

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 SEPTEMBER 30, 1997  
COMMISSION FILE NUMBER 1-12672

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

<TABLE>		
<S>	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.

<TABLE>			
<CAPTION>			
<S>	CLASS	SHARES OUTSTANDING	DATE
	Common, \$.01 par value	25,048,406	November 6, 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>

	SEPTEMBER 30, 1997	DECEMBER 31, 1996
	-----	-----
	(UNAUDITED)	
<S>	<C>	<C>
ASSETS		
Real estate assets:		
Land.....	\$ 218,849	\$152,277
Buildings and improvements.....	692,272	511,583
Furniture, fixtures and equipment.....	49,377	35,542
	-----	-----
Less accumulated depreciation.....	960,498	699,402
	(71,208)	(52,554)
	-----	-----
Operating real estate assets.....	889,290	646,848
Construction in progress.....	123,076	50,945
	-----	-----
Net real estate assets.....	1,012,366	697,793
Cash and cash equivalents.....	3,829	920
Restricted cash.....	1,431	960
Other assets, net.....	30,072	12,236
	-----	-----
Total assets.....	\$ 1,047,698	\$711,909
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Notes payable.....	\$ 336,552	\$273,688
Accounts payable and accrued expenses.....	8,737	5,450
Dividends payable.....	11,878	8,939
Other liabilities.....	8,781	4,553
	-----	-----
Total liabilities.....	365,948	292,630
	-----	-----
Contingencies (Note 4).....	--	--
	-----	-----
Minority interest.....	9,345	7,002
	-----	-----
Shareholders' equity:		
Preferred stock, \$.01 par value; 25,000,000 shares authorized; 2,308,800 shares of Series A outstanding at both September 30, 1997 and December 31, 1996; 405,022 shares of Series B outstanding at both September 30, 1997 and December 31, 1996; 2,300,000 shares of Series C outstanding at September 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; 24,968,136 shares outstanding at September 30, 1997; 19,007,988 shares outstanding at December 31, 1996.....	250	190
Paid-in capital.....	701,717	435,723
Dividends in excess of accumulated earnings.....	(29,612)	(23,663)
	-----	-----
Total shareholders' equity.....	672,405	412,277
	-----	-----
Total liabilities and shareholders' equity.....	\$ 1,047,698	\$711,909
	=====	=====

</TABLE>

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

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BAY APARTMENT COMMUNITIES, INC.

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

<TABLE>  
<CAPTION>

	QUARTER ENDED SEPTEMBER 30, 1997	QUARTER ENDED SEPTEMBER 30, 1996
	----- <C>	----- <C>
<b>Revenue:</b>		
Rental.....	\$ 31,583	\$ 22,380
Other.....	1,155	670
	-----	-----
Total revenue.....	32,738	23,050
	-----	-----
<b>Expenses:</b>		
Property operating.....	7,561	5,407
Property taxes.....	2,405	1,840
General and administrative.....	1,718	997
Abandoned project costs.....	140	--
Interest and financing.....	3,243	3,743
Depreciation and amortization.....	6,927	5,080
	-----	-----
Total expenses.....	21,994	17,067
	-----	-----
Income before minority interest.....	10,744	5,983
Minority interest.....	(91)	(138)
	-----	-----
Net income.....	10,653	5,845
<b>Preferred dividend requirement:</b>		
Series A and B.....	(1,174)	(1,118)
Series C.....	(1,222)	--
	-----	-----
Earnings available to common shares.....	\$ 8,257	\$ 4,727
	=====	=====
<b>Earnings per common share:</b>		
Income before minority interest.....	\$ 0.36	\$ 0.29
Minority interest.....	--	(0.01)
	-----	-----
Earnings available to common shares.....	0.36	0.28
	=====	=====
Dividends declared per common share.....	\$ 0.42	\$ 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 OPERATIONS  
(UNAUDITED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>  
<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996
	----- <C>	----- <C>
<b>Revenue:</b>		
Rental.....	\$ 85,794	\$ 56,381
Other.....	2,982	1,538
	-----	-----
Total revenue.....	88,776	57,919
	-----	-----
<b>Expenses:</b>		
Property operating.....	20,306	13,253
Property taxes.....	6,568	4,528
General and administrative.....	4,602	2,673
Abandoned project costs.....	670	50
Interest and financing.....	10,360	10,850
Depreciation and amortization.....	19,053	13,277
	-----	-----
Total expenses.....	61,559	44,631
	-----	-----
Income before minority interest and extraordinary item.....	27,217	13,288
Minority interest.....	(315)	(165)
	-----	-----

Income before extraordinary item.....	26,902	13,123
Extraordinary item.....	--	(511)
	-----	-----
Net income.....	26,902	12,612
Preferred dividend requirement:		
Series A and B.....	(3,466)	(3,117)
Series C.....	(1,371)	--
	-----	-----
Earnings available to common shares.....	\$ 22,065	\$ 9,495
	=====	=====
Earnings per common share:		
Income before minority interest and extraordinary item...	\$ 1.03	\$ 0.74
Minority interest.....	(0.02)	(0.01)
	-----	-----
Income before extraordinary item.....	1.01	0.73
Extraordinary item.....	--	(0.04)
	-----	-----
Earnings available to common shares.....	\$ 1.01	\$ 0.69
	=====	=====
Dividends declared per common share.....	\$ 1.24	\$ 1.20
	=====	=====

</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)  
(DOLLARS IN THOUSANDS)

<TABLE>

<CAPTION>

	NINE MONTHS ENDED SEPTEMBER 30, 1997	NINE MONTHS ENDED SEPTEMBER 30, 1996
	-----	-----
<S>	<C>	<C>
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Net income.....	\$ 26,902	\$ 12,612
NONCASH EXPENSES INCLUDED IN NET INCOME:		
Depreciation and amortization.....	19,053	13,277
Minority interest.....	315	165
Extraordinary item.....	--	511
CASH PROVIDED BY (USED FOR) OPERATING ASSETS AND LIABILITIES:		
Restricted cash.....	(471)	(787)
Other assets.....	(18,235)	(1,202)
Accounts payable and accrued expenses.....	3,287	2,633
Other liabilities.....	4,228	1,821
	-----	-----
NET CASH PROVIDED BY OPERATING ACTIVITIES.....	35,079	29,030
	-----	-----
CASH FLOWS PROVIDED BY (USED FOR) INVESTING ACTIVITIES:		
Capital improvements.....	(2,702)	(871)
Acquisition of properties.....	(196,984)	(144,043)
Construction in progress.....	(101,787)	(53,467)
	-----	-----
NET CASH (USED FOR) INVESTING ACTIVITIES.....	(301,473)	(198,381)
	-----	-----
CASH FLOWS PROVIDED BY (USED FOR) FINANCING ACTIVITIES:		
Proceeds from stock offerings, net of issuance costs....	260,372	183,507
Exercise of stock options and issuances under employee stock purchase plan.....	827	476
Dividend reinvestment plan.....	1,192	--
Notes payable principal payments.....	(739)	(306)
Borrowings on notes payable.....	28,435	--
Repayments of notes payable.....	(28,435)	--
Borrowings on construction notes payable.....	--	21
Borrowings on lines of credit.....	294,900	157,000
Repayments on lines of credit.....	(256,900)	(154,700)
Partner and minority interest distributions, net of contributions.....	(437)	(56)
Dividends paid.....	(29,912)	(17,337)
	-----	-----
NET CASH PROVIDED BY FINANCING ACTIVITIES.....	269,303	168,605
	-----	-----
Increase (decrease) in cash and cash equivalents.....	2,909	(746)
Cash and cash equivalents, beginning of period.....	920	1,677
	-----	-----
Cash and cash equivalents, end of period.....	\$ 3,829	\$ 931
	=====	=====

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:		
Interest (net of amount capitalized).....	\$ 9,578	\$ 10,935
	=====	=====
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Noncash transfers of construction in progress.....	\$ 29,656	\$ 26,602
	=====	=====
Assumption of notes payable by the Company.....	\$ 25,603	\$ 27,868
	=====	=====
Contribution of minority interest.....	\$ 6,151	\$ 7,270
	=====	=====
Conversion of Countrybrook Units.....	\$ 3,916	\$ --
	=====	=====
Dividends declared but not paid.....	\$ 11,878	\$ 8,714
	=====	=====

</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 September 30, 1997, the Company owned 46 apartment communities, of which 35 are in Northern California, ten are in Southern California, and one community is in the Seattle area, comprising 12,194 apartment homes, including the apartment homes delivered at Toscana -- a partially developed community. In addition to Toscana, the Company 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 reduce 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, of approximately \$49,200, 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 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, of approximately \$58,600, were used to reduce borrowings under the Company's unsecured line of credit, which were used to fund the acquisition and

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BAY APARTMENT COMMUNITIES, INC.

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

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 to the Company, of approximately \$55,500, 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 Mission Woods (formerly Genesee Gardens) communities and one land site in San Francisco, California.

In September 1997, the Company sold in an underwritten public offering 2,645,000 shares of common stock at a price of \$38.6875 per share. The net proceeds to the Company, after all anticipated issuance costs, were approximately \$97,000. 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 Cedar Ridge (formerly Regency), The Park and Lakeside communities and one land site in Mountain View, California.

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 year ended December 31, 1996. The results of operations for the quarter ended September 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 (the "Rincon Partnership") and Bay Pacific Northwest, L.P. (the "Northwest Partnership"). The Company is the sole general partner of the Rincon Partnership and Northwest Partnership. All significant intercompany balances and transactions have been eliminated in consolidation.

Bay Countrybrook L.P.

In connection with the formation of the Countrybrook Partnership in July 1996, 298,577 units of limited partnership interests ("Countrybrook 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 Countrybrook Units have the right to require the Countrybrook Partnership to redeem their Countrybrook Units for cash, subject to certain conditions. The Company may, however, elect to deliver an equivalent number of shares of the Company's common stock to the holders of Countrybrook Units in satisfaction of the Countrybrook Partnership's obligation to redeem the Countrybrook Units for cash.

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BAY APARTMENT COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Countrybrook Units converted into the Company's common stock aggregated 164,617 and 3,812 as of September 30, 1997 and December 31, 1996, respectively. Countrybrook Units redeemed for cash aggregated 762 as of September 30, 1997. No Countrybrook Units were redeemed for cash as of December 31, 1996.

#### Bay Pacific Northwest, L.P.

In connection with the formation of the Northwest Partnership in September 1997, 163,338 units of limited partnership interest ("Northwest Units") were issued to the existing partners of the contributor of the Gallery Place community. Under the terms of the Northwest Partnership's Limited Partnership Agreement, holders of Northwest Units have the right to require the Northwest Partnership to redeem their Northwest Units for cash, subject to certain conditions. The Company may, however, elect to deliver an equivalent number of shares of the Company's common stock to the holders of Northwest Units in satisfaction of the Northwest Partnership's obligation to redeem the Northwest Units for cash. No Northwest Units were converted into the Company's common stock or redeemed for cash as of September 30, 1997.

#### 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 assets (including interest and related loan fees, property taxes and other direct and indirect costs) begins when an apartment home is taken out of service for reconstruction and ends when the apartment home reconstruction is completed and the apartment home is 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.

#### BAY APARTMENT COMMUNITIES, INC.

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

#### 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 \$96 and \$58 for the quarters ended September 30, 1997 and 1996, respectively.

## Restricted Cash

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

## Earnings per Common Share

Earnings per share with respect to the Company for the quarters ended September 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 September 30, 1997 and September 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 23,063,145 and 16,946,542 for the quarters ended September 30, 1997 and September 30, 1996, respectively. Earnings per share is net of the preferred stock dividend requirements for the relevant period, which were \$2,396 and \$1,118 for the quarters ended September 30, 1997 and September 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 revenue and expenses during the reporting periods. Actual results could differ from those estimates.

## Concentration of Geographic Risk

The majority of the Company's apartment communities are located in Northern California and most of these Northern California communities 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.

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## BAY APARTMENT COMMUNITIES, INC.

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

## 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 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. Had the Company adopted SFAS No. 128 and No. 129 for the quarter and nine months ended September 30, 1997, the impact on the Company's earnings per share and financial statements is not expected to be material.

In June 1997, the Financial Accounting Standards Board issued SFAS No. 130



"Reporting Comprehensive Income" and No. 131 "Disclosure of Segment Information." SFAS No. 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 No. 131 establishes standards for determining an entity's operating segments and the type and level of financial information to be disclosed. SFAS No. 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 \$2,009 and \$894 for the quarters ended September 30, 1997 and 1996, respectively, have been capitalized.

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BAY APARTMENT COMMUNITIES, INC.

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

3. NOTES PAYABLE

<TABLE>  
<CAPTION>

	SEPTEMBER 30, 1997	DECEMBER 31, 1996
	-----	-----
	<C>	<C>
<S>		
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.....	13,224	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.....	8,508	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.....	10,344	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 covenants which require 20% of the apartment homes to be leased or held available for lease to low income families.....	38,649	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.....	17,532	17,600

BAY APARTMENT COMMUNITIES, INC.

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

<TABLE>  
<CAPTION>

	SEPTEMBER 30, 1997	DECEMBER 31, 1996
	-----	-----
<S>	<C>	<C>
City Heights is encumbered by a first deed of trust which collateralizes housing bond issues maturing June 1, 2025, partially amortizing over the term. The interest rate on the bonds is fixed until July 2007 at an effective interest rate of 5.80%, 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.....	20,766	--
Larkspur Canyon is encumbered by a first deed of trust which collateralizes housing bond issues maturing June 1, 2025, partially amortizing over the term. The interest rate on the bonds is fixed until September 2002 at an effective interest rate of 5.50%, 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.....	7,629	--
Subtotal.....	204,032	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.....	19,917	20,111
Subtotal.....	19,917	20,111
	-----	-----

TAX-EXEMPT VARIABLE RATE:

City Heights was encumbered by a first deed of trust which collateralized housing bond issues maturing March 1, 2018. Interest only payments were required monthly at a variable rate set weekly by the remarketing agent (6.50% at December 31, 1996, respectively, including the amortization of deferred financing costs). The bonds contained covenants which required 20% of the apartment homes to be leased or held available for lease to low income families. These bonds were refinanced in July 1997.....	--	20,800
Larkspur Canyon was encumbered by a first deed of trust which collateralized housing bond issues maturing March 1, 2023. Interest only payments were required monthly at a variable rate set weekly by the remarketing agent (5.90% at December 31, 1996, including the amortization of deferred financing costs). The bond payments were secured by a \$7,823 irrevocable direct pay letter of credit. The bonds contained covenants which required 20% of the apartment homes to be leased or held available for lease to low or moderate income families. These bonds were refinanced in August 1997.....	--	7,635
Subtotal.....	--	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	--
---	--------	----

Gallery Place is encumbered by a first deed of trust maturing May 15, 2001, partially amortizing over the term. The interest rate on the loan is fixed at 7.31%.....	11,733	--
Note payable assumed in connection with the Cedar Ridge acquisition maturing July 15, 1999. Interest only payments are required monthly at a fixed interest rate of 6.50%.....	1,000	--
Subtotal.....	25,603	--

</TABLE>

BAY APARTMENT COMMUNITIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)  
(UNAUDITED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

<TABLE>  
<CAPTION>

	SEPTEMBER 30, 1997	DECEMBER 31, 1996
	-----	-----
<S>	<C>	<C>
CREDIT LINE:		
Unsecured line of credit (the "Unsecured Line of Credit") with an aggregate borrowing amount of up to \$200,000 maturing May 2000. This line bears interest at various LIBOR rates plus 0.90%.....	87,000	49,000
Subtotal.....	87,000	49,000
Total Notes Payable.....	\$336,552	\$273,688

</TABLE>

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

<S>	<C>	<C>
1997 .....	\$	452
1998 .....		1,892
1999 .....		3,033
2000 .....		89,185
2001 .....		13,143
Thereafter .....		228,847
Total .....		\$336,552

</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.

On September 8, 1997, the Company agreed to purchase through the Northwest Partnership, a 264 apartment home community currently under construction in Redmond, Washington from Avondale Bear Creek Limited Partnership. The proposed acquisition of Verandas at Bear Creek will not be consummated until 90 days after construction has been completed and the community is 90 percent occupied by residents. This proposed acquisition is expected to close during the second quarter of 1998 and the purchase price is anticipated to be approximately \$34.3 million. In connection with this proposed acquisition, the company has agreed to pay off mortgage indebtedness secured by the community in the amount of approximately \$28 million and the Northwest Partnership will issue Northwest Units valued at approximately \$3.9 million. The total number of Northwest Units issued in connection with this proposed acquisition will be determined based on a price per unit equal to the average closing sale price of the Company's Common Stock on the New York Stock Exchange for a specified number of days preceding the closing date of the acquisition. These Northwest Units will have the same 4.5% initial annual priority return applicable to the Northwest Units issued in connection with the Company's acquisition of the Gallery Place community. In addition, subject to certain terms and conditions, the holders of such Northwest Units may require the Northwest Partnership to redeem all or a portion of their Northwest Units in exchange for cash. The Company may, however, at its election, redeem such Northwest Units in exchange for shares of the Company's Common Stock. All of such shares will be covered by a registration rights agreement. Because the consummation of the acquisition of Verandas at Bear Creek is subject to the satisfaction of certain conditions that are not within the control of the

Company, there can be no assurance that the Company will consummate the acquisition or, if the community is acquired, that it will be purchased on the terms currently contemplated.

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BAY APARTMENT COMMUNITIES, INC.

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

5. SUBSEQUENT EVENTS

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

- Purchased the Landing West apartment community for \$9,000. This community contains 190 apartment homes and is located in Seattle, Washington.
- Acquired for \$4,661 a 5.82 acre site adjacent to the Company's recently constructed 300 apartment home community, Rosewalk, in San Jose, California. The Company plans to build a second phase, 156 apartment home expansion of Rosewalk on this site.
- Purchased the Creekside apartment community for \$28,950. This community contains 294 apartment homes and is located in Mountain View, California.

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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 September 30, 1997 and 1996. The following table outlines the communities acquired or leased-up during 1996 and through September 30, 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(e)	July 26, 1996
Mill Creek(f)	July 26, 1996
Crowne Ridge(formerly Channing Heights)(g)	August 7, 1996
Lafayette Place(formerly Martinique Gardens)(h)	August 7, 1996

</TABLE>

<TABLE>

<CAPTION>

1996 DEVELOPMENT COMMUNITY

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

</TABLE>

<TABLE>

<CAPTION>

1997 ACQUISITION COMMUNITIES(k)

COMMUNITY	DATE ACQUIRED
-----------	---------------

<S>	<C>
SummerWalk (formerly Rancho Penasquitos)	(1)..... 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
Mission Woods (formerly Genesee Gardens)	..... May 16, 1997
Cedar Ridge (formerly Regency)	..... July 15, 1997
The Park	..... September 4, 1997
Lakeside	..... September 5, 1997
Gallery Place	..... September 23, 1997

</TABLE>

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

-----

- (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) Substantial reconstruction at Countrybrook was completed during the quarter ended September 30, 1997. The reconstruction included 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.
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- (e) Reconstruction at The Fountains was completed during the quarter ended September 30, 1997. The reconstruction included repainting the entire exterior and other minor repairs.
  - (f) Substantial reconstruction at Mill Creek was completed during the quarter ended September 30, 1997. The reconstruction included 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 laundry facilities and landscaping.
  - (g) 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.
  - (h) 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.
  - (i) 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%.
  - (j) 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.
  - (k) All of the 1997 Acquisition Communities are undergoing, or will undergo in the future, substantial reconstruction and repositioning programs, with the exception of SummerWalk, formerly Rancho Penasquitos, for which

reconstruction was completed during the quarter ended September 30, 1997.

- (1) Substantial reconstruction at SummerWalk, formerly Rancho Penasquitos, was completed during the quarter ended September 30, 1997. The reconstruction included repairing the community's roofs, repairing, waterproofing and repainting the stucco exteriors, rebuilding the leasing office and upgrading the landscaping and site drainage. In addition, the Company added air conditioning units and upgraded the bathroom lighting in all apartments, installed new kitchen appliances in approximately one-half of the apartments and installed washers and dryers in approximately one-third of the apartments that did not previously have them.

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.

Construction costs are increasing and the cost to reposition communities that have been acquired has, in some cases, exceeded management's original estimates. Management believes that it may experience similar increases in the future. There can be no assurances that the Company will be able to charge rents upon completing the repositioning of the communities that will be sufficient to offset the effects of increases in construction costs.

COMPARISON OF THE QUARTER ENDED SEPTEMBER 30, 1997 TO THE QUARTER ENDED SEPTEMBER 30, 1996.

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

<TABLE>  
<CAPTION>

	FOR THE QUARTER ENDED SEPTEMBER 30,			
	1997	1996	\$-CHANGE	%-CHANGE
<S>	<C>	<C>	<C>	<C>
Revenue:				
Rental.....	\$31,583	\$22,380	\$9,203	41.1%
Other.....	1,155	670	485	72.4%
Total revenue.....	32,738	23,050	9,688	42.0%
Expenses:				
Property operating.....	7,561	5,407	2,154	39.8%
Property taxes.....	2,405	1,840	565	30.7%
General and administrative.....	1,718	997	721	72.3%
Abandoned project costs.....	140	--	140	--
Interest and financing.....	3,243	3,743	(500)	(13.4%)
Depreciation and amortization.....	6,927	5,080	1,847	36.4%
Total expenses.....	21,994	17,067	4,927	28.9%
Income before minority interest.....	10,744	5,983	4,761	79.6%
Minority interest.....	(91)	(138)	47	(34.1%)
Net income.....	\$10,653	\$ 5,845	\$4,808	82.3%

</TABLE>

Revenue from rental property increased primarily as a result of the addition of the Acquisition Communities. The 1996 and 1997 Acquisition Communities contributed \$1,224 and \$4,980, respectively, to the increase. The 1996 Development Community, Rosewalk, was stabilized in February 1997 and contributed \$1,109 to the increase. Toscana, one of the Current Development Communities (defined below), contributed \$383 to the increase. The remainder of the portfolio increased rental revenue by \$1,507, of which \$1,438 was attributable to the Same Store communities (defined below).

Other income increased 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 \$2,154 total increase, \$351 was attributable to the 1996 Acquisition Communities, \$107 was attributable to Rosewalk, \$1,340 was attributable to the 1997 Acquisition Communities and \$133 was attributable to the apartment homes delivered at Toscana. The remainder of

the portfolio increased property operating expenses by \$223, of which \$72 was attributable to the Same Store communities (defined below). In addition, the Acquisition Communities contributed \$591 to the increase in property taxes and the remainder of the portfolio decreased property taxes by \$26.

General and administrative costs increased primarily due to the growth in employee-related costs and other costs needed to manage the Acquisition Communities. The 1997 and 1996 amounts are net of \$1,774 and \$592, respectively, of allocated indirect project costs capitalized to construction and reconstruction projects, representing approximately 49% and 37% of total general and administrative expense, including abandoned project costs, for the quarters ended September 30, 1997 and 1996, respectively.

Interest and financing expense decreased due to higher capitalization of interest from increased development, construction and reconstruction activity and a lower overall cost of funds offset in part by increased borrowing for new acquisitions.

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

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COMPARISON OF THE NINE MONTHS ENDED SEPTEMBER 30, 1997 TO THE NINE MONTHS ENDED SEPTEMBER 30, 1996.

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

<TABLE>  
<CAPTION>

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
	1997	1996	\$-CHANGE	%-CHANGE
<S>	<C>	<C>	<C>	<C>
Revenue:				
Rental.....	\$85,794	\$56,381	\$29,413	52.2%
Other.....	2,982	1,538	1,444	93.9%
Total revenue.....	88,776	57,919	30,857	53.3%
Expenses:				
Property operating.....	20,306	13,253	7,053	53.2%
Property taxes.....	6,568	4,528	2,040	45.1%
General and administrative.....	4,602	2,673	1,929	72.2%
Abandoned project costs.....	670	50	620	1,240.0%
Interest and financing.....	10,360	10,850	(490)	(4.5%)
Depreciation and amortization.....	19,053	13,277	5,776	43.5%
Total expenses.....	61,559	44,631	16,928	37.9%
Income before minority interest and extraordinary item.....	27,217	13,288	13,929	104.8%
Minority interest.....	(315)	(165)	(150)	90.9%
Net income before extraordinary item.....	26,902	13,123	13,779	105.0%
Extraordinary item.....	--	(511)	511	(100.0%)
Net income.....	\$26,902	\$12,612	\$14,290	113.3%

</TABLE>

Revenue from rental property increased primarily as a result of the addition of the Acquisition Communities. The 1996 and 1997 Acquisition Communities contributed \$11,877 and \$8,710, respectively, to the increase. Rosewalk contributed \$3,428 and the apartment homes delivered at Toscana contributed \$383 to the increase. The remainder of the portfolio increased rental revenue by \$5,015, of which \$4,489 was attributable to the Same Store communities (defined below).

Other income increased primarily as a result of the addition of the Acquisition Communities and the Same Store communities (defined below) which contributed \$854 and \$437, respectively. The remaining increase of \$153 was attributable to the remainder of the portfolio.

Property operating expenses increased primarily as a result of the addition of the Acquisition Communities. Of the \$7,053 total increase, \$3,196 was attributable to the 1996 Acquisition Communities, \$2,377 was attributable to the 1997 Acquisition Communities, \$409 was attributable to Rosewalk, \$133 was attributable to the apartment homes delivered at Toscana, \$626 was attributable to the Same Store communities (defined below) and \$312 was attributable to the remainder of the portfolio.

Property taxes increased by \$2,040 due to a \$2,050 increase attributable to the addition of the Acquisition Communities offset in part by a \$10 decrease in the remainder of the portfolio.

General and administrative costs increased primarily due to the growth in employee-related costs and other costs necessary to manage the Acquisition Communities. Abandoned project costs increased primarily due to a one-time write off of \$450, in the quarter ended June 30, 1997, as a result of the termination of the Company's efforts to acquire a multifamily portfolio. The 1997 and 1996 amounts are net of \$4,531 and \$1,509, respectively, of allocated indirect project costs capitalized to construction and reconstruction projects, representing approximately 46% and 36% of total general and administrative expense, including abandoned project costs, for the nine months ended September 30, 1997 and 1996, respectively.

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Interest and financing expense decreased due to higher capitalization of interest from increased development, construction and reconstruction activity and a lower overall cost of funds offset in part by increased borrowing for new acquisitions.

Depreciation and amortization expense increased primarily 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 SEPTEMBER 30, 1997 AND 1996:

<TABLE>  
<CAPTION>

(DOLLARS IN THOUSANDS)	FOR THE QUARTER ENDED SEPTEMBER 30,		\$-CHANGE	% -CHANGE
	1997	1996		
<S>	<C>	<C>	<C>	<C>
Revenue.....	\$18,946	\$ 17,362	\$1,584 (2)	9.1%
Expenses.....	5,324	5,265	59 (3)	1.1%
EBITDA.....	\$13,622	\$ 12,097	\$1,525	12.6%

</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 nine months ended September 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 \$1,438, month to month fee increases of \$28, lease termination fee increases of \$17 and a net increase in other income of \$101.
- (3) Same Store expenses increased primarily as a result of a \$75 increase in management and administrative costs, offset in part by a \$16 decrease in other miscellaneous expenses.

CURRENT DEVELOPMENT COMMUNITIES

The Company has acquired five 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 1,818 apartment homes.

- TOSCANA, SUNNYVALE, CALIFORNIA. The Company purchased this partially built and abandoned 17.8 acre site in May 1996 on which it is building a 710 apartment home community. The original total budgeted construction cost of this community was \$95.7 million. The site, located approximately at the intersection of Highway 101 and Lawrence Expressway, is close to 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 1997. As of September 30, 1997 construction has been completed on 132 apartment homes.

- CENTREMARK, SAN JOSE, CALIFORNIA. 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 Boulevard and Interstate 280, in the northwest



corner of San Jose, almost immediately adjacent to the City of Cupertino. The planned 311 apartment home community will include a large leasing facility, business center, fitness center, 65 foot lap pool, secure underground parking and perimeter gate system. The Company has estimated a total budgeted construction cost for this Current Development Community of \$44.1 million. Stabilized operations are expected in the first quarter of 1999, and the first apartment homes are expected to be completed and occupied in the second quarter of 1998.

- PASEO ALAMEDA, SAN JOSE, CALIFORNIA. 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

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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 which will include a large leasing pavilion, business center, fitness center, 75 foot lap pool, a small commercial area and secure underground parking. The Company has estimated a total budgeted construction cost for this Current Development Community of \$44.4 million. Stabilized operations are expected in the second quarter of 1999, and the first apartment homes are expected to be completed and occupied in the third quarter of 1998.

- SAN FRANCISCO, CALIFORNIA LAND 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 in June 1997. The Company intends to build twin, 16-story towers above a four story parking garage on this land site. As currently planned, the community will have 226 apartment homes, approximately 2,900 square feet of retail space and between 224 and 271 controlled access parking spaces. The land 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 site work in late 1997 and actual construction of the community in early 1998, with initial occupancy expected in mid 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.

- MOUNTAIN VIEW, CALIFORNIA LAND SITE. In September 1997 the Company acquired a 1.917 acre land site in Mountain View, California which includes a 50% undivided interest in an existing underground parking garage adjacent to this land site, subject to agreements which specifically allocate parking rights between an adjacent office building and this development, including 266 spaces reserved exclusively for residents of the community planned for this site. The Company intends to build two 12-story towers on this land site, which will contain a total of 266 apartment homes and approximately 10,000 square feet of ground level space for a recreation, leasing and community center. The acquisition of this site, purchased in two separate parcels for approximately \$8.93 million, includes substantially all necessary public approvals and previously paid fees totaling approximately \$800,000.

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 for this Current Development Community 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 will experience similar increases in construction costs and market rents with respect to the CentreMark and Paseo Alameda Current 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, 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 September 30, 1997, the proceeds from the Unsecured Line of Credit were used primarily for the acquisition, development and construction of the Current Development Communities and reconstruction of the 1996 and 1997 Acquisition Communities.

In July 1997, the Company assumed \$1,000,000 of seller financing in connection with the acquisition of the Cedar Ridge community.

In July 1997, the Company refinanced approximately \$20,800,000 of its tax-exempt bonds which were issued in connection with its acquisition of City Heights in October 1995. The all-inclusive interest rate on the new variable rate 28-year tax-exempt bonds has been fixed for ten years at a rate of approximately 5.8%. In August 1997, the Company refinanced approximately \$7,635,000 of its tax-exempt bonds issued in connection with its acquisition of Larkspur Canyon in July 1996. These new variable rate 28-year tax-exempt bonds have been fixed for five years at an all-inclusive interest rate of approximately 5.5%

In September 1997, the Company assumed \$11,733,000 of financing in connection with the acquisition of the Gallery Place community.

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

<TABLE>  
<CAPTION>

(DOLLARS IN THOUSANDS)	BALANCE	AVAILABLE	MATURES	RATE	INTEREST RATE PROTECTION
<S>	<C>	<C>	<C>	<C>	<C>
Tax-exempt variable rate under interest rate swap	\$ 88,257	\$ --	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 variable rate under interest rate swap	20,766	--	June 2025	5.80%(a)	Interest rate is fixed until July 2007.
Tax-exempt variable rate under interest rate swap	7,629	--	June 2025	5.50%(a)	Interest rate is fixed until September 2002.
Tax-exempt fixed rate	19,917	--	March 2012	7.87%(a)	Interest rate is fixed until April 2002.
Fixed rate	12,870	--	May 2004	7.25%	
Fixed rate	11,733	--	May 2001	7.31%	
Fixed rate	1,000	--	July 1999	6.50%	
Subtotal	249,552	--			
\$200,000 Unsecured Line of Credit (c)	87,000	113,000	May 2000	LIBOR+0.90%	
Total	\$ 336,552	\$ 113,000			

</TABLE>

- 
- (a) This 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) 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, of approximately \$49.2 million, 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 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, of approximately \$58.6 million, 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 TimberWood (formerly The Village), SunScape (formerly Banbury Cross) and Cardiff Gardens.

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 to the Company, of approximately \$55.5 million, 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 Mission Woods (formerly Genesee Gardens) communities and one land site in San Francisco, California.

In September 1997, the Company sold in an underwritten public offering 2,645,000 shares of common stock at a price of \$38.6875 per share. The net proceeds to the Company, after all anticipated issuance costs, were approximately \$97 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 the Cedar Ridge (formerly Regency), The Park and Lakeside communities and one land site in Mountain View, California.

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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 nine months ended September 30, 1997 increased to \$35,079,000 from \$29,030,000 for the nine months ended September 30, 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 deposits into escrow for two communities and one land site acquired in October 1997 and certain increases in deferred financing costs, property tax impound accounts and prepaid insurance.

Net cash used for investing activities was \$301,473,000 and \$198,381,000 for the nine months ended September 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 \$269,303,000 and \$168,605,000 for the nine months ended September 30, 1997 and 1996, respectively. This increase is primarily due to the net proceeds received by the Company from the January, April and September 1997 common stock offerings, the June 1997 offering of the Series C Cumulative Redeemable Preferred Stock and the increase in the Company's Unsecured Line of Credit, offset in part by the 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.

#### 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 each of the six communities acquired since June 1997. One community had an individual PML of 30%, one had an individual PML of 24%, two had individual PMLs of 20%, one had an individual PML of 15% and the sixth community had an individual PML of 10%. 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 six communities

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acquired subsequent to June 1997 have been 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 computes FFO in accordance with the revised NAREIT definition, which may differ from the methodology for computing FFO utilized by other equity REITs, and, accordingly, may not be comparable to such other REITs. 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 September 30, 1997, FFO increased to \$16,178,000 from \$10,831,000 for the quarter ended September 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.

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

CALCULATION OF FUNDS FROM OPERATIONS AND FUNDS AVAILABLE FOR DISTRIBUTION

<TABLE>  
<CAPTION>

(DOLLARS IN THOUSANDS, EXCEPT PER APARTMENT HOME DATA)	QUARTER ENDED				
	SEPT. 30, 1997	JUNE 30, 1997	MAR. 31, 1997	DEC. 31, 1996	SEPT. 30, 1996
<S>	<C>	<C>	<C>	<C>	<C>
Net income.....	\$ 10,653	\$ 8,479	\$ 7,771	\$ 7,014	\$ 5,845
Series C preferred dividend requirement.....	(1,222)	(149)	--	--	--
Depreciation -- real estate assets.....	6,659	6,173	5,462	5,201	4,899
Non-recurring adjustments to net income:					
Amortization of non-recurring costs, primarily legal, from the issuance of tax-exempt bonds(1).....	88	88	88	87	87
FFO (2).....	16,178	14,591	13,321	12,302	10,831
Recurring adjustments to net income:					
Amortization of reincorporation costs.....	7	7	7	7	7
Amortization of credit enhancement costs (3).....	38	38	38	38	38
Depreciation -- non real estate assets.....	135	120	105	79	49
Capital expenditures (4).....	(280)	(471)	(281)	(448)	(457)
Loan principal payments.....	(368)	(213)	(157)	(175)	(131)
Funds Available for Distribution ("FAD").....	\$ 15,710	\$ 14,072	\$ 13,033	\$ 11,803	\$ 10,337
Weighted average shares outstanding (5).....	25,803,370	24,833,801	22,989,978	22,000,544	19,686,087

</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 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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- (4) Capital improvements represent amounts expended primarily at communities acquired or developed prior to 1996. A breakdown of the expenditures for the quarter ended September 30, 1997 is as follows:

<TABLE>  
<CAPTION>

	TOTAL QUARTER ENDED SEPTEMBER 30, 1997	PER APARTMENT HOME QUARTER ENDED SEPTEMBER 30, 1997
<S>	<C>	<C>
Non-revenue generating:		
Exterior painting.....	\$131	\$ 11
Leasing pavilion rehabilitation.....	74	6
Landscaping.....	37	3
Other capital expenditures.....	38	3
Subtotal -- capital expenditures.....	280	23
Revenue generating:		
Water submeters.....	268	22
Fixtures.....	123	10
Appliances.....	53	4
Trash compactors.....	26	2
Other.....	13	1

Subtotal.....	483	39
	----	---
Total capital improvements.....	\$763	\$ 62
	====	===

</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 cash flow 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 repositioning of apartment communities. Such costs are added to the cost basis of those communities. The per apartment home calculation for the quarter is based on the ending number of apartment homes in the portfolio at September 30, 1997.

- (5) 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 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 Countrybrook 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 Countrybrook Units have the right to require the Countrybrook Partnership to redeem their Countrybrook 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 Countrybrook Units in satisfaction of the Countrybrook Partnership's obligation to redeem the Countrybrook Units for cash. During the period July 1, 1997 through September 30, 1997, 3,334 Countrybrook Units were 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 representations received from the recipients of the shares.

On September 12, 1997, the Company entered into an Agreement of Limited Partnership of Bay Pacific Northwest, L.P., the general partner of which is the Company, for the purpose of acquiring the Gallery Place community. In connection with the formation of the Northwest Partnership, 163,338 Northwest Units were issued to the existing partners of the contributor of the Gallery Place community pursuant to an exemption from registration provided in Rule 506 of Regulation D under the Securities Act. Under the terms of the limited partnership agreement, holders of Northwest Units have the right to require the Northwest Partnership's obligation to redeem the Northwest 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 Northwest Units in satisfaction of the Northwest Partnership's obligation to redeem the Northwest Units for cash. During the period September 12, 1997 through September 30, 1997 no Northwest Units were redeemed by the Company in exchange for shares of common stock.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

None

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ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

<TABLE>

<CAPTION>

EXHIBIT  
NO.

DESCRIPTION

EXHIBIT NO.	DESCRIPTION
<C>	<S>
3(i).1	Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3(i) to Form 8-B of Bay Apartment Communities, Inc. dated June 8, 1995.)
3(i).2	Articles Supplementary of the Company relating to the Series A Preferred Stock 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-B of Bay Apartment Communities, Inc. dated July 25, 1997.)
3(ii).1	Bylaws of the Company. (Incorporated by reference to Exhibit 3(ii) to Form 8-B of Bay Apartment Communities, Inc. dated June 8, 1995.)
10.1	Severance Agreement and Mutual General Release dated July 31, 1997, between the Company and Geoffrey L. Baker.
10.2	Agreement of Limited Partnership of Bay Pacific Northwest, L.P., dated as of September 12, 1997, between the Company and certain other defined Persons. (Incorporated by reference to Exhibit 10.1 to Form 8-K of Bay Apartment Communities, Inc. dated September 23, 1997.)
10.3	Registration Rights Agreement, dated as of September 23, 1997, between the Company and certain defined Holders of units of limited partnership interests in Bay Pacific Northwest, L.P. (Incorporated by reference to Exhibit 10.2 to Form 8-K of Bay Apartment Communities, Inc. dated September 23, 1997.)
27.1	Financial Data Schedule.

</TABLE>

(b) REPORTS ON FORM 8-K

<TABLE>

<C>

<S>

- Form 8-K of the Company, dated July 25, 1997, filing the Underwriting Agreement, dated June 17, 1997, by and between the Company, PaineWebber Incorporated and Morgan Stanley Dean Witter, relating to the sale of 2,300,000 shares of 8.50% Series C Cumulative Redeemable Preferred Stock of the Company, and the Definitive Articles Supplementary establishing and fixing the rights and preferences of the 8.50% Series C Cumulative Redeemable Preferred Stock of the Company.
- Form 8-K of the Company, dated August 14, 1997, regarding the amendment of the Company's Unsecured Credit Facility and the acquisition of three properties, consisting of two apartment home communities and one land site, for an aggregate purchase price of approximately \$44.55 million. This report contains financial statements required by Rule 3-14 of Regulation S-X and pro forma financial statements.
- Form 8-K of the Company, dated September 4, 1997, regarding the acquisition of three additional properties by the Company, consisting of two apartment home communities and one land site, for an aggregate purchase price of approximately \$80.09 million. This report contains financial statements required by Rule 3-14 of Regulation S-X and pro forma financial statements.
- Form 8-K of the Company, dated September 10, 1997, filing the Underwriting Agreement, dated September 10, 1997, between the Company, PaineWebber Incorporated and A.G. Edwards & Sons, Inc., relating to the sale of 2,645,000 shares of Common Stock of the Company.

</TABLE>

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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.

Date: November 12, 1997

/s/ GILBERT M. MEYER

-----  
Gilbert M. Meyer

Date: November 12, 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	DESCRIPTION
<C>	<S>
3(i).1	Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3(i) to Form 8-B of Bay Apartment Communities, Inc. dated June 8, 1995.).....
3(i).2	Articles Supplementary of the Company relating to the Series A Preferred Stock 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-B of Bay Apartment Communities, Inc. dated July 25, 1997.).....
3(ii).1	Bylaws of the Company. (Incorporated by reference to Exhibit 3(ii) to Form 8-B of Bay Apartment Communities, Inc. dated June 8, 1995.).....
10.1	Severance Agreement and Mutual General Release dated July 31, 1997, between the Company and Geoffrey L. Baker.....
10.2	Agreement of Limited Partnership of Bay Pacific Northwest, L.P., dated as of September 12, 1997, between the Company and certain other defined Persons. (Incorporated by reference to Exhibit 10.1 to Form 8-K of Bay Apartment Communities, Inc. dated September 23, 1997.).....
10.3	Registration Rights Agreement, dated as of September 23, 1997, between the Company and certain defined Holders of units of limited partnership interests in Bay Pacific Northwest, L.P. (Incorporated by reference to Exhibit 10.2 to Form 8-K of Bay Apartment Communities, Inc. dated September 23, 1997.).....
27.1	Financial Data Schedule.....

</TABLE>



## SEVERANCE AGREEMENT AND MUTUAL GENERAL RELEASE

This Severance Agreement and Mutual General Release (hereinafter "Agreement") is entered into this 31st day of July, 1997, by and between Geoffrey L. Baker ("Baker") and Bay Apartment Communities, Inc., a Maryland corporation ("Bay") (Baker and Bay are hereinafter referred to collectively as the "Parties").

This Agreement is entered into based on the following facts and premises:

## RECITALS

A. Beginning in April of 1992, Baker was employed by Greenbriar Development Company, a California corporation, which subsequently changed its name and was merged into Bay.

B. Since 1994, Baker has been employed by Bay pursuant to an Employment Agreement dated March 10, 1994 (the "Employment Agreement"), which provides that Baker may be entitled to certain severance benefits under certain conditions upon the termination of his employment with Bay.

C. Baker plans to be married in August of 1997, and he and his wife-to-be are planning to move to Michigan. Accordingly, Baker wishes to end his employment with Bay.

D. The Parties now wish to terminate the Employment Agreement, upon the terms and conditions set forth herein.

WHEREFORE, in consideration of the mutual promises set forth herein, Baker and Bay agree as follows:

1. Termination of Employment. The Employment Agreement is hereby terminated, with the exception of paragraphs 8 and 9, which expressly provide that they shall survive the termination of the Employment Agreement. Effective upon a date to be determined by Bay in its sole discretion, which date shall be no later than September 5, 1997, Baker will terminate his employment with and resign as an officer of Bay. In addition, upon request by Bay, Baker shall resign from the Board of Directors of Bay, such resignation to be effective on or before September 5, 1997. Baker shall execute any and all documents, and take such other action necessary and proper to effect such resignation or to give effect to Baker's termination of employment with Bay. Baker agrees not to resign as an employee, officer, or director of Bay until requested to do so by Bay.

2. Severance. Bay will pay Baker as severance his current base salary of One Hundred Sixty-Five Thousand Dollars and No Cents (\$165,000.00) per year through and including March 10, 1998 (prorated), in accordance with the usual and customary payroll practices of Bay. Bay will deduct from Baker's payments hereunder usual and customary payroll taxes, including, but not limited to, withholding, FICA, SDI, and any other deductions required by law or authorized by Baker. On or before March 10, 1998, Bay will also pay Baker for any accrued, unused vacation (calculated on the basis of his current base salary). For purposes of this calculation, Baker's vacation accruals will

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continue to accrue through and including and will cease as of March 10, 1998. The payment of any accrued vacation to Baker hereunder shall not extend his employment or any rights he may have arising out of his employment (including rights relating to any stock grants or stock options) beyond March 10, 1998. Baker will not receive any monetary compensation from Bay, including any bonus compensation, other than as set forth in this paragraph 2.

3. Benefits. At Bay's expense, Bay will maintain on Baker's behalf health and dental coverage, life insurance, disability insurance, and any other benefits maintained for other executive officers of Bay through and including March 10, 1998 on the same terms and conditions applicable to other executive officers of Bay. After March 10, 1998, Baker will be entitled to elect continuation coverage under the provisions of applicable law, including COBRA. In addition, Baker will continue to be eligible to participate in Bay's 401(k) plan, and Bay will continue its contributions to the plan on behalf of Baker, through and including March 10,

1998, on the same terms and conditions applicable to other executive officers of Bay.

4. Baker's Stock Rights.

4.1 Stock Options and Grants. The Parties acknowledge that Baker has been granted certain stock grants, stock options, and restricted stock under the Bay 1994 Stock Incentive Plan, as amended and restated (hereinafter "Bay Stock Incentive Plan"), which are summarized on Schedule "A" attached hereto. For purposes of Baker's rights under the Bay Stock

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Incentive Plan, Baker's employment will be treated as terminated March 10, 1998. Accordingly, all outstanding stock options granted to Baker under the Bay Stock Incentive Plan shall continue to vest through and including March 10, 1998. On March 11, 1998, all such stock options shall immediately terminate and be of no further force and effect; provided, however, that Baker may exercise any stock option, to the extent it was exercisable on March 10, 1998, through and including June 10, 1998. In connection therewith, Bay agrees that it shall assist Baker to the same extent Bay assists its full-time employees in effecting the exercise of stock options and the issuance of certificates representing the shares therefor through and including June 10, 1998. In addition, all restricted stock granted to Baker under the Bay Stock Incentive Plan shall continue to vest through and including March 10, 1998 and shall cease vesting thereafter. In accordance with the terms of the Restricted Stock Agreements between Bay and Baker, dated August 6, 1996 and February 3, 1997, respectively (the "Restricted Stock Agreements"), the Parties acknowledge that Bay is hereby delivering written notice of its election to repurchase all Unvested Shares (as such term is defined in the Restricted Stock Agreements) from Baker at the repurchase price of \$0.00 and Baker acknowledges that such notice shall satisfy all notice requirements under the Restricted Stock Agreements. Such repurchase of Baker's Unvested Shares, and the surrender to Bay of the certificates representing such Unvested Shares in accordance with Sections 3.2 of the Restricted Stock Agreements,

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shall occur on March 10, 1998 or as soon as practicable thereafter. Notwithstanding anything contained in this paragraph 4.1, Baker shall not be entitled to receive any additional awards under the Bay Stock Incentive Plan after the date hereof.

4.2 Stock Purchase Plan. For purposes of Baker's rights under the Bay 1996 Non-Qualified Employee Stock Purchase Plan, Baker will not be treated as an employee of Bay from and after the date hereof, and any balance in Baker's account under such Plan will be paid to Baker as soon as practicable thereafter.

5. Baker's Transition and Continuing Duties. From the date of this Agreement through and including March 10, 1998, Baker agrees to cooperate with Bay in transitioning his work and duties to other Bay employees, to respond to questions or provide information requested by management, and to give status reports as to work in process. As part of these duties, Baker agrees to devote approximately 80 hours of time per month to work for Bay, and further agrees (as part of the 80 hours per month) to travel to Bay's offices in California on an as needed basis, and upon reasonable notice, at Bay's request. Bay will pay all reasonable and necessary meals, lodging, and travel costs (airfare limited to business class) incurred by Baker in connection with any such trip. Baker also specifically agrees to explain fully the growth model he developed while employed by Bay, including all assumptions and operations pertinent thereto, and agrees to update the growth model on a regular basis, consistent with his past practices. Baker further agrees that he shall, upon

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reasonable notice, and upon reimbursement for reasonable expenses, cooperate with Bay and/or the Bay Releasees (including preparing for, appearing for, and testifying at depositions and trial) regarding any claim, litigation, or inquiry or proceeding by any governmental agency, concerning any matter with which Baker was involved while working for Bay.

6. Mutual Releases.

6.1 Release by Baker. Baker hereby releases and discharges Bay, and each of its subsidiaries and affiliated corporations and partnerships, and (as applicable) each of their individual or collective past, present, and future directors, officers, employees, representatives, shareholders, partners, agents, insurers, attorneys, administrators, accountants, executors, heirs, assigns, predecessors, and successors-in-interest, and all persons acting by, through, or in concert with any of them (hereinafter referred to collectively as "Bay Releasees") from any and all claims, charges, complaints, debts, liabilities, demands, obligations, promises, agreements, costs, expenses (including, but not limited to, attorneys' fees and costs), damages, suits, actions, and causes of action of any kind or nature whatsoever, whether now known or unknown, suspected or unsuspected, foreseen or unforeseen, which may have existed, exist, and/or may exist as of the date of this Agreement, including, but not limited to, any and all claims relating or pertaining to or arising out of Baker's employment by Bay, the cessation of Baker's employment, Baker's dealings with Bay and/or the Bay Releasees during his employment, any conduct of Bay

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and/or the Bay Releasees during Baker's employment, any statements made by Bay and/or the Bay Releasees relating or pertaining to Baker's employment, any and all rights which Baker may have under any and all agreements between Baker and Bay relating to Baker's employment, whether written, oral, or implied, including, but not limited to, that certain "Employment Agreement" dated March 10, 1994 between Baker and Bay (and any extensions thereto or modifications thereof), and any and all charges or complaints which were filed or could have been filed with any administrative agency or tribunal having the power to investigate or enforce compliance with local, state or federal labor laws, equal opportunity laws, or civil rights laws. The releases set forth in this paragraph 6.1 extend to all actions and conduct of Bay and/or the Bay Releasees relating to Baker's employment and/or termination of employment. The releases set forth in this paragraph 6.1 are a general release of all claims, demands, causes of action, obligations, damages, and liabilities of any nature whatsoever that are described in this Agreement and are intended to encompass all known and unknown, foreseen and unforeseen, suspected and unsuspected claims as of the date of this Agreement. Baker acknowledges that the releases set forth in this paragraph 6.1 constitute a full, complete and knowing waiver of any claims asserted or unasserted which he may have against Bay and/or the Bay Releasees arising out of his employment and termination of employment, including any claims he may have under the laws of the State of California for tort, breach of contract, or equitable relief, or under any federal,

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state or local statute, regulation, rule, ordinance or order which covers or purports to cover or relates to any aspect of employment including, but not limited to, discrimination based on race, color, sex, age, marital status, religion, national origin, ancestry, physical disability, mental disability, or medical condition under the Civil Rights Act of 1866, Title VII of the Civil Rights Act of 1964, the Age Discrimination in Employment Act, the Americans With Disabilities Act, the Family and Medical Leave Act, the California Fair Employment and Housing Act, and any other state or federal civil rights or equal employment opportunity laws. The releases set forth in this paragraph 6.1 are sometimes collectively referred to as the "Released Claims."

Notwithstanding the foregoing, the Released Claims shall not extend to or include Baker's rights under the Bay Stock Incentive Plan, or the options or restricted stock granted to Baker pursuant thereto, or Baker's rights under Bay's 401(k) Savings Plan, or any retirement or pension plan sponsored by Bay, or any rights to indemnity Baker may have under Bay's Articles of Incorporation, as amended, or Bylaws, as amended.

6.2 Release by Bay. Conditioned on the truthfulness and accuracy of Baker's representations and warranties contained in paragraph 8.1 as of the date hereof, Bay hereby releases and discharges Baker, and (as applicable) each of his individual or collective past and present agents, insurers, attorneys, accountants, executors, heirs, assigns, predecessors, and successors-in-interest, and all persons acting by, through, or in concert with any of them (hereinafter referred to

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collectively as "the Baker Releasees") from any and all claims, charges, complaints, debts, liabilities, demands, obligations, promises, agreements, costs, expenses (including, but not limited to, attorneys' fees and costs),

damages, suits, actions, and causes of action of any kind or nature whatsoever, whether now known or unknown, suspected or unsuspected, foreseen or unforeseen, which may have existed, exist, and/or may exist as of the date of this Agreement, including, but not limited to, any and all claims relating or pertaining to or arising out of Baker's employment by Bay, the cessation of Baker's employment, Baker's dealings with Bay and/or the Bay Releasees during Baker's employment, any conduct of Baker or the Baker Releasees during Baker's employment, any statements made by Baker or the Baker Releasees relating or pertaining to Bay, and any and all rights which Bay may have under any and all agreements between Baker and Bay relating to or arising out of Baker's employment, whether written, oral, or implied, with the exception of paragraphs 8 and 9 of the Employment Agreement. The releases set forth in this paragraph 6.2 extend to all actions and conduct of Baker and/or the Baker Releasees relating to his conduct, performance, employment, and/or termination of employment. The releases set forth in this paragraph 6.2 are a general release of all claims, demands, causes of action, obligations, damages, and liabilities of any nature whatsoever that are described in this Agreement and are intended to encompass all known and unknown, foreseen and unforeseen, suspected and unsuspected claims as of the date of this Agreement. Bay acknowledges that the releases set forth in

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this paragraph 6.2 constitute a full, complete and knowing waiver of any claims, asserted or unasserted, which it may have against Baker and/or the Baker Releasees arising out of Baker's conduct, performance, employment, and termination of employment. The releases set forth in this paragraph 6.2 are sometimes collectively referred to as the "Released Claims."

Notwithstanding the foregoing, the Released Claims shall not extend to or include Bay's rights under the Bay Stock Incentive Plan or the options or restricted stock granted to Baker pursuant thereto, or to any claims which Bay may have arising out of Baker's criminal conduct.

7. Section 1542 Waiver. The Parties acknowledge that after making this Agreement, they may discover different or additional facts about the Released Claims, but this release will remain effective in all respects. The Parties expressly waive all rights and benefits under Section 1542 of the California Civil Code, which provides:

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him, must have materially affected his settlement with the debtor.

In this connection, the Parties acknowledge that they may hereafter discover facts different from or in addition to the facts which they now know or believe to be true with regard to the Released Claims and they further agree that this Agreement shall

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remain effective in all respects notwithstanding such discovery of such new or different facts.

8. Representations and Warranties.

8.1 Baker's Representations and Warranties.  
Baker represents and warrants:

8.1.1 That he has not filed any complaints or charges against Bay and/or any of the Bay Releasees, with the Equal Employment Opportunity Commission, the Department of Fair Employment and Housing, or any other local, state or federal agency, tribunal, or court, relating to Released Claims, and that if any such agency, tribunal, or court assumes jurisdiction of any such complaint or charge on behalf of Baker relating to Released Claims, then he will withdraw the matter, and request that the agency, tribunal, or court dismiss the matter.

8.1.2 That he has not heretofore assigned or transferred or purported to assign or transfer to any person any Released Claim.

8.1.3 That prior to signing this Agreement, he has been advised to consult with an attorney, and has had the opportunity to consult with an attorney.

8.1.4 That as of the date he signs this Agreement, he is under the age of forty (40) years.

8.1.5 That he has read this Agreement and understands it, and that he is entering into this Agreement knowingly, voluntarily, and with the advice of counsel.

8.1.6 That he has not entered into any agreement on behalf of Bay that is materially inconsistent with

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the minutes, resolutions, or other instructions of the Board of Directors, or that is inconsistent with his past practices.

8.1.7 That as of the moment he signs this Agreement, he has not violated the provisions of paragraph 9 of the Employment Agreement.

8.1.8 That as of the moment he signs this Agreement, he has not made any statements or engaged in any conduct which would be a violation of paragraph 11 ("No Assistance") or paragraph 12 ("Non-Disparagement") of this Agreement.

8.2 Bay's Representations and Warranties. Bay represents and warrants:

8.2.1 That Bay has not heretofore assigned or transferred or purported to assign or transfer to any person any Released Claim.

8.2.2 That prior to signing this Agreement, Bay has had the opportunity to consult with counsel, and has consulted counsel.

8.2.3 That Bay has read this Agreement and understands it, and that Bay is entering into this Agreement knowingly and voluntarily, and with the advice of counsel.

8.2.4 That the person signing this Agreement on behalf of Bay is authorized to do so.

8.2.5 That as of the moment Bay signs this Agreement, Bay has not made any statements or engaged in any conduct which would be a violation of paragraph 12 ("Non-Disparagement") of this Agreement.

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9. Return of Property. As of the date of Baker's resignation pursuant to paragraph 1, Baker shall disclose to Bay all property or things in his possession which belong to Bay, including, but not limited to, keys, entry access cards, alarm codes, credit cards, files, records, manuals, etc. (the "Bay Property") As of March 10, 1998, and to the extent he has not already done so, Baker shall return and/or deliver to Bay all of the Bay Property.

10. Compromise. The Parties agree that this Agreement is being entered into in order to provide for the orderly termination of Baker's employment by Bay, to transition his duties and responsibilities to others at Bay, and to identify the benefits to which Baker is entitled by virtue of the termination of his employment. This Agreement shall not be deemed or construed as an admission that either Party acted wrongfully with respect to the other Party or their respective Releasees, that either Party has any rights against the other Party or their respective Releasees, or that either Party has any liability to the other Party or their respective Releasees. This Agreement represents a compromise of any issues that may be in dispute between the Parties arising out of Baker's employment by Bay and the termination thereof.

11. No Assistance. Baker agrees that, except as required by law, he has not and will not encourage, assist, or aid any other person in asserting any charge, claim, or complaint against Bay or the Bay Releasees, and will not voluntarily participate in any investigation, claim, arbitration, lawsuit,

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action, or any other type of proceeding against Bay or the Bay Releasees.

12. Non-Disparagement. Each Party agrees not to

disparage or defame the other Party, any of the Releasees, or any programs, services, or products offered by or through such Party or the Releasees.

13. Proprietary Information. Baker acknowledges that:

a. Any and all products, improvements, inventions and/or creations conceived or made by him during the period of his employment with Bay relating in any way to the activities or business of Bay, or its parents, subsidiaries, or affiliates (collectively the "Company"), are the sole and exclusive property of the Company or its nominee; and if requested to do so at any time hereafter, Baker shall execute any and all applications, assignments and other instruments which the Company in its sole reasonable discretion shall deem necessary in order to apply for and obtain Certificates of Registration or Letters of Patent of the United States of America and foreign countries covering said products, improvements, inventions or creations and in order to assign and convey to the Company or its nominee the sole and exclusive right, title and interest therein. These obligations shall be binding upon Baker's assigns, executors, administrators or other legal representatives; and

b. During the period of his employment by Bay, Baker received valuable confidential information, disclosure of which would be detrimental to the Company, such as information relating to marketing techniques; promotion and advertising;

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business strategy; business development; pricing; sales; office and personnel policies and procedures; training programs; product information; operating procedures; accounting procedures; customer lists; supplier lists; and staffing. This list of confidential matters is illustrative only, and does not include all matters considered confidential by the Company.

Baker agrees to hold in strict confidence and not disclose any of the Company's confidential or proprietary information, including, without limitation, that information described above.

Baker further agrees not to do anything which may injure the Company, including but not limited to: (a) intentionally divert or attempt to divert actual or prospective real estate acquisition, disposition, or investment opportunities identified by Baker or others employed by Bay during Baker's employment to himself, to one or more of his affiliates, to any entity in which he has an interest, or to a competitor of Bay; (b) intentionally solicit, cause, induce, or encourage any employee of the Company to leave his or her employment, or interfere with any employee's employment by the Company; (c) intentionally induce or attempt to induce any person or entity to breach any contractual relationship with the Company; (d) intentionally do or perform any act injurious or prejudicial to the goodwill associated with the Company; or (e) intentionally cause, encourage, or assist any person, including, but not limited to, any current employee or former employee of the Company, to do any of the foregoing.

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Baker acknowledges that his violation of the provisions of this paragraph 13 will cause the Company irreparable harm, and that the Company will therefore be entitled to injunctive and/or other equitable relief by reason of Baker's violation of this paragraph 13.

Nothing herein shall be construed to limit the rights and remedies of the Company (including the right to recover damages) if Baker violates the provisions of this paragraph 13.

Baker acknowledges that this provision is a material part of this Agreement, and has been bargained for separately. Baker acknowledges that, due to the importance of this paragraph 13 to the Company, any claim he has against the Company is a separate matter, and does not entitle him to violate, or justify any violation of, this paragraph 13.

14. Indemnity. As a further material inducement to Bay to enter into this Agreement, Baker agrees to defend, indemnify, and hold Bay (and, as applicable, the Bay Releasees) harmless from and against any and all loss, costs, damages, or expenses, including, without limitation, attorneys' fees incurred by Bay and/or the Bay Releasees arising out of (a) Baker's breach of this Agreement or (b) the falsity of any representation made herein by Baker.

15. Dispute Resolution. It is the desire and intention of the Parties to agree upon a mechanism and procedure under which any

controversy, breach or dispute arising out of this Agreement will be resolved in a prompt and expeditious manner. Accordingly, any controversy, breach or dispute arising

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out of this Agreement, or relating to the interpretation of any term or provision of this Agreement, shall be heard by a referee pursuant to the provisions of the California Code of Civil Procedure, sections 638 - 645.1, inclusive. The Parties shall promptly and diligently cooperate with one another and the referee, and shall perform such acts as may be necessary to obtain a prompt and expeditious resolution of the dispute or controversy in accordance with the terms hereof. The Parties agree that the referee shall have the power to decide all issues of fact and law and report his/her decision thereon, and to issue all legal and equitable relief appropriate under the circumstances of the controversy before him/her. Each Party will bear their own costs incurred in connection with such proceeding.

The Parties shall agree upon a single referee who shall then try all issues, whether of fact or law, and report a finding and judgment thereon. If the Parties are unable to agree upon a referee within ten (10) days of a written request to do so by any Party, then any Party may thereafter seek to have a referee appointed pursuant to the California Code of Civil Procedure sections 638 and 640.

16. Complete Agreement. The Parties acknowledge that no representation, promise or inducement has been made other than as set forth in this Agreement, and that the Parties do not enter into this Agreement in reliance upon any representation, promise, or inducement not set forth herein. Except as expressly provided herein, this Agreement supersedes all prior negotiations and understandings of any kind with respect to the subject matter

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hereof, including, but not limited to, the Employment Agreement, and contains all of the terms and provisions of agreement between the Parties hereto with respect to the subject matter hereof. Any representation, promise or condition, whether written or oral, not specifically incorporated herein, shall be of no binding effect upon the Parties.

17. Successors and Assigns. This Agreement shall be binding on, and inure to the benefit of, the Parties and their respective predecessors, successors, assigns, transferees, heirs, representatives, and all other persons or entities succeeding to the rights or obligations of the Parties, and each of them. Baker may not assign this Agreement or any rights or obligations hereunder without the prior written consent of Bay. The Parties acknowledge that this paragraph shall not affect any of Baker's rights to transfer or assign his Bay stock.

18. Notice. Any notices, demands, requests, or other communications to either party required or permitted hereunder shall be in writing and may be given by personal delivery or by telegraph or by mail, registered or certified, postage prepaid with return receipt requested. Mailed notices shall be addressed to the party at his or its address set forth below. Either party may change his or its address by written notice in accordance with this paragraph.

If to Bay:

Gilbert M. Meyer  
Chairman  
Bay Apartment Communities, Inc.  
4340 Stevens Creek Boulevard  
Suite 275  
San Jose, California 95129

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With a copy to:

Charles E. Noneman, Esq.  
Cox, Castle & Nicholson, LLP  
2049 Century Park East, Suite 2800  
Los Angeles, California 90067-3284

If to Baker:

Geoffrey L. Baker  
9875 Jackson Road  
Dexter, Michigan 48130

19. Severability. The provisions of this Agreement are severable, and if any part of this Agreement is found to be invalid, void, or unenforceable, the other provisions shall remain fully valid and enforceable.

20. Counterparts. This Agreement may be executed in counterparts and when each Party has signed and delivered at least one such counterpart, each counterpart shall be deemed an original.

21. Capacity. Each Party hereto represents and warrants that he, she, or it has full power to enter into this Agreement, and that any individual signing this Agreement on behalf of any such Party is fully empowered and authorized to act on his or its behalf in respect of this Agreement.

22. Modifications. This Agreement may not be modified or terminated orally and no modification, termination or waiver shall be valid unless the same be in writing and signed by all of the Parties hereto.

23. Waiver. No waiver of any term, provision or condition of this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be, or constitute,

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a waiver of any other term, provision or condition of this Agreement, whether or not similar, nor shall such waiver constitute a continuing waiver. No such waiver shall be binding unless executed in writing by the Party making the waiver.

24. Governing Law. The provisions of this Agreement shall be governed by, and interpreted in accordance with, the laws of the State of California.

25. Interpretation. In interpreting this Agreement, the masculine gender shall be deemed to include feminine and neuter, the singular shall be deemed to include the plural, and vice versa, and the word "person" shall be deemed to include both natural persons and any corporation, partnership, association, joint venture, trust, firm, or other entity.

26. Headings. The use of headings in this Agreement is only for ease of reference and the headings have no effect and are not to be considered part or a term of this Agreement.

27. Effect of Agreement. Nothing in this Agreement shall be construed as releasing any Party of any obligation under this Agreement.

IN WITNESS WHEREOF, the Parties hereto have caused this Agreement to be executed, delivered and deemed effective as of the date first above written.

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PLEASE READ CAREFULLY. THIS SEVERANCE AGREEMENT AND GENERAL RELEASE INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS. YOU ARE ADVISED TO CONSULT WITH AN ATTORNEY PRIOR TO SIGNING THIS AGREEMENT.

BAY APARTMENT COMMUNITIES, INC.  
a Maryland Corporation

\_\_\_\_\_  
Geoffrey L. Baker

By: \_\_\_\_\_

Its: \_\_\_\_\_

Date signed: \_\_\_\_\_

Date signed: \_\_\_\_\_





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

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