <p>13. Recommend to the Board policies for the Company's hiring of employees or former employees of the independent auditor who participated in any capacity in the audit of the Company.</p> <p>14. Discuss with the national office of the independent auditor significant issues on which they were consulted by the Company's audit team and matters of audit quality and consistency.</p> <p>15. Meet with the independent auditor prior to the audit to discuss the planning and</p>

staffing of the audit.

C. Internal Audit Function

16. Review the Company's internal auditing function.

17. Review any significant reports to management prepared by the person(s) or firm performing the internal auditing function and management's responses.

18. Discuss with the independent auditor and management the internal auditing function and its responsibilities, budget and staffing and any recommended changes in the planned scope of the internal audit.

D. Compliance Matters

19. Obtain from the independent auditor assurance that Section 10A(b) of the Exchange Act has not been implicated.

20. Discuss with management and the independent auditor legal and regulatory requirements applicable to the Company and its subsidiaries and the Company's compliance with such requirements. After these discussions, the Audit Committee may, if it determines it to be appropriate, make recommendations to the Board with respect to the Company's policies and procedures regarding compliance with applicable laws and regulations. The Audit Committee shall discuss with management legal matters (including pending or threatened litigation) that may have a material effect on the Company's financial statements or its compliance

policies and procedures.

21.

Establish procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

V. Additional Matters

A. Reports to the Full Board. The Committee shall report regularly to the Board of Directors with respect to matters that are relevant to the Committee's discharge of its responsibilities and with respect to such recommendations as the Committee may deem appropriate. The report to the Board of Directors may take the form of an oral report by the Chairman or any other member of the Committee designated by the Committee to make such report.

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B. Minutes. The Committee shall maintain minutes or other records of meetings and activities of the Committee.

C. Evaluate Performance of Committee and Review Charter. The Committee shall perform a review and evaluation, at least annually, of the performance of the Committee, including by reviewing the compliance of the Committee with this Charter. In addition, the Committee shall review and reassess, at least annually, the adequacy of this Charter and recommend to the Board any amendments or modifications to this Charter that the Committee deems appropriate. The Committee shall conduct such evaluations and reviews in such manner as it deems appropriate.

D. Resources. In discharging its responsibilities, the Audit Committee shall be entitled to rely upon advice and information that it receives in its discussions and communications with management and such experts, advisors and professionals with whom the Committee may consult. The Committee shall have the authority to request that any officer or employee of the Company, the Company's outside legal counsel,

the Company's independent auditor or any other professional retained by the Company to render advice to the Company attend a meeting of the Committee or meet with any members of or advisors to the Committee. The Committee shall also have the authority to engage legal, accounting or other advisors to provide it with advice, information and other assistance in connection with carrying out its responsibilities. The Company shall provide for appropriate funding, as determined by the Audit Committee, for payment of compensation to the independent auditor for the purpose of rendering or issuing an audit report and to any advisors employed by the Audit Committee.

E. Other. The Audit Committee may perform such other functions as may be requested by the Board from time to time.

F. Limitation of Audit Committee's Role. While the Audit Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Committee to plan or conduct audits or to determine that the Company's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. These are the responsibilities of management and the independent auditor.

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**AVALONBAY
COMMUNITIES, INC.
2900 EISENHOWER
AVENUE
SUITE 300
ALEXANDRIA, VA
22314**

Please take a moment now to authorize a proxy to vote your shares of AvalonBay Communities, Inc. common stock at the 2003 Annual Meeting of Stockholders.

**YOU CAN
AUTHORIZE A PROXY
TO VOTE
YOUR SHARES
TODAY IN ONE OF
THREE WAYS:**

**VOTE BY INTERNET -
www.proxyvote.com**

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you access the web site. You will be prompted to enter your 12-digit Control Number which is located below to

obtain your records and to create an electronic voting instruction form.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the meeting date. Have your proxy card in hand when you call. You will be prompted to enter your 12-digit Control Number which is located below and then follow the simple instructions the Vote Voice provides you.

VOTE BY MAIL

Mark, sign, and date your proxy card and return it in the postage-paid envelope we have provided or return it to AvalonBay Communities, Inc., c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: AVALN3 KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY
THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

AVALONBAY COMMUNITIES, INC.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 1

- | | | | | |
|---|----------------|---------------------|-----------------------|--|
| 1. To elect the following eight individuals to serve until the 2004 Annual Meeting of Stockholders and until their respective successors are elected and qualify: | For All | Withhold All | For All Except | To withhold authority to vote, mark "For All Except" and write the nominee's number on the line below. |
| | o | o | o | |

(01) Bryce Blair, (02) Bruce A. Choate, (03) John J. Healy, Jr., (04) Gilbert M. Meyer, (05) Charles D. Peebler, Jr., (06) Lance R. Primis, (07) Allan D. Schuster, and (08) Amy P. Williams.

2. To vote and otherwise represent the undersigned on any other matter that may properly come before the Annual Meeting or any adjournment or postponement thereof in the discretion of the proxy holder.

Please sign exactly as your name appears on this card. When signing as attorney, executor, administrator, trustee or guardian, please give your full title. If shares are held jointly, each holder should sign. If executed by a company or partnership, the proxy should be executed in the full corporate or partnership name and signed by a duly authorized person, stating his or her title or authority.

Please indicate if
you plan to attend
this meeting

Yes	No
o	o

Signature	Date	Signature	Date
[PLEASE SIGN WITHIN BOX]		(Joint Owners)	

AVALONBAY COMMUNITIES, INC.

**ANNUAL MEETING OF STOCKHOLDERS,
MAY 14, 2003, 10:00 A.M. LOCAL TIME.**

**THIS PROXY IS SOLICITED ON BEHALF OF
THE BOARD OF DIRECTORS**

P R O X Y

The undersigned hereby appoints Bryce Blair, Timothy J. Naughton, and Thomas J. Sargeant, and each of them, as proxies for the undersigned, each with full power of substitution, to represent and vote all shares of common stock, par value \$0.01 per share, of AvalonBay Communities, Inc. (the "Company") held of record by the undersigned as of the close of business on March 17, 2003 and which the undersigned is entitled to vote only at the Annual Meeting of Stockholders (the "Annual Meeting"), to be held at The Ritz-Carlton Marina del Rey, Marina del Rey, California on May 14, 2003, 10:00 a.m. local time, and any adjournments or postponements thereof, with all of the powers the undersigned would possess if personally present at the

Annual Meeting. The undersigned hereby acknowledges receipt of the Notice of the Annual Meeting of Stockholders and of the Proxy Statement and revokes any proxy heretofore given with respect to the Annual Meeting.

WHEN PROPERLY EXECUTED, THIS PROXY WILL BE VOTED AS DIRECTED HEREIN BY THE UNDERSIGNED, BUT IF NO INSTRUCTIONS ARE SPECIFIED, THIS PROXY WILL BE VOTED "FOR" PROPOSAL 1. IF ANY OTHER BUSINESS IS PRESENTED AT THE ANNUAL MEETING OR ANY ADJOURNMENT OR POSTPONEMENT THEREOF, INCLUDING WHETHER OR NOT TO ADJOURN THE ANNUAL MEETING, THIS PROXY WILL BE VOTED BY THE PROXIES IN THEIR DISCRETION. AT THE PRESENT TIME, THE BOARD OF DIRECTORS IS NOT AWARE OF ANY OTHER BUSINESS TO BE PRESENTED AT THE ANNUAL MEETING. THIS PROXY ALSO CONFERS DISCRETIONARY AUTHORITY ON THE PROXIES TO VOTE WITH RESPECT TO THE ELECTION OF ANY PERSON AS DIRECTOR WHERE ONE OR MORE NOMINEES ARE UNABLE TO SERVE, OR FOR GOOD CAUSE WILL NOT SERVE, AND WITH RESPECT TO MATTERS INCIDENTAL TO THE CONDUCT OF THE ANNUAL MEETING. STOCKHOLDERS WHO PLAN TO ATTEND THE ANNUAL MEETING MAY REVOKE THEIR PROXY BY CASTING THEIR VOTE AT THE ANNUAL MEETING IN PERSON.

SEE REVERSE SIDE	PLEASE COMPLETE, DATE, SIGN AND PROMPTLY MAIL THIS PROXY IN THE ENCLOSED POSTAGE-PAID ENVELOPE	SEE REVERSE SIDE
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**AVALONBAY
COMMUNITIES, INC.
2900 EISENHOWER
AVENUE
SUITE 300
ALEXANDRIA, VA
22314**

Please take a moment now to authorize a proxy to vote your shares of AvalonBay Communities, Inc. common stock at the 2003 Annual Meeting of Stockholders.

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AVALONBAY COMMUNITIES, INC.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" PROPOSAL 1

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	o	o	o	

successors are elected and qualify:
 (01) Bryce Blair, (02) Bruce A. Choate, (03) John J. Healy, Jr., (04) Gilbert M. Meyer, (05) Charles D. Peebler, Jr., (06) Lance R. Primis, (07) Allan D. Schuster, and (08) Amy P. Williams.

the line below.

2. To vote and otherwise represent the undersigned on any other matter that may properly come before the Annual Meeting or any adjournment or postponement thereof in the discretion of the proxy holder.

Please sign exactly as your name appears on this card. When signing as attorney, executor, administrator, trustee or guardian, please give your full title. If shares are held jointly, each holder should sign. If executed by a company or partnership, the proxy should be executed in the full corporate or partnership name and signed by a duly authorized person, stating his or her title or authority.

	Yes	No		Yes	No
HOUSEHOLDING ELECTION -	Go	o	Please indicate if you plan to attend this meeting	o	o
Please indicate if you consent to receive certain future investor communications in a single package per household					

Signature	Date	Signature	Date
[PLEASE SIGN WITHIN BOX]		(Joint Owners)	

AVALONBAY COMMUNITIES, INC.

**ANNUAL MEETING OF STOCKHOLDERS,
 MAY 14, 2003, 10:00 A.M. LOCAL TIME.
 THIS PROXY IS SOLICITED ON BEHALF OF
 THE BOARD OF DIRECTORS**

P R O X Y

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of common stock, par value \$0.01 per share, of AvalonBay Communities, Inc. (the "Company") held of record by the undersigned as of the close of business on March 17, 2003 and which the undersigned is entitled to vote only at the Annual Meeting of Stockholders (the "Annual Meeting"), to be held at The Ritz-Carlton Marina del Rey, Marina del Rey, California on May 14, 2003, 10:00 a.m. local time, and any adjournments or postponements thereof, with all of the powers the undersigned would possess if personally present at the Annual Meeting. The undersigned hereby acknowledges receipt of the Notice of the Annual Meeting of Stockholders and of the Proxy Statement and revokes any proxy heretofore given with respect to the Annual Meeting.

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QuickLinks

- [PROPOSAL 1 ELECTION OF DIRECTORS](#)
- [Summary Compensation Table](#)
- [Aggregated Option Exercises in Fiscal Year 2002 and Fiscal Year-End 2002 Option Values](#)
- [CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS](#)
- [INDEPENDENT PUBLIC ACCOUNTANTS](#)

		<u>OTHER MATTERS</u>
		<u>Appendix</u>