UNITED STATES
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 JUNE 30, 1997

COMMISSION FILE NUMBER 1-12672

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

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

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.

CLASS	SHARES OUTSTANDING	DATE
Common, $.01 par value	22,302,373	August 7, 1997

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
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

<S>	JUNE 30, 1997 (UNAUDITED) <C>	DECEMBER 31, 1996 <C>
ASSETS		
Real estate assets:		
Land	$ 184,594	$152,277
Buildings and improvements	612,193	511,583
Furniture, fixtures and equipment	43,360	35,542
	840,147	699,402
Less accumulated depreciation	(64,415)	(52,554)
Operating real estate assets	775,732	646,848
Construction in progress	86,917	50,945
Net real estate assets	862,649	697,793
Cash and cash equivalents	1,846	920
Restricted cash	1,267	960
Other assets, net	14,946	12,236
Total assets	$ 880,708	$711,909
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes payable	$ 277,988	$273,688
Accounts payable and accrued expenses	5,278	5,450
Dividends payable	10,428	8,939
Other liabilities	7,657	4,553
Total liabilities	301,351	292,630
Contingencies (Note 4)	--	--
Minority interest	3,215	7,002
Shareholders' equity:		
Preferred stock, $.01 par value; 25,000,000 shares authorized; 2,308,800 shares of Series A outstanding at both June 30, 1997 and December 31, 1996; 405,022 shares of Series B outstanding at both June 30, 1997 and December 31, 1996; 2,300,000 shares of Series C outstanding at June 30, 1997 and no shares of Series C outstanding at December 31, 1996	50	27
Common stock, $.01 par value; 40,000,000 shares authorized; 22,275,002 shares outstanding at June 30, 1997; 19,007,988 shares outstanding at December 31, 1996	223	190
Paid-in capital	603,249	435,723
Dividends in excess of accumulated earnings	(27,380)	(23,663)
Total shareholders' equity	576,142	412,277
Total liabilities and shareholders' equity	$ 880,708	$711,909

</TABLE>

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

BAY APARTMENT COMMUNITIES, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	QUARTER ENDED JUNE 30, 1997	QUARTER ENDED JUNE 30, 1996
<S>	<C>	<C>
Revenue:		
Rental	$28,817	$17,906
Other	963	487
Total revenue	29,780	18,393
Expenses:		
Property operating	6,772	4,108
Property taxes	2,250	1,465
General and administrative	1,517	814
Abandoned project costs	450	50
Interest and financing	3,800	3,635
Depreciation and amortization	6,426	4,226
Total expenses	21,215	14,298
Income before minority interest and extraordinary item	8,565	4,095
Minority interest	(86)	(12)
Income before extraordinary item	8,479	4,083
Extraordinary item	--	(511)
Net income	8,479	3,572
Preferred dividend requirement:		
Series A and B	(1,146)	(1,048)
Series C	(149)	--
Earnings available to common shares	$ 7,184	$ 2,524
Earnings per common share:		
Income before minority interest and extraordinary item	$ 0.33	$ 0.24
Minority interest	--	--
Income before extraordinary item	0.33	0.24
Extraordinary item	--	(0.04)
Earnings available to common shares	$ 0.33	$ 0.20
Dividends declared per common share	$ 0.41	$ 0.40

</TABLE>

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

CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>
<CAPTION>

	SIX MONTHS ENDED JUNE 30, 1997	SIX MONTHS ENDED JUNE 30, 1996
<S>	<C>	<C>
Revenue:		
Rental	$ 54,211	$ 34,000
Other	1,827	865
Total revenue	56,038	34,865
Expenses:		
Property operating	12,744	7,845
Property taxes	4,163	2,687
General and administrative	2,884	1,674
Abandoned project costs	530	50
Interest and financing	7,117	7,107
Depreciation and amortization	12,125	8,197

Total expenses	39,563	27,560
Income before minority interest and extraordinary item	16,475	7,305
Minority interest	(224)	(27)
Income before extraordinary item	16,251	7,278
Extraordinary item	--	(511)
Net income	16,251	6,767
Preferred dividend requirement:		
Series A and B	(2,292)	(1,999)
Series C	(149)	--
Earnings available to common shares	$ 13,810	$ 4,768
Earnings per common share:		
Income before minority interest and extraordinary item	$ 0.66	$ 0.43
Minority interest	(0.01)	--
Income before extraordinary item	0.65	0.43
Extraordinary item	--	(0.04)
Earnings available to common shares	$ 0.65	$ 0.39
Dividends declared per common share	$ 0.82	$ 0.80

</TABLE>

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

BAY APARTMENT COMMUNITIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(DOLLARS IN THOUSANDS)

<TABLE>
<CAPTION>

<S>	SIX MONTHS ENDED JUNE 30, 1997 <C>	SIX MONTHS ENDED JUNE 30, 1996 <C>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Net income	$ 16,251	$ 6,767
NONCASH EXPENSES INCLUDED IN NET INCOME:		
Depreciation and amortization	12,125	8,197
Minority interest	224	27
Extraordinary item	--	511
CASH PROVIDED BY (USED FOR) OPERATING ASSETS AND LIABILITIES:		
Restricted cash	(307)	--
Other assets	(2,974)	(99)
Accounts payable and accrued expenses	(172)	(487)
Other liabilities	3,104	1,577
NET CASH PROVIDED BY OPERATING ACTIVITIES	28,251	16,493
CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES:		
Capital improvements	(1,939)	(414)
Acquisition of properties	(109,042)	(53,628)
Construction in progress	(52,866)	(50,151)
NET CASH (USED FOR) INVESTING ACTIVITIES	(163,847)	(104,193)
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:		
Proceeds from stock offerings, net of issuance costs	163,349	49,481
Exercise of stock options	572	330
Deferred financing costs paid	--	32
Notes payable principal payments	(370)	(176)
Borrowings on construction notes payable	--	20
Borrowings on lines of credit	151,500	98,864
Repayments on lines of credit	(159,700)	(51,014)
Partner and minority interest distributions, net of contributions	(350)	(34)
Dividends paid	(18,479)	(10,991)
NET CASH PROVIDED BY FINANCING ACTIVITIES	136,522	86,512
Increase (decrease) in cash and cash equivalents	926	(1,188)
Cash and cash equivalents, beginning of period	920	1,677
Cash and cash equivalents, end of period	$ 1,846	$ 489

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest (net of amount capitalized)	$ 6,678	$ 7,772
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Noncash transfers of construction in progress	$ 16,894	$ 28,716
Assumption of note payable by the Company	$ 12,870	$ --
Dividends declared but not paid	$ 10,428	$ 6,339

</TABLE>

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

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 June 30, 1997, the Company owned 41 apartment communities, of which 33 are in Northern California and eight are in Southern California, comprising 10,544 apartment homes, and had four 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 Lafayette Place (formerly 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 $49,200. 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.

In April 1997, the Company 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 $58,600. 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 TimberWood (formerly The Village), SunScape (formerly Banbury Cross) and Cardiff Gardens.

In June 1997, the Company sold in an underwritten public offering 2,300,000 shares of 8.5 percent, five year non-call Series C Cumulative Redeemable Preferred Stock at a price of $25 per share. The net proceeds, after all anticipated issuance costs, were approximately $55,500. The net proceeds were used to reduce borrowings under the Company's unsecured line of credit, which were used to fund the acquisition and development of additional apartment communities, including the Villa Serena, Amador Oaks and Genesee Gardens communities and one land site in San Francisco.

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 the period ended December 31, 1996. The results of operations for the quarter ended June 30, 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. The accompanying consolidated financial statements also include the accounts of Bay Rincon, LP, a California limited partnership ("Bay Rincon"). The Company is the sole general partner of Bay Rincon. 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 161,283 and 3,812 as of June 30, 1997 and December 31, 1996, respectively. Countrybrook Partnership Units redeemed for cash aggregated 762 as of June 30, 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 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 $78 and $31 for the quarters ended June 30, 1997 and 1996, respectively.

Restricted Cash

Restricted cash at June 30, 1997 and December 31, 1996 consists of replacement reserves related to the debt on the Barrington Hills, Crossbrook, Rivershore, Canyon Creek, Sea Ridge and Countrybrook communities.

Earnings per Common Share

Earnings per share with respect to the Company for the quarters ended June 30, 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 June 30, 1997 and June 30, 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 22,091,943 and 12,645,967 for the quarters ended June 30, 1997 and June 30, 1996, respectively. Earnings per share is net of the preferred stock dividend requirements for the relevant period, which were $1,295 and $1,048 for the quarters ended June 30, 1997 and June 30, 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.

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, in order 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 and is amortized over the remaining life of the agreements.

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 No. 129 are effective for financial statements issued for periods ending after December 15, 1997. The impact of the adoption of SFAS No. 128 and No. 129 on the Company's earnings per share and financial statements is not

expected to have a material impact on the Company's financial statements for the quarter ended June 30, 1997.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130 "Reporting Comprehensive Income" and No. 131 "Disclosure of Segment Information." SFAS 130 establishes the disclosure requirements for reporting comprehensive income in an entity's annual and interim financial statements and becomes effective for the Company for the fiscal year ending December 31, 1998. Comprehensive income includes unrealized gains and losses on securities currently reported by the Company as a component of stockholders' equity which the Company would be required to include in a financial statement and display the accumulated balance of other comprehensive income separately in the equity section of the consolidated balance sheet. The Company has not yet determined what effect, if any, this pronouncement will have on the Company's results of operations.

SFAS 131 establishes standards for determining an entity's operating segments and the type and level of financial information to be disclosed. SFAS 131 becomes effective for financial statements issued for periods ending after December 15, 1997. The Company has not yet determined what effect, if any, this pronouncement will have on the Company's consolidated financial statements.

2. INTEREST CAPITALIZED

Interest costs associated with projects under development or reconstruction aggregating $1,396 and $492 for the quarters ended June 30, 1997 and 1996, respectively, have been capitalized.

3. NOTES PAYABLE

<TABLE>
<CAPTION>

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

	JUNE 30, 1997	DECEMBER 31, 1996
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

	JUNE 30, 1997	DECEMBER 31, 1996
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.	13,263	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.	8,532	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.	10,379	10,445
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 convenants which require 20% of the apartment homes to be leased or held available for lease to low income families.	38,763	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 convenants which require 20% of the apartment homes to be leased or held available for lease to low income families.	17,583	17,600

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

Subtotal	175,900	176,142

</TABLE>

<TABLE>
<CAPTION>

<S>	JUNE 30, 1997 <C>	DECEMBER 31, 1996 <C>
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.	19,983	20,111
Subtotal	19,983	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 (6.53% and 6.50% at June 30, 1997 and December 31, 1996, respectively, including the amortization of deferred financing costs). The bonds contain convenants which require 20% of the apartment homes to be leased or held available for lease to low income families.	20,800	20,800
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 (5.90% at both June 30, 1997 and December 31, 1996, 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
Fixed Rate:		
Cardiff Gardens is encumbered by a first deed of trust maturing May 1, 2004. Interest only payments are required monthly at a fixed interest rate of 7.25%.	12,870	--
Subtotal	12,870	--
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%.	40,800	49,000
Subtotal	40,800	49,000
Total Notes Payable	$277,988	$273,688

</TABLE>

Principal payments on outstanding notes payable as of June 30, 1997 are due as follows:

<TABLE>

1997	$ 21,461
1998	1,396
1999	42,301
2000	1,615
2001	1,734
Thereafter	209,481
Total	$277,988

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 July 1997, the Company engaged in the following transactions:

- Negotiated an amendment to its $200,000 Unsecured Line of Credit. The amendment included a one year extension to May 2000 from May 1999 and a reduction in the interest rate from various LIBOR rates plus 1.55% to various LIBOR rates plus .90%.

- Purchased the Regency apartment community for $13,887. This community contains 195 apartment homes and is located in Daly City, California.

- Announced the resignation of Geoffrey L. Baker, Vice President, Chief Development and Acquisitions Officer and Director, effective September 5, 1997.

- Refinanced approximately $20,800 in tax-exempt bonds associated with its acquisition of City Heights Apartments, a 185-apartment home community in San Francisco, which the Company purchased in October 1995. The new variable rate 30-year tax-exempt bonds have been fixed for ten years at an all-in interest rate of approximately 5.8 percent. They replace $20.8 million in variable rate bonds which, as of June 30, 1997, carried an all-in interest rate of approximately 6.5 percent. The fully amortizing bonds were reissued by the city of San Francisco and are rated AAA by Standard & Poor's. Credit enhancement for the refinancing was provided by the Federal National Mortgage Association ("FNMA").

As of August 7, 1997, the Company had elected to issue an additional 1,809 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 August 7, 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 June 30, 1997 and 1996. The following table outlines the communities acquired or leased-up during 1996 and 1997:

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
Lafayette Place (formerly Martinique Gardens)(g)	August 7, 1996

1997 ACQUISITION COMMUNITIES(J)

COMMUNITY	DATE ACQUIRED
SummerWalk (formerly Rancho Penasquitos)	January 3, 1997
TimberWood (formerly The Village)	March 13, 1997
SunScape (formerly Banbury Cross)	April 1, 1997
Cardiff Gardens	April 18, 1997
Villa Serena	April 25, 1997
Amador Oaks	April 30, 1997
Genesee Gardens	May 16, 1997

</TABLE>

<TABLE>
<CAPTION>

1996 DEVELOPMENT COMMUNITY

COMMUNITY	DATE STABILIZED(H)
<S>	<C>
Rosewalk(i)	February 1997

</TABLE>

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

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(a) Substantial reconstruction at Parc Centre was completed during the quarter ended June 30, 1997. The reconstruction included 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 undergoing 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) Substantial reconstruction at Larkspur Canyon was completed during the quarter ended June 30, 1997. This reconstruction included 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.

(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) Lafayette Place, formerly known as 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.

(j) All of the 1997 Acquisition Communities are undergoing, or will be undergoing in the future, substantial reconstruction and repositioning programs.

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 JUNE 30, 1997 TO THE QUARTER ENDED JUNE 30, 1996.

The Company's results of operations are summarized as follows for the quarters ended June 30, 1997 and 1996 (Dollars in thousands):

<TABLE>
<CAPTION>

	FOR THE QUARTER ENDED JUNE 30, 1997	FOR THE QUARTER ENDED JUNE 30, 1996	$-CHANGE	%-CHANGE
Revenue:				
Rental	$28,817	$17,906	$10,911	60.9 %
Other	963	487	476	97.7 %
Total revenue	29,780	18,393	11,387	61.9 %
Expenses:				
Property operating	6,772	4,108	2,664	64.8 %
Property taxes	2,250	1,465	785	53.6 %
General and administrative	1,517	814	703	86.4 %
Abandoned project costs	450	50	400	800.0 %
Interest and financing	3,800	3,635	165	4.5 %
Depreciation and amortization	6,426	4,226	2,200	52.1 %
Total expenses	21,215	14,298	6,917	48.4 %
Income before minority interest and extraordinary item	8,565	4,095	4,470	109.2 %
Minority interest	(86)	(12)	(74)	616.7 %
Income before extraordinary item	8,479	4,083	4,396	107.7 %
Extraordinary item	--	(511)	511	(100.0 %)
Net income	$ 8,479	$ 3,572	$ 4,907	137.4 %

</TABLE>

Revenue from rental property increased primarily as a result of the addition of the Acquisition Communities. The 1996 and 1997 Acquisition Communities contributed $4,835 and $3,299, respectively, to the increase. The 1996 Development Community contributed $1,220 to the increase. The remainder of the portfolio increased rental revenue by $1,557, of which $1,452 was attributable to the Same Store communities (defined below).

Other income increased during the quarter ended June 30, 1997 as compared to the quarter ended June 30, 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 $2,664 increase, $1,302 was attributable to the 1996 Acquisition Communities, $154 was attributable to the 1996 Development Community and $895 was attributable to the 1997 Acquisition Communities. The remainder of the portfolio increased property operating expenses by $313, of which $184 was attributable to the Same Store communities (defined below). In addition, the Acquisition Communities contributed $810 to the increase in property taxes and the remainder of the portfolio decreased by $25.

General and administrative costs increased for the quarter ended June 30, 1997 as compared with the quarter ended June 30, 1996, primarily due to the growth in employee-related costs and costs needed to manage the Acquisition Communities. Abandoned project costs increased due to a one-time write-off of

$450 as a result of the termination of the Company's efforts to acquire a multifamily portfolio. The 1997 and 1996 amounts are net of $1,504 and $470, respectively, of allocated indirect project costs capitalized to construction and reconstruction projects, representing approximately 43% and 35% of total general and administrative expense, which includes abandoned project costs, for the quarters ended June 30, 1997 and 1996, respectively.

Interest and financing expense increased for the quarter ended June 30, 1997 as compared to the quarter ended June 30, 1996 due to increased borrowing for new acquisitions offset in part by higher capitalization of interest from increased development, construction and reconstruction activity and a lower overall cost of funds.

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 JUNE 30, 1997 AND 1996:

<TABLE>
<CAPTION>

	FOR THE QUARTER ENDED JUNE 30,			
(DOLLARS IN THOUSANDS)	1997	1996	$-CHANGE	%-CHANGE
<S>	<C>	<C>	<C>	<C>
Revenue...................................	$18,377	$16,810	$1,567(2)	9.3%
Expenses..................................	5,261	5,099	162(3)	3.2%
EBITDA....................................	$13,116	$11,711	$1,405	12.0%

</TABLE>

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(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 six months ended June 30, 1997 and to which the Company made no major renovations after January 1, 1996.

(2) Same Store revenues increased due to rental increases of $1,452, lease termination fee increases of $41 and a net increase in other income of $74.

(3) Same Store expenses increased primarily as a result of a one-time property tax escape assessment charge of $77 in the quarter ended June 30, 1997, a $40 increase in repairs and maintenance and the purchase of additional, portfolio-wide earthquake insurance commencing in July 1996 resulting in $61 of expense in the quarter ended June 30, 1997. Other miscellaneous Same Store expenses decreased $16.

CURRENT DEVELOPMENT COMMUNITIES

The Company has acquired four land sites on which it is building, or plans to commence building in the future, the following Current Development Communities which will contain an aggregate of approximately 1,527 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 710 apartment homes. The original total budgeted construction cost of this community is $95.7 million. The site, located approximately at the intersection 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 were completed and occupied in July 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.

- SAN FRANCISCO, CA SITE. The Company acquired, through a limited partnership in which it is the sole general partner, a portion of a city block in the Rincon Hill area of San Francisco for approximately $7.8 million. The Company intends to build twin, 16-story towers on top of a four story parking garage on this site. As currently planned, the community will have between 201 and 220 apartment homes, approximately 2,900 square feet of retail space and between 224 and 271 controlled access parking spaces. The site is on Beale Street, between Harrison and Folsom Streets, almost two blocks north of the Bay Bridge, approximately three blocks south of Market Street and three blocks west of the Embarcadero and San Francisco Bay. The Company has received substantially all necessary public approvals for the project. The Company expects to begin construction of the community early next year, with initial occupancy expected in early 1999. The community will contain one, two and three bedroom apartment homes, with resident amenities including a health club, meeting and conference rooms, business center, leasing pavilion and parking deck gardens.

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 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, 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 with respect to its Series C Cumulative Redeemable Preferred Stock 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 June 30, 1997, the proceeds from the Unsecured Line of Credit were used primarily for the acquisition, development and construction of the four Current Development Communities and reconstruction of the 1996 and 1997 Acquisition Communities.

In April 1997, the Company assumed $12,870,000 of seller financing in connection with the acquisition of the Cardiff Gardens community.

The Company's outstanding debt as of June 30, 1997 is summarized as follows:

(DOLLARS IN THOUSANDS)	BALANCE	AVAILABLE	MATURES	RATE	INTEREST RATE PROTECTION
Tax-exempt variable rate under interest rate swap	$ 88,520	$ --	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%(b)	Interest rate is fixed until March 2004.
Tax-exempt fixed rate	19,983	--	March 2012	7.87%(c)	Interest rate is fixed until April 2002.
Tax-exempt variable rate	20,800	--	March 2018	6.53%(d)	
Tax-exempt variable rate	7,635	--	March 2023	5.90%(e)	
Fixed rate	12,870	--	May 2004	7.25%	
Subtotal	237,188	--			
$200,000 Unsecured Line of Credit(f)	40,800	159,200	May 1999	LIBOR+1.55%	
Total	$277,988	$ 159,200			

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(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 6.53% rate represents an all-in financing cost, including amortization of all deferred financing costs. The Company refinanced these bonds in July 1997. The new variable rate 30-year tax-exempt bonds have been fixed for ten years at an all-in interest rate of 5.8%.

(e) The 5.90% 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 4.00%.

(f) Amounts drawn on the Unsecured Line of Credit were used primarily for development, construction and reconstruction purposes. On July 2, 1997, the Company received a one year extension on the Unsecured Line of Credit, which extended the maturity date to May 2000, along with a reduction in the interest rate to LIBOR+0.90%.

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 $49.2 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.

In April 1997, the Company 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 $58.6 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 TimberWood (formerly The Village), SunScape (formerly Banbury Cross) and Cardiff Gardens.

In May 1997, the Company received credit ratings from Standard & Poor's ("S&P") and Moody's Investors Service ("Moody's"). S&P assigned a BBB corporate credit rating to the Company and a BBB-rating to the Company's cumulative preferred stock shelf registration and noted a stable outlook for the Company. Moody's assigned a rating of "baa3" to the Company's cumulative preferred stock.

As a result of the credit ratings from S&P and Moody's, the Company, in June 1997, sold in a underwritten public offering 2,300,000 shares of 8.5 percent, five year non-call, Series C Cumulative Redeemable Preferred Stock at a price of $25 per share. The net proceeds, after all anticipated issuance costs, were approximately $55.5 million. The net proceeds were used to reduce borrowings under the Unsecured

Line of Credit, which were used to fund the acquisition and development of additional apartment communities, including amounts borrowed to fund the acquisition of the Villa Serena, Amador Oaks and Genesee Gardens communities and one land site in San Francisco.

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 six months ended June 30, 1997 increased to $28,251,000 from $16,493,000 for the six months ended June 30, 1996, primarily due to higher net income before noncash charges for depreciation and amortization from the addition of the Acquisition Communities, and an increase in certain refundable security deposits payable. This increase is offset in part by increases in other assets primarily due to certain increases in prepaid insurance, security deposit reserves and an operating impound account as required in connection with the acquisition of Countrybrook.

Net cash used for investing activities was $163,847,000 and $104,193,000 for the six months ended June 30, 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 $136,522,000 and $86,512,000 for the six months ended June 30, 1997 and 1996, respectively. This increase is primarily due to the net proceeds received by the Company from the January and April 1997 common stock offerings, and the June 1997 offering of the Series C Cumulative Redeemable Preferred Stock, offset in part by the increased dividends paid, and notes payable principal payments.

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.

NATURAL DISASTERS

Many of the communities are located in the general vicinity of active earthquake faults. In June 1997, the Company obtained a seismic risk analysis from an engineering firm which estimated the probable maximum loss ("PML") for each of the 41 communities owned at that time and Toscana, a community currently under construction, individually and for all of such communities combined. To establish a PML, the engineers first define a severe earthquake event for the applicable geographic area, which is an earthquake that has only a 10% likelihood of occurring over a 50-year period. The PML is determined as the structural and architectural damage and business interruption loss that has a 10% probability of being exceeded in the event of such an earthquake. Because the communities are concentrated in the San Francisco Bay Area, the engineers' analysis defined an earthquake on the San Andreas Fault with a Richter Scale magnitude of 8.0 as a severe earthquake with a 10% probability of occurring within a 50-year period, and established an aggregate PML at that time of $63.8 million for the 41 communities owned at that time and Toscana, which is a PML level that is expected to be exceeded only 10% of the time in the event of such a severe earthquake. This aggregate PML could be higher as a result of variations in soil classifications and structural vulnerabilities. Two of the communities had individual PMLs of 30%, while seven communities had PMLs of 25%, and the remaining 33 communities owned at such time each had PMLs of 20% or less. The Company has obtained an individual PML assessment for the one community acquired since June 1997. That community had an individual PML of 30%. No assurance can be given that an earthquake would not cause damage or losses greater than the PML assessments indicate, that future PML levels will not be higher than the current PML levels for the communities, or that future acquisitions or developments will not have PML assessments indicating the possibility of greater damage or losses than currently indicated.

In July 1997, the Company renewed its earthquake insurance, both for physical damage and lost revenues, with respect to the 41 communities then owned and Toscana. In addition, the community acquired subsequent to June 1997 is included under the Company's earthquake insurance policy. For any single occurrence, the Company self-insures the first $25 million of loss, and has in place $35 million of coverage above this amount, with a 5% deductible subject to a maximum of $2.43 million. In addition, the Company's general liability and property casualty insurance provides coverage for personal liability and fire damage. In the event that an uninsured disaster or a loss in excess of insured limits were to occur, the Company could lose its capital invested in the affected community, as well as anticipated future revenues from such community, and would continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. Any such loss could materially and adversely affect the business of the Company and its financial condition and results of operations.

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 June 30, 1997, FFO increased to $14,591,000 from $8,179,000 for the quarter ended June 30, 1996. This increase is primarily due to higher net income and real estate depreciation add back due to the addition of the Acquisition Communities.

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

CALCULATION OF FUNDS FROM OPERATIONS AND FUNDS AVAILABLE FOR DISTRIBUTION

<TABLE>
<CAPTION>

	QUARTER ENDED				
(DOLLARS IN THOUSANDS, EXCEPT PER UNIT DATA)	JUNE 30, 1997	MAR. 31, 1997	DEC. 31, 1996	SEPT. 30, 1996	JUNE 30, 1996
<S>	<C>	<C>	<C>	<C>	<C>
Net income.....................	$ 8,479	$ 7,771	$ 7,014	$ 5,845	$ 3,572
Series C preferred dividend requirement..................	(149)	--	--	--	--
Depreciation -- real estate assets........................	6,173	5,462	5,201	4,899	4,008
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	88	87	87	88
FFO(2).........................	14,591	13,321	12,302	10,831	8,179
Recurring adjustments to net income:					
Amortization of origination fees on credit facilities(3).............	--	--	--	--	41
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.............	120	105	79	49	38
Capital expenditures(5).......	(471)	(281)	(448)	(457)	(252)
Loan principal payments.......	(213)	(157)	(175)	(131)	(88)

Funds Available for Distribution ("FAD")	$ 14,072	$ 13,033	$ 11,803	$ 10,337	$ 7,963
Weighted average shares outstanding(6)	24,833,801	22,989,978	22,000,544	19,686,087	15,205,997

</TABLE>

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(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.

(5) Capital improvements represent amounts expended primarily at communities acquired or developed prior to 1996. A breakdown of the expenditures for the quarter ended June 30, 1997 is as follows:

<TABLE>
<CAPTION>

	TOTAL QUARTER ENDED JUNE 30, 1997	PER UNIT QUARTER ENDED JUNE 30, 1997
<S>	<C>	<C>
Non-revenue generating:		
Exterior painting	$ 262	$ 25
Leasing pavilion rehabilitation	65	6
Landscaping	55	5
Security gate system	19	2
Other capital expenditures	70	7
Subtotal -- capital expenditures	471	45
Revenue generating:		
Water submeters	288	27
Appliances	222	21
Trash compactors	136	13
Fixtures	114	11
TV cable system	68	6
Subtotal	828	78
Total capital improvements	$1,299	$123

</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 June 30, 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 "Countrybrook 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 Countrybrook Partnership, 298,577 units of limited partnership interests ("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 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. During the period April 1, 1997 through June 30, 1997, 122,797 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. The Company is relying on the exemption provided in Rule 506 based upon factual respresentations received from the recipients of the shares.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

The Company held its Annual Meeting of Shareholders on April 25, 1997. The shareholders voted to elect Gilbert M. Meyer, Geoffrey L. Baker, Max L. Gardner, Bruce A. Choate, John J. Healy, Jr., Brenda J. Mixson and Thomas H. Nielsen to serve as directors of the Company until the 1998 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified.

17,206,539 votes were cast for, and 19,457 votes were withheld from the election of Mr. Meyer.
17,206,539 votes were cast for, and 19,457 votes were withheld from the election of Mr. Baker.
17,206,539 votes were cast for, and 19,457 votes were withheld from the election of Mr. Gardner.
17,206,539 votes were cast for, and 19,457 votes were withheld from the election of Mr. Choate.
17,206,539 votes were cast for, and 19,457 votes were withheld from the election of Mr. Healy.
17,206,539 votes were cast for, and 19,457 votes were withheld from the election of Ms. Mixson.
17,206,539 votes were cast for, and 19,457 votes were withheld from the election of Mr. Nielsen.

The shareholders voted to ratify the 1994 Stock Incentive Plan, as amended and restated. 16,452,947 votes were cast in favor of this proposal, 753,248 votes were cast against it, 19,800 votes abstained and 1 broker non-vote was recorded.

The shareholders also voted to ratify the Board of Director's appointment of Coopers & Lybrand LLP to serve as independent accountants for the Company for the fiscal year ending December 31, 1997. 17,215,016 votes were cast in favor of this proposal, 4,300 votes were cast against it, and 6,680 votes abstained. No broker non-votes were recorded.

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

INDEX TO EXHIBITS

<TABLE>
<CAPTION>

EXHIBIT NO.	DESCRIPTION
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(i).4	Articles Supplementary relating to the 8.50% Series C Cumulative Redeemable Preferred Stock of the Company. (Incorporated by reference to Exhibit 3(i).1 to Form 8-K of Bay Apartment Communities, Inc. dated July 25, 1997.)
3(ii).1	Amended and Restated 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	Agreement dated as of May 16, 1997, between the Company, J.E. Butler & Associates, Inc. and AP Companies, Ltd., relating to the formation of Bay Rincon, LP.
27.1	Financial Data Schedule.
(b) Reports on Form 8-K	
1.	Form 8-K of the Company dated April 21, 1997, regarding the acquisition of six additional properties by the Company, consisting of four apartment home communities and two land sites, for an aggregate purchase price of approximately $73.81 million.
2.	Form 8-K/A of the Company dated April 21, 1997, conforming the signature page to the Form 8-K of the Company dated April 21, 1997.
3.	Form 8-K/A of the Company dated June 16, 1997, regarding the acquisition of two additional apartment home communities by the Company.
4.	Form 8-A of the Company dated June 18, 1997, filing the Form of Articles Supplementary relating to rights and preferences of the 8.50% Series C Cumulative Redeemable Preferred Stock of the Company.

</TABLE>

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.

Date: August 13, 1997 /s/ GILBERT M. MEYER

Gilbert M. Meyer
President and Chairman of the Board

Date: August 13, 1997 /s/ JEFFREY B. VAN HORN

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

INDEX TO EXHIBITS

<TABLE>
<CAPTION>

EXHIBIT NUMBER	EXHIBITS	SEQUENTIALLY NUMBERED PAGE
10.1	Agreement dated as of May 16, 1997, between the Company, J.E. Butler & Associates, Inc. and AP Companies, Ltd., relating to the formation of Bay Rincon, LP..	
27.1	Financial Data Schedule..	

</TABLE>

Exhibt 10.1

AGREEMENT

THIS AGREEMENT (this "Agreement") is made and entered as of May 16, 1997, by and between BAY APARTMENT COMMUNITIES, INC., a Maryland corporation ("Bay"), and J.E. BUTLER & ASSOCIATES, INC., a California corporation ("Butler") and AP COMPANIES, LTD., a California limited liability company ("AP"), jointly and severally (Butler and AP are collectively referred to herein as "AP-JEB").

RECITALS:

A. AP-JEB has entered into an agreement (the "Purchase Agreement"), as "Buyer", for the purchase of that certain real property located in the City and County of San Francisco, California, commonly known as Assessor's Lot 21, Block 3747 (the "Property"), from the CNS PARTNERS NO. II, LTD., a California Limited Partnership (the "Seller"), the current owner of the Property.

B. Bay and AP-JEB now desire to enter into this Agreement to provide, among other things, (i) for the formation of a new limited partnership entity which shall be called "Bay Rincon, LP" and shall be a California limited partnership (the "Partnership") between Bay, as the general partner, and AP-JEB, as the limited partner, and (ii) for the assignment of the interest of AP-JEB in the Purchase Agreement to the Partnership, all on the terms and subject to the conditions more particularly provided for herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Bay and AP-JEB agree as follows:

1. Concurrently with the execution of this Agreement, Bay (as general partner) and AP-JEB (as limited partner) shall form the Partnership, and Bay, as general partner, shall file a form LP-1 with the Office of the Secretary of State of California with respect to the Partnership. The Partnership shall initially be governed by the terms and conditions set forth in the Term Sheet attached hereto as Exhibit A and incorporated herein by this reference (the "Term Sheet"). Promptly following the execution of this Agreement, the parties shall enter into an agreement of limited partnership with respect to the Partnership incorporating the provisions of the Term Sheet.

2. AP-JEB represents and warrants to Bay (a) that AP-JEB, as "Buyer" under the Purchase Agreement, has previously deposited the sum of $50,000.00 into the escrow for the purchase of the Property as the initial deposit under the Purchase Agreement; (b) that an additional deposit of $100,000.00 (the "Additional Deposit") will be owing under the Purchase Agreement upon May 16, 1997, which is the date of the expiration of the contingency period under the Purchase Agreement; and (c) that such $150,000.00 aggregate deposit amount (the "Deposit") constitutes liquidated damages to the Seller and Seller's sole and exclusive remedy in the event of the failure

of the "Buyer" under the Purchase Agreement to purchase the Property pursuant to the Purchase Agreement. Concurrently with the execution of this Agreement, (i) AP-JEB shall deliver an executed original of the Purchase Agreement to Bay for its review, (ii) AP-JEB shall assign to the Partnership all right, title and interest of AP-JEB as "Buyer" in and to the Purchase Agreement pursuant to an assignment agreement in the form attached hereto as Exhibit B and incorporated herein by this reference, and obtain the consent of Seller to such assignment, (iii) Bay shall deposit the sum of $100,000.00 into the escrow for the purchase of the Property to equal the required $100,000.00 Additional Deposit, such that following the making of such Additional Deposit, Bay shall have deposited $100,000.00 of the Deposit amount, and AP-JEB shall have deposited $50,000.00 of the Deposit amount, and in the event of the purchase of the Property by the Partnership, each party's respective Deposit payment shall constitute a part of its respective capital contribution to the Partnership as set forth in the Term Sheet.

3. AP-JEB specifically agrees and acknowledges that Bay has not yet completed a feasibility or other analysis of the Property or the development project contemplated by the Term Sheet. Accordingly, Bay shall have until June 6, 1997 to elect by written notice to AP-JEB whether or not, in its sole and absolute discretion, to cause the Partnership to proceed with the purchase and development of the Property as contemplated by the Term Sheet. If Bay so elects not to cause the Partnership to proceed with the purchase and development of the Property as contemplated by the Term Sheet, then Bay shall promptly terminate and wind up the affairs of the Partnership and neither party shall have any further rights, obligations or liabilities under this Agreement or the partnership agreement for the Partnership, except that at AP-JEB's option, Bay shall cause the Partnership to assign all right, title and interest of the Partnership as "Buyer" under the Purchase Agreement to AP-JEB. In addition, under any circumstance where the Deposit is refunded to the "Buyer" under the Purchase Agreement upon the failure of the closing of the purchase of the Property, Bay shall be entitled to 2/3rds of the returned funds and AP-JEB shall be entitled to 1/3rd of the returned funds.

4. This Agreement and all documents attached hereto constitute the complete and exclusive statement of the agreement of the parties hereto with respect to the subject matter hereof and supersede all prior and simultaneous understandings between the parties hereto with respect to the subject matter hereof. This

Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, but any number of which, taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have entered into this Agreement as of the date first written above.

BAY:	AP-JEB:
BAY APARTMENT COMMUNITIES, INC., a Maryland corporation	AP COMPANIES, LTD., a California limited liability company
By:/s/ Gilbert M. Meyer	By:/s/ Arpad Domyan
Gilbert M. Meyer	Arpad Domyan Its Managing Member
Print Name and Title	J.E. BUTLER & ASSOCIATES, a California corporation
	By:/s/ Jack E. Butler
	Jack E. Butler Its President

EXHIBIT A

TERM SHEET FOR BAY RINCON, LP, A CALIFORNIA LIMITED PARTNERSHIP

PROPERTY: Vacant assessor's Lot 21, Block 3747, San Francisco, California (the "Property").

PARTNERSHIP OBJECTIVE: To develop on the Property 201 to 220 luxury apartment units (the "Project") in general conformance with Conditional Use Permit Motion No. 13856, dated April 6, 1995 as issued by the City and County of San Francisco including the plans referenced on Exhibit A of said CUP. The intent of the Partnership will be to maximize the yield while utilizing an extremely conservative financing structure (no debt).

LIMITED PARTNERSHIP (THE "PARTNERSHIP"): A California Limited Partnership between J.E. BUTLER & ASSOCIATES, INC., a California corporation ("Butler") and AP COMPANIES, LTD., a California limited liability company ("AP"), jointly and severally (Butler and AP are collectively referred to herein as "AP-JEB"), as limited partner, and Bay Apartment Communities, Inc. ("BAY"), as general partner. BAY and AP-JEB shall enter into and execute a limited partnership agreement (the "Agreement") incorporating the terms set forth in this Term Sheet. In the event and only in the event of the purchase of the Property by the Partnership, the Partnership will reimburse BAY and AP-JEB for the actual and reasonable third party out of pocket costs incurred by them, respectively, for due diligence investigation of the Property and the formation of the Partnership, which reimbursements shall be a part of Project costs. Any brokerage commission payable to Whitney Cressman Limited in the connection with the purchase of the Property by the Partnership shall be paid by the Partnership as a part of Project costs. Project costs shall include, without limitation, land costs, governmental fees, hard building costs, professional fees, general contractor and partner fees, the "Preferred Return" (as defined below), loan fees, property taxes, marketing and rentup costs, insurance and contingencies.

EQUITY CAPITAL: AP-JEB to contribute as capital $1,000,000 of cash equity into the Partnership on or before January 16, 1998 (such amount shall include the $50,000 deposit previously made by AP-JEB directly to the seller of the Property (the "Seller")). If AP-JEB does not timely make such contribution of capital, BAY shall have the option thereafter at any time to purchase AP-JEB's Partnership interest for an amount equal to AP-JEB's then contributed and unreturned capital immediately upon written notice by BAY to AP-JEB (provided, however, that AP-JEB shall still receive the overhead and property management fees described below through the end of the "Stabilization Period" (as defined below)). BAY to contribute as capital the balance of funds and associated fees required to acquire and to develop the Project, including all Project costs. The total of the $1,000,000 contributed by AP-JEB plus all other

amounts contributed by BAY pursuant hereto shall be deemed "Total Project

Capital".

CASH DISTRIBUTIONS: Each party to share in net operating cash as follows: First, pro rata to each party a cumulative, compounding monthly yield at the rate of ten percent (10%) per annum (the "Preferred Return") on its respective share of unreturned Total Project Capital, and, thereafter, seventy percent (70%) to BAY and thirty percent (30%) to AP-JEB. Any proceeds from a sale or refinancing of the Project shall be shared, first, by the parties pro rata until their respective shares of Total Project Capital are returned to them, second, to the parties pro rata to the extent of any accrued and unpaid Preferred Return, and, thereafter, seventy percent (70%) to BAY and thirty percent (30%) to AP-JEB.

PROFITS AND LOSSES: The parties shall share profits as follows: First, pro rata to the extent of the Preferred Return distributed to them, and, thereafter, seventy percent (70%) to BAY and thirty percent (30%) to AP-JEB. The parties shall share losses pro rata in accordance with and to the extent of their shares of Total Project Capital, and, thereafter, all losses shall be allocated to the general partner.

DEVELOPMENT MANAGER: The Project budget to include an allowance of $3,000,000 development or overhead fee to be split $1,000,000 to AP-JEB and $2,000,000 to BAY. Such fee shall be paid in 20 equal monthly installments commencing with the month following the Partnership's obtaining foundation permits for the Project.

GENERAL CONTRACTOR: Market rate general contracting fee paid by the Partnership for a negotiated GMP contract to a qualified General Contractor.

PROPERTY MANAGER: A property management fee of 4% of gross income shall be paid by the Partnership for property management services to be split 3% to BAY and 1% to AP-JEB. This property management fee terminates upon Bay's buy-out of AP-JEB.

THIRD PARTY FINANCING: No third party secured financing will be utilized either during or after construction of the Project. At BAY's option, BAY may collateralize its portion of the assets for corporate financing purposes.

BAY'S BUYOUT OF AP-JEB: The "Buyout Amount" shall equal the sum of (I) AP-JEB's unreturned capital contributions, if and only if such contributions were actually made, plus (II) the amount of AP-JEB's accrued but unpaid Preferred Return, plus (III) 30% of quotient obtained by dividing:

(a) the remainder of (i) the net operating income for the Project (as determined in accordance with generally accepted accounting principles) for the 12 consecutive calendar month period beginning with the month following

the month in which "Project Stabilization" (as hereinafter defined) occurs, minus (ii) 10% of (A) the Total Project Capital plus (B) the amount of total accrued but unpaid Preferred Return; by

(b) 8.5% (which may be expressed as 0.085).

The Buyout Amount shall be calculated promptly following the determination of net operating income for such 12 month period (the "Stabilization Period"), and within 30 days following such calculation, BAY shall purchase the Partnership interest of AP-JEB for cash in the amount of the Buyout Amount, or at AP-JEB's option and subject to compliance with the requirements of applicable laws, for an equivalent amount of shares of BAY stock; provided that in the event of AP-JEB's election to receive such Buyout Amount in shares of BAY stock, AP-JEB shall be responsible for all reasonable costs incurred in connection with the payment of the Buyout Amount in shares of BAY stock rather than in cash. As used herein, "Project Stabilization" shall mean the date that the Project has achieved 95% physical rental occupancy.

DUE DILIGENCE PERIOD: In preparation of this term sheet, BAY has reviewed various information, reports, and documents in AP-JEB's possession respecting the Property (the "Due Diligence Materials"). AP-JEB has represented that various title defects are being cleared by the Seller and that any and all deposits are completely refundable to the extent that marketable fee title (as represented by the buyer's receipt of an ALTA Owners extended title insurance policy) is not provided by Seller to the buyer consistent with AP-JEB's purchase agreement with Seller. AP-JEB has represented that it has placed $50,000 in escrow pursuant to its purchase agreement with Seller.

MANAGEMENT/APPROVAL OF PLANS AND SPECIFICATIONS: BAY shall have exclusive authority to manage and control the business and affairs of the Partnership. AP-JEB shall assist BAY in good faith in developing plans, specifications, etc. for the subject property, however, BAY, as the general partner (and the primary financial partner) shall have the ultimate authority over all plans, specifications, contracts, applications, budgeting, accounting, disbursements, and other matters respecting the Project. BAY shall prepare a development pro forma after consultation with AP-JEB (the "Development Pro Forma"), including a "Building Program", and "Preliminary Marketing Strategy", setting forth the anticipated costs, expected income and schedule of the development of the

Project.

EXHIBIT B

ASSIGNMENT OF PURCHASE AGREEMENT

THIS ASSIGNMENT OF PURCHASE AGREEMENT (this "Assignment") is made and entered into as of the 16th day of May, 1997, by and between J.E. BUTLER & ASSOCIATES, INC., a California corporation ("Butler") and AP COMPANIES, LTD., a California limited liability company ("AP"), jointly and severally (Butler and AP are collectively referred to herein as "Assignor"), and BAY RINCON, LP, a California limited partnership ("Assignee").

RECITALS

A. Assignor entered into that certain purchase agreement dated as of April 18, 1997, by and between CNS PARTNERS NO. II, LTD., a California Limited Partnership, as "Seller", and Assignor, as "Buyer" (the "Agreement"), with respect to the purchase and sale of certain real property commonly known as Assessor's Lot 21, Block 3747, in the City and County of San Francisco, California.

B. Assignor desires to transfer, convey and assign all of its right, title and interest in, to and under the Agreement to Assignee, all on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing Recitals, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Assignor and Assignee hereby agree as follows:

1. Assignor hereby grants, conveys, transfers and assigns to Assignee all of Assignor's right, title and interest in, to and under the Agreement.

2. The provisions of this Assignment shall be binding upon, and shall inure to the benefit of, the successors and assigns of Assignor and Assignee.

3. This Assignment may be executed in any number of counterparts, each of which shall be deemed to be an original, but any number of which, taken together, shall constitute one and the same instrument.

IN WITNESS WHEREOF, Assignor and Assignee have entered into this Assignment as of the day and year first above written.

ASSIGNOR:

AP COMPANIES, LTD., a California limited liability company

By:/s/ Arpad Domyan
- -----------------------------------
Arpad Domyan, Its Managing Member

J.E. BUTLER & ASSOCIATES, INC., a California corporation

By:/s/ Jack E. Butler
- -----------------------------------
Jack E. Butler, Its President

ASSIGNEE:

BAY RINCON, LP, a California limited partnership

By: BAY APARTMENT COMMUNITIES, INC., a Maryland corporation, its general partner

By:/s/ Gilbert M. Meyer

Gilbert M. Meyer, President

Print Name and Title

APPROVAL OF ASSIGNMENT BY SELLER:

CNS PARTNERS NO. II, LTD., a California Limited Partnership

By: NKS AMERICAS, INC., Managing General Partner

By: /s/ NKS Americas, Inc.

____
Print Name and Title

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AT JUNE 30, 1997 AND THE CONSOLIDATED STATEMENT OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 1997 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH SECOND QUARTER FILING ON FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 1997
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