

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 1997

COMMISSION FILE NUMBER 1-12672

BAY APARTMENT COMMUNITIES, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

<TABLE>

<S>

<C>

MARYLAND 77-0404318
(STATE OF INCORPORATION) (I.R.S. EMPLOYER IDENTIFICATION NO.)

</TABLE>

4340 STEVENS CREEK BLVD., #275, SAN JOSE, CALIFORNIA 95129
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE)

408-983-1500
(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

N/A
(FORMER NAME, FORMER ADDRESS AND FORMER FISCAL YEAR, IF CHANGED SINCE LAST
REPORT)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding twelve (12) months (or such shorter period that the
Registrant was required to file such reports) and (2) has been subject to such
filing requirements for the past ninety (90) days:

Yes [X] No []

APPLICABLE ONLY TO CORPORATE ISSUERS

Indicate the number of shares outstanding of each of the issuer's classes
of common stock, as of the latest
practicable date.

<TABLE>

<CAPTION>

CLASS	SHARES OUTSTANDING	DATE
Common, \$.01 par value.....	22,271,676	May 8, 1997

</TABLE>

BAY APARTMENT COMMUNITIES, INC.

FORM 10-Q

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PART I -- FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

BAY APARTMENT COMMUNITIES, INC.

CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

	MARCH 31, 1997	DECEMBER 31, 1996
	-----	-----
	(UNAUDITED)	
	<C>	<C>
<S>		
(Dollars in thousands, except per share data)		
ASSETS		
Real estate assets:		
Land.....	\$ 159,730	\$152,277
Buildings and improvements.....	531,394	511,583
Furniture, fixtures and equipment.....	37,298	35,542
	-----	-----
	728,422	699,402
Less accumulated depreciation.....	(58,121)	(52,554)
	-----	-----
Operating real estate assets.....	670,301	646,848
Construction in progress.....	60,804	50,945
	-----	-----
Net real estate assets.....	731,105	697,793
Cash and cash equivalents.....	1,128	920
Restricted cash.....	1,100	960
Other assets, net.....	15,882	12,236
	-----	-----
TOTAL ASSETS.....	\$ 749,215	\$711,909
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes payable.....	\$ 264,731	\$273,688
Accounts payable and accrued expenses.....	3,694	5,450
Dividends payable.....	9,540	8,939
Other liabilities.....	4,449	4,553
	-----	-----
TOTAL LIABILITIES.....	282,414	292,630
	-----	-----
Contingencies (Note 4).....	--	--
	-----	-----
Minority interest.....	6,098	7,002
	-----	-----
Shareholders' equity:		
Preferred stock, \$.01 par value; 25,000,000 shares authorized; 2,308,800 shares of Series A outstanding at both March 31, 1997 and December 31, 1996; 405,022 shares of Series B outstanding at both March 31, 1997 and December 31, 1996.....	27	27
Common stock, \$.01 par value; 40,000,000 shares authorized; 20,472,785 shares outstanding at March 31, 1997; 19,007,988 shares outstanding at December 31, 1996.....	205	190
Paid-in capital.....	485,904	435,723
Dividends in excess of accumulated earnings.....	(25,433)	(23,663)
	-----	-----
TOTAL SHAREHOLDERS' EQUITY.....	460,703	412,277
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY.....	\$ 749,215	\$711,909
	=====	=====

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

<TABLE>
<CAPTION>

	QUARTER ENDED MARCH 31, 1997	QUARTER ENDED MARCH 31, 1996
	-----	-----
<S>	<C>	<C>
(Dollars in thousands, except per share data)		
Revenue:		
Rental.....	\$25,393	\$16,094
Other.....	864	378
	-----	-----
Total revenue.....	26,257	16,472
	-----	-----
Expenses:		
Property operating.....	5,971	3,737
Property taxes.....	1,914	1,222
General and administrative.....	1,447	860
Interest and financing.....	3,317	3,472
Depreciation and amortization.....	5,699	3,970
	-----	-----
Total expenses.....	18,348	13,262
	-----	-----
Income before minority interest.....	7,909	3,210
Minority interest.....	(138)	(15)
	-----	-----
Net income.....	7,771	3,195
Preferred dividend requirement.....	(1,146)	(951)
	-----	-----
Earnings available to common shares.....	\$ 6,625	\$ 2,244
	=====	=====
Earnings per common share:		
Income before minority interest.....	\$ 0.34	\$ 0.19
Minority interest.....	(0.01)	--
	-----	-----
Earnings available to common shares.....	\$ 0.33	\$ 0.19
	=====	=====
Dividends declared per common share.....	\$ 0.41	\$ 0.40
	=====	=====

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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BAY APARTMENT COMMUNITIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

<TABLE>
<CAPTION>

	QUARTER ENDED MARCH 31, 1997	QUARTER ENDED MARCH 31, 1996
	-----	-----
<S>	<C>	<C>
(Dollars in thousands)		
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Net income.....	\$ 7,771	\$ 3,195
NONCASH EXPENSES INCLUDED IN NET INCOME:		
Depreciation and amortization.....	5,699	3,971
Minority interest.....	138	15
CASH PROVIDED BY (USED FOR) OPERATING ASSETS AND LIABILITIES:		
Restricted cash.....	(140)	--
Other assets.....	(3,778)	(1,827)
Accounts payable and accrued expenses.....	(1,756)	76
Other liabilities.....	(104)	228
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	7,830	5,658
	-----	-----
CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES:		
Capital expenditures.....	(640)	(162)
Acquisition of properties.....	(20,562)	(376)
Construction in progress.....	(17,677)	(6,492)
	-----	-----
NET CASH (USED FOR) INVESTING ACTIVITIES.....	(38,879)	(7,030)
	-----	-----
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:		
Proceeds from stock offerings, net of issuance costs.....	49,271	--
Exercise of stock options.....	80	181

Deferred financing costs paid.....	--	32
Notes payable principal payments.....	(157)	(88)
Borrowings on construction notes payable.....	--	20
Borrowings on lines of credit.....	36,500	8,764
Repayments on lines of credit.....	(45,300)	(2,564)
Partner and minority interest distributions.....	(197)	(16)
Dividends paid.....	(8,940)	(5,420)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	31,257	909
	-----	-----
Increase (decrease) in cash and cash equivalents.....	208	(463)
Cash and cash equivalents, beginning of period.....	920	1,677
	-----	-----
Cash and cash equivalents, end of period.....	\$ 1,128	\$ 1,214
	=====	=====
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest (net of amount capitalized).....	\$ 4,080	\$ 3,736
	=====	=====
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Noncash transfers of construction in progress.....	\$ 7,818	\$18,096
	=====	=====
Dividends declared but not paid.....	\$ 9,540	\$ 5,574
	=====	=====

</TABLE>

The accompanying notes are an integral part of these consolidated financial statements.

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BAY APARTMENT COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

Organization, Initial Public Offering and Subsequent Offerings

Bay Apartment Communities, Inc. (the "Company") and its wholly-owned partnerships and subsidiaries were formed in 1978 to develop, lease and manage upscale apartment communities. Before March 17, 1994, the Company was a part of the Greenbriar Group which consisted of the Greenbriar Development Company and certain affiliated entities. The Greenbriar Group included one land parcel held for future development, 12 apartment communities transferred to the Company in the reorganization transactions and the partnerships that held 11 of these apartment communities. The Greenbriar Development Company became Bay Apartment Communities, Inc. as a result of certain reorganization transactions in connection with the sale of shares of common stock in an initial public offering. Also included in this reorganization was the combination of building and management affiliates into the Company. The Company is a self-administered and self-managed real estate investment trust ("REIT") which acquires, builds, owns and manages apartment communities primarily in Northern California. At March 31, 1997, the Company owned 36 apartment communities, of which 31 are in Northern California and five are in Southern California, comprising 9,187 apartment homes, and had three communities in Northern California under development.

On March 17, 1994, the Company completed its initial public offering of 10,889,742 shares of common stock, and received \$199,998 in net proceeds (the "Initial Offering"). The net proceeds were used to pay off mortgage debt, purchase five apartment communities, purchase outside partners' partnership interests, and pay debt origination costs (primarily legal fees). In October 1995, the Company issued 2,308,800 shares of Series A preferred stock receiving net proceeds of approximately \$48,269. The proceeds were used to purchase land for future construction, pay off and close a construction loan and pay down debt on credit lines which were subsequently drawn on to purchase apartment communities.

In May 1996, the Company issued 1,248,191 shares of common stock in a direct placement and 413,223 shares of common stock and 405,022 shares of Series B preferred stock in an underwritten offering and received \$49,481 in net proceeds. The proceeds were used to purchase three communities, Parc Centre, Parkside Commons, and Sunset Towers, and to repay borrowings on a secured credit facility. The Company's secured credit facilities were subsequently closed, resulting in the write-off of \$511, representing unamortized loan and non-use fees, which was recorded as an extraordinary item. On August 5, 1996, the Company completed an underwritten public offering of 5,750,000 shares of common stock and received \$134,026 in net proceeds. The net proceeds were used to purchase two apartment communities, Crowne Ridge (formerly Channing Heights) and Martinique Gardens, and to repay amounts borrowed under the Company's unsecured line of credit, including amounts borrowed to purchase four apartment

communities acquired prior to the closing of the offering; Countrybrook, Larkspur Canyon, The Fountains, and Mill Creek.

In January 1997, the Company sold in an underwritten public offering 1,400,000 shares of common stock at a price of \$37.125 per share. The net proceeds to the Company, after all anticipated issuance costs, were approximately \$49,271. The net proceeds were used to repay borrowings under the Company's unsecured line of credit, which were used to fund the acquisition and development of additional apartment communities, including the SummerWalk (formerly Rancho Penasquitos) acquisition.

The interim unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and in conjunction with the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements required by generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations. These unaudited financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for

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BAY APARTMENT COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

the period ended December 31, 1996. The results of operations for the quarter ended March 31, 1997 are not necessarily indicative of the operating results for the full year. Management believes that the disclosures are adequate to make the information presented not misleading. In the opinion of management, all adjustments and eliminations, consisting only of normal, recurring adjustments necessary for a fair presentation of the financial statements for the interim periods have been included.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company, and its wholly-owned partnerships and subsidiaries. The accompanying consolidated financial statements also include the accounts of Bay Countrybrook L.P., a Delaware limited partnership (the "Countrybrook Partnership"). The general partner of the Countrybrook Partnership is a wholly-owned subsidiary of the Company, Bay GP, Inc., a Maryland corporation. All significant intercompany balances and transactions have been eliminated in consolidation.

Bay Countrybrook L.P.

In connection with the formation of the Countrybrook Partnership, 298,577 units of limited partnership interests ("Units") were issued to the existing partners of the contributor of the Countrybrook community. Under the terms of the Countrybrook Partnership's Limited Partnership Agreement, holders of Units have the right to require the Countrybrook Partnership to redeem their Units for cash, subject to certain conditions. The Company may, however, elect to deliver an equivalent number of shares of common stock to the holders of Units in satisfaction of the Countrybrook Partnership's obligation to redeem the Units for cash. Countrybrook Partnership Units converted into the Company's common stock aggregated 38,486 and 3,812 as of March 31, 1997 and December 31, 1996, respectively. Countrybrook Partnership Units redeemed for cash aggregated 762 as of March 31, 1997. No Countrybrook Partnership Units were redeemed for cash as of December 31, 1996.

Operating Real Estate Assets

Subsequent to occupancy, significant expenditures, generally exceeding \$5, which improve or extend the life of the asset are capitalized. The operating real estate assets are stated at cost and consist of land, buildings and improvements, furniture, fixtures and equipment, and other costs incurred during development and construction.

Apartment homes available for occupancy are generally leased on a one year or less basis. Rental income and operating costs incurred during the initial lease-up period are fully recognized as they accrue.

Capitalization of Costs During Development and Reconstruction

Cost capitalization during development of constructed assets (including interest and related loan fees, property taxes and other direct and indirect costs) begins when active development commences and ends when the asset is delivered and a certificate of occupancy is issued. Cost capitalization during reconstruction of acquired assets (including interest and related loan fees, property taxes and other direct and indirect costs) begins when apartment homes are taken out of service for reconstruction and ends when the apartment home reconstruction is completed and placed in service.

Depreciation

Depreciation is calculated on operating real estate assets using the straight-line method over their estimated useful lives, which range from ten to thirty years. Furniture, fixtures and equipment are generally

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BAY APARTMENT COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

depreciated using the straight-line method over their estimated useful lives, which range from five to seven years.

Income Taxes

The Company has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended, (the "Code"). A corporate REIT is a legal entity which holds real estate interests and through certain levels of payments of dividends to shareholders and other criteria, is permitted to reduce or avoid the payment of federal and state income taxes at the corporate level. As a result, the Company will not be subject to federal and state income taxation at the corporate level if certain requirements are met. Accordingly, no provision for federal and state income taxes has been made.

Deferred Financing Costs

Included in other assets, net are costs associated with obtaining debt financing and credit enhancements. Such costs are being amortized over the term of the associated debt or credit enhancement.

Cash and Cash Equivalents

Cash and cash equivalents include all cash and liquid investments with an original maturity of three months or less from the date acquired. Interest income amounted to \$104 and \$50 for the quarters ended March 31, 1997 and 1996, respectively.

Restricted Cash

Restricted cash at March 31, 1997 and December 31, 1996 consists of replacement reserves related to the debt on the Barrington Hills, Crossbrook, Rivershore, Canyon Creek and Sea Ridge communities.

Earnings per Common Share

Earnings per share with respect to the Company for the quarters ended March 31, 1997 and 1996 is computed based upon the weighted average number of common shares outstanding during the period plus (in periods where they have a dilutive effect) the net additional number of shares which would be issuable upon the exercise of stock options assuming that the Company used the proceeds received to repurchase outstanding shares at market prices.

Additionally, other potentially dilutive securities, which may not qualify as common stock equivalents, are considered when calculating earnings per share on a primary and fully diluted basis. The assumed conversion of such securities during the quarters ended March 31, 1997 and 1996, results in an antidilutive effect; therefore, earnings per share presentation on a primary and fully diluted basis is unnecessary. The weighted average number of shares outstanding utilized in the calculations are 20,277,531 and 11,660,268 for the quarters ended March 31, 1997 and 1996, respectively. Earnings per share is net of the preferred stock dividend requirement for the period, which were \$1,146 and \$951 for the quarters ended March 31, 1997 and 1996, respectively.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

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BAY APARTMENT COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Concentration of Geographic Risk

Primarily all of the Company's apartment communities are located in Northern California and most are located in the San Francisco Bay Area. This geographic concentration could expose the Company to a significant loss should

one event affect the entire area such as an earthquake or other environmental event.

Financial Instruments

The Company enters into interest rate swap agreements (the "Swap Agreements"), with parties whose credit ratings by Standard and Poor's Ratings Group are AAA to limit the Company's exposure should interest rates rise above specified levels. The Swap Agreements are held for purposes other than trading. The amortization of the cost of the Swap Agreements is included in amortization expense. The remaining unamortized cost of the Swap Agreements is included in "Other assets, net" on the balance sheet.

Accounting for Stock-based Compensation

The Company applies Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock-based compensation plans.

Newly Issued Accounting Standards

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards (SFAS) No. 128 "Earnings per Share" and No. 129, "Disclosure of Information about Capital Structure." SFAS No. 128, established standards for computing and presenting earnings per share ("EPS"), replacing the presentation of primary EPS with a presentation of basic EPS. SFAS No. 129 consolidates the existing disclosure requirements regarding an entity's capital structure. SFAS No. 128 and 129 are effective for financial statements issued for periods ending after December 15, 1997 and accordingly, management has not determined the impact on the Company's financial statements for the quarter ended March 31, 1997.

2. INTEREST CAPITALIZED

Interest costs associated with projects under development or reconstruction aggregating \$1,025 and \$314 for the quarters ended March 31, 1997 and 1996, respectively, have been capitalized.

BAY APARTMENT COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

3. NOTES PAYABLE

<TABLE>
<CAPTION>

	MARCH 31, 1997	DECEMBER 31, 1996
	-----	-----
<S>	<C>	<C>

TAX-EXEMPT VARIABLE RATE UNDER INTEREST RATE SWAPS:

Foxchase (Phase I and II) and Fairway Glen are encumbered by first deeds of trust which collateralize three housing bond issues maturing November 1, 2007. The Company has entered into an interest rate swap agreement with a financial institution under which the interest rate is fixed until March 2004 at an effective rate of 5.88%. Such Bonds require monthly payments of interest only. The bonds contain covenants which require 20% of the apartment homes to be leased or held available for lease to low or moderate income families.....	\$ 35,980	\$ 35,980
---	-----------	-----------

Waterford and Villa Mariposa are encumbered by first deeds of trust which collateralize two housing bond issues. The Company has entered into an interest rate swap agreement with a financial institution under which the interest rate is fixed until March 2004 at an effective rate of 5.88%. Such bonds require monthly payments of interest only and mature on August 1, 2014 and March 1, 2017, respectively. The bonds contain covenants which require 20% of the apartment homes to be leased or held available for lease to low or moderate income families.....	51,400	51,400
--	--------	--------

Barrington Hills is encumbered by a first deed of trust which collateralizes housing bond issues maturing June 15, 2025, fully amortizing over the term. The Company has entered into an interest rate swap agreement under which the interest rate is fixed until June 2010 at an effective rate of 6.48%, including the amortization of deferred financing costs. The bonds contain covenants which require 20% of the apartment homes to be leased or held available for lease to low or moderate income families.....	13,301	13,338
---	--------	--------

Crossbrook is encumbered by a first deed of trust which collateralizes housing bond issues maturing June 15, 2025, fully amortizing over the term. The Company has entered into an interest rate swap agreement under which the interest rate is fixed until June

2010 at an effective rate of 6.48%, including the amortization of deferred financing costs. The bonds contain covenants which require 20% of the apartment homes to be leased or held available for lease to low or moderate income families..... 8,556 8,579

Rivershore is encumbered by a first deed of trust which collateralizes housing bond issues maturing November 15, 2022, fully amortizing over the term. The Company has entered into an interest rate swap agreement under which the interest rate is fixed until June 2010 at an effective rate of 6.48%, including the amortization of deferred financing costs. The bonds contain covenants which require 20% of the apartment homes to be leased or held available for lease to low or moderate income families..... 10,412 10,445

BAY APARTMENT COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

<TABLE>
<CAPTION>

	MARCH 31, 1997	DECEMBER 31, 1996
	-----	-----
<S>	<C>	<C>
Canyon Creek is encumbered by a first deed of trust which collateralizes housing bond issues maturing June 15, 2025, fully amortizing over the term. The Company has entered into an interest rate swap agreement under which the interest rate is fixed until June 2010 at an effective rate of 6.48%, including the amortization of deferred financing costs. The bonds contain covenants which require 20% of the apartment homes to be leased or held available for lease to low income families.....	\$ 38,800	\$ 38,800
Sea Ridge is encumbered by a first deed of trust which collateralizes housing bond issues maturing June 15, 2025, fully amortizing over the term. The Company has entered into an interest rate swap agreement under which the interest rate is fixed until June 2010 at an effective rate of 6.48%, including the amortization of deferred financing costs. The bonds contain covenants which require 20% of the apartment homes to be leased or held available for lease to low income families.....	17,600	17,600
	-----	-----
Subtotal.....	176,049	176,142
	-----	-----

TAX-EXEMPT FIXED RATE:

Countrybrook is encumbered by a first deed of trust which collateralizes housing bond issues maturing March 1, 2012, partially amortizing over the term. The interest rate on the bonds is fixed until April 2002 at an effective interest rate of 7.87%, including the amortization of deferred financing costs. The bonds contain covenants which require 20% of the apartment homes to be leased or held available for lease to low or moderate income families.....	20,047	20,111
	-----	-----
Subtotal.....	20,047	20,111
	-----	-----

TAX-EXEMPT VARIABLE RATE:

City Heights is encumbered by a first deed of trust which collateralizes housing bond issues maturing March 1, 2018. Interest only payments are required monthly at a variable rate set weekly by the remarketing agent (6.51% and 6.50% at March 31, 1997 and December 31, 1996, respectively, including the amortization of deferred financing costs). The bonds contain covenants which require 20% of the apartment homes to be leased or held available for lease to low income families. The bonds have been placed with an institutional investor who has the right to require the Company to repurchase the bonds by August 15, 1997. The Company has the current right to repurchase the bonds at its option. The Company plans to exercise this repurchase option and reissue the bonds in the third quarter of 1997.....	20,800	20,800
---	--------	--------

BAY APARTMENT COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

<TABLE>
<CAPTION>

	MARCH 31, 1997 -----	DECEMBER 31, 1996 -----
<S>	<C>	<C>
Larkspur Canyon is encumbered by a first deed of trust which collateralizes housing bond issues maturing March 1, 2023. Interest only payments are required monthly at a variable rate set weekly by the remarketing agent (5.15% and 5.90% at March 31, 1997 and December 31, 1996, respectively, including the amortization of deferred financing costs). The bond payments are secured by a \$7,823 irrevocable direct pay letter of credit. The bonds contain covenants which require 20% of the apartment homes to be leased or held available for lease to low or moderate income families.....	\$ 7,635 -----	\$ 7,635 -----
Subtotal.....	28,435 -----	28,435 -----
CREDIT LINE:		
Unsecured line of credit (the "Unsecured Line of Credit") with an aggregate borrowing amount of up to \$200,000 maturing May 1999. This line bears interest at various LIBOR rates plus 1.55%.....	40,200 -----	49,000 -----
Subtotal.....	40,200 -----	49,000 -----
Total Notes Payable.....	\$ 264,731 =====	\$273,688 =====

</TABLE>

Principal payments on outstanding notes payable as of March 31, 1997 are due as follows:

<S>	<C>
1997.....	\$ 21,675
1998.....	1,396
1999.....	41,701
2000.....	1,614
2001.....	1,734
Thereafter.....	196,611 -----
Total.....	\$264,731 =====

</TABLE>

4. CONTINGENCIES

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. While the resolution of these matters cannot be predicted with certainty, management believes that the final outcome of such matters will not have a material adverse effect on the financial position or results of operations of the Company.

5. SUBSEQUENT EVENTS

In April 1997, the Company engaged in the following transactions:

- Purchased the Banbury Cross apartment community for \$28,001. This community contains 400 apartment homes and is located in Huntington Beach, California.
- Acquired for \$1,452 the 1.43 acre parcel adjacent to the 7.44 acre parcel on The Alameda in downtown San Jose, California which was purchased in February 1997. The Company plans to build a community, Paseo Alameda, on this 8.87 acre site comprising 305 apartment homes and approximately 15,000 square feet of retail space.

- Purchased the Cardiff Gardens apartment community for \$18,877. This community contains 252 apartment homes and is located in Campbell, California.
- Sold in a direct placement 1,662,000 shares of common stock at a price of

\$36.125 per share. The net proceeds to the Company, after all anticipated issuance costs, were approximately \$58.7 million. The net proceeds were used to repay borrowings under the Unsecured Line of Credit, which were used to fund the acquisition and development of additional apartment communities, including The Village, Banbury Cross and Cardiff Gardens.

- Purchased the Villa Serena apartment community for \$17,718. This community contains 301 apartment homes and is located in Rancho Santa Margarita, California.
- Acquired the Amador Oaks apartment community for \$23,209. This community contains 204 apartment homes and is located in Dublin, California.

As of May 8, 1997, the Company had elected to issue an additional 122,797 shares of common stock to limited partners of the Countrybrook Partnership who had requested a redemption of their Countrybrook Partnership Units for cash. All of these shares had been issued as of May 8, 1997.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The Company's actual results could differ materially from those set forth in the forward-looking statements as a result of, among other factors, the risk factors set forth below and in the Company's filings with the Securities and Exchange Commission, changes in general economic conditions and changes in the assumptions used in making such forward-looking statements.

RESULTS OF OPERATIONS

The following discussion sets forth historical results of operations for the Company for the quarters ended March 31, 1997 and 1996. The following table outlines the communities acquired or leased-up during 1996 and 1997:

<TABLE>
<CAPTION>

1996 ACQUISITION
COMMUNITIES

COMMUNITY	DATE ACQUIRED
Parc Centre(a)	May 15, 1996
Parkside Commons	May 15, 1996
Sunset Towers(b)	May 22, 1996
Countrybrook(c)	July 12, 1996
Larkspur Canyon(d)	July 19, 1996
The Fountains	July 26, 1996
Mill Creek(e)	July 26, 1996
Crowne Ridge (formerly Channing Heights)(f)	August 7, 1996
Martinique Gardens(g)	August 7, 1996

<TABLE>
<CAPTION>

1996 DEVELOPMENT
COMMUNITY

COMMUNITY	DATE STABILIZED (H)
Rosewalk(i)	February 1997

<TABLE>
<CAPTION>

1997 ACQUISITION
COMMUNITIES

COMMUNITY	DATE ACQUIRED
SummerWalk (formerly Rancho Penasquitos)	January 3, 1997
The Village	March 13, 1997

The 1996 and 1997 Acquisition and Development Communities are collectively termed the "Acquisition Communities."

- (a) Parc Centre is undergoing substantial reconstruction including the replacement of the community's roofs, repairing and repainting exterior siding, substantially refurbishing its landscaping, redecorating the interior of all apartment homes, rebuilding its leasing facility and fitness center and gating the community.
- (b) Sunset Towers is about to undergo substantial reconstruction including moving and rebuilding the community's leasing facility, upgrading all of its interior hallways and foyers, modifying its exterior siding, upgrading its landscaping and repairing its roofs and boilers.
- (c) Countrybrook is undergoing substantial reconstruction including the replacement of the community's leasing facility and fitness center, repairing and repainting its exterior siding, replacing the community's roofs, adding approximately 115 garages, substantially upgrading its landscaping and gating the community.
- (d) Larkspur Canyon is undergoing substantial reconstruction including repairing and repainting the community's exterior, replacing the leasing facility and fitness center and adding garages and a gate system.
- (e) Mill Creek is undergoing substantial reconstruction including replacing the community's roofs, decks and some exterior siding, repairing and repainting its exterior, renovating its leasing center and fitness center, adding garages and upgrading its landscaping.

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- (f) Crowne Ridge, formerly known as Channing Heights, is undergoing substantial reconstruction including the replacement of the community's roofs, raised walkways and decks, repairing and repainting exterior siding, upgrading the apartment interiors, replacing its leasing facility and fitness center and substantially upgrading its landscaping.
- (g) Martinique Gardens is undergoing substantial reconstruction including replacing its roofs, repairing and repainting its exterior siding, replacing all apartment home interiors, rebuilding its leasing facility and fitness center, adding a substantial number of new garages, replacing its roadways, the swimming pool and all of the landscaping.
- (h) Stabilized occupancy is defined as the first calendar month following completion of construction in which the community has a physical occupancy of at least 95%.
- (i) The Rosewalk community consists of 10.8 acres of land on which 300 apartment homes have been built. Construction of the community was completed in January 1997, occupancy commenced in August 1996 and stabilization occurred in February 1997.

Acquisitions entail risks that investments will fail to perform in accordance with expectations and that judgments with respect to the cost of improvements to bring an acquired community up to standards established for the market position intended for that community will prove inaccurate, as well as general investment risks associated with any new real estate investment. Although the Company undertakes an evaluation of the physical condition of each new community before it is acquired, certain defects or necessary repairs may not be detected until after the community is acquired, which could significantly increase the Company's total acquisition costs.

COMPARISON OF THE QUARTER ENDED MARCH 31, 1997 TO THE QUARTER ENDED MARCH 31, 1996.

The Company's results of operations are summarized as follows for the quarters ended March 31, 1997 and 1996 (Dollars in thousands):

<TABLE>
<CAPTION>

	FOR THE QUARTER ENDED MARCH 31,			
	1997	1996	\$-CHANGE	%-CHANGE
<S>	<C>	<C>	<C>	<C>
Revenue:				
Rental.....	\$25,393	\$16,094	\$9,299	57.8%
Other.....	864	378	486	128.6%
Total revenue.....	26,257	16,472	9,785	59.4%
Expenses:				
Property operating.....	5,971	3,737	2,234	59.8%
Property taxes.....	1,914	1,222	692	56.6%
General and administrative.....	1,447	860	587	68.3%
Interest and financing.....	3,317	3,472	(155)	(4.5)%
Depreciation and amortization.....	5,699	3,971	1,728	43.5%

Total expenses.....	18,348	13,262	5,086	38.4%
Income before minority interest.....	7,909	3,210	4,699	146.4%
Minority interest.....	(138)	(15)	(123)	820.0%
Net income.....	\$ 7,771	\$ 3,195	\$4,576	143.2%

</TABLE>

Revenue from rental property increased primarily as a result of the addition of the Acquisition Communities. The 1996 and 1997 Acquisition Communities contributed \$5,818 and \$431, respectively, to the increase. The 1996 Development Community contributed \$1,099 to the increase. The remainder of the portfolio increased rental revenue by \$1,951, \$1,599 of which was attributable to the Same Store communities (defined below).

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Other income increased during the quarter ended March 31, 1997 as compared to the quarter ended March 31, 1996 primarily as a result of the additional miscellaneous income from the Acquisition Communities.

Property operating expenses increased primarily as a result of the addition of the Acquisition Communities. Of the \$2,234 increase, \$1,544 was attributable to the 1996 Acquisition Communities, \$148 was attributable to the 1996 Development Community and \$142 was attributable to the 1997 Acquisition Communities. The remainder of the portfolio increased property operating expenses by \$400, \$369 of which was attributable to the Same Store communities (defined below). In addition, the Acquisition Communities contributed \$648 of the \$692 increase in property taxes.

General and administrative costs increased for the quarter ended March 31, 1997 as compared with the quarter ended March 31, 1996, primarily due to the growth in employee-related costs needed to manage the Acquisition Communities. The 1997 and 1996 amounts are net of \$1,252 and \$446, respectively, of allocated indirect project costs capitalized to construction and reconstruction projects, representing approximately 46% and 34% of total general and administrative expense for the quarters ended March 31, 1997 and 1996, respectively.

Interest and financing expense decreased for the quarter ended March 31, 1997 as compared to the quarter ended March 31, 1996 due to lower cost of funds and higher capitalization of interest due to increased development, construction and reconstruction activity.

Depreciation and amortization expense increased due to the addition of the Acquisition Communities.

THE COMPANY'S RESULTS OF PROPERTY OPERATIONS (EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION -- "EBITDA") FOR THE "SAME STORE" COMMUNITIES (1) IS SUMMARIZED BELOW FOR THE QUARTERS ENDED MARCH 31, 1997 AND 1996:

<TABLE>
<CAPTION>

	FOR THE QUARTER ENDED MARCH 31,			
	1997	1996	\$-CHANGE	%-CHANGE
<S>	<C>	<C>	<C>	<C>
(Dollars in thousands)				
Revenue.....	\$17,921	\$16,145	\$1,776 (2)	11.0%
Expenses.....	5,182	4,795	387 (3)	8.1%
EBITDA.....	\$12,739	\$11,350	\$1,389	12.2%

</TABLE>

- (1) The Same Store communities consist of 24 apartment communities comprising a total of 6,230 apartment homes. These communities include all those which were owned for all of 1996 and during the quarter ended March 31, 1997 and to which the Company made no major renovations after January 1, 1996.
- (2) Same Store revenues increased due to rental increases of \$1,521, vacancy reductions of \$83, lease termination fee increases of \$71 and a net increase in other income of \$101.
- (3) Same Store expenses increased primarily as a result of a \$123 increase in management and administrative costs, a one-time property tax refund of \$110 received in the quarter ended March 31, 1996, a \$112 increase in repairs and maintenance and the purchase of an additional, portfolio-wide earthquake insurance commencing in July 1996 resulting in \$61 of expense in the quarter ended March 31, 1997, offset in part by a \$50 reduction in marketing and

advertising costs. The remaining \$31 increase in Same Store expenses is due to increases in other miscellaneous expenses.

CURRENT DEVELOPMENT COMMUNITIES

The Company has acquired three land sites on which it is building, or plans to commence building in the near future, the following Current Development Communities with a total of 1,325 apartment homes.

- TOSCANA, SUNNYVALE, CA. The Company purchased this partially built and abandoned 17.8 acre site in May 1996 on which the Company is building 709 apartment homes. The original total budgeted construction cost of this community is \$95.7 million. The site, located approximately at the intersection

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of Highway 101 and Lawrence Expressway, is at the center of Silicon Valley. This Current Development Community will contain a large leasing pavilion, business center, fitness center, two swimming pools, including one 75 foot lap pool, a small commercial area, secure underground parking and a perimeter gate system. Stabilized operations are expected in the fourth quarter of 1998, and the first apartment homes are expected to be occupied in the third quarter of 1997.

- CENTREMARK, SAN JOSE, CA. The Company purchased 2.5 acres of this 7.9 acre site in May 1996. The remainder of this site was purchased in December 1996 after obtaining substantially all of the necessary public approvals for development of the community. The site is located at the intersection of Stevens Creek Blvd. and Interstate 280, in the northwest corner of San Jose, almost immediately adjacent to the City of Cupertino. The planned 311 apartment home community with a total budgeted construction cost of \$44.1 million will include a large leasing facility, business center, fitness center, 65 foot lap pool, secure underground parking and perimeter gate system. Stabilized operations are expected in the fourth quarter of 1998, and the first apartment homes are expected to be occupied in the first quarter of 1998.
- PASEO ALAMEDA, SAN JOSE, CA. The Company purchased 7.44 acres of this 8.87 acre site in February 1997 after it obtained substantially all of the necessary public approvals for development of the community. The remainder of this site was purchased in April 1997. The site is located on a major street, approximately one mile from downtown San Jose. The Company intends to build a 305 apartment home community at a total budgeted construction cost of \$44.4 million with a large leasing pavilion, business center, fitness center, 75 foot lap pool, a small commercial area and secure underground parking. Stabilized operations are expected in the second quarter of 1999, and the first apartment homes are expected to be occupied in the second quarter of 1998.

For new development communities, the Company's goal, on average, is to achieve projected EBITDA as a percentage of total budgeted construction cost of approximately 10%. Projected EBITDA as a percentage of total budgeted construction cost represents EBITDA projected to be received in the first calendar year after a community reaches stabilized occupancy (i.e., the first month when the community has a weighted average physical occupancy of at least 95%), based on current market rents, less projected stabilized property operating and maintenance expenses, before interest, income taxes, depreciation and amortization. Total budgeted construction cost is based on current construction costs, including interest capitalized during the construction period. Market rents and construction costs reflect those prevailing in the community's market at the time the Company's development budgets are prepared taking into consideration certain changes to those market conditions anticipated by the Company at the time. Although the Company attempts to anticipate changes in market conditions, the Company cannot predict with certainty what those changes will be. For example, upon the acquisition of the Toscana land site in May 1996, the Company estimated that the total budgeted construction cost would be \$95.7 million. Since that time, the Company has only obtained bids for the construction of the first two phases of this four-phase project. Construction costs are increasing and management believes that when the last two phases are bid late in 1997 that the total construction cost for this development will be higher than the original budget. Nonetheless, because of increases in prevailing market rents management believes that it will still be able to achieve projected EBITDA as a percentage of total budgeted construction cost of at least 10%. Management believes that it may experience similar increases in construction costs and market rents with respect to the CentreMark and Paseo Alameda development communities.

There are risks associated with the Company's development and construction activities which include: development and acquisition opportunities explored by the Company may be abandoned; construction costs of a community may exceed original estimates due to increased materials, labor or other expenses, which could make completion of the community uneconomical; occupancy rates and rents at a newly completed community are dependent on a number of factors, including market and general economic conditions, and may not be sufficient to make the

community profitable; financing may not be available on favorable terms for the development of a community; and construction and lease-up may not be completed on schedule, resulting in increased debt service expense and construction costs. Development activities are also subject to risks

relating to the inability to obtain, or delays in obtaining, all necessary zoning, land-use, building, occupancy, and other required governmental permits and authorizations. The occurrence of any of the events described above could adversely affect the Company's ability to achieve its projected yields, or achieve stabilized occupancy at the time originally estimated, on communities under development or reconstruction and could prevent the Company from making expected distributions.

LIQUIDITY AND CAPITAL RESOURCES

The Company has considered its short-term liquidity needs and anticipates that these needs will be fully funded from cash flows provided by operating activities. The Company believes that its principal short-term liquidity needs are to fund normal recurring expenses, debt service requirements and the distributions required to maintain the Company's REIT qualification under the Code.

The Company expects to fund certain committed construction, acquisition and reconstruction projects with a combination of working capital and borrowings under the Unsecured Line of Credit. The Company intends to use available working capital first and available proceeds under its Unsecured Line of Credit second.

As of March 31, 1997, the proceeds from the Unsecured Line of Credit were used primarily for the acquisition, development and construction of the three Current Development Communities and reconstruction of the 1996 and 1997 Acquisition Communities.

The Company's outstanding debt as of March 31, 1997 is summarized as follows:

<TABLE>
<CAPTION>

	BALANCE	AVAILABLE	MATURES	RATE	INTEREST RATE PROTECTION
<S>	<C>	<C>	<C>	<C>	<C>
(Dollars in thousands)					
Tax-exempt variable rate under interest rate swap.....	\$ 88,669	\$ --	November 2022 - June 2025	6.48% (a)	Interest rate is fixed until June 2010.
Tax-exempt variable rate under interest rate swap.....	87,380	--	November 2007 - March 2017	5.88% (d)	Interest rate is fixed until March 2004.
Tax-exempt fixed rate....	20,047	--	March 2012	7.87% (c)	Interest rate is fixed until April 2002.
Tax-exempt variable rate.....	20,800	--	March 2018	6.51% (d)	
Tax-exempt variable rate.....	7,635	--	March 2023	5.15% (e)	
Subtotal.....	224,531	--			
\$200,000 Unsecured Line of Credit (f).....	40,200	159,800	May 1999	LIBOR + 1.55%	
Total.....	\$264,731	\$159,800			

</TABLE>

- (a) The 6.48% rate represents an all-in financing cost, including amortization of deferred financing costs.
- (b) The 5.88% rate excludes the amortization of financing costs paid by the sponsor prior to the Initial Offering; if such costs were included, the all-inclusive effective rate would be 6.30%.
- (c) The 7.87% rate represents an all-in financing cost, including amortization of deferred financing costs.
- (d) The 6.51% rate represents an all-in financing cost, including amortization of all deferred financing costs. The Company has the right to repurchase these bonds and currently plans to repurchase and reissue them on a long

term fixed rate basis by August 15, 1997.

- (e) The 5.15% rate represents an all-in financing cost, including amortization of all deferred financing costs. The debt floats in a seven-day put bond mode with a current interest rate of 3.25%.

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- (f) Amounts drawn on the Unsecured Line of Credit were used primarily for development, construction and reconstruction purposes.

In January 1997, the Company sold in an underwritten public offering 1,400,000 shares of common stock at a price of \$37.125 per share. The net proceeds to the Company, after all anticipated issuance costs, were approximately \$49.3 million. The net proceeds were used to repay borrowings under the Unsecured Line of Credit, which were used to fund the acquisition and development of additional apartment communities, including the SummerWalk (formerly Rancho Penasquitos) acquisition.

The Company anticipates that its cash flow and cash available from its \$200 million Unsecured Line of Credit will be adequate to meet its liquidity requirements for the foreseeable future. The Company anticipates that dividends will be paid from Funds Available for Distribution (defined below).

Net cash provided by operations for the quarter ended March 31, 1997 increased to \$7,830,000 from \$5,658,000 for the quarter ended March 31, 1996, primarily due to higher net income before noncash charges for depreciation and amortization from the addition of the Acquisition Communities. This increase is offset in part by increases in other assets primarily due to an increase in prepaid insurance and an increase in deposits for potential acquisitions. The increase in cash provided by operations is also offset in part by decreases in accounts payable and accrued expenses partially due to accrued property taxes paid.

Net cash used for investing activities was \$38,879,000 and \$7,030,000 for the quarters ended March 31, 1997 and 1996, respectively. This increase reflects the expenditures for the purchases of the 1997 Acquisition Communities, the amounts used to complete construction of the Rosewalk community, the acquisition, development and construction of the Current Development Communities and the costs incurred on the refurbishment and reconstruction projects.

Net cash provided by financing activities was \$31,257,000 and \$909,000 for the quarters ended March 31, 1997 and 1996, respectively. This increase is primarily due to the net proceeds received by the Company from the January 1997 common stock offering, offset in part by the net repayment on the Unsecured Line of Credit and increased dividends paid.

INFLATION

Substantially all of the leases at the Company's apartment communities are for a term of one year or less, which may enable the Company to counter the adverse effects of inflation by increasing rents upon renewal of existing leases or commencement of new leases. However, these short-term leases permit a resident to leave at the end of the lease term at minimal or no cost to the resident.

FUNDS FROM OPERATIONS AND FUNDS AVAILABLE FOR DISTRIBUTION

Many industry analysts consider Funds from Operations an appropriate measure of performance of an equity REIT. Funds from Operations ("FFO") as defined by the National Association of Real Estate Investment Trusts ("NAREIT") means net income (or loss) (computed in accordance with generally accepted accounting principles), excluding gains (or losses) from debt restructuring and sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. This definition was revised by NAREIT effective for periods after 1995 to exclude the add back of non-real estate depreciation and the amortization of recurring deferred financing costs. The Company believes that in order to facilitate a clear understanding of the historical operating results, FFO should be examined in conjunction with net income (loss) as presented in the financial statements. FFO should not be considered as a substitute for net income (loss) as a measure of results of operations or for cash flow from operations as a measure of liquidity.

For the quarter ended March 31, 1997, FFO increased to \$13,321,000 from \$6,982,000 for the quarter ended March 31, 1996. This increase is primarily due to higher net income and real estate depreciation add back due to the addition of the Acquisition Communities.

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Funds from Operations and Funds Available for Distribution for the quarters ended March 31, 1997, December 31, 1996, September 30, 1996, June 30, 1996 and March 31, 1996 are summarized as follows:

CALCULATION OF FUNDS FROM OPERATIONS AND FUNDS AVAILABLE FOR DISTRIBUTION

<TABLE>
<CAPTION>

	QUARTER ENDED				
	MAR. 31, 1997	DEC. 31, 1996	SEPT. 30, 1996	JUNE 30, 1996	MAR. 31, 1996
<S>	<C>	<C>	<C>	<C>	<C>
(Dollars in thousands, except per unit data)					
Net income.....	\$ 7,771	\$ 7,014	\$ 5,845	\$ 3,572	\$ 3,195
Depreciation -- real estate assets...	5,462	5,201	4,899	4,008	3,692
Extraordinary item.....	--	--	--	511	--
Non-recurring adjustments to net income:					
Amortization of non-recurring costs, primarily legal, from the issuance of tax-exempt bonds(1).....	88	87	87	88	95
FFO(2).....	13,321	12,302	10,831	8,179	6,982
Recurring adjustments to net income:					
Amortization of origination fees on credit facilities(3).....	--	--	--	41	104
Amortization of reincorporation costs.....	7	7	7	7	7
Amortization of credit enhancement costs(4).....	38	38	38	38	38
Depreciation -- non real estate assets.....	105	79	49	38	35
Capital improvements(5).....	(640)	(448)	(457)	(252)	(162)
Loan principal payments.....	(157)	(175)	(131)	(88)	(88)
Funds Available for Distribution ("FAD").....	\$ 12,674	\$ 11,803	\$ 10,337	\$ 7,963	\$ 6,916
Weighted average shares outstanding(6).....	22,989,978	22,000,544	19,686,087	15,205,997	13,969,068

</TABLE>

(1) Represents the amortization of pre-1986 bond issuance costs carried forward to the Company, under the pooling of interest method of accounting, and costs associated with the reissuance of tax-exempt bonds incurred prior to the Initial Offering in order to preserve the tax-exempt status of the bonds at the Initial Offering.

(2) FFO before recurring adjustments to net income represents the definition of FFO adopted by the NAREIT Board of Governors for periods after 1995.

(3) Represents origination fees and costs incurred at the initial setup of secured credit facilities that were closed in May 1996. Such costs were amortized over the life of the respective credit facilities and, therefore, the unamortized loan fees were recorded as an extraordinary item in May 1996.

(4) Represents origination fees and costs incurred at the initial setup of the credit enhancements used for the issuance of tax-exempt bonds. Such costs are amortized over the life of the respective credit enhancements.

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(5) Capital improvements represent amounts expended primarily at communities acquired or developed prior to 1996. A breakdown of the expenditures for the quarter ended March 31, 1997 is as follows:

<TABLE>
<CAPTION>

	TOTAL QUARTER ENDED MARCH 31, 1997	PER UNIT QUARTER ENDED MARCH 31, 1997
<S>	<C>	<C>
Non-revenue generating:		
Leasing pavilion rehabilitation.....	\$110	\$ 12
Exterior painting.....	63	7
Security gate system.....	44	5
Landscaping.....	24	3
Other capital expenditures.....	39	4
Subtotal -- capital expenditures.....	280	31

Revenue generating:	----	---
TV cable system.....	219	24
Fixtures.....	77	8
Appliances.....	64	7
	----	---
Subtotal.....	360	39
	----	---
Total capital improvements.....	\$640	\$ 70
	====	===

</TABLE>

The Company, as a matter of policy, expenses any apartment-related expenditure of less than \$5. These normally include any expenditure related to the interior of an apartment. The Company typically capitalizes non-revenue generating expenditures such as those for new security gate systems, leasing pavilion reconstruction and redecorating, roofing repair and replacement, exterior siding repair and repainting and parking area resurfacing. The Company also capitalizes revenue generating expenditures and cashflow enhancing improvements such as those expended for construction of new garages or installation of water conservation devices which almost immediately and permanently either earn additional revenue or reduce expenses. Appliances represent primarily the acquisition of washer/dryer units for apartments which generate additional rental and other income. Capitalized expenditures as described here exclude major reconstruction costs incurred in conjunction with the acquisition and repositioning of newly purchased apartment communities. Such costs are added to the purchase price of those communities. The per unit calculation for the quarter is based on the ending number of units in the portfolio at March 31, 1997.

(6) The weighted average shares outstanding shown differs from the weighted average shares outstanding for the purpose of calculating earnings per share because the conversion of preferred stock is antidilutive for calculating earnings per share, but dilutive for the purposes of calculating FFO per share.

PART II -- OTHER INFORMATION

ITEM 1: LEGAL PROCEEDINGS

None

ITEM 2: CHANGES IN SECURITIES

(C) RECENT SALES OF UNREGISTERED SECURITIES

On July 12, 1996, the Company entered into an Agreement of Limited Partnership of Bay Countrybrook L.P. (the "Partnership"), the general partner of which is Bay GP, Inc., a wholly-owned subsidiary of the Company, for the purpose of acquiring the Countrybrook community. In connection with the formation of the Partnership, 298,577 units of limited partnership interests ("LP Units") were issued to the existing partners of the contributor of the Countrybrook community pursuant to an exemption from registration provided in Rule 506 of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"). Under the terms of the limited partnership agreement, holders of LP Units have the right to require the partnership to redeem their LP Units for cash, subject to certain conditions. The Company may, however, elect to deliver an equivalent number of shares of common stock to the holders of LP Units in satisfaction of the Partnership's obligation to redeem the LP Units for cash. As of March 31, 1997, 38,486 LP Units have been redeemed by the Company in exchange for shares of common stock pursuant to the exemption from registration provided in Rule 506 of Regulation D under the Securities Act

ITEM 3: DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5: OTHER INFORMATION

None

ITEM 6: EXHIBITS AND REPORTS ON FORM 8-K

(A) EXHIBITS

Index to Exhibits

<TABLE>
<CAPTION>

EXHIBIT NO.	DESCRIPTION
<C>	<S>
3(i).1	Amended and Restated Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3(i).1 to Form 8-B of Bay Apartment Communities, Inc. dated June 8, 1995).
3(i).2	Forms of Articles Supplementary of the Company. (Incorporated by reference to Exhibit 3(i).1 to Form 8-K of Bay Apartment Communities, Inc. dated September 25, 1995).
3(i).3	Articles Supplementary relating to the Series B Preferred Stock of the Company. (Incorporated by reference to Exhibit 3(i).1 to Form 8-K of Bay Apartment Communities, Inc. dated May 6, 1996.)
3(ii).1	Amended and Restated to By-laws of the Company. (Incorporated by reference to Exhibit 10.1 to Form 8-B of Bay Apartment Communities, Inc. dated June 8, 1995).
10.1	Underwriting Agreement dated January 22, 1997, between the Company and PaineWebber Incorporated regarding the sale of 1,400,000 shares of common stock.

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EXHIBIT NO.	DESCRIPTION
<C>	<S>
10.2	Price Determination Agreement dated January 22, 1997, between the Company and PaineWebber Incorporated regarding the pricing of the sale of 1,400,000 shares of common stock.
27.1	Financial Data Schedule.

(B) REPORTS ON FORM 8-K

EXHIBIT NO.	DESCRIPTION
<C>	<S>
1.	Form 8-K of the Company, dated January 21, 1997, regarding an employment agreement and reports prepared for the Company by Ann Roulac and Company and the Rosen Consulting Group. These reports provide the Company with information including, but not limited to, general market overviews, and demographic trends.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BAY APARTMENT COMMUNITIES, INC.

<TABLE>	
<S>	<C>
Date: May 14, 1997	/s/ GILBERT M. MEYER

	Gilbert M. Meyer
	President and Chairman of the Board
Date: May 14, 1997	/s/ JEFFREY B. VAN HORN

	Jeffrey B. Van Horn
	Chief Financial Officer
	(Authorized Officer of the Registrant
	and Principal Financial Officer)

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INDEX TO EXHIBITS

EXHIBIT NO.	DESCRIPTION
<C>	<S>
10.1	Underwriting Agreement dated January 22, 1997, between the Company and PaineWebber Incorporated regarding the sale of 1,400,000 shares of common stock.
10.2	Price Determination Agreement dated January 22, 1997, between the Company and PaineWebber Incorporated regarding the pricing of the sale of 1,400,000 shares of common stock.
27.1	Financial Data Schedule.

1,400,000 Shares

BAY APARTMENT COMMUNITIES, INC.

Common Stock

UNDERWRITING AGREEMENT

January 22, 1997

PAINWEBBER INCORPORATED
1285 Avenue of the Americas
New York, New York 10019

Ladies and Gentlemen:

Bay Apartment Communities, Inc., a Maryland corporation (the "Company") confirms its agreement with you (hereinafter the "Underwriter") as follows:

1. Description of Securities.

(a) The Company proposes to issue and sell to the Underwriter 1,400,000 shares of common stock, par value \$.01 per share (the "Firm Shares"), of the Company.

(b) In addition, the Company is granting to the Underwriter an option to purchase up to an additional 210,000 shares of common stock on the terms and for the purposes set forth in Section 12 hereof (the "Option Shares"; and together with the Firm Shares, the "Shares").

2. Representations and Warranties of the Company. The Company represents and warrants to, and agrees with, the Underwriter that:

(a) The Company meets the requirements for use of Form S-3 and a registration statement on Form S-3 (File No. 333-15875) with respect to the Shares, including a prospectus (the "Base Prospectus") has been carefully prepared by the Company in conformity with the requirements of the Securities Act of 1933, as amended (the "Act"), and the rules and regulations (the "Rules and Regulations") of the Securities and Exchange Commission (the "Commission") thereunder and filed with the Commission and has become effective. Such registration statement may have been amended prior to the date of this Agreement; any such amendment was so prepared and filed, and any such amendment filed after the effective date of such registration statement has become effective. No stop order suspending the effectiveness of the

registration statement has been issued, and no proceeding for that purpose has been instituted or, to the Company's knowledge, threatened by the Commission. If such registration statement has not become effective, a further amendment to such registration statement, including a form of final prospectus, necessary to permit such registration statement to become effective will be filed promptly by the Company with the Commission. If such registration statement has become effective, a prospectus supplement and a final prospectus containing information permitted to be omitted at the time of effectiveness by Rule 430A of the Rules and Regulations has been or will be so prepared and filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations on or before the second business day after the date hereof (or such earlier time as may be required by the Rules and Regulations); and the Rules and Regulations do not require the Company to, and, without your consent, the Company will not, file a post-effective amendment after the time of execution of this Agreement and prior to the filing of such final form of prospectus. Copies of such registration statement and any such amendments have been delivered to the Underwriter and your counsel. The term "Registration Statement" means such registration statement as amended at the time it becomes or became effective (the "Effective Date"), including financial statements and all exhibits and any information deemed by virtue of Rule 430A of the Rules and Regulations to be included in such Registration Statement at the Effective Date and any prospectus supplement filed thereafter with the Commission and shall include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 which were filed under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The term "Prospectus" means, collectively, the Base Prospectus together with any prospectus supplement, in the respective forms they are filed with the Commission pursuant to Rule 424(b) of the Rules and Regulations. Any reference herein to the terms "amend," "amendment" or "supplement" with respect to the Registration Statement, the Base Prospectus or the Prospectus Supplement shall

be deemed to refer to and include the filing of any document under the Exchange Act after the Effective Date, or the date of the Prospectus Supplement or the Prospectus, as the case may be, that is incorporated therein by reference.

(b) Each part of the Registration Statement, when such part became or becomes effective, and the Prospectus and any amendment or supplement thereto, on the date of filing thereof with the Commission and at the Closing Date (as hereinafter defined) conformed or will conform in all material respects with the requirements of the Act and the Rules and Regulations; each part of the Registration Statement, when such part became or becomes effective, did not or will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; the Prospectus and any amendment or supplement thereto, on the date of filing thereof with the Commission and at the Closing Date, did not or will not include an untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; the foregoing shall not apply to the statements in or omissions from any such document in reliance upon, and in conformity with, written information furnished to the Company by you or by any Underwriter

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through you specifically for use in the preparation thereof. The Company acknowledges that the only information furnished in writing to the Company by the Underwriter specifically for inclusion in the Registration Statement is the information set forth in Exhibit I hereto. The Company has not distributed any offering material in connection with the offering or sale of the Shares other than the Registration Statement, the Prospectus or any other materials, if any, permitted by the Act.

(c) The financial statements and schedules included in the Registration Statement and Prospectus set forth fairly the financial condition of the respective entity or entities presented as of the dates indicated and the results of operations and changes in financial position for the periods therein specified in conformity with generally accepted accounting principles consistently applied throughout the periods involved (except as otherwise stated therein). No other financial statements (or schedules) of the Company or any predecessor of the Company are required by the Act or the Rules and Regulations to be included in the Registration Statement or the Prospectus. Coopers & Lybrand L.L.P. ("Coopers & Lybrand"), who have reported on the financial statements and schedules which are audited, are independent accountants with respect to the Company as required by the Act and the Rules and Regulations.

(d) The Company has been duly organized and is validly existing as a corporation, is in good standing under the laws of the State of Maryland, has the power and authority to conduct its business as described in the Registration Statement and Prospectus, and is duly qualified to do business in each jurisdiction in which it owns or leases real property or in which the conduct of its business requires such qualification, except where the failure to be so qualified, considering all such cases in the aggregate, does not involve and will not involve a material risk to the business, properties, financial position or results of operations of the Company and its subsidiaries (as hereinafter defined) taken as a whole.

(e) The only subsidiaries (as defined in the Rules and Regulations) of the Company are the subsidiaries listed on Exhibit II attached hereto (the "subsidiaries"). Each of the Company's subsidiaries existing as of the date hereof is a corporation or partnership, as the case may be, duly organized, validly existing and in good standing under the laws of its respective jurisdiction of incorporation or organization. Each of the Company's subsidiaries existing as of the date hereof has the power and authority to conduct its business as described in the Registration Statement and Prospectus and is, or will be upon the Closing Date, duly qualified to do business in each jurisdiction in which it owns or leases, or will own or lease, real property or in which the conduct of its business requires such qualification except where the failure to be so qualified, considering all such cases in the aggregate, does not involve and will not involve a material risk to the business, properties, financial position or results of operations of the Company or any subsidiary taken as a whole. Except for the interests in the subsidiaries and as disclosed in the Registration Statement, the Company does not own, directly or indirectly, any shares of stock or any other equity or long-term debt securities of any corporation or have any equity interest in any firm, partnership, joint venture, trust,

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association or other entity. Complete and correct copies of the articles or certificate of incorporation, partnership agreements, and of the by-laws of each

of the Company's subsidiaries and all amendments thereto have been delivered to the Underwriter, and no changes therein will be made subsequent to the date hereof and prior to the Closing Date, except as heretofore disclosed in writing to the Underwriter. Except as otherwise described in the Registration Statement or the Prospectus, or as described in Exhibit II, all of the issued and outstanding capital stock of each corporate subsidiary of the Company has been duly authorized and will be, as of the Closing Date, validly issued, fully paid and non-assessable, and owned by the Company, in each case free and clear of any security interest, mortgage, pledge, lien, charge, encumbrance, claim, restriction or equity interest (each of the foregoing, a "Lien").

(f) The outstanding securities of the Company and the Shares have been duly authorized and are, or when issued and delivered to the Underwriter against payment therefor as provided by this Agreement will be, validly issued, fully paid and nonassessable by the Company and conform, or when so issued will conform, to the description thereof in the Prospectus. The shareholders of the Company have no preemptive or similar rights with respect to the Shares. Except as set forth in the Registration Statement or the Prospectus, the Company does not have outstanding any option to purchase, or any rights or warrants to subscribe for, or any securities or obligations convertible into, or any contracts or commitments to issue or sell, any securities, any shares of capital stock of any subsidiary or any such warrants, convertible securities or obligations.

(g) Except as contemplated in the Prospectus, subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, the Company and its subsidiaries have not incurred any liabilities or obligations, direct or contingent, or entered into any transactions, not in the ordinary course of business, that are material to the Company or its subsidiaries, and there has not been any material change in the capital stock, partnership interests, short-term debt or long-term debt of the Company or any of its subsidiaries, or any material adverse change, or any development involving a prospective material adverse change, in the condition (financial or other), business prospects, net worth or results of operations of the Company and its subsidiaries taken as a whole.

(h) Except as set forth in the Prospectus, there is not pending or, to the knowledge of the Company, threatened any action, suit or proceeding against or affecting the Company or any of its subsidiaries or any of their respective directors, partners or officers in their capacity as such, or any of the Communities (as defined in the Prospectus) before or by any Federal or state court, commission, regulatory body, administrative agency or other governmental body, domestic or foreign, wherein an unfavorable ruling, decision or finding might result in any material adverse change in the condition (financial or other), business prospects, net worth or results of operations of the Company and its subsidiaries taken as a whole, or materially and adversely affect the properties or assets of the Company and its subsidiaries taken as a whole.

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(i) There are no contracts or documents of a character required to be described in the Prospectus or filed as exhibits to the Registration Statement by the Act or the Rules and Regulations that have not been so described or filed (the "Contracts"). All Contracts executed and delivered on or before the date hereof to which the Company or any subsidiary of the Company is a party have been duly authorized, executed and delivered by the Company or such subsidiary, constitute valid and binding agreements of the Company or such subsidiary and are enforceable against the Company or such subsidiary in accordance with the terms thereof, except as limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally or, in the case of each such Contract which is to be executed and delivered on the Closing Date, will on the Closing Date, be duly authorized, executed and delivered by the Company or such subsidiary, constitute valid and binding agreements of the Company or such subsidiary and be enforceable against the Company or such subsidiary in accordance with the terms thereof, except as limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally.

(j) The Company has the corporate power and authority to enter into this Agreement. This Agreement has been duly authorized, executed and delivered by the Company and constitutes a valid and binding agreement of the Company and is enforceable against the Company in accordance with the terms hereof, except as limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally. Except as disclosed in the Prospectus, the execution, delivery and the performance of this Agreement and the consummation of the transactions herein contemplated will not result in the creation or imposition of any lien, charge or encumbrance upon the Communities (as defined in the Prospectus) or any of the other assets of the Company or any of its subsidiaries pursuant to the terms or provisions of, or result in a breach or violation of any of the terms or provisions of, or constitute a default under, or give any other party a right to terminate any of

its obligations under, or result in the acceleration of any obligation under, the articles of incorporation of the Company or by-laws of the Company, the articles or certificate of incorporation or by-laws or partnership agreements of any of the Company's subsidiaries, or any Contract, or violate or conflict with any judgment, ruling, decree, order, statute, rule or regulation of any court or other governmental agency or body applicable to the Communities or business or properties of the Company or any of its subsidiaries. No consent, approval, authorization or order of, or filing with, any court or governmental agency or body is required for the consummation of the transactions contemplated by this Agreement or in connection with the issuance or sale of the Shares by the Company, except such as may be required under the Act, the Exchange Act or state securities laws, or the by-laws and rules of the National Association of Securities Dealers, Inc. (the "NASD") in connection with the purchase and distribution by the Underwriter of the Shares to be sold by the Company. The Company has the power and authority to authorize, issue, offer and sell the Shares, as contemplated by this Agreement, free of any preemptive rights.

(k) Each of the Company and its subsidiaries has complied in all material respects with all laws, regulations and orders applicable to it or their respective

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businesses and properties; neither the Company nor any of its subsidiaries is, and upon consummation of the offering of the Shares, none of them will be in default under any Contract, violation of which would individually or in the aggregate have a material adverse effect on the Company and its subsidiaries taken as a whole, and no other party under any such Contract to which the Company or any of its subsidiaries is a party is, to the knowledge of the Company, in default in any material respect thereunder; the Company is not in violation of its articles of incorporation or by-laws; the Company and each of its subsidiaries have or, upon the Closing Date, will have all governmental licenses (including, without limitation, a California real estate brokerage license and a California general contractor's license, if applicable), permits, consents, orders, approvals and other authorizations required to carry on its business as contemplated in the Prospectus, and none of them has received any notice of proceedings relating to the revocation or modification of any such governmental license, permit, consent, order, approval or other authorization which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would materially and adversely affect the condition, financial or otherwise, or the earnings, business affairs or business prospects of the Company and its subsidiaries considered as one enterprise.

(l) The Company, or its subsidiaries, as applicable, has good and marketable title to the Communities, and the Communities are not subject to any liens or encumbrances except for monetary liens as set forth in the Registration Statement or the Prospectus, non-delinquent property taxes, utility easements and other immaterial non-monetary liens or encumbrances of record. All liens, charges, encumbrances, claims or restrictions on or affecting the Communities which are required to be disclosed in the Prospectus are disclosed therein.

(m) The mortgages and deeds of trust encumbering the Communities are not convertible nor will the Company or any of its subsidiaries hold a participating interest therein and such mortgages and deeds of trust are not cross-defaulted or cross-collateralized to any property not to be owned directly or indirectly by the Company. To the knowledge of the Company (i) the present and intended use and occupancy of each of the Communities complies with all applicable codes and zoning laws and regulations, if any, except for such failures to comply which would not individually or in the aggregate have a material adverse effect on the condition, financial or otherwise, or on the earnings, business affairs or business prospects of the Company and its subsidiaries taken as a whole; and (ii) there is no pending or, to the Company's knowledge, threatened condemnation, zoning change, environmental or other proceeding or action that will in any material respect affect the size of, use of, improvements on, construction on, or access to the Communities, except for such proceedings or actions that would not individually or in the aggregate have a material adverse effect on the condition, financial or otherwise, or on the earnings, business affairs or business prospects of the Company and its subsidiaries taken as a whole.

(n) The Company and its subsidiaries maintain property and casualty insurance in favor of the Company and its subsidiaries with respect to each of the

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Communities, in an amount and on such terms as is reasonable for businesses of the type proposed to be conducted by the Company and its

subsidiaries. The Company or its subsidiaries has not received from any insurance company notice of any material defects or deficiencies affecting the insurability of any of the Communities (other than with respect to seismic activities).

(o) As of the Closing Date the Company, and each of its subsidiaries (i) will be in compliance in all material respects with any and all applicable foreign, Federal, state and local laws and regulations relating to the protection of human health and safety, the Hazardous Materials (as defined below), or hazardous or toxic wastes, pollutants or contaminants (the "Environmental Laws"); (ii) will have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses; and (iii) will be in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals are otherwise disclosed in the Prospectus or would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries taken as a whole.

(p) (i) None of the Company or the Partnerships has at any time, and, to the best knowledge of the Company after due inquiry and investigation, no other party has, at any time, handled, buried, stored, retained, refined, transported, processed, manufactured, generated, produced, spilled, allowed to seep, leak, escape or leach, or be pumped, poured, emitted, emptied, discharged, released, injected, dumped, transferred or otherwise disposed of or dealt with, Hazardous Materials (as hereinafter defined) on, to, above under, in, into or from the Communities, except as disclosed in the environmental reports previously delivered to the Underwriter or referred to in the Prospectus. Neither the Company nor its subsidiaries intends to use the Communities or any subsequently acquired properties described in the Prospectus for the purpose of handling, burying, storing, retaining, refining, transporting, processing, manufacturing, generating, producing, spilling, seeping, leaking, escaping, leaching, pumping, pouring, emitting, emptying, discharging, releasing, injecting, dumping, transferring or otherwise disposing of or dealing with Hazardous Materials, except for the use, storage and transportation of small quantities of substances that are regularly used as office supplies, household cleaning supplies, gardening supplies, or pool maintenance supplies in compliance with applicable Environmental Laws and in accordance with prudent business practices and good hazardous materials storage and handling practices.

(ii) None of the Company or the Partnerships, to the best knowledge of the Company after due inquiry and investigation, knows of any seepage, leak, escape, leach, discharge, injection, release, emission, spill, pumping, pouring, emptying or dumping of Hazardous Materials into waters on, under or adjacent to the Communities or onto lands from which such hazardous or toxic

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waste of substances might seep, flow or drain into such waters, except as disclosed in the environmental reports previously delivered to the Underwriter or referred to in the Prospectus.

(iii) None of the Company or the Partnerships to the best knowledge of the Company after due inquiry and investigation, has received notice of, or has knowledge of any occurrence or circumstance which, with notice or passage of time or both, would give rise to, any claim under or pursuant to any Environmental Law pertaining to Hazardous Materials, hazardous or toxic waste or substances on or originating from the Communities arising out of the conduct of any such party, including, without limitation, pursuant to any Environmental Law, except as disclosed in the environmental reports previously delivered to the Underwriter or referred to in the Prospectus.

As used herein, "Hazardous Material" shall include, without limitation, any flammable materials or explosives, petroleum or petroleum-based products, radioactive materials, hazardous materials, hazardous wastes, hazardous or toxic substances, or related materials, asbestos or any material as defined by any Federal, state or local environmental law, ordinance, rule, or regulation including, without limitation, Environmental Laws, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (42 U.S.C. Section 9601, et seq.) ("CERCLA"), the Hazardous Materials Transportation Act, as amended (49 U.S.C. Section 1801, et seq.), the Resource Conservation and Recovery Act, as amended (42 U.S.C. Section 9601, et seq.), and in the regulations adopted and publications promulgated pursuant to each of the foregoing or by any Federal, state or local governmental authority having or claiming jurisdiction over the Communities as described in the Prospectus.

(q) In the ordinary course of its business, each of the Company and the Partnerships conducts a periodic review of the effect of Environmental Laws on its business, operations and properties in the course of which it identifies and evaluates associated costs and liabilities (including, without limitation, any capital or operating expenditures required for investigation, clean-up, closure of properties or compliance with Environmental Laws or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties). On the basis of such review and on the basis of the reviews conducted by the Company in connection with the Communities, the Company has reasonably concluded that such associated costs and liabilities would not singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries taken as a whole.

(r) The Company is not an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended (the "1940 Act").

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(s) Neither the assets of the Company nor its subsidiaries constitute, nor will such assets, as of the Closing Date, constitute, "plan assets" under the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

(t) The Company has elected to be taxed as a REIT under the Code and will use its best efforts to continue to be organized and will continue to operate in a manner so as to qualify as a "real estate investment trust" ("REIT") under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended (the "Code"), unless the Board of Directors determines that it is no longer in the best interest of the Company to continue to be so qualified.

(u) Except as stated in the Prospectus, neither the Company nor any of its directors, officers or controlling persons has taken, nor will it take, directly or indirectly, any action designed to or that might reasonably be expected to cause or result in stabilization or manipulation of the price of the Shares to facilitate the sale or resale of the Shares.

(v) The Company has not distributed and, prior to the later to occur of (i) the Closing Date and (ii) completion of the distribution of the Shares, will not distribute any offering material in connection with the offering and sale of the Shares other than the Registration Statement, the Prospectus or other materials, if any, permitted by the Act.

(w) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that: (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to financial and corporate books and records is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(x) Prior to the Closing Date, the Shares will be duly authorized for listing by the New York Stock Exchange and the Pacific Stock Exchange upon official notice of issuance.

(y) Neither the Company nor any of its subsidiaries is involved in any material labor dispute nor, to the best knowledge of the Company after due inquiry and investigation, is any such dispute threatened.

(z) No holder of securities of the Company has rights to the registration of any securities of the Company because of the filing of the Registration Statement, except as set forth in that certain Registration Rights Agreement dated March 16, 1994 among the Company and certain stockholders.

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3. Purchase, Sale and Delivery of Shares.

(a) On the basis of the representations, warranties and agreements of the Company herein contained and subject to all the terms and conditions of this Agreement, the Company agrees to sell to the Underwriter, and the Underwriter agrees to purchase from the Company the Shares at the purchase price per share to be agreed upon by the Underwriter and the Company and set forth in the Price Determination Agreement.

(b) Delivery of the Shares shall be made to the Underwriter

against payment of the purchase price by wire transfer of immediately available funds to the order of the Company at the office of PaineWebber Incorporated, 1285 Avenue of the Americas, New York, New York 10019. Such payments shall be made at 10:00 a.m., New York City time, on the third business day (or, if the Shares are priced as contemplated by Rule 15cb-1(c) of the Exchange Act after 4:30 p.m., New York City time, the fourth business day) following the date of this Agreement or, if the Company has elected to rely on Rule 430A, the third or fourth business day, as applicable, after the date on which the first bona fide offering of the Shares to the public is made by the Underwriter or at such time on such other date, not later than seven business days after the date of this Agreement, as may be agreed upon by the Company and the Underwriter (such date is herein referred to as the "Closing Date").

(c) To the extent the Option is exercised, delivery of the Option Shares against payment by the Underwriter (in the manner specified above) will take place at the offices specified above for the Closing Date at the time and date (which may be the Closing Date) specified in the Option Shares Notice.

(d) If requested by the Underwriter no later than the date of this Agreement, certificates evidencing the Shares shall be in definitive form and shall be registered in such names and in such denominations as the Underwriter shall request at least two business days prior to the Closing Date or the Option Closing Date, as the case may be, by written notice to the Company. For the purpose of expediting the checking and packaging of certificates for the Shares, the Company agrees to make such certificates available for inspection at least 24 hours prior to the Closing Date or the Option Closing Date, as the case may be.

(e) The initial public offering price per share for the Shares and the purchase price per share for the Shares to be paid by the Underwriter shall be agreed upon by the Company and the Underwriter, and such agreement shall be set forth in a separate written instrument substantially in the form of Exhibit III hereto (the "Price Determination Agreement"). The Price Determination Agreement may take the form of an exchange of any standard form of written telecommunication among the Company and the Underwriter and shall specify such applicable information as is indicated in Exhibit III hereto. The offering of the Shares will be governed by this Agreement, as supplemented by the Price Determination Agreement. From and after the date of the

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execution and delivery of the Price Determination Agreement, this Agreement shall be deemed to incorporate, and, unless the context otherwise indicates, all references contained herein to "this Agreement" and to the phrase "herein" shall be deemed to include, the Price Determination Agreement.

4. Covenants. The Company covenants and agrees with the Underwriter that:

(a) The Company will cause the Prospectus to be filed as required by Section 2(a) hereof (but only if you have not reasonably objected thereto by notice to the Company after having been furnished a copy a reasonable time prior to filing) and will notify you promptly of such filing; it will notify you promptly of the time when any subsequent amendment to the Registration Statement has become effective or any supplement to the Prospectus has been filed and of any request by the Commission for any amendment or supplement to the Registration Statement or Prospectus or for additional information; it will prepare and file with the Commission, promptly upon your request, any amendments or supplements to the Registration Statement or Prospectus that, in your opinion, may be necessary or advisable in connection with the distribution of the Shares by the Underwriter; and it will file no amendment or supplement to the Registration Statement or Prospectus to which you shall reasonably object by notice to the Company after having been furnished a copy at a reasonable time prior to the filing.

(b) The Company will advise you, promptly after it shall receive notice or obtain knowledge thereof, of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement, of the suspension of the qualification of the Shares for offering or sale in any jurisdiction, or of the initiation or threatening of any proceeding for any purpose; and it will promptly use its best efforts to prevent the issuance of any stop order or to obtain its withdrawal if such a stop order should be issued.

(c) Within the time during which a prospectus relating to the Shares is required to be delivered under the Act, the Company will comply with all requirements imposed upon it by the Act and by the Rules and Regulations, as from time to time in force, so far as necessary to permit the continuance of sales of or dealings in the Shares as contemplated by the provisions hereof and the Prospectus. If during such period any event occurs as a result of which the Prospectus as then amended or supplemented would include an untrue statement of a material fact or omit to state a material fact necessary to make the

statements therein, in light of the circumstances then existing, not misleading, or if during such period it is necessary to amend or supplement the Registration Statement or Prospectus to comply with the Act, the Company will promptly notify you and will amend or supplement the Registration Statement or Prospectus (at the expense of the Company) so as to correct such statement or omission or effect such compliance.

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(d) As soon after the execution and delivery of this Agreement as possible and thereafter from time to time for such period as in the opinion of counsel for the Underwriter a prospectus is required by the Act to be delivered in connection with sales by the Underwriter or any dealer, the Company will expeditiously deliver to the Underwriter and each dealer, without charge, as many copies of the Prospectus (and of any amendment or supplement thereto) as you may request. The Company consents to the use of the Prospectus (and of any amendment or supplement thereto) in accordance with the provisions of the Act both in connection with the offering and sale of the Shares and for such period of time thereafter as the Prospectus is required by the Act to be delivered in connection with sales by any Underwriter or dealer. If during such period of time any event shall occur that in the judgment of the Company or in the opinion of counsel for the Underwriter is required to be set forth in the Prospectus (as then amended or supplemented) or should be set forth therein in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if it is necessary to supplement or amend the Prospectus to comply with the Act or any other law, the Company will forthwith prepare and, subject to the provisions of Section 4(a) hereof, file with the Commission an appropriate supplement or amendment thereto, and will expeditiously furnish to the Underwriter and dealers a reasonable number of copies thereof. In the event that the Company and you agree that the Prospectus should be amended or supplemented, the Company, if requested by you, will promptly issue a press release announcing or disclosing the matters to be covered by the proposed amendment or supplement.

(e) The Company will make generally available to its security holders as soon as practicable, but not later than fifty (50) days after the close of the period covered thereby, an earnings statement (in form complying with the provisions of Section 11(a) of the Act and Rule 158 of the Rules and Regulations) covering a twelve-month period beginning not later than the first day of the Company's fiscal quarter next following the "effective date" (as defined in said Rule 158) of the Registration Statement and will advise you in writing when such statement has been so made available.

(f) The Company agrees to pay the following costs and expenses and all other costs and expenses incident to the performance by the Company of the Company's obligations hereunder including, without limitation, its own travel (including air fare) and lodging expenses related to the preparation of the Prospectus and any sales efforts: (i) the preparation, printing or reproduction, and filing with the Commission of the Registration Statement (including financial statements and exhibits thereto), the Prospectus, and each amendment or supplement to either of them; (ii) the printing or (reproduction) and delivery (including postage, air freight charges and charges for counting and packaging) of such copies of the Registration Statement, the Prospectus, and all amendments or supplements to either of them as may be reasonably requested for use in connection with the offering and sale of the Shares; (iii) the preparation, printing, authentication, issuance and delivery of certificates for the Shares, including any stamp taxes in connection with the original issuance and sale of the Shares; (iv) the printing (or reproduction) and delivery of this Agreement and all other agreements or

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documents printed (or reproduced) and delivered in connection with the offering of the Shares; (v) the registration of the Shares under the Exchange Act and the listing of the Shares on the New York Stock Exchange and the Pacific Stock Exchange; (vi) the filing fees and the fees and expenses of counsel for the Underwriter in connection with any filings required to be made with the NASD; and (vii) the fees and expenses of the Company's accountants and the fees and expenses of counsel (including local and special counsel) for the Company.

(g) The Company will apply the net proceeds from the offering and sale of the Shares in the manner set forth in the Prospectus under "Use of Proceeds" and shall file such reports with the Commission with respect to the sale of the Shares and the application of the proceeds therefrom as may be required in accordance with Rule 463 under the Act.

(h) Unless the Board of Directors of the Company determines in its reasonable business judgment that continued qualification as a "real estate investment trust" under the Code is not in the Company's best interest the

Company will use its best efforts to, and will continue to meet the requirements to qualify as a "real estate investment trust."

(i) The Company will not at any time, directly or indirectly, take any action designed, or which might reasonably be expected to cause or result in, or which will constitute, stabilization of the price of the Shares to facilitate the sale or resale of any of the Shares.

(j) The Company will comply with all provisions of any undertakings contained in Item 17 of the Registration Statement.

(k) The Company will comply with all provisions of any undertakings contained in the Registration Statement.

5. Conditions of Underwriter's Obligations. The obligations of the Underwriter to purchase and pay for the Shares as provided herein shall be subject to the accuracy, as of the date hereof and the Closing Date (as if made at the Closing Date), of the representations and warranties of the Company herein, to the performance by the Company of its obligations hereunder and to the following additional conditions:

(a) Notification that the Registration Statement has become effective shall be received by the Underwriter not later than 5:00 pm., New York City time, on the date of this Agreement or at such later date and time as shall be consented to in writing by the Underwriter and all filings required by Rule 424 and Rule 430A of the Rules and Regulations shall have been made; no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceeding for that purpose shall have been instituted or, to the knowledge of the Company or the Underwriter, threatened by the Commission; and any request of the Commission for additional

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information (to be included in the Registration Statement or the Prospectus or otherwise) shall have been complied with to your satisfaction.

(b) The Underwriter shall not have advised the Company that the Registration Statement or Prospectus, or any amendment or supplement thereto, contains an untrue statement of fact that in your opinion is material, or omits to state a fact that in your opinion is material and is required to be stated therein or is necessary to make the statements therein not misleading.

(c) Except as contemplated in the Prospectus, subsequent to the respective dates as of which information is given in the Registration Statement and the Prospectus, (i) there shall not have been any change in the capital stock, partnership interests, short-term debt or long-term debt of the Company or its subsidiaries, (ii) there shall not have been any adverse change, or any development involving a prospective adverse change, in the condition (financial or other), business, prospects, net worth or results of operations of the Company and its subsidiaries, taken as a whole, whether or not arising from transactions in the ordinary course of business, and (iii) neither the Company nor any of its subsidiaries shall have sustained any material loss or interference with its business or properties from fire, explosion, flood or other casualty, whether or not covered by insurance, or from any labor dispute or any court or legislative or other governmental action, order or decree, which is not set forth in the Registration Statement and the Prospectus, if in the judgment of the Underwriter any of the foregoing makes it impractical or inadvisable to offer or deliver the Shares on the terms and in the manner contemplated in the Prospectus.

(d) You shall have received the opinion of Goodwin, Procter & Hoar LLP, counsel for the Company dated the Closing Date, to the effect that:

(i) The Registration Statement has been declared effective under the Act; the Prospectus has been filed with the Commission pursuant to Rule 424; and to the best knowledge of such counsel (based solely on an oral representation of a member of the staff of the Commission) no stop order suspending the effectiveness of the Registration Statement has been issued under the Act and no proceeding for that purpose has been instituted or threatened by the Commission;

(ii) Each part of the Registration Statement, when such part became effective, and the Prospectus and any amendment or supplement thereto, on the date of filing thereof with the Commission and at the Closing Date, complied as to form in all material respects with the requirements of the Act and the Rules and Regulations (other than (A) the financial statements and supporting schedules and other financial and statistical information and data included therein or omitted therefrom, and (B) any documents incorporated therein by reference, as to which such counsel need express no opinion), it being understood that in passing upon compliance as to the form of the

Statement, such counsel may assume that the statements made therein are correct and complete;

(iii) The descriptions in the Registration Statement (other than the documents incorporated therein by reference) and Prospectus of statutes are accurate in all material respects and fairly present the information required to be shown; and such counsel do not know of any statutes or legal or governmental proceedings required to be described in the Prospectus that are not described as required, or of any contracts or documents of a character required to be described in the Registration Statement or Prospectus or to be filed as exhibits to the Registration Statement that are not described and filed as required;

(iv) The form of organization of the Company and its operations are such as to enable the Company to qualify as a "real estate investment trust" under the applicable provisions of the Code. The discussion in the Prospectus under the caption "Federal Income Tax Considerations" fairly summarizes the Federal income tax considerations that are material to a holder of the Shares;

(v) The Company is not (after giving effect to the sale of the Shares) required to be registered under the 1940 Act;

(vi) The Shares have been duly authorized for listing by the New York Stock Exchange and the Pacific Stock Exchange upon official notice of issuance;

(vii) The Company is in good standing under the laws of the State of California as a foreign corporation, has full power and authority to conduct its business as described in the Registration Statement and Prospectus; and, except as disclosed in Exhibit II to this Agreement with respect to the subsidiaries of the Company, to the knowledge of such counsel, the Company owns no capital stock or other beneficial interest in any corporation, partnership, joint venture or other business entity;

(viii) Each of the partnerships that owns a Community (the "Partnerships") is a limited partnership duly organized, validly existing and in good standing under the laws of its state of incorporation and has the power under its partnership agreement and the applicable Limited Partnership Act necessary to conduct its business as described in the Registration Statement and Prospectus; each of the corporate subsidiaries of the Company is duly organized, validly existing and in good standing under the laws of its state of incorporation and has the corporate power and authority to conduct its business as described in the Registration Statement and Prospectus;

(ix) The General Partners of each of the Partnerships are duly qualified to do business in the State of California, except where the failure to be

so qualified, considering all such cases in the aggregate, does not involve and will not involve a material risk to the business, properties, financial position or results of operations of such subsidiary;

(x) All of the outstanding shares of Common Stock of the Company identified in the Prospectus (including the Shares) have been duly authorized and are, or when issued as contemplated hereby will be, validly issued, fully paid and nonassessable and conform, or when so issued will conform, to the description thereof in the Prospectus; and the shareholders of the Company have no preemptive or similar rights with respect to the Shares;

(xi) The Company has full corporate power and authority to enter into this Agreement; this Agreement has been duly authorized, executed and delivered by the Company; to the knowledge of such counsel, the issuance and sale of the Shares to the Underwriter on the terms contemplated herein will not result in the creation or imposition of any lien, charge or encumbrance upon any of the assets of the Company, any of its subsidiaries or the Partnerships, pursuant to the terms or provisions of, or result in a breach or violation of any of the terms or provisions of, or constitute a default or result in the

acceleration of any obligation under, the articles of incorporation or by-laws of the Company, the articles or certificate of incorporation or by-laws of any of the Company's subsidiaries, or the partnership agreements or other organizational documents of the Partnerships, any Contract to which the Company, any of its subsidiaries or the Partnerships is a party or by or pursuant to which any of them or their respective properties is bound, affected or financed or any statute, judgment, ruling, decree, order, rule or regulation of any court or other governmental agency or body applicable to the business or properties of the Company, any of its subsidiaries or the Partnerships (except that such counsel need express no opinion as to the securities or Blue Sky laws of any jurisdiction other than the United States), where such violation or default, individually or in the aggregate, might have a material adverse effect on the business, properties, business prospects, condition (financial or otherwise) or results of operations of the Company or any of its subsidiaries taken as a whole;

(xii) To the knowledge of such counsel, no consent, approval, authorization or order of, or filing with, any court or governmental agency or body is required in connection with the issuance or sale of the Shares by the Company, except (i) such as have been obtained under the Act or the Exchange Act, or (ii) such as may be required under state securities laws or the by-laws of the NASD in connection with the purchase and distribution of the Shares by the Underwriter; and

(xiii) To the knowledge of such counsel, none of the Company, any of its subsidiaries or the Partnerships is in violation of its articles or certificate of incorporation, by-laws, partnership agreements, or other organizational

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documents, as applicable, or in default (nor has an event occurred which with notice or lapse of time or both would constitute a default or acceleration) in the performance of any obligation, agreement or condition contained in any Contract known to such counsel to which the Company, any of its subsidiaries or the Partnerships is a party will be a party, or by or pursuant to which any of them or their respective properties is bound, affected or financed will be bound, affected or financed, and, to the knowledge of such counsel, none of the Company, any of its subsidiaries or the Partnerships is in violation of any judgment, ruling, decree, order, franchise, license or permit known to us or any statute, rule or regulation of any court or other governmental agency or body applicable to the business or properties of the Company, any of its subsidiaries or the Partnerships; where such violation or default, individually or in the aggregate, might have a material adverse effect on the business, properties, business prospects, condition (financial or otherwise) or results of operations of the Company or any of its subsidiaries taken as a whole.

In connection with delivering such opinion such counsel shall also

state:

- (a) No facts have come to their attention which cause them to believe that the Registration Statement (excluding (i) the financial statements and notes thereto, financial schedules and other financial or statistical information and data included therein or omitted therefrom and (ii) any documents incorporated by reference into the Registration Statement, as to which they need express no opinion), at the time it became effective, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and
- (b) No facts have come to their attention which cause them to believe that the Prospectus (excluding (i) the financial statements and notes thereto, financial schedules and other financial or statistical information and data included therein or omitted therefrom and (ii) any documents incorporated by reference into the Registration Statement, as to which they need express no opinion), as of its date or the date of such opinion, contained or contains an untrue statement of a material fact or omitted or omits to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

In rendering such opinions, such counsel may rely on certificates of public officers, upon opinions of counsel reasonably satisfactory to the Underwriter, copies of which shall be contemporaneously delivered to the Underwriter, and as to matters of fact, upon certificates of officers of the Company; provided that such counsel shall state that the opinion of any other counsel is in form satisfactory to such counsel and, such counsel is

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unaware of any reason why it and the Underwriter are not justified in relying on such opinions of other counsel. Copies of all such opinions and certificates shall be furnished to counsel to the Underwriter on the Closing Date.

(e) You shall have received from O'Melveny & Myers LLP, counsel for the Underwriter (based upon Goodwin Procter & Hoar LLP's opinion respecting Maryland law), such opinion or opinions, dated the Closing Date, with respect to the organization of the Company, the validity of the Shares, the Registration Statement, the Prospectus and other related matters as you reasonably may request, and such counsel shall have received such papers and information as they request to enable them to pass upon such matters. In rendering such opinion, such counsel may rely upon certificates of public officers and upon opinions of counsel, copies of which shall be contemporaneously delivered to the Underwriter, and as to matters of fact, upon certificates of officers of the Company.

(f) At the time of the execution of this Agreement, the Underwriter shall have received from Coopers & Lybrand a letter dated such date, in form and substance satisfactory to the Underwriter containing statements and information of the type ordinarily included in accountants' "comfort letters" to underwriters with respect to the financial statements and other financial information included in the Registration Statement and the Prospectus (the "initial comfort letter"). On the Closing Date, you shall have received from Coopers & Lybrand a letter dated as of the Closing Date to the effect that they reaffirm the statements made in the initial comfort letter, except that the specified date referred to shall be a date not more than five days prior to the Closing Date.

(g) You shall have received from the Company a certificate, signed by the Chairman of the Board or the President and by the principal financial or accounting officer of the Company, dated the Closing Date, to the effect that:

(i) The representations and warranties of the Company in this Agreement were when originally made and are at the time such certificate is delivered true and correct, as if made at and as of the Closing Date, and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date;

(ii) No stop order suspending the effectiveness of the Registration Statement has been issued, and no proceeding for that purpose has been instituted or is threatened, by the Commission; and

(iii) Since the effective date of the Registration Statement, there has occurred no event required to be set forth in an amendment or supplement to the Registration Statement or Prospectus that has not been so set forth.

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(h) The Shares shall have been approved for listing on the New York Stock Exchange and the Pacific Stock Exchange, subject to official notice of issuance.

(i) The Company shall have furnished to you such further certificates and documents as you shall have reasonably requested.

All such opinions, certificates, letters and other documents will be in compliance with the provisions hereof only if they are satisfactory in form and substance to you. The Company will furnish you with such conformed copies of such opinions, certificates, letters and other documents as you shall reasonably request.

6. Indemnification and Contribution.

(a) The Company will indemnify and hold harmless the Underwriter, the directors, officers, employees and agents of the Underwriter and each person, if any, who controls the Underwriter within the meaning of

Section 15 of the Act or Section 20 of the Exchange Act, from and against any and all losses, claims, liabilities, expenses and damages (and actions in respect thereof) (including any and all investigative, legal and other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted), to which they, or any of them, may become subject under the Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, liabilities, expenses or damages arise out of or are based on a breach of any representation, warranty, agreement or covenant made by the Company in this Agreement or based upon an untrue statement or alleged untrue statement of a material fact contained in the Registration Statement or the Prospectus or any amendment or supplement to the Registration Statement or the Prospectus or in any documents filed under the Exchange Act and deemed to be incorporated by reference into the Prospectus, or the omission or alleged omission to state in such document a material fact required to be stated in it or necessary to make the statements in it not misleading, provided that the Company will not be liable to the extent that such loss, claim, liability, expense or damage arises from the sale of the Shares in the public offering to any person by the Underwriter and is based on an untrue statement or omission or alleged untrue statement or omission made in reliance on and in conformity with information relating to the Underwriter furnished in writing to the Company by the Underwriter on behalf of the Underwriter expressly for inclusion in the Registration Statement or the Prospectus. The Company acknowledges that the statements set forth under the heading "Underwriting" in the Prospectus constitutes the only information relating to the Underwriter furnished in writing to the Company by the Representatives on behalf of the Underwriter expressly for inclusion in the Registration Statement or the Prospectus. This indemnity agreement will be in addition to any liability that the Company might otherwise have.

(b) The Underwriter will indemnify and hold harmless the Company, each person, if any, who controls the Company within the meaning of Section 15 of the

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Act or Section 20 of the Exchange Act, each director of the Company and each officer of the Company who signs the Registration Statement to the same extent as the foregoing indemnity from the Company to the Underwriter, but only insofar as losses, claims, liabilities, expenses or damages (or actions in respect thereof) arise out of or are based on any untrue statement or omission or alleged untrue statement or omission of a material fact contained in any part of the Registration Statement when such part became effective, the final prospectus supplement, the Prospectus or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made therein in reliance on and in conformity with information relating to the Underwriter furnished in writing to the Company by the Underwriter expressly for use in the Registration Statement or the Prospectus. This indemnity will be in addition to any liability that the Underwriter might otherwise have. The Company acknowledges that the statements set forth under the heading "Underwriting" in the prospectus supplement and the Prospectus constitute the only information relating to the Underwriter furnished in writing to the Company by the Representative on behalf of the Underwriter expressly for inclusion in the Registration Statement, the final prospectus supplement, or the Prospectus.

(c) Any party that proposes to assert the right to be indemnified under this Section 6 will, promptly after receipt of notice of commencement of any action against such party in respect of which a claim is to be made against an indemnifying party or parties under this Section 6, notify each such indemnifying party of the commencement of such action, enclosing a copy of all papers served, but the omission so to notify such indemnifying party will not relieve it from any liability that it may have to any indemnified party under the foregoing provisions of this Section 6 unless, and only to the extent that, such omission results in the forfeiture of substantive rights or defenses by the indemnifying party. If any such action is brought against any indemnified party and it notifies the indemnifying party of its commencement, the indemnifying party will be entitled to participate in and, to the extent that it elects by delivering written notice to the indemnified party promptly after receiving notice of the commencement of the action from the indemnified party, jointly with any other indemnifying party similarly notified, to assume the defense of the action, with counsel satisfactory to the indemnified party, and after notice from the indemnifying party to the indemnified party of its election to assume the defense, the indemnifying party will not be liable to the indemnified party for any legal or other expenses except as provided below and except for the reasonable costs of investigation subsequently incurred by the indemnified party in connection with the defense. The indemnified party will have the right to employ its own counsel in any such action, but the fees, expenses and other charges of such counsel will be at the expense of such

indemnified party unless (1) the employment of counsel by the indemnified party has been authorized in writing by the indemnifying party, (2) the indemnified party has reasonably concluded (based on advice of counsel) that there may be legal defenses available to it or other indemnified parties that are different from or in addition to those

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available to the indemnifying party, (3) a conflict or potential conflict exists (based on advice of counsel to the indemnified party) between the indemnified party and the indemnifying party (in which case the indemnifying party will not have the right to direct the defense of such action on behalf of the indemnified party) or (4) the indemnifying party has not in fact employed counsel to assume the defense of such action within a reasonable time after receiving notice of the commencement of the action, in each of which cases the reasonable fees, disbursements and other charges of counsel will be at the expense of the indemnifying party or parties. It is understood that the indemnifying party or parties shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees, disbursements and other charges of more than one separate firm admitted to practice in such jurisdiction at any one time for all such indemnified party or parties. All such fees, disbursements and other charges will be reimbursed by the indemnifying party promptly as they are incurred. An indemnifying party will not be liable for any settlement of any action or claim effected without its written consent (which consent will not be unreasonably withheld).

(d) In order to provide for just and equitable contribution in circumstances in which the indemnification provided for in the foregoing paragraphs of this Section 6 is applicable in accordance with its terms but for any reason is held to be unavailable from the Company or the Underwriter, the Company and the Underwriter will contribute to the total losses, claims, liabilities, expenses and damages (including any investigative, legal and other expenses reasonably incurred in connection with, and any amount paid in settlement of, any action, suit or proceeding or any claim asserted, but after deducting any contribution received by the Company from persons other than the Underwriter, such as persons who control the Company within the meaning of the Act, officers of the Company who signed the Registration Statement and directors of the Company, who also may be liable for contribution) to which the Company and the Underwriter may be subject in such proportion as shall be appropriate to reflect the relative benefits received by the Company on the one hand and the Underwriter on the other. The relative benefits received by the Company on the one hand and the Underwriter on the other shall be deemed to be in the same proportion as the total net proceeds from the offering (before deducting expenses) received by the Company bear to the total underwriting discounts and commissions received by the Underwriter, in each case as set forth in the table on the cover page of the Prospectus. If, but only if, the allocation provided by the foregoing sentence is not permitted by applicable law, the allocation of contribution shall be made in such proportion as is appropriate to reflect not only the relative benefits referred to in the foregoing sentence but also the relative fault of the Company, on the one hand, and the Underwriter, on the other, with respect to the statements or omissions which resulted in such loss, claim, liability, expense or damage, or action in respect thereof, as well as any other relevant equitable considerations with respect to such offering. Such relative fault shall be determined by reference to whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or the Underwriter on behalf of the Underwriter, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such

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statement or omission. The Company and the Underwriter agree that it would not be just and equitable if contributions pursuant to this Section 6(d) were to be determined by pro rata allocation or by any other method of allocation which does not take into account the equitable considerations referred to herein. The amount paid or payable by an indemnified party as a result of the loss, claim, liability, expense or damage, or action in respect thereof, referred to above in this Section 6(d) shall be deemed to include, for purpose of this Section 6(d), any legal or other expenses reasonably incurred by such indemnified party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this Section 6(d), the Underwriter shall not be required to contribute any amount in excess of the underwriting discounts received by it, and no person found guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) will be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 6(d), any person who controls a party to this Agreement within the meaning of the Act will have the same rights to contribution as that party, and each officer of the Company who signed the Registration Statement will have the same rights to contribution as the Company,

subject in each case to the provisions hereof. Any party entitled to contribution, promptly after receipt of notice of commencement of any action against such party in respect of which a claim for contribution may be made under this Section 6(d), will notify any such party or parties from whom contribution may be sought, but the omission so to notify will not relieve the party or parties from whom contribution may be sought from any other obligation it or they may have under this Section 6(d). No party will be liable for contribution with respect to any action or claim settled without its written consent (which consent will not be unreasonably withheld).

(e) The indemnity and contribution agreements contained in this Section 6 and the representations and warranties of the Company contained in this Agreement shall remain operative and in full force and effect regardless of (i) any investigation made by or on behalf of the Underwriter, (ii) acceptance of any of the Shares and payment therefor or (iii) any termination of this Agreement.

7. Representations and Agreements to Survive Delivery. All representations, warranties, agreements and covenants, of the Company herein or in certificates delivered pursuant hereto, and the agreements of the Underwriter contained in Section 6 hereof, shall remain operative and in full force and effect regardless of any investigation made by or on behalf of the Underwriter or any controlling persons, or the Company or any of its officers, directors or any controlling persons, and shall survive delivery of and payment for the Shares hereunder.

8. Termination. You shall have the right, by giving notice as hereinafter specified at any time at or prior to the Closing Date, to terminate this Agreement if (i) the Company shall have failed, refused or been unable, at or prior to the Closing Date, to perform any agreement on its part to be performed hereunder, (ii) any other condition of the Underwriter's obligations hereunder is not fulfilled, (iii) trading on the New York Stock Exchange shall have been wholly suspended, (iv) minimum or maximum

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prices for trading shall have been fixed, or maximum ranges for prices for securities shall have been required, on the New York Stock Exchange by such exchange or by order of the Commission or any other governmental authority having jurisdiction, (v) a banking moratorium shall have been declared by Federal or New York authorities, or (vi) any material adverse change in the financial or securities markets in the United States or in political, financial or economic conditions in the United States, any outbreak or material escalation of hostilities in which the United States is involved, a declaration of war by Congress, any other substantial national or international calamity or any other event or occurrence of a similar character shall have occurred since the execution of this Agreement that, in your judgment, makes it impractical or inadvisable to proceed with the completion of the sale of and payment for the Shares. Any such termination shall be without liability of any party to any other party with respect to Shares not purchased by reason of such termination except that the provisions of Section 4(g) and Section 6 hereof shall at all times be effective. If you elect to terminate this Agreement as provided in this Section, the Company shall be notified promptly by you by telephone, telex or telecopy, confirmed by letter.

9. Notices. All notices or communications hereunder shall be in writing and if sent to you shall be mailed, delivered, telexed or telecopied and confirmed to you, c/o PaineWebber Incorporated, 1285 Avenue of the Americas, New York, New York 10019, Attention: Corporate Finance Department, or if sent to the Company, shall be mailed, delivered, telexed or telecopied and confirmed to the Company at 4340 Stevens Creek Boulevard, Suite 275, San Jose, California 95129. Any party to this Agreement may change such address for notices by sending to the parties to this Agreement written notice of a new address for such purpose.

10. Parties. This Agreement shall inure to the benefit of and be binding upon the Company and the Underwriter and their respective successors and the persons or entities referred to in Section 6 hereof, and no other person will have any right or obligation hereunder.

11. APPLICABLE LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

12. Over-allotment Option.

(a) In addition to the Shares being sold by the Company as described in Section 1(a) hereof (which are referred to herein as the "Firm Shares"), the Company hereby grants to the Underwriter an option to purchase up to an aggregate of 210,000 additional Shares (which are referred to herein as the "Option Shares") on the terms and for the purposes set forth in Section 12(b). The first two paragraphs of Section 3 hereof shall be deemed to apply only to the purchase, sale and delivery of the Firm Shares. References in those two paragraphs to the "Shares" shall be deemed to be references to the "Firm

this Agreement to the "Shares" shall be deemed to include the Firm Shares and the Option Shares.

(b) Upon written notice from you given to the Company not more than 30 days subsequent to the date of the initial public offering of the Shares, the Underwriter may purchase all or any portion of the Option Shares at the purchase price per share to be paid for the Firm Shares. The Company agrees to issue and sell to the Underwriter, and the Underwriter agrees to purchase from the Company, the number of Option Shares specified in such notice. Such Option Shares may be purchased by the Underwriter only for the purpose of covering over-allotments made in connection with the sale of the Firm Shares. No Option Shares shall be sold or delivered unless the Firm Shares previously have been, or simultaneously are, sold and delivered. The right to purchase the Option Shares or any portion thereof may be surrendered and terminated at any time upon notice by you to the Company. The "Closing Date" as defined in Section 3 hereof with respect to the Firm Shares, shall be deemed to be the "First Closing Date," and the time for the delivery of and payment for the Option Shares is herein referred to as the "Second Closing Date," (which may be the same date as the First Closing Date). The Second Closing Date shall be determined by you but shall be not later than 10 days after you give to the Company written notice of election to purchase Option Shares. The preparation, registration, checking and delivery of, and payment for, the Option Shares shall occur or be made in the same manner as provided in Section 3 hereof for the Firm Shares, except as you and the Company may otherwise agree.

(c) The conditions to the Underwriter's obligations set forth in Section 5 shall be deemed to be conditions to the Underwriters' obligations to purchase and pay for the Shares to be purchased on each of the First Closing Date and the Second Closing Date, as the case may be; references in that Section and in Sections 2, 8 and 9 hereof to the "Closing Date" shall be deemed to be references to the First Closing Date or Second Closing Date, as the case may be, and references to the "Securities" in Section 5 hereof shall be deemed to be references to the Firm Shares and/or the Option Shares, as the case may be, to be purchased by the Underwriter on such Closing Date. A termination of this Agreement as to the Option Shares after the First Closing Date will not terminate this Agreement as to the Firm Shares.

13. Counterparts. This Agreement may be signed in two or more counterparts with the same effect as if the signatures thereto and hereto were upon the same instrument.

14. Severability. In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

15. Waivers of Trial by Jury. The Company and the Underwriter each hereby irrevocably waive any right they may have to a trial by jury in respect of any claim based

upon or arising out of this Agreement or the transactions contemplated hereby. If the foregoing correctly sets forth the understanding between the Company and the Underwriter, please so indicate in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement between the Company and the Underwriter.

Very truly yours,

BAY APARTMENT COMMUNITIES, INC.

By: /s/ Gilbert M. Meyer

Name: Gilbert M. Meyer
Title: President

ACCEPTED as of the date first above written.

By: /s/ Frederick T. Caven, Jr.

Name: Frederick T. Caven, Jr.

Title: Managing Director

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EXHIBIT I

INFORMATION IN PROSPECTUS FURNISHED BY THE UNDERWRITER

The following information appearing in the Prospectus has been furnished by the Underwriter in writing specifically for use in the preparation of the Prospectus.

1. Information contained in the Prospectus Supplement under the heading "Underwriting."

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EXHIBIT II

LIST OF SUBSIDIARIES

Bay Apartment Communities, Inc. (the "Company") owns interests in the following entities:

Subsidiaries

1. Bay Asset Group, Inc., a Maryland corporation, is a wholly-owned subsidiary of the Company.
2. Bay GP, Inc., a Maryland corporation, is a wholly-owned subsidiary of the Company.
3. Bay Development Partners, Inc., a Maryland corporation, is a wholly-owned subsidiary of Bay Asset Group, Inc.
4. Bay Waterford, Inc., a Maryland corporation, is a wholly-owned subsidiary of Bay Asset Group, Inc.

Partnerships

5. Bay GP, Inc. is the sole general partner of Bay Countrybrook, L.P., a Delaware limited partnership. There are third-party limited partners.
6. Bay Development Partners, Inc. is the sole general partner of San Francisco Bay Partners II, Ltd., a California limited partnership. There is one third-party limited partner.
7. Bay Development Partners, Inc. is the sole general partner of San Francisco Bay Partners III, L.P., a California limited partnership. The Company is the sole limited partner.
8. Bay Development Partners, Inc. is the sole partner of Toyon Road San Jose Partners, L.P., a California limited partnership. The Company is the sole limited partner.
9. Bay Development Partners, Inc. is the sole general partner of Foxchase Drive San Jose Partners II, L.P., a California limited partnership. The Company is the sole limited partner.

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LIENS

The Financial Guaranty Insurance Company has a lien on all of the issued and outstanding capital stock of Bay Waterford, Inc. and Bay

EXHIBIT III

PRICE DETERMINATION AGREEMENT

January __, 1997

PAINWEBBER INCORPORATED
1285 Avenue of the Americas
New York, New York 10019

Ladies and Gentlemen:

Reference is made to the Underwriting Agreement, dated January __, 1997 (the "Underwriting Agreement"), among Bay Apartment Communities, Inc. a Maryland corporation (the "Company") and PaineWebber Incorporated (the "Underwriter"). The Underwriting Agreement provides for the purchase by the Underwriter from the Company, subject to the terms and conditions set forth therein, of an aggregate of _____ shares (the "Firm Shares") of the Company's common stock, par value \$.01 per share. This Agreement is the Price Determination Agreement referred to in the Underwriting Agreement.

Pursuant to Section 3 of the Underwriting Agreement, the undersigned agrees with the Underwriter as follows:

The public offering price per share for the Firm Shares shall be \$_____.

The purchase price per share for the Firm Shares to be paid by the Underwriter shall be \$_____ representing an amount equal to the public offering price set forth above, less \$_____ per share.

The Company represents and warrants to the Underwriter that the representations and warranties of the Company set forth in Section 2 of the Underwriting Agreement are accurate as though expressly made at and as of the date hereof.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

If the foregoing is in accordance with your understanding of the agreement among the Underwriter and the Company, please sign and return to the Company a counterpart hereof, whereupon this instrument along with all counterparts and together with the Underwriting Agreement shall be a binding agreement among the Underwriter

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and the Company in accordance with its terms and the terms of the Underwriting Agreement.

Very truly yours,

BAY APARTMENT COMMUNITIES, INC.

By: _____
Name: Gilbert M. Meyer
Title: President

ACCEPTED as of the date first above written.

By: _____
Name: _____
Title: _____

PRICE DETERMINATION AGREEMENT

January 22, 1997

PAINWEBBER INCORPORATED
1285 Avenue of the Americas
New York, New York 10019

Ladies and Gentlemen:

Reference is made to the Underwriting Agreement dated January 22, 1997 (the "Underwriting Agreement"), by and between Bay Apartment Communities, Inc., a Maryland corporation (the "Company") and PaineWebber Incorporated (the "Underwriter"). The Underwriting Agreement provides for the purchase by the Underwriter from the Company, subject to the terms and conditions set forth therein, of an aggregate of 1,400,000 shares (the "Firm Shares") of the Company's common stock, par value \$.01 per share. This Agreement is the Price Determination Agreement referred to in the Underwriting Agreement.

Pursuant to Section 3 of the Underwriting Agreement, the undersigned agrees with the Underwriter as follows:

The public offering price per share for the Firm Shares shall be \$37.125.

The purchase price per share for the Firm Shares to be paid by the Underwriter shall be \$35.265 representing an amount equal to the public offering price set forth above, less \$1.86 per share.

The Company represents and warrants to the Underwriter that the representations and warranties of the Company set forth in Section 2 of the Underwriting Agreement are accurate as though expressly made at and as of the date hereof.

THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

PAINWEBBER INCORPORATED
January 22, 1997

If the foregoing is in accordance with your understanding of the agreement between the Underwriter and the Company, please sign and return to the Company a counterpart hereof, whereupon this instrument along with all counterparts and together with the Underwriting Agreement shall be a binding agreement between the Underwriter and the Company in accordance with its terms and the terms of the Underwriting Agreement.

Very truly yours,

BAY APARTMENT COMMUNITIES, INC.

By: /s/ Gilbert M. Meyer
Name: Gilbert M. Meyer
Title: President

ACCEPTED as of the date first above written.

PAINWEBBER INCORPORATED

By: /s/ Frederick T. Caven, Jr.
Name: Frederick T. Caven, Jr.
Title: Managing Director

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AT MARCH 31, 1997 AND THE CONSOLIDATED STATEMENT OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FIRST QUARTER FILING ON FORM 10-Q FOR THE QUARTER ENDED MARCH 31, 1997.

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