

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 March 31, 2000

Commission file number 1-12672

AVALONBAY COMMUNITIES, INC.  
(Exact name of registrant as specified in its charter)

Maryland  
(State or other jurisdiction of  
incorporation or organization)

77-0404318  
(I.R.S. Employer  
Identification No.)

2900 Eisenhower Avenue, Suite 300  
Alexandria, Virginia 22314  
(Address of principal executive offices, including zip code)

(703) 329-6300  
(Registrant's telephone number, including area code)

(Former name, 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 for 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  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:

66,169,359 shares outstanding as of May 1, 2000

<TABLE>  
<CAPTION>

<S>

PART I - FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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December 31, 1999 (audited).....

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PART I - FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTS

AVALONBAY COMMUNITIES, INC.  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except share data)

<TABLE>			
<CAPTION>			
		3-31-00	
		(unaudited)	
12-31-99		-----	-
-----			
<S>		<C>	
<C>			
ASSETS			
Real estate:			
Land		\$ 689,279	\$
663,007			
Buildings and improvements		3,019,541	
2,942,866			
Furniture, fixtures and equipment		89,451	
82,467			
-----		-----	-
		3,798,271	
3,688,340			
Less accumulated depreciation		(245,012)	
(206,962)			
-----		-----	-
Net operating real estate		3,553,259	
3,481,378			
Construction in progress (including land)		415,335	
395,187			
Communities held for sale		95,009	
164,758			
-----		-----	-
Total real estate, net		4,063,603	
4,041,323			
Cash and cash equivalents		8,076	
7,621			
Cash in escrow		9,468	
8,801			
Resident security deposits		14,610	
14,113			
Investments in unconsolidated joint ventures		10,771	
10,702			
Deferred financing costs, net		13,194	

14,056			
Deferred development costs		12,125	
12,938			
Participating mortgage notes		21,483	
21,483			
Prepaid expenses and other assets		26,786	
23,625			
-----		-----	-
	TOTAL ASSETS	\$ 4,180,116	\$
4,154,662		=====	
=====			
LIABILITIES AND STOCKHOLDERS' EQUITY			
Variable rate unsecured credit facility		\$ 205,000	\$
178,600			
Unsecured notes		985,000	
985,000			
Notes payable		429,170	
430,047			
Dividends payable		46,887	
44,139			
Payables for construction		17,145	
18,874			
Accrued expenses and other liabilities		45,749	
40,226			
Accrued interest payable		14,467	
28,134			
Resident security deposits		25,404	
23,980			
-----		-----	-
	TOTAL LIABILITIES	1,768,822	
1,749,000		-----	-
-----			
Minority interest of unitholders in consolidated partnerships		35,502	
35,377			
Stockholders' equity:			
Preferred stock, \$.01 par value; \$25 liquidation value; 50,000,000			
shares authorized at both March 31, 2000 and December 31, 1999;			
18,322,700 shares outstanding at both			
March 31, 2000 and 1999		183	
183			
Common stock, \$.01 par value; 140,000,000 shares authorized at both March 31, 2000			
and December 31, 1999; 65,968,309 and 65,758,009 shares outstanding at March 31,			
2000 and December 31, 1999, respectively		660	
658			
Additional paid-in capital		2,449,648	
2,442,510			
Deferred compensation		(5,477)	
(3,559)			
Dividends in excess of accumulated earnings		(69,222)	
(69,507)			
-----		-----	-
	TOTAL STOCKHOLDERS' EQUITY	2,375,792	
2,370,285		-----	-
-----			
	TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,180,116	\$
4,154,662		=====	
=====			

</TABLE>

See accompanying notes to condensed consolidated financial statements.

<TABLE>  
<CAPTION>

	For the three months ended	
	3-31-00	3-31-99
<S>	<C>	<C>
Revenue:		
Rental income	\$ 134,785	\$ 118,573
Management fees	248	339
Other income	55	34
Total revenue	135,088	118,946
Expenses:		
Operating expenses, excluding property taxes	33,338	32,701
Property taxes	11,230	10,714
Interest expense	20,067	16,468
Depreciation	29,419	27,226
General and administrative	2,947	2,368
Non-recurring charges	--	16,524
Total expenses	97,001	106,001
Equity in income of unconsolidated joint ventures	694	726
Interest income	1,020	1,662
Minority interest in consolidated partnerships	(539)	(433)
Income before gain on sale of communities	39,262	14,900
Gain on sale of communities	7,910	--
Net income	47,172	14,900
Dividends attributable to preferred stock	(9,945)	(9,945)
Net income available to common stockholders	\$ 37,227	\$ 4,955
Per common share:		
Net income - basic	\$ 0.56	\$ 0.08
Net income - diluted	\$ 0.55	\$ 0.08

</TABLE>

See accompanying notes to condensed consolidated financial statements.

AVALONBAY COMMUNITIES, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(Dollars in thousands)

<TABLE>  
<CAPTION>

	For the three	
months ended	3-31-00	3-
-----	-----	---
31-99		
-----		
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 47,172	\$
14,900		
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	29,419	
27,226		

460	Amortization of deferred compensation	1,248	
164	Decrease (increase) in investments in unconsolidated joint ventures	(69)	
433	Income allocated to minority interest in consolidated partnerships	539	
--	Gain on sale of communities	(7,910)	
18	Decrease (increase) in cash in escrow	(667)	
(3,641)	Increase in resident security deposits, accrued interest on participating mortgage notes, prepaid expenses and other assets	(3,518)	
11,496	Increase (decrease) in accrued expenses, other liabilities and accrued interest payable	(5,907)	
-----		-----	---
51,056	Net cash provided by operating activities	60,307	
-----		-----	---
CASH FLOWS USED IN INVESTING ACTIVITIES:			
(8,024)	Decrease in construction payables	(1,729)	
12,991	Proceeds from sale of communities, net of selling costs	29,325	
(127,598)	Purchase and development of real estate	(72,392)	
-----		-----	---
(122,631)	Net cash used in investing activities	(44,796)	
-----		-----	---
CASH FLOWS FROM FINANCING ACTIVITIES:			
7,428	Issuance of common stock	3,974	
(43,323)	Dividends paid	(44,139)	
125,000	Proceeds from sale of unsecured notes	--	
(797)	Payment of deferred financing costs	--	
(838)	Repayments of notes payable	(877)	
(6,000)	Net borrowings under (repayments of) unsecured facility	26,400	
(195)	Distributions to minority partners	(414)	
-----		-----	---
81,275	Net cash provided by (used in) financing activities	(15,056)	
-----		-----	---
9,700	Net increase in cash	455	
8,890	Cash and cash equivalents, beginning of period	7,621	
-----		-----	---
18,590	Cash and cash equivalents, end of period	\$ 8,076	\$
=====		=====	
21,903	Cash paid during period for interest, net of amount capitalized	\$ 31,801	\$
=====		=====	

</TABLE>

See accompanying notes to condensed consolidated financial statements.

Supplemental disclosures of non-cash investing and financing activities (dollars in thousands):

During the three months ended March 31, 1999, 17,598 units of limited partnership were presented for redemption to the DownREIT partnership that issued such units and were acquired by the Company for an equal number of shares of the Company's common stock. During the three months ended March 31, 2000, 7,048 units of limited partnership were presented for redemption to the DownREIT partnership that issued such units and were acquired by the Company for an equal number of shares of the Company's common stock.

Common and preferred dividends declared but not paid as of March 31, 2000 and 1999 totaled \$46,887 and \$42,688, respectively.

AVALONBAY COMMUNITIES, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)

1. Organization and Significant Accounting Policies

Organization and Recent Developments

AvalonBay Communities, Inc. (the "Company," which term is often used to refer to AvalonBay Communities, Inc. together with its subsidiaries) is a Maryland corporation that has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended. The Company focuses on the ownership and operation of upscale apartment communities in high barrier-to-entry markets of the United States. These markets include Northern and Southern California and selected markets in the Mid-Atlantic, Northeast, Midwest and Pacific Northwest regions of the country.

At March 31, 2000, the Company owned or held a direct or indirect ownership interest in 124 operating apartment communities containing 36,348 apartment homes in twelve states and the District of Columbia, of which six communities containing 2,496 apartment homes were under reconstruction. The Company also owned nine communities with 2,473 apartment homes under construction and rights to develop an additional 34 communities that, if developed as expected, will contain an estimated 9,140 apartment homes.

During the three months ended March 31, 2000, the Company completed the development of three new communities, Avalon Corners, Avalon Fox Mill and Avalon Court North for a total investment of \$92,400. These communities, which are located in Stamford, Connecticut, Herndon, Virginia and Melville, New York, contain an aggregate of 700 apartment homes.

In 1998, the Company adopted a strategy of disposing of certain assets in markets that did not meet its long-term strategic direction and redeploying the proceeds from such sales to help fund the Company's development and redevelopment activities. In connection with this strategy, the Company sold one community containing 360 apartment homes for net proceeds of approximately \$29,325 during the three months ended March 31, 2000. The net proceeds from this disposition will be redeployed to develop and redevelop communities currently under construction or reconstruction. Pending such redeployment, the proceeds from the sale of this community were used to reduce amounts outstanding under the Company's variable rate unsecured credit facility.

The interim unaudited financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") 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 GAAP 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 included in the Company's Annual Report on Form 10-K for the year ended December 31, 1999. The results of operations for the three months ended March 31, 2000 are not necessarily indicative of the operating results for the full year. Management believes 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.

Presentation of Historical Financial Statements for the Three Months Ended  
March 31, 1999

The financial presentation of the historical financial statements for the three months ended March 31, 1999, has been changed from the presentation that appeared in the Company's Form 10-Q for the three months ended March 31, 1999. For a discussion of the change in the presentation and the reasons therefor, see Footnote 2 to the consolidated financial statements presented in the Company's Form 10-K for the fiscal year ended December 31, 1999.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned partnerships and certain joint venture partnerships in addition to subsidiary partnerships structured as DownREITs. All significant intercompany balances and transactions have been eliminated in consolidation.

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In each of the partnerships structured as DownREITs, either the Company or one of the Company's wholly-owned subsidiaries is the general partner, and there are one or more limited partners whose interest in the partnership is represented by units of limited partnership interest. For each DownREIT partnership, limited partners are entitled to receive distributions before any distribution is made to the general partner. Although the partnership agreements for each of the DownREITs are different, generally the distributions per unit paid to the holders of units of limited partnership interests approximate the Company's current common stock dividend per share. Each DownREIT partnership has been structured so that it is unlikely the limited partners will be entitled to a distribution greater than the initial distribution provided for in the partnership agreement. The holders of units of limited partnership interest have the right to present each unit of limited partnership interest for redemption for cash equal to the fair market value of a share of the Company's common stock on the date of redemption. In lieu of cash redemption of a unit by a partner, we may elect to acquire any unit presented for redemption for one share of common stock.

Real Estate

Significant expenditures that improve or extend the life of an 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 their development, redevelopment and acquisition. Expenditures for maintenance and repairs are charged to operations as incurred.

The capitalization of costs during the development of 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 final certificate of occupancy is issued. Cost capitalization during redevelopment of apartment homes (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 redevelopment and ends when the apartment home redevelopment is completed and the apartment home is placed in-service. The accompanying condensed consolidated financial statements include a charge to expense for unrecoverable deferred development costs related to pre-development communities that are unlikely to be developed.

Depreciation is calculated on buildings and improvements using the straight-line method over their estimated useful lives, which range from seven to thirty years. Furniture, fixtures and equipment are generally depreciated using the straight-line method over their estimated useful lives, which range from three years (computer related equipment) to seven years.

Lease terms for apartment homes are generally one year or less. Rental income and operating costs incurred during the initial lease-up or post-redevelopment lease-up period are fully recognized as they accrue.

Development Costs of Software for Internal Use

The Company has entered into a formal joint venture cost sharing agreement with another public multifamily real estate company to develop a new on-site property management system and a leasing automation system to enable the Company to capture, review and analyze data to a greater degree than the Company found currently possible with third-party software products. The software development process is currently being managed by Company employees who oversee a project team of employees and third-party consultants. Development costs associated with the software project include computer hardware costs, direct labor costs and third-party consultant costs related to programming and documenting the system. The project began in January 1998 and is expected to be fully implemented in early 2001, although no assurance can be provided in this regard. The Company will continue to develop these systems through the joint venture agreement and the total cost of development will be shared equally between the Company and the joint venture partner. Once developed, the Company and the joint venture partner

intend to use the property management and leasing systems in place of their respective systems currently in use for which fees are generally paid to third party vendors.

Costs associated with the project are accounted for in accordance with the American Institute of Certified Public Accountants' Statement of Position 98-1 ("SOP 98-1") "Accounting for Costs of Computer Software Developed or

Obtained for Internal Use." Under SOP 98-1, costs of acquiring hardware and costs of coding, documenting and testing the software are capitalized during the application development stage. Following implementation, capitalized development costs are amortized over the system's estimated useful life and other costs such as training and application maintenance are expensed as incurred.

Earnings per Common Share

In accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share", basic earnings per share for the three months ended March 31, 2000 and 1999 is computed by dividing earnings available to common shares (net income less preferred stock dividends) by the weighted average number of shares and units of limited partnership in the Company's DownREIT partnerships that were outstanding during the period. Additionally, other potentially dilutive common shares are considered when calculating earnings per share on a diluted basis. The Company's basic and diluted weighted average shares outstanding for the three months ended March 31, 2000 and 1999 are as follows:

<TABLE>  
<CAPTION>

	Three months ended	
	3-31-00	3-31-99
	-----	-----
	3-31-00	3-31-99
	-----	-----
<S>	<C>	<C>
Weighted average common shares outstanding - basic	65,719,178	63,986,633
Weighted average units outstanding	969,300	876,546
	-----	-----
Weighted average common shares and units outstanding - basic	66,688,478	64,863,179
Effect of dilutive securities	489,010	350,441
	-----	-----
Weighted average common shares and units outstanding - diluted	67,177,488	65,213,620
	=====	=====

</TABLE>

Certain options to purchase shares of common stock in the amounts of 2,214,497 and 3,333,549 were outstanding during the three months ended March 31, 2000 and 1999, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares.

Non-recurring Charges

In February 1999, the Company announced certain management changes including (i) the departure of three senior officers who became entitled to severance benefits in accordance with the terms of their employment agreements with the Company dated as of March 9, 1998 and (ii) elimination of duplicate accounting functions and related employee departures. The Company recorded a non-recurring charge of approximately \$16,100 in the first quarter of 1999 related to the expected costs associated with this management realignment and certain related organizational adjustments.

The expenses associated with the management realignment have been treated as a non-recurring charge. The charge includes severance and benefits expenses, costs to eliminate duplicate accounting functions and legal fees. Certain former employees have elected to receive their severance benefits in an installment basis for up to twelve months.

The non-recurring charge also includes Year 2000 remediation costs of \$448 that had been incurred for the three months ended March 31, 1999.

Selected information relating to the non-recurring charge is summarized below:

<TABLE>  
<CAPTION>



	Severance benefits	Elimination of duplicate accounting costs	Legal fees	Total
<S>	<C>	<C>	<C>	<C>
Total nonrecurring charge (1)	\$ 15,476	\$ 250	\$ 350	\$ 16,076
Cash payments	(15,476)	(250)	(252)	(15,978)
Restructuring liability as of March 31, 2000	\$ --	\$ --	\$ 98	\$ 98

</TABLE>

(1) Excludes Y2K costs of \$448.

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#### Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions. These estimates and assumptions 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.

#### Recently Issued Accounting Standards

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This pronouncement establishes accounting and reporting standards requiring that every derivative instrument be recorded on the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. In June 1999, the Financial Accounting Standards Board issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective date of SFAS No. 133." SFAS No. 137 delays the effective date of SFAS No. 133 for one year, to fiscal years beginning after June 15, 2000. The Company currently plans to adopt this pronouncement effective January 1, 2001, and will determine both the method and impact of adoption, which is not expected to be material to the financial statements.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 101 ("SAB 101"), "Revenue Recognition in Financial Statements". SAB 101 provides guidance on applying generally accepted accounting principles to revenue recognition issues in financial statements. The Company adopted SAB 101 effective with the March 31, 2000 reporting period, as required, and the adoption did not have a material effect on the Company's condensed consolidated financial statements.

#### 2. Interest Capitalized

Capitalized interest associated with communities under development or redevelopment totaled \$3,494 and \$7,283 for the three months ended March 31, 2000 and 1999, respectively.

#### 3. Notes Payable, Unsecured Notes and Credit Facility

The Company's notes payable, unsecured notes and credit facility are summarized as follows:

	3-31-00	12-31-99
<S>	<C>	<C>
Fixed rate mortgage notes payable (conventional and tax-exempt)	\$ 361,210	\$ 362,087
Variable rate mortgage notes payable (tax-exempt)	67,960	67,960
Fixed rate unsecured notes	985,000	985,000
Total notes payable and unsecured notes	1,414,170	1,415,047
Variable rate unsecured credit facility	205,000	178,600
Total notes payable, unsecured notes and credit facility	\$ 1,619,170	\$ 1,593,647

</TABLE>

Mortgage notes payable are collateralized by certain apartment communities and mature at various dates from May 2001 through December 2036. The weighted average interest rate of the Company's variable rate notes and credit facility was 6.7% at March 31, 2000. The weighted average interest rate of the Company's fixed rate notes (conventional and tax-exempt) was 6.8% at March 31, 2000.

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The maturity schedule for the Company's unsecured notes is as follows:

<TABLE>  
<CAPTION>

Year of Maturity	Principal	Interest Rate
2002	\$100,000	7.375%
2003	\$50,000 \$100,000	6.25% 6.5%
2004	\$125,000	6.58%
2005	\$100,000 \$50,000	6.625% 6.5%
2006	\$150,000	6.8%
2007	\$110,000	6.875%
2008	\$50,000	6.625%
2009	\$150,000	7.5%

</TABLE>

The Company's unsecured notes contain a number of financial and other covenants with which the Company must comply, including, but not limited to, limits on the aggregate amount of total and secured indebtedness the Company may have on a consolidated basis and limits on the Company's required debt service payments.

The Company has a \$600,000 variable rate unsecured credit facility (the "Unsecured Facility") with Morgan Guaranty Trust Company of New York, Union Bank of Switzerland and Fleet National Bank, serving as co-agents for a syndicate of commercial banks. The Unsecured Facility bears interest at a spread over the London Interbank Offered Rate ("LIBOR") based on rating levels achieved on the Company's unsecured notes and on a maturity selected by the Company. The current stated pricing is LIBOR plus 0.6% per annum (6.7% at March 31, 2000). In addition, the Unsecured Facility includes a competitive bid option (which allows banks that are part of the lender consortium to bid to make loans to the Company at a rate that is lower than the stated rate provided by the Unsecured Facility) for up to \$400,000. The Company is subject to certain customary covenants under the Unsecured Facility, including, but not limited to, maintaining certain maximum leverage ratios, a minimum fixed charges coverage ratio, minimum unencumbered assets and equity levels and restrictions on paying dividends in amounts that exceed 95% of the Company's Funds from Operations, as defined therein. The Unsecured Facility matures in July 2001 and has two, one-year extension options.

#### 4. Stockholders' Equity

The following summarizes the changes in stockholders' equity for the three months ended March 31, 2000:

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<TABLE>  
<CAPTION>

Total	Preferred	Common	Additional	Deferred	Dividends	
stockholders'	stock	stock	paid-in	compensation	in excess of	
equity			capital		accumulated	
					earnings	
	-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Stockholders' equity, December 31, 1999	\$183	\$658	\$2,442,510	\$(3,559)	\$(69,507)	\$
2,370,285						

Dividends declared to common and preferred stockholders	--	--	--	--	(46,887)	
(46,887)						
Issuance of common stock	--	2	7,138	(3,166)	--	
3,974						
Amortization of deferred compensation	--	--	1,248	--	1,248	
Net income	--	--	--	--	47,172	
47,172						
-----						
Stockholders' equity, March 31, 2000	\$183	\$660	\$2,449,648	\$ (5,477)	\$ (69,222)	\$
2,375,792						
=====						

During the three months ended March 31, 2000, the Company issued 12,790 common stock shares in connection with stock options exercised, 86,849 shares through the Company's Dividend Reinvestment Plan, 7,048 shares to acquire operating partnership units from a third party, 9,797 shares in connection with the Company's Employee Stock Purchase Plan and 93,816 shares in connection with restricted stock grants to employees.

#### 5. Investments in Unconsolidated Joint Ventures

At March 31, 2000, the Company's investments in unconsolidated joint ventures consisted of a 50% general partnership interest in Falkland Partners, a 49% general partnership interest in Avalon Run and a 50% limited liability company membership interest in Avalon Grove. Also during 1999, the Company entered into a joint venture to develop an on-site property management system and a leasing automation system; the Company's joint venture interest consists of a 60% limited liability company membership interest. The following is a combined summary of the financial position of these joint ventures as of the dates presented.

<TABLE>  
<CAPTION>

	3-31-00 (unaudited)	12-31-99
	-----	-----
<S>	<C>	<C>
Assets:		
Real estate, net	\$ 93,897	\$ 94,644
Other assets	11,056	10,666
	-----	-----
Total assets	\$104,953	\$105,310
	=====	=====
Liabilities and partners' equity:		
Mortgage notes payable	\$ 26,000	\$ 26,000
Other liabilities	6,260	6,479
Partners' equity	72,693	72,831
	-----	-----
Total liabilities and partners' equity	\$104,953	\$105,310
	=====	=====

</TABLE>

The following is a combined summary of the operating results of these joint ventures for the periods presented:

<TABLE>  
<CAPTION>

	Three months ended (Unaudited)	
	3-31-00	3-31-99
	-----	-----
<S>	<C>	<C>
Rental income	\$ 5,263	\$ 5,088
Operating and other expenses	(1,462)	(1,379)
Mortgage interest expense	(238)	(184)
Depreciation and amortization	(777)	(772)
	-----	-----
Net income	\$ 2,786	\$ 2,753
	=====	=====

</TABLE>

## 6. Communities Held for Sale

During 1998, the Company completed a strategic planning effort resulting in a decision to pursue a disposition strategy for certain assets in markets that did not meet the Company's long-term strategic direction. In connection with this strategy, the Company solicits competing bids from unrelated parties for individual assets, and considers the sales price and tax ramifications of each proposal. In connection with this strategy, the Company sold one community during the three months ended March 31, 1999. Similarly, one community, Avalon Chase, a 360 apartment home community located in Marlton, New Jersey was sold in connection with this strategy during the three months ended March 31, 2000. The net proceeds of approximately \$29,325 from the sale of Avalon Chase will be redeployed to development and redevelopment communities. Pending such redeployment, the proceeds from the sale of this community were primarily used to reduce amounts outstanding under the Company's Unsecured Facility.

Management intends to market additional communities for sale during the remainder of 2000. However, there can be no assurance that such assets will be sold, or that such sales will prove to be beneficial to the Company. The assets targeted for sale include land, buildings and improvements and furniture, fixtures and equipment, and are recorded at the lower of cost or fair value less estimated selling costs. The Company has not recognized a write-down in its real estate to arrive at net realizable value, although there can be no assurance that the Company can sell these assets for amounts that equal or exceed its estimates of net realizable value. At March 31, 2000, total real estate, net of accumulated depreciation, subject to sale totaled \$95,009. Certain individual assets are secured by mortgage indebtedness which may be assumed by the purchaser or repaid by the Company from the net sales proceeds.

The Company's Condensed Consolidated Statements of Operations include net income of the communities held for sale at March 31, 2000 of \$1,821 and \$820 for the three months ended March 31, 2000 and 1999, respectively.

## 7. Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," 131 established standards for reporting financial and descriptive information about operating segments in annual financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision making group consists primarily of the Company's senior officers.

The Company's reportable operating segments include Stable Communities, Developed Communities and Redeveloped Communities:

- Stable Communities are communities that 1) have attained stabilized occupancy levels (at least 95% occupancy) and operating costs since the beginning of the prior calendar year (these communities are also known as Established Communities); or 2) were acquired after the beginning of the previous calendar year but were stabilized in terms of occupancy levels and operating costs at the time of acquisition, and remained stabilized throughout the end of the current calendar year. Stable Communities do not include communities where planned redevelopment or development activities have not yet commenced. The primary financial measure for this business segment is Net Operating Income ("NOI"), which represents total revenue less operating expenses and property taxes. With respect to Established Communities, an additional financial measure of performance is NOI for the current year as compared against the prior year and against current year budgeted NOI. With respect to other Stable Communities, performance is primarily based on reviewing growth in NOI for the current period as compared against prior periods within the calendar year and against current year budgeted NOI.

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- Developed Communities are communities which completed development during the prior calendar year of presentation. The primary financial measure for this business segment is Operating Yield (defined as NOI divided by total capitalized costs). Lease-up activities immediately following the completion of development adversely impact operating yields, as stabilized occupancy and operating costs are not yet reached. Performance of Developed Communities is based on comparing Operating Yields against projected yields as determined by Management prior to undertaking the development activity.
- Redeveloped Communities are communities that completed redevelopment during the prior calendar year of presentation. The primary financial measure for this business segment is

Operating Yield. Lease-up activities immediately following the completion of redevelopment adversely impact operating yields, as stabilized occupancy and operating costs are not yet reached. Performance for Redeveloped Communities is based on comparing Operating Yields against projected yields as estimated by Management prior to undertaking the redevelopment activity.

Other communities owned by the Company which are not included in the above segments are communities that were under development or redevelopment at any point in time during the applicable calendar year as well as communities held for sale. The primary performance measure for these assets depends on the stage of development or redevelopment of the community. While under development or redevelopment, Management monitors actual construction costs against budgeted costs as well as economic occupancy. The primary performance measure for communities held for sale is NOI.

Net Operating Income for each community is generally equal to that community's contribution to Funds from Operations ("FFO"), except that interest expense related to indebtedness secured by an individual community and depreciation and amortization on non-real estate assets are not included in the community's NOI although such expenses decrease the Company's consolidated net income and FFO.

The segments are classified based on the individual community's status as of the beginning of the given calendar year. Therefore, each year the composition of communities within each business segment is adjusted. Accordingly, the amounts between years are not directly comparable.

In addition to reporting segments based on the above property types, Management currently reviews its operating segments by geographic regions, including Northern and Southern California, Pacific Northwest, Northeast, Mid-Atlantic and Midwest regions. Because the various locations within each individual region have similar economic and other characteristics, Management finds it useful to review the performance of the Company's communities in those locations on a regional, aggregated basis.

The accounting policies applicable to the operating segments described above are the same as those described in the summary of significant accounting policies.

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<TABLE>  
<CAPTION>

	Stable Communities ----- <C>	Developed Communities ----- <C>	Redeveloped Communities ----- <C>	Other ----- <C>	Total ----- <C>
For the three months ended 3/31/00 -----					
Segment Results					
Total revenue	\$ 75,276	\$ 23,866	\$ 8,757	\$ 26,805	\$ 134,704
Net Operating Income	\$ 54,893	\$ 17,936	\$ 5,755	\$ 18,002	\$ 96,586
Gross real estate	\$2,146,801	\$655,564	\$292,655	\$ 912,691	\$4,007,711
Operating Yield	10.2%	10.9%	7.9%		
Non-allocated operations					
Total revenue	\$ --	\$ --	\$ --	\$ 384	\$ 384
Net Operating Income	\$ --	\$ --	\$ --	\$ 306	\$ 306
Gross real estate	\$ --	\$ --	\$ --	\$ 307,550	\$ 307,550
Total, AvalonBay					
Total revenue	\$ 75,276	\$ 23,866	\$ 8,757	\$ 27,189	\$ 135,088
Net Operating Income	\$ 54,893	\$ 17,936	\$ 5,755	\$ 18,308	\$ 96,892
Gross real estate	\$2,146,801	\$655,564	\$292,655	\$1,220,241	\$4,315,261

For the three months ended 3/31/99  
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Segment Results

Total revenue	\$ 87,580	\$ 7,721	\$ 7,044	\$ 16,092	\$ 118,437
Net Operating Income	\$ 60,544	\$ 5,766	\$ 4,917	\$ 9,356	\$ 80,583
Gross real estate	\$2,569,690	\$225,171	\$231,864	\$ 911,271	\$3,937,996
Operating Yield	9.4%	10.2%	8.5%		

Non-allocated operations

Total revenue	\$ --	\$ --	\$ --	\$ 509	\$ 509
Net Operating Income	\$ --	\$ --	\$ --	\$ 450	\$ 450
Gross real estate	\$ --	\$ --	\$ --	\$ 172,958	\$ 172,958

Total, AvalonBay

Total revenue	\$ 87,580	\$ 7,721	\$ 7,044	\$ 16,601	\$ 118,946
Net Operating Income	\$ 60,544	\$ 5,766	\$ 4,917	\$ 9,806	\$ 81,033
Gross real estate	\$2,569,690	\$225,171	\$231,864	\$1,084,229	\$4,110,954

</TABLE>

Operating expenses as reflected on the Condensed Consolidated Statements of Operations include \$6,372 and \$5,502 for the three months ended March 31, 2000 and 1999, respectively, of property management overhead costs that are not allocated to individual communities. These costs are not reflected in NOI as shown in the above tables. The amount reflected for "Communities held for sale" on the Condensed Consolidated Balance Sheets is net of \$6,646 of accumulated depreciation as of March 31, 2000.

#### 8. Subsequent Events

In March 2000, the Company and Gilbert M. Meyer, the Company's Executive Chairman of the Board, announced that Mr. Meyer would retire from his management position on May 10, 2000, the date of the Company's 2000 Annual Meeting of Stockholders ("Annual Meeting"). Although his role as an executive officer of the Company ceased on that date, Mr. Meyer was reelected as a director of the Company at the Annual Meeting. In connection with his retirement, Mr. Meyer entered into various agreements with the Company. Pursuant to a consulting agreement,

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Mr. Meyer will serve as a consultant to the Company for three years following his retirement. The Company will pay to Mr. Meyer an annual fee of \$1,395 in accordance with the terms of the consulting agreement, and will also pay to Mr. Meyer 5,880 shares of common stock during each of the first four calendar quarters of the consulting period. During the period of the consultant agreement, Mr. Meyer has agreed that he will not participate, as an officer, employee, consultant or in any other manner, in the affairs of a publicly-traded real estate investment trust or publicly-traded real estate company that is significantly involved in the ownership, operation, management or rental of multifamily apartment homes. Mr. Meyer also agreed, in a retirement agreement, to more restrictive non-competition provisions that will apply for as long as he is a director of the Company.

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

### Forward-Looking Statements

This Form 10-Q, including the footnotes to the Company's condensed consolidated financial statements, contains "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995. You can identify forward-looking statements by our use of the words "believe," "expect," "anticipate," "intend," "estimate," "assume," and other similar expressions in this Form 10-Q, that predict or indicate future events and trends or that do not relate to historical matters. In addition, information concerning the following are forward-looking statements:

- the timing and cost of completion of apartment communities under construction, reconstruction, development or redevelopment;
- the timing of lease-up and occupancy of apartment communities;
- the pursuit of land on which we are considering future development;
- cost, yield and earnings estimates;
- the development, implementation and use of management information systems.

We cannot assure the future results or outcome of the matters described in these statements; rather, these statements merely reflect our current expectations of the approximate outcomes of the matters discussed. You should not rely on forward-looking statements because they involve known and unknown risks, uncertainties and other factors, some of which are beyond our control. These risks, uncertainties and other factors may cause our actual results, performance or achievements to differ materially from the anticipated future results, performance or achievements expressed or implied by these forward-looking

statements. Some of the factors that could cause our actual results, performance or achievements to differ materially from those expressed or implied by these forward-looking statements include, but are not limited to, the following:

- we may be unsuccessful in managing our current growth in the number of apartment communities and the related growth of our business operations;
  - our previous or possible future expansion into new geographic market areas may not produce financial results that are consistent with our historical performance;
  - we may fail to secure development opportunities due to an inability to reach agreements with third parties or to obtain desired zoning and other local approvals;
  - we may abandon development opportunities for a number of reasons, including changes in local market conditions which make development less desirable, increases in costs of development and increases in the cost of capital;
  - construction costs of a community may exceed our original estimates;
  - we may not complete construction and lease-up of communities under development or redevelopment on schedule, resulting in increased interest expense, construction costs and rental revenues that are lower than originally expected;
  - occupancy rates and market rents may be adversely affected by local economic and market conditions which are beyond our control;
  - financing may not be available on favorable terms or at all, and our cash flow from operations and access to cost effective capital may be insufficient for the development of our pipeline and could limit our pursuit of opportunities;
  - our cash flow may be insufficient to meet required payments of principal and interest, and we may be unable to refinance existing indebtedness or the terms of such refinancing may not be as favorable as the terms of existing indebtedness; and
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- the development, implementation and use of new management information systems may cost more than anticipated or may be delayed for a number of reasons, including unforeseen technological or integration issues.

You should read our unaudited condensed consolidated financial statements and notes included in this report and the audited financial statements for the year ended December 31, 1999 and the notes included in our annual report on Form 10-K in conjunction with the following discussion. These forward-looking statements represent our estimates and assumptions only as of the date of this report. We do not undertake to update these forward-looking statements, and you should not rely upon them after the date of this report.

#### Business Description and Community Information

AvalonBay is a Maryland corporation that has elected to be treated as a real estate investment trust, or REIT, for federal income tax purposes. We focus on the ownership and operation of upscale apartment communities (which we consider to be apartment communities that generally command among the highest rents in their submarkets) in high barrier-to-entry markets of the United States. This is because we believe that the limited new supply of upscale apartment homes in these markets helps achieve more predictable cash flows. These barriers-to-entry generally include a difficult and lengthy entitlement process with local jurisdictions and dense in-fill locations where zoned and entitled land is in limited supply. These markets are located in Northern and Southern California and selected states in the Mid-Atlantic, Northeast, Midwest and Pacific Northwest regions of the country.

We are a fully-integrated real estate organization with in-house expertise in the following areas:

- acquisition;
- development and redevelopment;
- construction and reconstruction;
- financing;
- marketing;

- leasing and management; and
- information technologies.

With our expertise and in-house capabilities, we believe we are well-positioned to continue to pursue opportunities to develop and acquire upscale apartment homes in our target markets. Our ability to pursue attractive opportunities, however, may be constrained by capital market conditions that limit the availability of cost effective capital to finance these activities. Recently, we have limited our acquisition activity as compared to prior years due to these capital constraints, and we expect to direct most of our invested capital to new developments and redevelopments, rather than acquisitions, for the foreseeable future. See "Liquidity and Capital Resources" and "Future Financing and Capital Needs."

We believe apartment communities present an attractive investment opportunity compared to other real estate investments because a broad potential resident base results in relatively stable demand during all phases of a real estate cycle. We intend, subject to the availability of cost-effective capital, to pursue appropriate new investments, including both new developments and acquisitions of communities, in markets where constraints to new supply exist and where new household formations have out-paced multifamily permit activity in recent years.

Our real estate investments as of May 1, 2000 consist primarily of stabilized operating apartment communities as well as communities in various stages of the development and redevelopment cycle and land or land options held for development. We classify these investments into the following categories:

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<TABLE>  
<CAPTION>

homes	Number of communities	Number of apartment
	-----	-----
--		
<S>	<C>	<C>
Current Communities	124	36,348
Stabilized Communities	118	33,852
Established Communities:	74	19,593
Northern California	24	6,275
Southern California	8	1,855
Mid-Atlantic	17	4,835
Northeast	18	4,773
Midwest	6	1,591
Pacific Northwest	1	264
Other Stabilized Communities:	44	14,259
Northern California	11	3,174
Southern California	6	2,180
Mid-Atlantic	6	1,829
Northeast	16	5,761
Midwest	2	624
Pacific Northwest	3	691
Lease-Up Communities	--	--
Redevelopment Communities	6	2,496
Development Communities	9	2,473
Development Rights	34	9,140

(\* )  
</TABLE>

(\* ) Represents an estimate

Current Communities are apartment communities that have been completed and have reached occupancy of at least 95%, have been complete for one year, are in the initial lease-up process or are under redevelopment. Current Communities consist of the following:

Stabilized Communities. Represents all Current Communities that have completed initial lease-up by attaining physical occupancy levels of at least 95% or have been completed for one year, whichever occurs earlier. Stabilized Communities are categorized as either Established Communities or Other Stabilized Communities.



- Established Communities. Represents all Stabilized Communities owned as of January 1, 1999, with stabilized operating costs as of January 1, 1999 such that a comparison of 1999 operating results to 2000 operating results is meaningful. Each of the Established Communities falls into one of the following six geographic areas: Northern California, Southern California, Mid-Atlantic, Northeast, Midwest and Pacific Northwest regions.
- Other Stabilized Communities. Represents Stabilized Communities as defined above, but which became stabilized or were acquired after January 1, 1999.

Lease-Up Communities. Represents all communities where construction has been complete for less than one year and where occupancy has not reached at least 95%. As of May 1, 2000, there were no lease-up communities.

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Redevelopment Communities. Represents all communities where substantial redevelopment has begun. Redevelopment is considered substantial when capital invested during the reconstruction effort exceeds the lesser of \$5 million or 10% of the community's acquisition cost.

Development Communities are communities that are under construction and for which a final certificate of occupancy has not been received. These communities may be partially complete and operating.

Development Rights are development opportunities in the early phase of the development process for which we have an option to acquire land or where we own land to develop a new community. We capitalize all related pre-development costs incurred in pursuit of these new developments.

Of the Current Communities as of May 1, 2000, we owned:

- a fee simple, or absolute, ownership interest in 109 operating communities, one of which is on land subject to a 149 year land lease;
- a general partnership interest in five partnerships that each own a fee simple interest in an operating community;
- a general partnership interest in four partnerships structured as "DownREITs," as described more fully below, that own an aggregate of nine communities; and
- a 100% interest in a senior participating mortgage note secured by one community, which allows us to share in part of the rental income or resale proceeds of the community.

We also hold a fee simple ownership interest in eight of the Development Communities and a membership interest in a limited liability company that holds a fee simple interest in one Development Community.

In each of the four partnerships structured as DownREITs, either AvalonBay or one of our wholly-owned subsidiaries is the general partner, and there are one or more limited partners whose interest in the partnership is represented by units of limited partnership interest. For each DownREIT partnership, limited partners are entitled to receive distributions before any distribution is made to the general partner. Although the partnership agreements for each of the DownREITs are different, generally the distributions per unit paid to the holders of units of limited partnership interests approximate the current AvalonBay common stock dividend rate per share. Each DownREIT partnership has been structured so that it is unlikely the limited partners will be entitled to a distribution greater than the initial distribution provided for in the partnership agreement. The holders of units of limited partnership interest have the right to present each unit of limited partnership interest for redemption for cash equal to the fair market value of a share of AvalonBay common stock on the date of redemption. In lieu of cash redemption of a unit, we may elect to acquire any unit presented for redemption for one share of our common stock. As of March 31, 2000, there were 966,822 units outstanding. The DownREIT partnerships are consolidated for financial reporting purposes.

At March 31, 2000, we had positioned our portfolio of Stabilized Communities, excluding communities owned by unconsolidated joint ventures, to an average physical occupancy level of 97.5%. Our strategy is to maximize total rental revenue through management of rental rates and occupancy levels. Our strategy of maximizing total rental revenue could lead to lower occupancy levels. Given the current high occupancy level of our portfolio, we believe that any rental revenue and net income gains from our Established Communities would be achieved primarily through higher rental rates and the lower average operating costs per apartment home that result from economies of scale due to national and regional growth of our portfolio.

We elected to be taxed as a REIT for federal income tax purposes for the year ended December 31, 1994

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and we have not revoked that election. We were incorporated under the laws of the State of California in 1978, and we were reincorporated in the State of Maryland in July 1995. Our principal executive offices are located at 2900 Eisenhower Avenue, Suite 300, Alexandria, Virginia, 22314, and our telephone number at that location is (703) 329-6300. We also maintain regional offices and administrative or specialty offices in or near the following cities:

- San Jose, California;
- Wilton, Connecticut;
- Boston, Massachusetts;
- Chicago, Illinois;
- Los Angeles, California;
- Minneapolis, Minnesota;
- Newport Beach, California;
- New York, New York;
- Princeton, New Jersey; and
- Seattle, Washington.

#### Recent Developments

**Sales of Existing Communities.** During 1998, we completed a strategic planning effort that resulted in our decision to increase our geographical concentration in selected high barrier-to-entry markets where we believe we can:

- apply sufficient market and management presence to enhance revenue growth;
- reduce operating expenses; and
- leverage management talent.

To effect this increased concentration, we adopted an aggressive capital redeployment strategy and are selling assets in certain markets where our current presence is limited. We intend to redeploy the proceeds from sales to develop and redevelop communities currently under construction or reconstruction. Pending such redeployment, we will use the proceeds from the sale of these communities to reduce amounts outstanding under our variable rate unsecured credit facility. Accordingly, we sold one community containing 360 apartment homes in connection with our capital redeployment strategy during the three months ended March 31, 2000. Net proceeds from this sale totaled \$29,325,000. We intend to dispose of additional assets as described more fully under "Future Financing and Capital Needs."

**Development, Redevelopment and Acquisition Activities.** During the three months ended March 31, 2000, we completed the development of three new communities, Avalon Corners, Avalon Fox Mill and Avalon Court North, for a total investment of \$92,400,000. These communities, which are located in Stamford, Connecticut, Herndon, Virginia and Melville, New York, contain an aggregate of 700 apartment homes.

We also acquired one land parcel located in Darien, Connecticut during the first quarter of 2000 on which construction has not yet begun. We expect to develop one new community containing a total of 189 apartment homes on this parcel. The total investment in this community, including land acquisition costs of \$5,474,000, is projected to be approximately \$37,000,000.

During the first quarter of 2000, we began the redevelopment of two communities, Avalon at Cortez Hill and Lakeside. These communities are located in San Diego, California and Burbank, California, respectively. The total projected investment in redevelopment for these communities (i.e., excluding acquisition costs), which contain 1,041 apartment homes, is \$29,400,000.

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The development and redevelopment of communities involves risks that the investment will fail to perform in accordance with expectations. See "Risks of Development and Redevelopment" for our discussion of these and other risks inherent in developing or redeveloping communities.

In March 2000, AvalonBay and Gilbert M. Meyer, AvalonBay's Executive Chairman of the Board, announced that Mr. Meyer would retire from his management position on May 10, 2000, the date of AvalonBay's 2000 Annual Meeting of Stockholders. Although his role as an executive officer of AvalonBay ceased on that date, Mr. Meyer was reelected as a director of AvalonBay at the May 2000 Annual Meeting of Stockholders. In connection with his retirement, Mr. Meyer entered into various agreements with AvalonBay. Pursuant to a consulting agreement, Mr. Meyer will serve as a consultant to AvalonBay for three years following his retirement. AvalonBay will pay to Mr. Meyer an annual fee of \$1,395,000 in accordance with the terms of the consulting agreement, and will also pay to Mr. Meyer 5,880 shares of common stock during each of the first four calendar quarters of the consulting period. During the period of the consultant agreement, Mr. Meyer has agreed that he will not participate, as an officer, employee, consultant or in any other manner, in the affairs of a publicly-traded real estate investment trust or publicly-traded real estate company that is significantly involved in the ownership, operation, management or rental of multifamily apartment homes. Mr. Meyer also agreed, in a retirement agreement, to more restrictive non-competition provisions that will apply for as long as he is a director of AvalonBay.

#### Results of Operations

Historically, the changes in our operating results from period-to-period have been primarily the result of increases in the number of apartment homes owned. Where appropriate, period-to-period comparisons of the number of occupied apartment homes are made on a weighted average basis to adjust for changes in the number of apartment homes during the period. For Stabilized Communities, excluding communities owned by unconsolidated joint ventures, all occupied apartment homes are included in the calculation of weighted average occupied apartment homes for each reporting period. For communities in the initial lease-up phase, only apartment homes of communities that are completed and occupied are included in the weighted average number of occupied apartment homes calculation for each reporting period.

The financial presentation of our historical financial statements for the three months ended March 31, 1999, has been changed from the presentation that appeared in AvalonBay's Form 10-Q for the three months ended March 31, 1999. For a discussion of the change in the presentation and the reasons therefor, see Footnote 2 to the consolidated financial statements presented in AvalonBay's Form 10-K for the fiscal year ended December 31, 1999.

A comparison of our operating results for the three months ended March 31, 2000 and March 31, 1999 follows.

Net income available to common stockholders increased \$32,272,000 to \$37,227,000 for the three months ended March 31, 2000 compared to \$4,955,000 for the comparable period of the preceding year. Adjusting for non-recurring charges and gain on sale of communities, net income available to common stockholders increased by \$7,838,000 for the three months ended March 31, 2000 compared to the comparable period of the preceding year. The increase in net income, as adjusted, for the three months ended March 31, 2000 is primarily attributable to additional operating income from newly developed or redeveloped communities as well as growth in operating income from Established Communities.

Rental income increased \$16,212,000 (13.7%) to \$134,785,000 for the three months ended March 31, 2000 compared to \$118,573,000 for the comparable period of the preceding year. The increase is primarily due to the addition of newly developed, redeveloped and acquired apartment homes, partially offset by the sale of communities during the three months ended March 31, 2000 and 1999.

Overall Portfolio - The \$16,212,000 increase in rental income is primarily due to an increase in the weighted average monthly rental income per occupied apartment home offset by a decrease in the weighted average number of occupied apartment homes. The weighted average number of occupied apartment homes decreased from 34,291 apartment homes for the three months ended March 31, 1999 to 33,746 apartment homes for the three months ended March 31, 2000 primarily

as a result of the sale of communities during 1999, offset by the development, redevelopment and acquisition of new communities. For the three months ended March 31, 2000, the weighted average monthly revenue per occupied apartment home increased \$184 (16.1%) to \$1,328 compared to \$1,144 for the comparable period of the preceding year, which is primarily attributable to the development of new apartment communities with higher average rents and the sale of communities with lower average rents. These newly developed apartment communities were funded in part from the proceeds of communities sold in markets where rental rates are lower.

Established Communities - Rental revenue increased \$4,678,000 (6.6%) for the three months ended March 31, 2000 compared to the comparable period

of the preceding year. The increase is due to market conditions that allowed for higher average rents and higher economic occupancy levels. For the three months ended March 31, 2000, weighted average monthly revenue per occupied apartment home increased \$64 (5.2%) to \$1,314 compared to \$1,250 for the comparable period of the preceding year. The average economic occupancy increased from 96.1% for the three months ended March 31, 1999 to 97.5% for the three months ended March 31, 2000.

Management fees decreased \$91,000 (26.8%) to \$248,000 for the three months ended March 31, 2000 compared to \$339,000 for the comparable period of the preceding year. The decrease is primarily attributable to a decline in the number of third party communities that we manage from five communities at March 31, 1999 to two communities at March 31, 2000. We anticipate that management and development fees will increase over the next several years due to the receipt of fees pursuant to joint venture arrangements.

Operating expenses, excluding property taxes increased \$637,000 (1.9%) to \$33,338,000 for the three months ended March 31, 2000 compared to \$32,701,000 for the comparable period of the preceding year.

Overall Portfolio - The increase for the three months ended March 31, 2000 is primarily due to the addition of newly developed, redeveloped and acquired apartment homes, partially offset by the sale of communities during the three months ended March 31, 2000 and 1999. Maintenance, insurance and other costs associated with Development and Redevelopment Communities are expensed as communities move from the initial construction and lease-up phase to the stabilized operating phase.

Established Communities - Operating expenses increased \$422,000 (3.0%) to \$14,370,000 for the three months ended March 31, 2000 compared to \$13,948,000 for the comparable period of the preceding year. The net change is the result of higher redecorating, maintenance, payroll, insurance and administrative costs offset by lower utility and marketing costs.

Property taxes increased \$516,000 (4.8%) to \$11,230,000 for the three months ended March 31, 2000 compared to \$10,714,000 for the comparable period of the preceding year.

Overall Portfolio - The increase for the three months ended March 31, 2000 is primarily due to the addition of newly developed, redeveloped or acquired apartment homes, partially offset by the sale of communities during the three months ended March 31, 2000 and 1999. Property taxes on Development and Redevelopment Communities are expensed as communities move from the initial construction and lease-up phase to the stabilized operating phase.

Established Communities - Property taxes decreased \$310,000 (4.9%) to \$6,013,000 for the three months ended March 31, 2000 compared to \$6,323,000 for the comparable period of the preceding year. The decrease is primarily a result of revised base year tax assessments for previously renovated communities which resulted in supplemental taxes that were lower than those originally projected.

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Interest expense increased \$3,599,000 (21.9%) to \$20,067,000 for the three months ended March 31, 2000 compared to \$16,468,000 for the comparable period of the preceding year. The increase is primarily attributable to a decrease in capitalized interest and secondarily to the issuance of unsecured notes during 1999. This reflects our strategy to mitigate the risk of floating rate debt in a rising interest rate environment by repaying floating rate debt under the unsecured credit facility (with relatively lower current interest rates) with longer dated fixed rate unsecured debt that has a higher current interest rate.

Depreciation increased \$2,193,000 (8.1%) to \$29,419,000 for the three months ended March 31, 2000 compared to \$27,226,000 for the comparable period of the preceding year. The increase is primarily due to the addition of newly developed, redeveloped and acquired apartment homes, partially offset by the sale of communities during the three months ended March 31, 2000 and 1999.

General and administrative increased \$579,000 (24.5%) to \$2,947,000 for the three months ended March 31, 2000 compared to \$2,368,000 for the comparable period of the preceding year. The increase is the result of additional overhead from both the hiring of one officer and the recognition of expense in the current period for an existing senior officer whose salary was previously capitalized when he served the Company in a different capacity. Cost savings attained from a management reorganization in the first quarter of 1999 partially offset the increase in expense.

Equity in income of unconsolidated joint ventures decreased \$32,000 (4.4%) to \$694,000 for the three months ended March 31, 2000 compared to \$726,000 for the comparable period of the preceding year. The decrease is primarily attributable to costs incurred related to the formation of the joint venture to develop our

on-site property management system. Equity in income of unconsolidated joint ventures represents our share of income from joint ventures.

Interest income decreased \$642,000 (38.6%) to \$1,020,000 for the three months ended March 31, 2000 from \$1,662,000 for the comparable period of the preceding year. The decrease is primarily attributable to the sale of the Fairlane Woods participating mortgage note that was sold in the fourth quarter of 1999.

Gain on sale of communities of \$7,910,000 for the three months ended March 31, 2000 was attributable to the sale of one community in conjunction with the disposition strategy we implemented in the third quarter of 1998.

#### Capitalization of Fixed Assets and Community Improvements

Our policy with respect to capital expenditures is generally to capitalize only non-recurring expenditures. We capitalize improvements and upgrades only if the item:

- exceeds \$15,000;
- extends the useful life of the asset; and
- is not related to making an apartment home ready for the next resident.

Under this policy, virtually all capitalized costs are non-recurring, as recurring make-ready costs are expensed as incurred. Recurring make-ready costs include the following:

- carpet and appliance replacements;
- floor coverings;
- interior painting; and
- other redecorating costs.

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We capitalize purchases of personal property, such as computers and furniture, only if the item is a new addition and the item exceeds \$2,500. We generally expense purchases of personal property made for replacement purposes. The application of these policies for the three months ended March 31, 2000 resulted in non-revenue generating capitalized expenditures for Stabilized Communities of approximately \$12 per apartment home. For the three months ended March 31, 2000, we charged to maintenance expense, including carpet and appliance replacements, a total of approximately \$8,631,000 for Stabilized Communities or \$272 per apartment home. We anticipate that capitalized costs per apartment home will gradually increase as the average age of our communities increases.

#### Liquidity and Capital Resources

Liquidity. The primary source of liquidity is our cash flows from operations. Operating cash flows have historically been determined by:

- the number of apartment homes;
- rental rates;
- occupancy levels; and
- our expenses with respect to these apartment homes.

The timing, source and amount of cash flows provided by financing activities and used in investing activities are sensitive to the capital markets environment, particularly to changes in interest rates that are charged to us because changes in interest rates affect our decision as to whether to issue debt securities, borrow money and invest in real estate. Thus, changes in the capital markets environment affect our plans for the undertaking of construction and development as well as acquisition activity.

Cash and cash equivalents increased from \$7,621,000 at March 31, 1999 to \$8,076,000 at March 31, 2000 due to the excess of cash provided by operating activities over cash used in investing and financing activities.

Net cash provided by operating activities increased by \$9,251,000 from \$51,056,000 for the three months ended March 31, 1999 to \$60,307,000 for the three months ended March 31, 2000. The increase is primarily from additional operating cash flow from Established Communities as well as the development and redevelopment of new communities, offset by the loss of cash flow from communities sold during the three months ended March 31, 2000 and 1999.

Net cash used in investing activities decreased by \$77,835,000 from \$122,631,000 for the three months ended March 31, 1999 to \$44,796,000 for the three months ended March 31, 2000. This decrease in expenditures reflects a reduction in development, redevelopment and acquisition activity offset by increased proceeds from the sale of communities. The decrease in acquisitions is attributable to a shift in our investment focus away from acquisitions and towards development opportunities that offer higher projected yields, primarily in response to the lack of available properties that meet our increased yield requirements combined with a decrease in the availability of cost-effective capital.

Net cash provided by financing activities decreased by \$96,331,000 from \$81,275,000 for the three months ended March 31, 1999 to \$15,056,000 used in financing activities for the three months ended March 31, 2000. The decrease is primarily due to our development and redevelopment activities increasingly being funded through the sale of existing communities as opposed to incurring debt or selling equity, which reflects a reduction in our use of debt financing as opposed to other sources of financing in response to market conditions.

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We regularly review our short and long-term liquidity needs and the adequacy of Funds from Operations, as defined below, and other expected liquidity sources to meet these needs. We believe our principal short-term liquidity needs are to fund:

- normal recurring operating expenses;
- debt service payments;
- the distributions required with respect to our series of preferred stock;
- the minimum dividend payments required to maintain our REIT qualification under the Internal Revenue Code of 1986; and
- development and redevelopment activity in which we are currently engaged.

We anticipate that we can fully satisfy these needs from a combination of cash flows provided by operating activities and borrowing capacity under the unsecured revolving credit facility. We anticipate that we can satisfy any short-term liquidity needs not satisfied by current operating cash flows from our unsecured revolving credit facility.

We believe our principal long-term liquidity needs are the reduction of medium and long-term debt, as well as the procurement of long-term debt to refinance construction and other development related short-term debt. We anticipate that no significant portion of the principal of any indebtedness will be repaid prior to maturity. If we do not have funds on hand sufficient to repay our indebtedness, it will be necessary for us to refinance this debt. This refinancing may be accomplished through additional debt financing, which may be collateralized by mortgages on individual communities or groups of communities, by uncollateralized private or public debt offerings or by additional equity offerings. We also anticipate having significant retained cash flow in each year so that when a debt obligation matures, some or all of each maturity can be satisfied from this retained cash. Although we believe we will have the capacity to meet our long-term liquidity needs, we cannot assure you that additional debt financing or debt or equity offerings will be available or, if available, that they will be on terms we consider satisfactory.

Capital Resources. We intend to match the long-term nature of our real estate assets with long-term cost effective capital to the extent permitted by prevailing market conditions. We follow a focused strategy to help facilitate uninterrupted access to capital. This strategy includes:

- Hiring, training and retaining associates with a strong resident service focus, which should lead to higher rents, lower turnover and reduced operating costs;
- Managing, acquiring and developing upscale communities in dense locations where the availability of zoned and entitled land is limited to provide consistent, sustained earnings growth;
- Operating in markets with growing demand, as measured by household formation and job growth, and high barriers-to-entry. We believe these characteristics generally combine to provide a favorable demand-supply balance, which we believe will create a favorable environment for future rental rate growth while protecting existing and new communities from new supply. We expect this strategy to result in a high level of quality to the revenue stream;

- Maintaining a conservative capital structure, largely comprised of equity, and with modest, cost-effective leverage. We generally avoid secured debt except in order to obtain low cost, tax-exempt debt. We believe that such a structure should promote an environment whereby current credit ratings levels can be maintained;
- Following accounting practices that provide a high level of quality to reported earnings; and
- Providing timely, accurate and detailed disclosures to the investment community.

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We believe these strategies provide a disciplined approach to capital access to help position AvalonBay to fund portfolio growth.

Capital markets conditions have decreased our access to cost effective capital. See "Future Financing and Capital Needs" for a discussion of our response to the current capital markets environment.

The following is a discussion of specific capital transactions, arrangements and agreements.

#### Unsecured Facility

Our unsecured revolving credit facility is furnished by a consortium of banks and provides up to \$600,000,000 in short-term credit. We pay these banks an annual facility fee of \$900,000 in equal quarterly installments. The unsecured facility bears interest at varying levels tied to the London Interbank Offered Rate (LIBOR) based on ratings levels achieved on our unsecured notes and on a maturity selected by us. The current stated pricing is LIBOR plus 0.6% per annum. The unsecured facility matures in July 2001, however we have two one-year extension options. Therefore, subject to certain conditions, we may extend the maturity to July 2003. A competitive bid option is available for borrowings of up to \$400,000,000. This option allows banks that are part of the lender consortium to bid to provide us loans at a rate that is lower than the stated pricing provided by the unsecured facility. The competitive bid option may result in lower pricing if market conditions allow. Pricing under the competitive bid option resulted in average pricing of LIBOR plus 0.5% for amounts most recently borrowed under the competitive bid option. At May 1, 2000, \$246,500,000 was outstanding, \$83,142,000 was used to provide letters of credit and \$270,358,000 was available for borrowing under the unsecured facility. We intend to use borrowings under the unsecured facility for:

- capital expenditures;
- construction, development and redevelopment costs;
- acquisitions of developed or undeveloped communities;
- credit enhancement for tax-exempt bonds; and
- working capital purposes.

#### Interest Rate Protection Agreements

We are not a party to any long-term interest rate agreements, other than interest rate protection and swap agreements on approximately \$190 million of our variable rate tax-exempt indebtedness. We intend, however, to evaluate the need for long-term interest rate protection agreements as interest rate market conditions dictate, and we have engaged a consultant to assist in managing our interest rate risks and exposure.

#### Financing Commitments/Transactions Completed

During January 2000, we entered into a joint venture agreement with an entity controlled by Multi-Employer Development Partners ("MEDP") to develop Avalon on the Sound, a 412 apartment high rise community in New Rochelle, New York, with total capitalized costs estimated to be \$92,130,000. The terms of the limited liability company operating agreement contemplate a long-term capital structure comprised of 60% equity and 40% debt. Equity contributions will be funded 25% by AvalonBay and 75% by MEDP. Construction financing that converts to long-term financing following completion of construction will provide the debt capital. Operating cash flow will be distributed 25% to AvalonBay and 75% to MEDP until each receives a 9% return on invested capital for three consecutive months. Thereafter, operating cash flow will be distributed equally to AvalonBay and MEDP. Upon a sale to a third party, cash will be distributed first to each partner until capital contributions are recovered. Thereafter, sales proceeds

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will be distributed based upon achievement of certain internal rate of return levels. Distributions that result in an internal rate of return to MEDP and the Company of 12-15% are made 40% to AvalonBay and 60% to MEDP. Thereafter, sales proceeds will be distributed equally to AvalonBay and MEDP. After three years following completion of construction, buy-sell provisions are in effect. AvalonBay will receive construction, development and management fees for services rendered to the joint venture.

#### Future Financing and Capital Needs

As of March 31, 2000, we had 18 new communities under construction either by us or by unaffiliated third parties with whom we have entered into forward purchase commitments. As of March 31, 2000, a total estimated cost of \$237,449,000 remained to be invested in these communities. In addition, we had six other communities under reconstruction, for which an estimated \$62,412,000 remained to be invested as of March 31, 2000.

Substantially all of the capital expenditures necessary to complete the communities currently under construction and reconstruction will be funded from:

- the remaining capacity under our \$600,000,000 unsecured credit facility;
- the net proceeds from sales of existing communities;
- retained operating cash; and/or
- the issuance of debt or equity securities.

We expect to continue to fund deferred development costs related to future developments from retained operating cash and borrowings under the unsecured facility. We believe these sources of capital will be adequate to take the proposed communities to the point in the development cycle where construction can begin.

We have observed and been impacted by a reduction in the availability of cost effective capital since the third quarter of 1998. We cannot assure you that cost effective capital will be available to meet future expenditures required to begin planned reconstruction activity or the construction of the Development Rights. Before planned reconstruction activity or the construction of a Development Right begins, we intend to arrange adequate capital sources to complete these undertakings, although we cannot assure you that we will be able to obtain such financing. In the event that financing cannot be obtained, we may have to abandon Development Rights, write-off associated pursuit costs and/or forego reconstruction activity. In such instances, we will not realize the increased revenues and earnings that we expected from such pursuits, and the related write-off of costs will increase current period expenses and reduce Funds from Operations.

To meet the balance of our liquidity needs, we will need to arrange additional capacity under our existing unsecured facility, sell additional existing communities and/or issue additional debt or equity securities. While we believe we have the financial position to expand our short term credit capacity and support our capital markets activity, we cannot assure you that we will be successful in completing these arrangements, offerings or sales. The failure to complete these transactions on a cost-effective basis could have a material adverse impact on our operating results and financial condition, including the abandonment of deferred development costs and a resultant charge to earnings.

During 1998, we determined that we would pursue a disposition strategy for certain assets in markets that did not meet our long-term strategic direction. Under this program, we solicit competing bids from unrelated parties for these individual assets, and consider the sales price and tax ramifications of each proposal. In connection with this disposition program, we have disposed of one community since January 1, 2000. The net proceeds from the sale of this asset were approximately \$29,325,000. We intend to

actively seek buyers for the remaining communities held for sale. However, we cannot assure you that these assets can be sold on terms that we consider satisfactory.

The remaining assets that we have identified for disposition include land, buildings and improvements and furniture, fixtures and equipment. Total real estate, net of accumulated depreciation, of all communities identified for sale at March 31, 2000 totaled \$95,009,000. Certain individual assets are secured by mortgage indebtedness which may be assumed by the purchaser or repaid from our net sales proceeds. Our Condensed Consolidated Statements of Operations include net income from the communities held for sale of \$1,821,000 for the three months ended March 31, 2000 and \$820,000 for the three months ended March 31, 1999.

Because the proceeds from the sale of communities are used initially to reduce



borrowings under our unsecured facility, the immediate effect of a sale of a community is to reduce Funds from Operations. This is because the yield on a community that is sold exceeds the interest rate on the borrowings that are repaid from such net proceeds. Therefore, changes in the number and timing of dispositions, and the redeployment of the resulting net proceeds, may have a material and adverse effect on our Funds from Operations.

Debt Maturities

The table on the following page details debt maturities for the next five years, excluding the unsecured facility:

(Dollars in thousands)

<TABLE>  
<CAPTION>

Community	ALL-IN INTEREST Rate (1)	PRINCIPALG MATURITY Date	BALANCE OUTSTANDING	
			12-31-99	3-31-00
<b>TAX-EXEMPT BONDS</b>				
<b>FIXED RATE</b>				
<S>	<C>	<C>	<C>	<C>
Canyon Creek	6.48%	Jun-25	\$ 37,535	\$ 37,400
Waterford	5.88%	Aug-14	33,100	33,100
City Heights	5.80%	Jun-25	20,263	20,202
CountryBrook	7.87%	Mar-12	19,264	19,184
Villa Mariposa	5.88%	Mar-17	18,300	18,300
Sea Ridge	6.48%	Jun-25	17,026	16,965
Foxchase I	5.88%	Nov-07	16,800	16,800
Barrington Hills	6.48%	Jun-25	12,843	12,797
Foxchase II	5.88%	Nov-07	9,600	9,600
Fairway Glen	5.88%	Nov-07	9,580	9,580
Crossbrook	6.48%	Jun-25	8,273	8,244
Larkspur Canyon	5.50%	Jun-25	7,445	7,423
Avalon View	7.55%	Aug-24	18,795	18,715
Avalon at Lexington	6.56%	Feb-25	14,602	14,539
Avalon Knoll	6.95%	Jun-26	13,580	13,534
Avalon at Dulles	7.04%	Jul-24	12,360	12,360
Avalon Fields	7.57%	May-27	11,756	11,720
Avalon at Symphony Glen	7.06%	Jul-24	9,780	9,780
Avalon West	7.73%	Dec-36	8,632	8,619
Avalon Landing	6.85%	Jun-26	6,721	6,698
			-----	-----
			306,255	305,560
<b>VARIABLE RATE</b>				
Avalon Devonshire		Dec-25	27,305	27,305
Avalon at Fairway Hills I		Jun-26	11,500	11,500
Laguna Brisas		Mar-09	10,400	10,400
Avalon Ridge		May-26	18,755	18,755
			-----	-----
			67,960	67,960
<b>CONVENTIONAL LOANS:</b>				
<b>FIXED RATE</b>				
\$100 Million Unsecured Notes	7.375%	Sep-02	100,000	100,000
\$100 Million Unsecured Notes	6.625%	Jan-05	100,000	100,000
\$110 Million Unsecured Notes	6.875%	Dec-07	110,000	110,000
\$50 Million Unsecured Notes	6.25%	Jan-03	50,000	50,000
\$50 Million Unsecured Notes	6.50%	Jan-05	50,000	50,000
\$50 Million Unsecured Notes	6.625%	Jan-08	50,000	50,000
\$100 Million Unsecured Notes	6.50%	Jul-03	100,000	100,000
\$150 Million Unsecured Notes	6.80%	Jul-06	150,000	150,000
\$125 Million Medium Term Notes	6.58%	Feb-04	125,000	125,000
\$150 Million Medium Term Notes	7.50%	Jul-09	150,000	150,000
Governor's Square	7.65%	Aug-04	13,923	13,886
The Arbors	7.25%	May-04	12,870	12,870
Gallery Place	7.31%	May-01	11,272	11,216
Avalon Walk II	8.93%	Nov-04	12,541	12,482
Avalon Pines	8.00%	Dec-03	5,226	5,196
			-----	-----
			1,040,832	1,040,650
<b>VARIABLE RATE-NONE</b>				
			--	--
			-----	-----
<b>TOTAL INDEBTEDNESS - EXCLUDING CREDIT FACILITY</b>			\$1,415,047	\$1,414,170
			=====	=====

</TABLE>

<TABLE>  
<CAPTION>

Community	2000	2001	2002	2003	2004	Thereafter
<b>TAX-EXEMPT BONDS</b>						
<b>FIXED RATE</b>						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Canyon Creek	\$ 419	\$ 594	\$ 637	\$ 684	\$ 733	\$ 34,333
Waterford	--	--	--	--	--	33,100
City Heights	189	268	288	308	331	18,818
CountryBrook	250	357	386	417	451	17,323
Villa Mariposa	--	--	--	--	--	18,300
Sea Ridge	190	270	289	310	332	15,574
Foxchase I	--	--	--	--	--	16,800
Barrington Hills	144	203	218	234	251	11,747
Foxchase II	--	--	--	--	--	9,600
Fairway Glen	--	--	--	--	--	9,580
Crossbrook	88	126	136	146	157	7,591
Larkspur Canyon	69	98	105	112	121	6,918
Avalon View	250	350	373	397	425	16,920
Avalon at Lexington	192	271	288	307	326	13,155
Avalon Knoll	141	200	214	230	246	12,503
Avalon at Dulles	--	--	--	--	--	12,360
Avalon Fields	111	157	169	180	193	10,910
Avalon at Symphony Glen	--	--	--	--	--	9,780
Avalon West	40	57	61	65	70	8,326
Avalon Landing	72	101	108	116	124	6,177
	2,155	3,052	3,272	3,506	3,760	289,815
<b>VARIABLE RATE</b>						
Avalon Devonshire	--	--	--	--	--	27,305
Avalon at Fairway Hills I	--	--	--	--	--	11,500
Laguna Brisas	--	--	--	--	--	10,400
Avalon Ridge	--	--	--	--	--	18,755
	--	--	--	--	--	67,960
<b>CONVENTIONAL LOANS:</b>						
<b>FIXED RATE</b>						
\$100 Million Unsecured Notes	--	--	100,000	--	--	--
\$100 Million Unsecured Notes	--	--	--	--	--	100,000
\$110 Million Unsecured Notes	--	--	--	--	--	110,000
\$50 Million Unsecured Notes	--	--	--	50,000	--	--
\$50 Million Unsecured Notes	--	--	--	--	--	50,000
\$50 Million Unsecured Notes	--	--	--	--	--	50,000
\$100 Million Unsecured Notes	--	--	--	100,000	--	--
\$150 Million Unsecured Notes	--	--	--	--	--	150,000
\$125 Million Medium Term Notes	--	--	--	--	125,000	--
\$150 Million Medium Term Notes	--	--	--	--	--	150,000
Governor's Square	116	165	178	193	13,234	--
The Arbors	--	--	--	--	12,870	--
Gallery Place	174	11,042	--	--	--	--
Avalon Walk II	182	264	288	315	11,433	--
Avalon Pines	91	131	142	4,832	--	--
	563	11,602	100,608	155,340	162,537	610,000
<b>VARIABLE RATE-NONE</b>						
	--	--	--	--	--	--
<b>TOTAL INDEBTEDNESS - EXCLUDING CREDIT FACILITY</b>	<b>\$ 2,718</b>	<b>\$ 14,654</b>	<b>\$ 103,880</b>	<b>\$ 158,846</b>	<b>\$ 166,297</b>	<b>\$ 967,775</b>

</TABLE>

(1) Includes credit enhancement fees, facility fees, trustees, etc.

#### Inflation

Substantially all of the leases at the Current Communities are for a term of one year or less. This may enable us to realize increased rents upon renewal of existing leases or the beginning of new leases. Short-term leases generally minimize our risk from the adverse effects of inflation, although these leases generally permit residents to leave at the end of the lease term without penalty. We believe that short-term leases combined with relatively consistent demand allow rents, and therefore cash flow, from our portfolio of apartments to provide an attractive inflation hedge.

#### Funds from Operations

We generally consider Funds from Operations, or FFO, to be an appropriate measure of our operating performance because it helps investors understand our ability to incur and service debt and to make capital expenditures. We believe that to understand our operating results, FFO should be examined with net income

as presented in the Condensed Consolidated Statements of Operations included elsewhere in this report. FFO is determined based on a definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (NAREIT), and is defined as:

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- net income or loss computed in accordance with generally accepted accounting principles (GAAP), except that excluded from net income or loss are gains or losses on sales of property and extraordinary (as defined by GAAP) gains or losses on debt restructuring;
- plus depreciation of real estate assets; and
- after adjustments for unconsolidated partnerships and joint ventures.

FFO does not represent cash generated from operating activities in accordance with GAAP. Therefore it should not be considered an alternative to net income as an indication of our performance. FFO should also not be considered an alternative to net cash flows from operating activities as determined by GAAP as a measure of liquidity. Additionally, it is not necessarily indicative of cash available to fund cash needs. Further, FFO as calculated by other REITs may not be comparable to our calculation of FFO.

For the three months ended March 31, 2000, FFO increased to \$58,614,000 from \$48,896,000 for the comparable period of the preceding year. This increase is primarily due to the completion of new development and redevelopment communities as well as growth in earnings from Established Communities.

FFO previously reported for the three months ended March 31, 1999 excluded a non-recurring restructuring charge of \$16,524,000 in conformance with the NAREIT definition of FFO calculations then in effect, or the original definition. NAREIT issued a White Paper dated October 1999 that clarifies the definition of FFO and the treatment of certain nonrecurring charges. The clarified definition includes non-recurring charges in the calculation of FFO. Although we believe the comparison of FFO using the original definition represents a better guide to investors of comparable operations and growth between years, both FFO calculations are presented below for the three months ended March 31, 2000 and 1999 (dollars in thousands):

<TABLE>  
<CAPTION>

	For the three months ended	
	3-31-00	3-31-99
	-----	-----
<S>	<C>	<C>
Net income	\$47,172	\$14,900
Preferred dividends	(9,945)	(9,945)
Depreciation - real estate assets	28,594	26,797
Joint venture adjustments	194	187
Minority interest expense	509	433
(Gain) loss on sale of communities	(7,910)	--
	-----	-----
Funds from Operations - Clarified Definition (1)	\$58,614	\$32,372
Non-recurring charges (2)	--	16,524
	-----	-----
Funds from Operations - Original Definition (3)	\$58,614	\$48,896
	=====	=====
Net cash provided by operating activities	\$ 60,307	\$ 51,056
	=====	=====
Net cash used in investing activities	\$ (44,796)	\$ (122,631)
	=====	=====
Net cash provided by (used in) financing activities	\$ (15,056)	\$ 81,275
	=====	=====

</TABLE>

- (1) Represents Funds from Operations calculated in accordance with NAREIT's October 1999 White Paper on FFO. Our calculation of FFO in accordance with NAREIT's clarified definition of FFO includes the effect on earnings of non-recurring charges for certain management and other organizational changes and Year 2000 remediation costs.
- (2) Consists of \$16,076 related to management and other organizational changes announced during 1998 and \$706 for Year 2000 remediation costs.

- (3) Funds from Operations calculated based on NAREIT's definition of FFO prior to the issuance of the October 1999 White Paper on FFO. Previously, the effect on earnings of non-recurring charges for certain management and other organizational changes and Year 2000 remediation costs were excluded from the calculation of FFO.

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#### Management Information Systems

We believe that an innovative management information systems infrastructure will be an important element in managing our future growth. This is because timely and accurate collection of financial and resident profile data will enable us to maximize revenue through careful leasing decisions and financial management. We currently employ a proprietary company-wide intranet using a digital network with high-speed digital lines. This network connects all of our communities and offices to central servers in Alexandria, Virginia, providing access to our associates and to AvalonBay's corporate information throughout the country from all locations.

We are currently engaged in the development of an innovative on-site property management system and a leasing automation system to enable management to capture, review and analyze data to a greater extent than is possible using existing commercial software. We have entered into a formal joint venture agreement, in the form of a limited liability company agreement, with United Dominion Realty Trust, Inc., another public multifamily real estate company, to continue development of these systems and system software, which are collectively referred to in this discussion as the "system." The system development process is currently managed by our employees, who have significant related project management experience, and the employees of the joint venturer. The actual programming and documentation of the system is being conducted by our employees, the employees of our joint venturer and third party consultants under the supervision of these experienced project managers. We currently expect that the total development costs over a three-year period will be approximately \$8.0 million including hardware costs and expenses, the costs of employees and related overhead, and the costs of engaging third party consultants. These development costs will generally be shared on an equal basis by our joint venture partner and us, although we may fund 60% of some costs. Once developed, we intend to use the property management system in place of current property management information software for which we pay a license fee to third parties, and we intend to use the leasing automation system to make the lease application process easier for residents and more efficient for us to manage. We currently project that the property management system will undergo an on-site test (i.e., a "beta test") during the last half of 2000 and that the system will be functional and implemented during early 2001.

We believe that when implemented the system will result in cost savings due to increased data reliability and efficiencies in management time and overhead, and that these savings will largely offset the expense associated with amortizing the system development costs and maintaining the software. We also believe that it is possible that other real estate companies may desire to use the system concept and system software that we are developing and that therefore there may be an opportunity to recover, in the future, a portion of our investment by licensing the system to others and/or admitting one or more other real estate companies to the joint venture. However, at the present time these potential cost savings and ancillary revenue are speculative, and we cannot assure that the system will provide sufficient benefits to offset the cost of development and maintenance.

We have never before engaged in the development of systems or system software on this scale and have never licensed a system concept or system software to others. There are a variety of risks associated with the development of the system, both for internal use and for potential sale or licensing to third parties. Among the principal risks associated with this undertaking are the following:

- we may not be able to maintain the schedule or budget that we have projected for the development and implementation of the system;
- we may be unable to implement the system with the functionality and efficiencies we desire on commercially reasonable terms;
- we may decide not to endeavor to license the system to other enterprises, the system may not be attractive to other enterprises, and we may not be able to effectively manage the licensing of the system to other enterprises; and

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- the system may not provide AvalonBay with meaningful cost savings or a meaningful source of ancillary revenues.

The occurrence of any of the events described above could prevent us from

achieving increased efficiencies, realizing revenue growth produced by ancillary revenues or recovering our initial investment.

#### Natural Disasters

Many of our West Coast communities are located in the general vicinity of active earthquake faults. In July 1998, we obtained a seismic risk analysis from an engineering firm which estimated the probable maximum damage for each of the 60 West Coast communities that we owned at that time and for each of the five West Coast communities under development at that time. The seismic risk analysis was obtained for each individual community and for all of those communities combined. To establish a probable maximum damage, 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 probable maximum damage is determined as the structural and architectural damage and business interruption loss that is estimated to have only a 10% probability of being exceeded in the event of such an earthquake. Because a significant number of our communities are located in the San Francisco Bay Area, the engineers' analysis defined an earthquake on the Hayward Fault with a Richter Scale magnitude of 7.1 as a severe earthquake with a 10% probability of occurring within a 50-year period. The engineers then established an aggregate probable maximum damage at that time of \$113 million for the 60 West Coast communities that we owned at that time and the five West Coast communities then under development. The \$113 million probable maximum damage for those communities was a probable maximum level that the engineers expected to be exceeded only 10% of the time in the event of such a severe earthquake. The actual aggregate probable maximum damage could be higher or lower as a result of variations in soil classifications and structural vulnerabilities. For each community, the engineers' analysis calculated an individual probable maximum damage as a percentage of the community's replacement cost and projected revenues. We cannot assure you that:

- an earthquake would not cause damage or losses greater than the probable maximum damage assessments indicate;
- future probable maximum damage levels will not be higher than the current probable maximum damage levels described above for our communities located on the West Coast; or
- acquisitions or developments after July 1998 will not have probable maximum damage assessments indicating the possibility of greater damage or losses than currently indicated.

In August 1999, we renewed our earthquake insurance, both for physical damage and lost revenue, with respect to all communities we owned at that time and all of the communities under development. For any single occurrence, we have in place \$75,000,000 of coverage with a five percent deductible. The five percent deductible is subject to a minimum of \$100,000 and a maximum of \$25,000,000 per occurrence. In addition, our general liability and property insurance program provides coverage for public liability and fire damage. In the event an uninsured disaster or a loss in excess of insured limits were to occur, we could lose our capital invested in the affected community, as well as anticipated future revenue from that community. We would also continue to be obligated to repay any mortgage indebtedness or other obligations related to the community. Any such loss could materially and adversely affect our business and our financial condition and results of operations.

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#### Development Communities

As of March 31, 2000, we had nine Development Communities under construction. We expect these Development Communities, when completed, to add a total of 2,473 apartment homes to our portfolio for a total capitalized cost, including land acquisition costs, of approximately \$410.9 million. Statements regarding the future development or performance of the Development Communities are forward-looking statements. We cannot assure you that:

- we will complete the Development Communities;
- our budgeted costs or estimates of occupancy rates will be realized;
- our schedule of leasing start dates or construction completion dates will be achieved; or
- future developments will realize returns comparable to our past developments.

You should carefully review the discussion under "Risks of Development and Redevelopment" below.

We hold a fee simple ownership interest in eight of the Development Communities and a membership interest in a limited liability company that holds a fee simple

interest in one Development Community. The following table presents a summary of the Development Communities:

Estimated stabilization date (3)	Number of apartment homes	Budgeted cost (1) (\$ millions)	Construction start	Initial occupancy (2)	Estimated completion date
-----					
<S>	<C>	<C>	<C>	<C>	<C>
<C>					
1. Avalon Willow Mamaroneck, NY Q3 2000	227	\$46.8	Q2 1997	Q1 1999	Q2 2000
2. Avalon Essex Peabody, MA Q4 2000	154	\$21.4	Q2 1999	Q2 2000	Q3 2000
3. Avalon at Florham Park Florham Park, NJ Q4 2001	270	\$41.0	Q2 1999	Q1 2000	Q2 2001
4. Avalon River Mews Edgewater, NJ Q1 2002	408	\$75.6	Q3 1999	Q1 2001	Q3 2001
5. Avalon Haven North Haven, CT Q1 2001	128	\$14.4	Q3 1999	Q2 2000	Q4 2000
6. Avalon Bellevue Bellevue, WA Q3 2001	202	\$29.9	Q4 1999	Q1 2001	Q2 2001
7. Avalon at Arlington Square I Arlington, VA Q3 2002	510	\$69.9	Q4 1999	Q4 2000	Q4 2001
8. Avalon on the Sound (4) New Rochelle, NY Q3 2002	412	\$92.1	Q4 1999	Q3 2001	Q4 2001
9. Avalon Estates Hull, MA Q4 2001	162	\$19.8	Q4 1999	Q4 2000	Q2 2001
	-----				
Total	2,473	\$410.9			
	=====				

</TABLE>

- (1) Total budgeted cost includes all capitalized costs projected to be incurred to develop the respective Development Community, including land acquisition costs, construction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated development overhead and other regulatory fees determined in accordance with GAAP.
- (2) Future initial occupancy dates are estimates.
- (3) Stabilized operations is defined as the first full quarter of 95% or greater occupancy after completion of construction.
- (4) This community will be developed under a joint venture structure with third party financing. AvalonBay's portion of the Budgeted Cost is expected to be \$13.3 million.

#### Redevelopment Communities

As of March 31, 2000, we had six communities under redevelopment. We expect the total budgeted cost to complete these Redevelopment Communities, including the cost of acquisition and redevelopment, to be approximately \$263.1 million, of which approximately \$68.1 million is the additional capital invested or expected to be invested above the original purchase cost. Statements regarding the future redevelopment or performance of the Redevelopment Communities are forward-looking statements. We have found that the cost to redevelop an existing apartment community is more difficult to budget than the cost to develop a new community. Accordingly, we expect that actual costs may vary over a wider range than for a new development community. We cannot assure you that we will meet our schedules for redevelopment completion, or that we will meet our budgeted costs, either individually or in the aggregate. See the discussion under "Risks of Development and Redevelopment" below.

The following presents a summary of Redevelopment Communities:

<TABLE>  
<CAPTION>

Estimated restabilized operations (3)	Number of apartment homes	(\$ millions)			
		Acquisition cost	Total cost (1)	Reconstruction start	Reconstruction completion (2)
<S> <C>	<C>	<C>	<C>	<C>	<C>
1. Avalon Greenbriar (4) Renton, WA Q2 2000	421	\$25.3	\$35.7	Q3 1998	Q2 2000
2. Avalon at Mission Bay San Diego, CA Q3 2000	564	\$43.8	\$57.3	Q3 1998	Q2 2000
3. Avalon at Creekside Mountain View, CA Q4 2000	294	\$29.0	\$39.8	Q2 1999	Q3 2000
4. Laguna Brisas Laguna Niguel, CA Q4 2000	176	\$17.2	\$21.2	Q3 1999	Q2 2000
5. Avalon at Cortez Hill San Diego, CA Q2 2001	293	\$24.4	\$33.8	Q1 2000	Q1 2001
6. Lakeside Burbank, CA Q2 2002	748	\$55.3	\$75.3	Q1 2000	Q1 2002
Total	2,496	\$195.0	\$263.1		

</TABLE>

- (1) Total budgeted cost includes all capitalized costs projected to be incurred to redevelop the respective Redevelopment Community, including costs to acquire the community, reconstruction costs, real estate taxes, capitalized interest and loan fees, permits, professional fees, allocated redevelopment overhead and other regulatory fees determined in accordance with GAAP.
- (2) Reconstruction completion dates are estimates.
- (3) Restabilized operations is defined as the first full quarter of 95% or greater occupancy after completion of reconstruction.
- (4) Formerly named Avalon Ridge.

#### Development Rights

As of March 31, 2000, we are considering the development of 34 new apartment communities. These Development Rights range from land owned or under contract for which design and architectural planning has just begun to land under contract or owned by us with completed site plans and drawings where construction can begin almost immediately. We estimate that the successful completion of all of these communities would ultimately add 9,140 upscale apartment homes to our portfolio. At March 31, 2000, the cumulative capitalized costs incurred in pursuit of the 34 Development Rights, including the cost of land acquired in connection with seven of the Development Rights, was approximately \$74.0 million, of which \$46.0 million was land. Substantially all of these apartment homes will offer features like those offered by the communities we currently own.

We generally hold Development Rights through options to acquire land, although one Development Right located in New Canaan, Connecticut is controlled through a joint venture partnership that owns the land. The properties comprising the Development Rights are in different stages of the due diligence and regulatory approval process. The decisions as to which of the Development Rights to pursue, if any, or to continue to pursue once an investment in a Development Right is made are business judgments that we make after we perform financial, demographic

and other analysis. Finally, we currently intend to limit the percentage of debt used to finance new developments in order to maintain our general historical practice with respect to the proportion of debt in our capital structure. Therefore, other financing alternatives may be required to finance the development of those Development Rights scheduled to start construction after April 1, 2000. Although the development of any particular Development Right cannot be assured, we believe that the Development Rights, in the aggregate, present attractive potential opportunities for future development and growth of our FFO.

Statements regarding the future development of the Development Rights are forward-looking statements. We cannot assure you that:

- we will succeed in obtaining zoning and other necessary governmental approvals or the financing required to develop these communities, or that we will decide to develop any particular community; or
- if we undertake construction of any particular community, that we will complete construction at the total budgeted cost assumed in the financial projections below.

The following presents a summary of the 34 Development Rights we are currently pursuing:

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<TABLE>  
<CAPTION>

	Location		Estimated number of homes	Total budgeted costs (\$ millions)
	-----		-----	-----
<S>	<C>	<C>	<C>	<C>
1.	Mountain View, CA	(1)	211	60
2.	San Jose, CA	(1)	217	42
3.	Stamford, CT		323	60
4.	Freehold, NJ		296	35
5.	Orange, CT	(1)	168	18
6.	New Canaan, CT	(1) (2)	104	26
7.	Darien, CT	(1)	189	37
8.	Yonkers, NY		256	35
9.	Greenburgh - II, NY		500	83
10.	Greenburgh - III, NY		266	44
11.	Arlington II, VA	(1)	332	40
12.	Hopewell, NJ		280	34
13.	Port Jefferson, NY		232	28
14.	Yorktown, NY		396	47
15.	Marlborough, MA		202	22
16.	Newtown, CT		304	34
17.	Wilton, CT		115	21
18.	North Potomac, MD		564	64
19.	Los Angeles, CA		241	39
20.	Weymouth, MA		304	33
21.	San Diego, CA	(1)	378	54
22.	Long Island City, NY		372	102
23.	Coram, NY		450	61
24.	Westborough, MA		386	44
25.	Lawrence, NJ		342	38
26.	Salem, MA		176	20
27.	Wilmington, MA		120	16
28.	North Bethesda, MD		414	42
29.	San Francisco, CA		250	70
30.	Andover, MA		156	20
31.	St. James, NY		112	16
32.	Seattle, WA		100	19
33.	Washington, D.C.		209	41
34.	Seattle, WA		175	31
			-----	-----
	Totals		9,140	\$1,376
			=====	=====

</TABLE>

- (1) AvalonBay owns land, but construction has not yet begun.
- (2) The land currently is owned by a limited partnership in which AvalonBay is a majority partner. It is currently anticipated that the land seller will retain a minority limited partner interest.

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## Risks of Development and Redevelopment

We intend to continue to pursue the development and redevelopment of apartment home communities. Our development and redevelopment activities may be exposed to the following industry risks:

- we may abandon opportunities we have already begun to explore based on further review of, or changes in, financial, demographic, environmental or other factors;
- we may encounter liquidity constraints, including the unavailability of financing on favorable terms for the development or redevelopment of a community;
- we may be unable to obtain, or we may experience delays in obtaining, all necessary zoning, land-use, building, occupancy, and other required governmental permits and authorizations;
- we may incur construction or reconstruction costs for a community that exceed our original estimates due to increased materials, labor or other expenses, which could make completion or redevelopment of the community uneconomical;
- occupancy rates and rents at a newly completed or redevelopment community may fluctuate depending on a number of factors, including market and general economic conditions, and may not be sufficient to make the community profitable; and
- we may be unable to complete construction and lease-up on schedule, resulting in increased debt service expense and construction costs.

The occurrence of any of the events described above could adversely affect our ability to achieve our projected yields on communities under development or redevelopment and could affect our payment of distributions to our stockholders.

Construction costs are projected by us based on market conditions prevailing in the community's market at the time our budgets are prepared and reflect changes to those market conditions that we anticipated at that time. Although we attempt to anticipate changes in market conditions, we cannot predict with certainty what those changes will be. Construction costs have been increasing and, for some of our Development Communities, the total construction costs have been or are expected to be higher than the original budget. Total budgeted cost includes all capitalized costs projected to be incurred to develop the respective Development or Redevelopment Community, including:

- land and/or property acquisition costs;
- construction costs;
- real estate taxes;
- capitalized interest;
- loan fees;
- permits;
- professional fees;
- allocated development overhead; and
- other regulatory fees determined in accordance with generally accepted accounting principles.

Nonetheless, because of increases in prevailing market rents we believe that, in the aggregate, we will still achieve our targeted projected yield (i.e., return on invested capital) for those communities experiencing costs in excess of the original budget. We believe that we could experience similar increases in construction costs and market rents with respect to other development communities resulting in total construction costs that exceed original budgets. Likewise, costs to redevelop communities that have been acquired have, in some cases, exceeded our original estimates and similar increases in costs may be experienced in the future. We cannot assure that market rents in effect at the time new development communities or repositioned communities complete lease-up will be sufficient to fully offset the effects of any increased construction or reconstruction costs.

In accordance with generally accepted accounting principles, we capitalize interest expense during construction or reconstruction until a building obtains a certificate of occupancy. Thereafter, the interest allocated to that completed building within the community is expensed. Capitalized interest totaled \$3,494,000 for the three months ended March 31, 2000 and \$7,283,000 for the three months ended March 31, 1999.

PART I. FINANCIAL INFORMATION (CONTINUED)

Item 3. Quantitative and Qualitative Disclosures About Market Risk  
 Not Applicable

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are involved in certain ordinary routine litigation incidental to the conduct of our business. In addition, as reported in the Company's Form 10-K for the year ended December 31, 1999, we are currently involved in litigation with York Hunter Construction, Inc., and National Union Fire Insurance Company. While the outcome of such litigation cannot be predicted with certainty, we do not expect any current litigation, including the litigation with York Hunter and National Union, to have a material effect on our business or financial condition.

Item 2. Changes in Securities

On February 28, 2000, the Company filed a Form 8-A/A (i) to file an amendment to the Company's Shareholder Rights Agreement that affects the rights of holders of the Company's Preferred Stock Purchase Rights and (ii) to describe the terms of such Shareholder Rights Agreement, as amended. The description set forth in such Form 8-A/A is incorporated herein by reference.

During the three months ended March 31, 2000, the Company issued 7,048 shares of common stock in exchange for units of limited partnership held by a limited partner of Avalon DownREIT V, L.P., a DownREIT partnership subsidiary of the Company. These shares were issued in reliance on an exemption from registration under Section 4(2) of the Securities Act of 1933. The Company is relying on the exemption based upon factual representations received from the limited partner who received these shares.

Item 3. Defaults Upon Senior Securities

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) EXHIBITS

<TABLE>	
<CAPTION>	
Exhibit No.	Description
- - - - -	- - - - -
<S>	<C> <C>
3(i).1	-- Articles of Amendment and Restatement of Articles of Incorporation of AvalonBay Communities (the "Company"), dated as of June 4, 1998. (Incorporated by reference to Exhibit 3(i).1 to Form 10-Q of the Company filed August 14, 1998.)
3(i).2	-- Articles of Amendment, dated as of October 2, 1998. (Incorporated by reference to Exhibit 3.1(ii) to Form 8-K of the Company filed on October 6, 1998.)

</TABLE>

<TABLE>  
 <S> <C> <C>

- 3(i).3 -- Articles Supplementary, dated as of October 13, 1998, relating to the 8.70% Series H Cumulative Redeemable Preferred Stock. (Incorporated by reference to Exhibit 1 to Form 8-A of the Company filed October 14, 1998.)
- 3(ii).1 -- Bylaws of the Company, as amended and restated, dated as of July 24, 1998. (Incorporated by reference to Exhibit 3(ii).1 to Form 10-Q of the Company filed August 14, 1998.)
- 3(ii).2 -- Amendment to Bylaws of the Company, dated February 10, 1999. (Incorporated by reference to Exhibit 3(ii).2 to Form 10-K of the Company filed March 31, 1999.)
- 3(ii).3 -- Amendment to Bylaws of the Company, dated May 5, 1999. (Incorporated by reference to Exhibit 3(ii).3 to Form 10-Q of the Company filed on August 16, 1999.)
- 4.1 -- Indenture of Avalon Properties, Inc. (hereinafter referred to as "Avalon Properties") dated as of September 18, 1995. (Incorporated by reference to Form 8-K of Avalon Properties dated September 18, 1995.)
- 4.2 -- First Supplemental Indenture of Avalon Properties dated as of September 18, 1995. (Incorporated by reference to Avalon Properties' Current Report on Form 8-K dated September 18, 1995.)
- 4.3 -- Second Supplemental Indenture of Avalon Properties dated as of December 16, 1997. (Incorporated by reference to Avalon Properties' Current Report on Form 8-K filed January 26, 1998.)
- 4.4 -- Third Supplemental Indenture of Avalon Properties dated as of January 22, 1998. (Incorporated by reference to Avalon Properties' Current Report on Form 8-K filed on January 26, 1998.)
- 4.5 -- Indenture, dated as of January 16, 1998, between the Company and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to Exhibit 4.1 to Form 8-K of the Company filed on January 21, 1998.)
- 4.6 -- First Supplemental Indenture, dated as of January 20, 1998, between the Company and the Trustee. (Incorporated by reference to Exhibit 4.2 to Form 8-K of the Company filed on January 21, 1998.)
- 4.7 -- Second Supplemental Indenture, dated as of July 7, 1998, between the Company and the Trustee. (Incorporated by reference to Exhibit 4.2 to Form 8-K of the Company filed on July 9, 1998.)
- 4.8 -- Third Supplemental Indenture, dated as of December 21, 1998 between the Company and the Trustee, including forms of Floating Rate Note and Fixed Rate Note (Incorporated by reference to Exhibit 4.4 to Form 8-K filed on December 21, 1998.)
- 4.9 -- Dividend Reinvestment and Stock Purchase Plan of the Company filed on September 14, 1999. (Incorporated by reference to Form 3-S of the Company, File No. 333-87063.)
- 4.10 -- Amendment to the Company's Dividend Reinvestment and Stock Purchase Plan filed on December 17, 1999. (Incorporated by reference to the Prospectus Supplement filed pursuant to Rule 424(b)(2) of the Securities Act of 1933 on December 17, 1999.)

</TABLE>

<TABLE>

- <S> <C> <C>
- 4.11 -- Shareholder Rights Agreement, dated as of March 9, 1998 (the "Rights Agreement"), between the Company and First Union National Bank (as successor to American Stock Transfer and Trust Company) as Rights Agent (including the form of Rights Certificate as Exhibit B). (Incorporated by reference to Exhibit 4.1 to Form 8-A of the Company filed March 11, 1998.)
- 4.12 -- Amendment No. 1 to the Rights Agreement, dated as of February 28, 2000, between the Company and the Rights Agent. (Incorporated by reference to Exhibit 4.2 of Form 8-A/A of the Company filed February 28, 2000.)

- 10.1 -- Mutual Release and Separation Agreement, dated as of March 24, 2000, between the Company and Gilbert M. Meyer.
- 10.2 -- Retirement Agreement, dated as of March 24, 2000, between the Company and Gilbert M. Meyer.
- 10.3 -- Consulting Agreement, dated as of March 24, 2000, between the Company and Gilbert M. Meyer.
- 12.1 -- Statements re: Computation of Ratios.
- 27.1 -- Financial Data Schedule.

(b) REPORTS ON FORM 8-K

</TABLE>

On March 10, 2000, the Company filed a report on Form 8-K with respect to Item 5 thereof (Other Event) to report the mailing of a letter to stockholders and to file a copy of such letter.

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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.

AVALONBAY COMMUNITIES, INC.

Date: May 15, 2000 /s/: RICHARD L. MICHAUX  
 -----  
 Richard L. Michaux  
 President, Chief Executive Officer and Director

Date: May 15, 2000 /s/: THOMAS J. SARGEANT  
 -----  
 Thomas J. Sargeant  
 Chief Financial Officer and Treasurer

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AVALONBAY COMMUNITIES, INC.  
2900 EISENHOWER AVENUE, THIRD FLOOR  
ALEXANDRIA, VA 22314 MARCH 24, 2000

Gilbert M. Meyer  
26007 Torello Lane  
Los Altos Hills, CA 94022

RE: MUTUAL RELEASE AND SEPARATION AGREEMENT

Dear Mr. Meyer:

By execution this day of a Retirement Agreement and a Consulting Agreement (the "Retirement and Consulting Agreements"), you and AvalonBay Communities, Inc. (the "Company", a term which for purposes of this Agreement includes its related or affiliated entities) have agreed that as of a day in May 2000, you will retire from the Company and commence a consulting arrangement with the Company. This letter agreement (the "Agreement") confirms certain additional terms you and the Company have agreed upon in light of your retirement from your offices and employment with the Company. In consideration of the mutual covenants contained in this Agreement, you and the Company agree as follows:

1. Release of Claims.

(a) You, on behalf of yourself and your successors, heirs, assigns, executors, administrators and/or estate, hereby irrevocably and unconditionally release, acquit and forever discharge the Company, its subsidiaries, divisions and related or affiliated entities, and each of their respective predecessors, successors or assigns, and the officers, directors, partners, shareholders, representatives, employees and agents of each of the foregoing (the "Releasees"), from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred), known or unknown, that directly or indirectly arise out of, relate to or concern your employment or termination of employment with the Company ("Claims"), which you have, own or hold, or at any time heretofore had, owned or held against the Releasees up to the date on which you execute this Agreement, including without limitation, express or implied, all Claims for: breach of express or implied contract; promissory estoppel; fraud, deceit or misrepresentation; intentional, reckless or negligent infliction of emotional distress; breach of any express or implied covenant of employment, including the covenant of good faith and fair dealing; interference with contractual or advantageous relations; discrimination on any basis or retaliation under federal, state or local law, including without limitation, Title VII of the Civil Rights Act of 1964, as amended, the Americans

Gilbert M. Meyer  
March 24, 2000  
Page 2

with Disabilities Act, as amended, the Age Discrimination in Employment Act, as amended, and the California Fair Employment and Housing Act, Cal. Gov't. Code Sections 12940, et seq., as amended; and all claims for defamation or damaged reputation.

(b) You acknowledge that you are familiar with Section 1542 of the California Civil Code, which reads as follows:

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.

You acknowledge and agree that you are releasing unknown claims and waive all rights that you may have under Civil Code Section 1542 or under any other statute or common law principle of similar effect.

(c) You represent and warrant that you have not filed any complaints or charges asserting any Claims against the Releasees with any local, state or federal agency or court. You further represent and warrant that you have not assigned or transferred to any person or entity any Claims or any part or portion thereof.

(d) You agree that you will not hereafter pursue any Claim against any Releasee (including without limitation any claim seeking reinstatement with, or damages of any nature, severance, incentive or retention pay, attorney's fees, or costs) by filing a lawsuit in any local, state or federal court for or on account of anything which has occurred up to the present time as a result of your employment or termination of employment.

(e) Nothing in this Section 1 shall be deemed to release the Company from, and the preceding paragraph (d) shall not apply to, any claims that you may have (i) under this Agreement or the Retirement and Consulting Agreements, (ii) for indemnification pursuant to and in accordance with applicable statutes, the by-laws of the Company and Section 4(b) of the Employment Agreement, dated March 9, 1998, by and between you and the Bay Apartment Communities, Inc. (a predecessor name of the Company) (the "Employment Agreement"), (iii) vested pension or retirement benefits under the terms of qualified employee pension benefit plans, (iv) accrued but unpaid wages, or (v) for excise tax payments pursuant to Section 7(d) of the Employment Agreement.

Gilbert M. Meyer  
March 24, 2000  
Page 3

2. Release by the Company.

(a) The Company, on behalf of itself, its subsidiaries, divisions and related or affiliated entities and each of their respective predecessors, successors or assigns hereby irrevocably and unconditionally releases, acquits and forever discharges you, your successors, heirs, assigns, executors, administrators and/or estate (the "Meyer Releasees"), from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorney's fees and costs actually incurred) that directly or indirectly arise out of, relate to or concern your employment or termination of employment with the Company (the "Company Claims") which the Company has, owns or holds, or at any time heretofore had, owned or held against the Meyer Releasees up to the date on which it executes this Agreement.

(b) The Company acknowledges that it is familiar with Section 1542 of the California Civil Code, which reads as follows:

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.

The Company acknowledges and agrees that it is releasing unknown claims and waives all rights that it may have under Civil Code Section 1542 or under any other statute or common law principle of similar effect.

(c) The Company represents and warrants that it has not filed any complaints or charges asserting any Company Claims against the Meyer Releasees with any local, state or federal agency or court. The Company further represents and warrants that it has not assigned or transferred to any person or entity any Company Claims or any part or portion thereof.

(d) The Company agrees that it will not hereafter pursue any Company Claims against any Meyer Releasee by filing a lawsuit in any local, state or federal court for or on account of anything which has occurred up to the present time as a result of your employment or termination of employment.

Gilbert M. Meyer  
March 24, 2000  
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(e) Nothing in this Section 2 shall be deemed to release you from, and the preceding paragraph (d) shall not apply to, any claims the Company may have (i) under this Agreement or the Retirement and Consulting Agreements, or (ii) for breaches prior to the date hereof of the nondisclosure provisions of Section 6 of the Employment Agreement or Annex B thereto, or any provision of Section 8 of the Employment Agreement, except, in the case of this subsection (ii), to the extent such breaches are actually known by the Company's senior management (i.e., individuals holding the title of Senior Vice President or above) or reasonably should have been known to such senior management prior to the date hereof.

3. Employment Agreement.

(a) Except as set forth in this Section 3 or as expressly provided elsewhere in this Agreement or the Retirement and Consulting Agreements, this Agreement supersedes all provisions of the Employment Agreement and all such provisions terminate upon the Effective Date. Nothing contained herein, however, shall be deemed to terminate your obligations to the Company or the Company's obligations to you under Sections 4(b) (Indemnification), 6 (Records/Nondisclosure/Company Policies), 7(d) (Excise Tax Payment), 8 (b) (as clarified by Section 14(i) of the Retirement Agreement),

8(c) (Non-Solicitation; Specific Enforcement) and 13(a) (Resolution of Disputes) (as amended by Section 5 hereinbelow) of the Employment Agreement, Annex B (Nondisclosure Agreement) thereto, or the Company's Stock Option Plan or the stock option agreements, restricted stock agreements or deferred stock award agreements entered into by you from time to time (as modified by Section 5 of the Retirement Agreement).

(b) By way of clarification, it is noted that the fact that Section 7(d) of the Employment Agreement survives means that, in the event that any of the payments made to you under the Retirement and Consulting Agreements are subject to the excise tax referred to therein, you shall be entitled to a Partial Gross-Up Payment subject to and in accordance with the terms of said Section 7(d).

#### 4. Nondisparagement and Nondisclosure.

(a) You agree not to take any action or make any statement, written or oral, which disparages or criticizes the Company or its officers, directors, agents, or management and business practices, or which disrupts or impairs the Company's normal operations. The Company and its directors and senior management (i.e., individuals holding the title of Senior Vice President or above) shall not take any action or make any statement, written or oral, which disparages or criticizes you or your management and business practices. The provisions of this Section 4 shall not apply to any truthful statement required to be made by you or any director or senior officer of the Company, as the case may be, in any legal proceeding, governmental or regulatory investigation, in any public filing or disclosure legally required to be filed or made, and also shall not apply to any confidential discussion or consultation with professional advisors.

(b) In furtherance of your obligations under this Agreement, you and the Company each agree to not make any statements or comments to the media concerning the circumstances surrounding your retirement from the Company except for statements which are consistent with press releases that shall be mutually agreed upon in accordance with Section 1 of the Retirement Agreement.

(c) You agree not to disclose the terms of this Agreement, except (i) to your professional advisors, including accountants and attorneys (provided they agree to keep such information confidential), (ii) to the extent that, prior to your disclosure, the Company has previously disclosed such information publicly, whether in its filings with the Securities and Exchange Commission or otherwise, or (iii) (A) pursuant to a valid subpoena or (B) as otherwise required by law, but in the case of either (iii)(A) or (iii)(B), only after providing the Company, to the attention of its Chief Executive Officer, with prior written notice and reasonable opportunity to contest such subpoena or other requirement. In the case of the circumstances contemplated by subsections 4(c)(iii)(A) or (B)

Gilbert M. Meyer  
March 24, 2000  
Page 5

herein, written notice shall be provided to the Company as soon as practicable, but in no event less than five business days before any such disclosure is compelled, or, if later, at least one business day after you receive notice compelling such disclosure.

#### 5. Arbitration.

(a) Any controversy or claim arising out of or relating to this Agreement or the Retirement and the Consulting Agreements or the breach of any of the foregoing (a "Dispute") shall be resolved in the manner set forth in Section 13(a) (Resolution of Disputes) of the Employment Agreement, as modified by this Section 5.

(b) Subject to Section 5(e) below, in the event any legal action or proceeding, including arbitration or declaratory relief, is commenced by the Company with respect to any Dispute or otherwise to enforce any rights or obligations under this Agreement, the Retirement Agreement or the Consulting Agreement, the arbitrator or, in the case of a claim for equitable relief, the judge in such proceeding (i) shall have discretion to award to you if you are the prevailing party reasonable attorney's fees and costs, if any, in said action or proceeding, but (ii) regardless of the outcome in said action or proceeding, shall not award to the Company any of its attorney's fees or costs.

(c) Subject to Section 5(e) below, in the event any legal action or proceeding, including arbitration or declaratory relief, is commenced by you with respect to any Dispute or otherwise to enforce any rights or obligations under this Agreement, the Retirement Agreement or the Consulting Agreement, the arbitrator or, in the case of a claim for equitable relief, the judge in such proceeding shall have discretion to award the prevailing party reasonable attorney's fees and costs, if any, in said action or proceeding.

(d) An award of attorney's fees and costs pursuant to subsections (b) or (c) above shall take into account the amount or degree of relief awarded to the prevailing party relative to that party's demands. An award of reasonable attorney's fees and costs also shall take into account any offer of settlement or judgment by the non-prevailing party. Attorney's fees and costs incurred by the prevailing party from and after the date of such an offer of settlement or judgment may be limited or eliminated to the extent that the value of the final judgment in favor of the prevailing party does not materially exceed the value of the offer of settlement or judgment.

(e) It is the intention of the Company to fulfill its obligations and make all payments required under this Agreement, the Consulting Agreement and the Retirement Agreement. A non-material breach by you of this Agreement, the Retirement Agreement or the Consulting Agreement shall not justify the Company's failure to pay or deliver, it being the understanding that in the case of a non-material breach the Company's remedy is to commence an arbitration proceeding to determine the damages to the Company, which damages then may be set off against future payments. However, in the event you believe that any fees, payments or other consideration are owed to you by the Company under this Agreement, the Consulting Agreement or the Retirement Agreement and have not been paid or delivered when due, you may make a written demand for payment or delivery of such disputed fees, payment or consideration. In such event, there shall be deemed to be a "Dispute." In the event of a Dispute, the Company shall pay the overdue fees or payment or deliver such other consideration on which the Dispute is based to a mutually acceptable escrow agent to be held in an escrow account pending an arbitration award or satisfactory resolution of the Dispute by the parties. The escrowed fees, payments or other consideration shall be invested as directed by the Company, but if cumulative earnings as of the end of any calendar month are less than 18% on an annualized basis compounded monthly the Company shall pay an amount equal to the shortfall of such cumulative earnings into the escrow account monthly until the Dispute is resolved (said fees, payments, or other consideration, together with interest thereon hereinafter referred to as the "Escrow"). Promptly following the commencement of a Dispute, you and the Company shall commence an arbitration proceeding to determine whether in fact the Company owes the Escrow to you. The arbitrator shall direct that the Escrow be paid over to the prevailing party. In

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connection with such arbitration, the Company shall advance you reasonable attorney's fees, subject to your undertaking to repay such advanced fees in the event the Company prevails. In the event that the Company prevails in such an arbitration, you shall pay to the Company interest at the Determined Rate (as defined below) on (i) the deposits made by the Company into the Escrow from time to time (by way of clarification, this excludes cumulative investment earnings but includes shortfall payments) and (ii) the amount of advances for attorney's fees made from time to time. The Determined Rate means 8%, (on an annualized basis compounded monthly) except that the arbitrator shall be directed to make a finding as to whether your commencement of the Dispute was (i) made in good faith and (ii) not reckless or dilatory, and in the event that the arbitrator finds that the standard set forth in the preceding clause (i) or (ii) has not been met, the Determined Rate shall be 10% (on an annualized basis compounded monthly). In all other respects, arbitration under this Section 5(e) shall be in accordance with all other provisions of this Section 5.

(f) Claims for equitable relief relating to violations or alleged violations of Section 4 hereof, Section 5(e) (with respect to funding of the Escrow) hereof, Section 10 of the Retirement Agreement or Sections 3 or 4 of the Consulting Agreement may be brought in a court of law.

6. Fees. The Company will pay the reasonable fees and expenses of your professional advisors and valuation experts incurred in connection with the negotiation and execution of this Agreement and the Consulting and Retirement Agreement, provided, that such advisors submit to the Company invoices for such fees and expenses. You have advised us that, as of the date hereof, your professional advisors and valuation experts reasonably estimate that you have incurred \$55,000 in fees in aggregate.

7. Notices, Acknowledgments and Other Terms.

(a) You are advised to consult with an attorney and tax advisor before signing this Agreement. You acknowledge that you have consulted with an attorney of your choice.

(b) You acknowledge and agree that the Company's promises in this Agreement include consideration in addition to anything of value to which you are otherwise entitled by reason of the termination of your employment.

(c) You acknowledge that you have been given the



opportunity, if you so desired, to consider this Agreement for twenty-one (21) days before executing it. If you breach any of the conditions of the Agreement within the twenty-one (21) day period, the offer of this Agreement will be withdrawn and your execution of the Agreement will not be valid. In the event that you execute and return this Agreement within twenty-one (21) days or less of the date of its delivery to you, you acknowledge that such decision was entirely voluntary and that you had the opportunity to consider this letter agreement for the entire twenty-one (21) day period.

(d) You may revoke this Agreement at any time within seven (7) days of executing it by delivering a written notice of revocation to the Company so that it is received by the close of business on such seventh (7th) day. This Agreement shall not become effective or enforceable unless and until seven (7) days have expired following your execution of same (the "Effective Date").

(e) By signing this Agreement, you acknowledge that you are doing so voluntarily and knowingly, fully intending to be bound by this Agreement. You also acknowledge that you are not relying on any representations by any representative of the Company concerning the meaning of any aspect of this Agreement. You understand that this Agreement shall not in any way be construed as an admission by the Company of any liability or any act of wrongdoing whatsoever by the Company against you and that the Company specifically disclaims any liability or wrongdoing whatsoever against you on the part of itself and its officers, directors, shareholders, employees and agents. You understand that if you do not to enter into this Agreement and bring any claims against

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the Company, the Company will dispute the merits of those claims and contend that it acted lawfully and for good business reasons with respect to you.

(f) In the event of any dispute, this Agreement will be construed as a whole, will be interpreted in accordance with its fair meaning, and will not be construed strictly for or against either you or the Company. Section headings and parenthetical explanations of section references are for convenience only and shall not be used to interpret the meaning of any provision or term of this Agreement.

(g) Any notices required to be given under this Agreement shall be provided in writing and delivered by hand or certified mail, and shall be deemed to have been duly given when received at the following addresses, unless and to the extent that notice of change of address has been duly given hereunder

If to you at:

Mr. Gilbert M. Meyer  
26007 Torello Lane  
Los Altos Hills, CA 94022

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with a copy to:

Ethan Lipsig, Esq.  
Paul, Hastings, Janofsky & Walker LLP  
555 South Flower Street  
Los Angeles, CA 90071-2371

If to the Company, to it at:

AvalonBay Communities, Inc.  
2900 Eisenhower Avenue, Third Floor  
Alexandria, VA 22314  
Attention: Chief Executive Officer

with a copy to:

AvalonBay Communities, Inc.  
2900 Eisenhower Avenue, Third Floor  
Alexandria, VA 22314  
Attention: General Counsel

and a copy to:

Joseph A. Piacquad, Esq,  
Goodwin, Procter & Hoar LLP  
Exchange Place  
Boston, MA 02109-2881

(h) The law of the State of Maryland will govern any dispute about this Agreement, including any interpretation or enforcement of this Agreement.

(i) In the event that any provision or portion of a provision of this Agreement shall be determined to be illegal, invalid or unenforceable, the remainder of this Agreement shall be enforced to the fullest extent possible and the illegal, invalid or unenforceable provision or portion of a provision will be amended by a court of competent jurisdiction, or otherwise thereafter shall be interpreted, to reflect as nearly as possible without being illegal, invalid or

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unenforceable the parties' intent if possible. If such amendment or interpretation is not possible, the illegal, invalid or unenforceable provision or portion of a provision will be severed from the remainder of this Agreement and the remainder of this Agreement shall be enforced to the fullest extent possible as if such illegal, invalid or unenforceable provision or portion of a provision was not included.

(j) This Agreement may be modified only by a written agreement signed by you and an authorized representative of the Company.

(k) This Agreement, the Consulting and Retirement Agreements and Sections 4(b), 6, 7(d), 8(a) (as amended by Section 10 of the Retirement Agreement), 8(b) (as clarified by Section 14(i) of the Retirement Agreement), 8(c) and 13(a) (as amended by Section 5 of this Agreement), and Annex B of the Employment Agreement constitute the entire agreement between the parties with respect to the subject matter hereof and, except as expressly provided therein, supersede all prior agreements between the parties with respect to any related subject matter.

(l) Subject in all events to applicable law, in the event of your death any payments or other consideration then due and payable or deliverable to you by the Company under this Agreement will be paid or delivered to your designated beneficiary, or, if you are not survived by such designated beneficiary, or you fail to effectively designate a beneficiary, to your estate. The Company acknowledges that you have designated The Meyer 1997 Irrevocable Trust, dated February 10, 1997, Jo Ann Conner, or her successor, Trustee, as the beneficiary. You may designate a beneficiary or change such designation from time-to-time in accordance with the notice provisions of this Agreement. The Company will reasonably cooperate with you to modify this provision to the extent reasonably necessary so as to give effect to the purpose of this provision in a manner that complies with applicable laws.

(m) This Agreement shall be binding upon each of the parties and upon their respective heirs, administrators, representatives, executors, successors and assigns, and shall inure to the benefit of each party and to their heirs, administrators, representatives, executors, successors, and assigns.

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If you agree to these terms, please sign and date below and return this Agreement to the Company's Chief Executive Officer. This Agreement may be executed in counterparts and/or by facsimile transmission, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

Sincerely,

AvalonBay Communities, Inc.

By: /s/ RICHARD L. MICHAUX

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Richard L. Michaux  
Its: Chief Executive Officer

Accepted and Agreed to:

/s/ GILBERT M. MEYER

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Gilbert M. Meyer

Dated: March 24, 2000  
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AVALONBAY COMMUNITIES, INC.  
2900 EISENHOWER AVENUE, THIRD FLOOR  
ALEXANDRIA, VA 22314  
MARCH 24, 2000

Gilbert M. Meyer  
26007 Torello Lane  
Los Altos Hills, CA 94022

RE: RETIREMENT AGREEMENT

Dear Mr. Meyer:

This letter agreement (the "Agreement") confirms the terms that will govern your resignation, by reason of retirement, from your offices and employment with AvalonBay Communities, Inc. (the "Company," a term which for purposes of this Agreement includes its related or affiliated entities).

1. Retirement; Nomination as Director at 2000 Annual Meeting. You and the Company hereby confirm that you will retire (i) effective immediately following the next annual meeting of the shareholders of the Company if held in May 2000, or (ii) if such annual meeting is held after May 2000, effective as of May 10, 2000 (such date as may apply, the "Date of Retirement"). Accordingly, you hereby irrevocably tender your resignation, as of the Date of Retirement, as Executive Chairman of the Company and (except for your position as a Director of AvalonBay Communities, Inc.) from all positions and offices you hold with the Company or any of its affiliated entities. The Company hereby acknowledges your retirement and accepts your resignations effective as of the Date of Retirement.

Subject to the execution in good faith by the Company's Board of Directors of its fiduciary duties, the Company agrees that the Board (i) shall nominate you for re-election at the Company's 2000 annual meeting of stockholders as a Director of the Company and, (ii) following the 2000 annual meeting shall grant you the honorary title of "Founder". Following the Date of Retirement and upon your re-election as a Director, if applicable, in calendar year 2001 and thereafter for so long as you remain a Director, you will receive the same compensation as other outside non-employee Directors of the Company. You waive your right, if any, to receive compensation, whether in the form of stock grants, options awards or otherwise, as an outside non-employee Director during calendar year 2000.

The Company will make a public announcement on or promptly following the date hereof, in a mutually acceptable form, regarding your retirement in May 2000.

2. Compensation Through Date of Retirement.

(a) Through the Date of Retirement, you will continue to receive a base salary at a rate of \$410,000 per year (subject to applicable withholding).

(b) On the Date of Retirement, you will be paid in lieu of a prorated cash bonus for calendar year 2000 the amount of \$73,374.32 (subject to applicable withholding).

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(c) As of the date of this letter, your accrued but unused vacation is 56 days. From and after the date hereof, you will no longer accrue additional vacation per bi-weekly pay period and/or be charged against such accrual for vacation days you reasonably use between the date of this letter and the Date of Retirement. You will be paid \$62,904.11 (i.e., 56/365 (\$410,000)) for all accrued but unused vacation days on the Date of Retirement (subject to applicable withholding).

(d) Through the Date of Retirement, you will receive the benefits for which you are eligible under the Company's other generally applicable employee benefit plans, practices and policies.

(e) By vote of the Compensation Committee on February 28, 2000, your cash bonus and equity awards in respect of service during 1999 are as follows: \$243,200 cash bonus (which is fully vested and has been paid to you in accordance with the Company's practice for senior managers); 7,260 restricted shares of common stock; and 59,400 stock options with an exercise price equal to the market closing price on February 28, 2000. Such options and

shares will vest in accordance with the customary terms provided therein, subject, in the case of options, to acceleration on the Date of Retirement as provided herein, and, in the case of restricted shares, subject to Section 4 hereinbelow.

3. Split Dollar Life Insurance/Term Life.

(a) In recognition of your services to the Company, the Company will continue to pay, for so long as such payments are due, all premiums then due and payable on, but only to the extent relating to, the whole-life portion of, the split dollar life insurance policy obtained for you pursuant to Section 3(d) of the Employment Agreement dated March 9, 1998, by and between you and the Bay Apartment Communities, Inc. (a predecessor name of the Company) (the "Employment Agreement"); provided that the Company's obligations to pay under this Section 3 are conditioned upon your payment of all premiums payable on, but only to the extent relating to, the term-life portion of, said split dollar life insurance policy. You agree to cooperate with the Company in verifying your continuing satisfaction of the foregoing condition. The Company agrees to promptly notify you and you agree to promptly notify the Company of any premium notice or other notice it or you receive from the insurer relating to the policy. In the event that the Company determines that its obligation to make payments under this Section 3 has ceased by reason of your non-payment of premiums relating to the term-life portion of said split dollar life insurance policy, the Company shall provide you with thirty (30) days advance written notice of its intent to terminate payments hereunder. Such notice shall identify specifically your non-payment of the term life premium that is the basis on which the Company asserts its right to cease payments and shall provide you with a

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reasonable opportunity to cure.

(b) As an additional retirement benefit, the Company has agreed to provide you with the following death benefit, which shall provide assurances to you that the fees payable to you under the Consulting Agreement in respect of your services during the three year period following the date hereof will accrue to you or your estate in the event of your death during such period:

- (i) In the event that you die during the three year period following the Date of Retirement, the Company will pay in accordance with Sections 14(j) below, on the date or dates when such payments would otherwise have been due, the remaining cash consulting Fees due to you under the Consulting Agreement.
- (ii) You agree to use reasonable best efforts to cause a life insurance company to tender to you an offer of a term life insurance policy with reasonable commercial rates that will provide a death benefit approximately equal to the cash consulting Fees still due you under the Consulting Agreement. You will advise the Company of the premiums due therefor prior to entering into such life insurance policy, and the Company will advise you as to whether the Company intends to reimburse you for the premiums therefor in accordance with the next clause (iii). To satisfy this clause (ii), you may procure two policies, one of which may lapse after one year.
- (iii) If the Company reimburses you for the premiums therefore, you will enter into such policy, whereupon, during the term of such policy, the Company's obligations under clause (i) shall not apply. You shall have the right to designate, and from time to time change, the beneficiary(ies) under such policy.
- (iv) If the Consulting Period is terminated by the Company for Cause (as set forth in the Consulting Agreement), the Company's obligations in this Section 3(b) shall not apply after the date of such termination.
- (v) By way of clarification, you and the Company agree that in no event shall you or your estate or other beneficiaries be paid in the aggregate, by virtue of the Company's obligations hereunder, or under the Consulting Agreement, or by virtue of the term life insurance policy that may be procured as contemplated hereby, an

amount in cash that exceeds the cash consulting Fees that you otherwise would have received under the Consulting Agreement for full service thereunder, and, in the event that you or your estate does receive such excess cash payments, the amount of such excess shall be promptly reported to and remitted to the Company.

(c) As an additional retirement benefit, the Company further has agreed that, in the event you die before all common stock deliverable to you as Additional Fees under the Consulting Agreement has been delivered, the Company shall deliver such installment or installments of common stock in accordance with Section 14(j) below, on the date or dates when such deliveries would otherwise have been due under Section 1(b) of the Consulting Agreement.

4. Restricted Stock, Deferred Stock Awards and Founder's Stock.

(a) You and the Company agree and acknowledge that the Company's 1994 Stock Incentive Plan, as amended (the "Stock Incentive Plan") provides that all remaining shares of the restricted common stock of the Company that you were granted as Restricted Stock Awards are to continue to vest from and after the Date of Retirement in accordance with the terms of each such grant. For clarification, Exhibit A hereto describes all such Restricted Stock. Notwithstanding the foregoing, for good and valuable consideration, you hereby waive your right to and forfeit, as of the Date of Retirement, all then remaining unvested Restricted Stock. To the extent the Company has not already done so with respect to previously vested Restricted Stock, the Company shall (or shall cause the Company's transfer agent to) (i) promptly deliver to you certificates representing such stock with no restrictive legends, and such stock shall be freely transferable by you subject to applicable securities laws and the Company's insider trading policy, which shall apply to you in your capacity as a Director; and (ii) remove all restrictive legends on shares previously issued to you. In the event that you hold or were given certificates regarding such restricted shares, the Company's obligation in the preceding sentence is subject to: (A) delivery by you to the Company or its agent of such certificate; or (B) your delivery to the Company or its agent of a loss affidavit. You acknowledge that the Company has advised you to consult an attorney regarding your continuing obligations under Section 16 of the Securities Exchange Act of 1934, as amended, as well as other federal and state securities (including insider trading) laws. You agree that you shall continue to be bound by the Company's insider trading policy for so long as you are a Director.

(b) The Company acknowledges that as of the date hereof, you have 24,977 Deferred Stock Awards, which number will continue to grow as a result of the reinvestment of "phantom" dividends in accordance with the Company's current practice and shall be adjusted equitably to reflect stock splits, stock dividends or similar changes

affecting the common stock of the Company prior to your conversion of such Deferred Stock as provided hereinbelow. The Company agrees that you may convert some or all of your Deferred Stock Awards into common stock of the Company at any time after May 10, 2000 upon ten (10) business days written notice (with stock certificates promptly delivered to you). Your right to convert the Deferred Stock Awards remains subject to all applicable securities laws. Promptly upon your ceasing to serve as a Director, any remaining Deferred Stock Awards promptly shall be converted into common stock of the Company and paid to you. Your right to have the Deferred Stock Awards convert into common stock and be paid to you will in no way depend on your service under the Consulting Agreement or any defaults by you thereunder.

(c) The Company shall (or shall cause the Company's transfer agent to) remove all restrictive legends from your founder's shares (i.e., stock you held in Bay Apartment Communities, Inc. at the time of its initial public offering). In the event that you hold or were given certificates regarding such founder's shares, the Company's obligation in the preceding sentence is subject to: (i) delivery by you to the Company or its agent of such certificate; or (ii) your delivery to the Company or its agent of a loss affidavit.

5. Stock Options.

(a) You and the Company agree and acknowledge that the Stock Incentive Plan provides that by reason of your retirement, all options to purchase shares of the Company's common stock that you were granted shall

automatically vest as of the Date of Retirement. For clarification, Exhibit B hereto lists all such options and their respective exercise prices. The Company acknowledges that, assuming that you continue to serve as a Director immediately following your retirement, the exercise periods with respect to your various options are unaffected by your retirement. Accordingly, (i) you have until the earlier of (A) the expiration of three (3) months following the termination of your membership on the Company's board of directors (or six (6) months from your death if you die while a director) or (B) the expiration of the original term of such option (i.e., ten years after its grant date), in which to exercise those options granted to you prior to 1999; and (ii) you have until the earlier of (A) the expiration of twelve months following the termination of your membership on the Company's board of directors (or six (6) months from your death if you die while a director) or (B) the expiration of the original term of such option (i.e., ten years after its grant date) in which to exercise those options granted to you in or after 1999.

(b) Notwithstanding the foregoing, the Board of Directors, or the Compensation Committee of the Board of Directors of the Company, has taken such action as is necessary so that with respect to options granted on January 24, 1997, January 30, 1998, and February 28, 2000 you will have until January 24, 2007,

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January 30, 2008 and February 28, 2010, respectively in which to exercise such options (collectively, the "Extended Options") subject to the following provisions. In the event that you wilfully and materially breach the terms of the Consulting Agreement or the Mutual Release and Separation Agreement each dated as of March 24, 2000, by and between you and the Company (respectively, the "Consulting Agreement" and the "Separation Agreement"), (a "Material Breach") at any time after the date hereof and within thirty-six (36) months of the Date of Retirement, in addition to the Company's rights to obtain equitable relief or damages for such breach, the Company may suspend thirty-three percent (33%) of the original amount of each tranche of the Extended Options (or, with respect to a tranche of Extended Options for which less than thirty-three percent (33%) of the original amount is outstanding at that time, all such tranche of Extended Options) ("Suspended Options"). The Company shall suspend your right to exercise the Suspended Options by (i) filing a request for arbitration within a reasonable time after any Senior Manager (i.e., any individual holding the title of Senior Vice President or higher) learns of the Material Breach, which request specifically states that the Company is suspending your right to exercise, or (ii) in the event the Company reasonably determines that your asserted Material Breach is curable, by sending you a written notice describing the Material Breach and the steps you must take to cure such Material Breach. In the event that the Company asks you to cure a Material Breach and you fail to cure such breach to the Company's satisfaction within five (5) business days following delivery to you of written notice from the Company, the Company then may commence an arbitration proceeding, in which case your right to exercise the Suspended Options will remain suspended. In the event that an arbitrator determines that you have not committed a Material Breach, the arbitrator may award you damages directly caused by the suspension of your right to exercise the Suspended Options. In the event that an arbitrator determines that you have committed a Material Breach, the exercise period of the Suspended Options shall terminate immediately, without prejudice to the Company's right to obtain equitable relief or damages for such Material Breach; provided that an award of additional damages (if any) shall take into account termination of the Suspended Options. Nothing contained herein otherwise shall be deemed to limit the Company's right to obtain equitable relief or damages for a Material Breach that occurs before or after thirty-six (36) months after the date you execute this Agreement.

In the event of your death, your options shall be exercisable by your legal representative or legatee in accordance with their terms.

6. Loan Forgiveness. The Company will forgive, on the Date of Retirement, the amount you owe in consideration of loans the Company made to you in connection with the grant of restricted stock prior to the date hereof (i.e., approximately \$72,500). On or promptly following the Date of Retirement, the promissory notes representing the

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approximately said indebtedness shall be returned to you marked "Paid in Full." You understand and acknowledge that the Company will not make any further loans to you with respect to restricted stock awarded to you in calendar year 2000.

7. Expense Reimbursement. You shall continue to be entitled to reimbursement of reasonable business expenses incurred through the Date of Retirement in accordance with Section 4(a) of the Employment Agreement. As a Director, you will be entitled to reimbursement of reasonable business expenses

in accordance with the Company's customary practices, from and after the Date of Retirement.

8. Status of Other Benefits. Except as expressly provided hereinabove, your eligibility to participate in any of the Company's employee benefit plans or programs ceases on or after the Date of Retirement in accordance with the terms and conditions of each of those benefit plans and programs and your rights to benefits under any of the employee benefit plans or programs, if any, are governed by the terms and conditions of each of those employee benefit plans and programs; provided, that nothing in this Section 8 shall be construed to affect you or your dependents' rights thereafter to receive continuation coverage to the extent authorized by and consistent with 29 U.S.C. Section 1161, et. seq. (commonly known as "COBRA") and applicable group health and dental plan terms, entirely at your or their own cost (as determined for COBRA premium purposes). Notwithstanding any shorter period that may be provided under COBRA, the Company will make its group health and dental plans (or reasonably comparable health and dental insurance) available to you and your qualified dependents for three years following the Date of Retirement, such coverage to be entirely at your or their own cost (as determined for COBRA premium purposes).

9. Return of Property. In accordance with Section 4 of the Nondisclosure Agreement, dated as of March 9, 1998, by and between you and Bay Apartment Communities, Inc. (a predecessor name to the Company), and incorporated in the Employment Agreement as Annex B ("Nondisclosure Agreement"), you agree that, on or promptly following the Date of Retirement, you will promptly return to the Company (a) all records, correspondence, notes, financial statements, computer printouts and other documents and recorded material of every nature (including copies thereof) that may be in your possession or control dealing with Confidential Information (as defined in Section 8 of the Nondisclosure Agreement), provided, however, that you may keep your laptop computer and personal home computer, but at the Company's request, you will allow the Company to delete all Company records therefrom and to discontinue computer access to the Company's computer files. Additionally, you may keep materials you properly possess in your capacity as a Director, and may download and keep your calendar and rolodex (except to the extent that the Company reasonably and specifically notifies you that any such information constitutes Confidential Information, in which case the specifically cited information may not be downloaded).

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10. Non-Compete Section 8(a) of the Employment Agreement is hereby amended and restated and incorporated herein as of the Effective Date as follows:

For so long as Executive remains a Director of the Company, Executive shall not, without the prior written consent of the Board of Directors, become associated with, or engage in any "Restricted Activities" with respect to any "Competing Enterprise," as such terms are hereinafter defined, whether as an officer, employee, principal, partner, agent, consultant, independent contractor or shareholder. "Competing Enterprise," for purposes of this Agreement, shall mean any person, corporation, partnership, venture or other entity which (a) is a publicly traded real estate investment trust, or (b) is engaged in the business of managing, owning, leasing or joint venturing residential real estate within 30 miles of residential real estate owned or under management by the Company or its affiliates. "Restricted Activities," for purposes of this Agreement, shall mean executive, managerial, directorial, administrative, strategic, business development or supervisory responsibilities and activities relating to all aspects of residential real estate ownership, management, residential real estate franchising, and residential real estate joint-venturing.

(a) The Executive's interest in and performance of services for Greenbriar Homes Communities, Inc. and its affiliates (collectively, "Greenbriar"), shall not be deemed to be an association with or engaging in Restricted Activities with respect to any Competing Enterprise within the meaning of this Section 8(a) of the Employment Agreement, but only to the extent that his association with or involvement with Greenbriar relates to the single family, for-sale home business.

(b) The Executive's investment of personal funds in



apartment buildings, developments or complexes and the Executive's investment of personal funds in partnerships that invest in apartment buildings, developments or complexes shall not be deemed to be an association with or engaging in Restricted Activities with respect to any Competing Enterprise within the meaning of this Section 8(a) of the Employment Agreement, but only to the extent that (i) such personal investments of equity capital do not exceed \$20,000,000 in the aggregate (inclusive of such investments already made) for all such investments (which value is determined at cost as of the date of the Executive's initial

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cash investment) and (ii) such personal funds account for at least 75% of the equity capital invested in any such building, development, complex or partnership. Personal funds include the funds of the Executive's immediate family, any family trusts and any family partnership.

- (c) In addition the Executive may request consent from the Board to engage in any activity that he believes is not competitive with the Company's then current business or prospective business, and the Board will not unreasonably withhold its consent if the Board concludes in good faith that such activity is not in competition with the Company's then current business or prospective business.
- (d) The provisions regarding non-competition above in no way shall limit the Executive's fiduciary and common law obligations to the Company in his role as a Director of the Company.

11. Exclusivity. This Agreement sets forth all the consideration to which you are entitled by reason of your retirement and resulting termination of your employment, and you agree that you shall not be entitled to or eligible for any payments or benefits under any other Company severance, bonus, retention or incentive policy, arrangement or plan.

12. Tax Matters. All payments and other consideration provided to you pursuant to this Agreement shall be subject to any deductions, withholding or tax reporting that the Company reasonably determines to be required for tax purposes; provided, that nothing contained in this Section 12 affects your independent obligation and primary responsibility, which obligation and responsibility you hereby affirm, to determine and make proper judgments regarding the payment of taxes under applicable law. In the case of non-cash compensation (i.e., vesting of restricted stock, loan forgiveness, etc.) you hereby authorize the Company to offset amounts required to be withheld against any other cash compensation or fees then payable by the Company to you, including Fees under the Consulting Agreement.

13. Sale of Equity Interests. On or prior to the Date of Retirement, you will sell to Bryce Blair or another designee of the Company all of your interests in AvalonBay Services I, Inc. and AvalonBay Services II, Inc. pursuant to documents substantially similar in terms to those used when you purchased such shares from Charles Berman. The price therefor will be the fair price as determined by you and the Company, which price you acknowledge has not changed significantly since you purchased said shares from Charles Berman.

Gilbert M. Meyer  
March 24, 2000  
Page 10

14. Notices, Acknowledgments and Other Terms

(a) This Agreement shall become effective on the Effective Date of the Separation Agreement (as defined in Section 7(d) thereof) (the "Effective Date").

(b) You are advised to consult with an attorney and tax advisor before signing this Agreement. You acknowledge that you have consulted with an attorney of your choice.

(c) By signing this Agreement, you acknowledge that you are doing so voluntarily and knowingly, fully intending to be bound by this Agreement. You also acknowledge that you are not relying on any representations by any representative of the Company concerning the meaning of any aspect of this Agreement.

- (d) In the event of any dispute, this Agreement will be

construed as a whole, will be interpreted in accordance with its fair meaning, and will not be construed strictly for or against either you or the Company. Section headings and parenthetical explanations of section references are for convenience only and shall not be used to interpret the meaning of any provision or term of this Agreement.

(e) Any notices required to be given under this Agreement shall be provided in writing and delivered by hand or certified mail, and shall be deemed to have been duly given when received at the following addresses, unless and to the extent that notice of change of address has been duly given hereunder

If to you at:

Mr. Gilbert M. Meyer  
26007 Torello Lane  
Los Altos Hills, CA 94022

with a copy to:

Ethan Lipsig, Esq.  
Paul, Hastings, Janofsky & Walker LLP  
555 South Flower Street  
Los Angeles, CA 90071-2371

If to the Company, to it at:

AvalonBay Communities, Inc.

Gilbert M. Meyer  
March 24, 2000  
Page 11

2900 Eisenhower Avenue, Third Floor  
Alexandria, VA 22314  
Attention: Chief Executive Officer

with a copy to:

AvalonBay Communities, Inc.  
2900 Eisenhower Avenue, Third Floor  
Alexandria, VA 22314  
Attention: General Counsel

and a copy to:

Joseph A. Piacquad, Esq,  
Goodwin, Procter & Hoar LLP  
Exchange Place  
Boston, MA 02109-2881

(f) The law of the State of Maryland will govern any dispute about this Agreement, including any interpretation or enforcement of this Agreement.

(g) In the event that any provision or portion of a provision of this Agreement shall be determined to be illegal, invalid or unenforceable, the remainder of this Agreement shall be enforced to the fullest extent possible and the illegal, invalid or unenforceable provision or portion of a provision will be amended by a court of competent jurisdiction, or otherwise thereafter shall be interpreted, to reflect as nearly as possible without being illegal, invalid or unenforceable the parties' intent if possible. If such amendment or interpretation is not possible, the illegal, invalid or unenforceable provision or portion of a provision will be severed from the remainder of this Agreement and the remainder of this Agreement shall be enforced to the fullest extent possible as if such illegal, invalid or unenforceable provision or portion of a provision was not included.

(h) This Agreement may be modified only by a written agreement signed by you and an authorized representative of the Company.

(i) This Agreement, the Separation Agreement and the Consulting Agreement and Sections 4(b), 6, 7(d), 8(a) (as amended by Section 10 of the Retirement Agreement), 8(b) (as clarified hereinbelow), 8(c) and 13(a) (as amended by Section 5 of the Separation Agreement), and Annex B of the Employment Agreement which are incorporated herein, constitute the entire agreement between the parties with respect to the subject matter hereof and, except as expressly provided therein, supersede all prior

Gilbert M. Meyer  
March 24, 2000  
Page 12

agreements between the parties with respect to any related subject matter.

Without limiting your fiduciary duties as a Director, it is hereby acknowledged that the contractual one year non-solicitation clause in Section 8(b) of the Employment Agreement expires one year after the May 10, 2000, Date of Retirement.

(j) Subject in all events to applicable law, in the event of your death any payments or other consideration then due and payable or deliverable to you by the Company under this Agreement will be paid or delivered to your designated beneficiary, or, if you are not survived by such designated beneficiary, or you fail to effectively designate a beneficiary, to your estate. The Company acknowledges that you have designated The Meyer 1997 Irrevocable Trust, dated February 10, 1997, Jo Ann Conner, or her successor, Trustee, as the beneficiary. You may designate a beneficiary or change such designation from time-to-time in accordance with the notice provisions of this Agreement. The Company will reasonably cooperate with you to modify this provision to the extent reasonably necessary so as to give effect to the purpose of this provision in a manner that complies with applicable laws.

(k) This Agreement shall be binding upon each of the parties and upon their respective heirs, administrators, representatives, executors, successors and assigns, and shall inure to the benefit of each party and to their heirs, administrators, representatives, executors, successors, and assigns.

If you agree to these terms, please sign and date below and return this Agreement to the Company's Chief Executive Officer. This Agreement may be executed in counterparts and/or by facsimile transmission, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

Sincerely,

AvalonBay Communities, Inc.

By: /s/ RICHARD L. MICHAUX

-----

Richard L. Michaux

Its: Chief Executive Officer

Gilbert M. Meyer  
March 24, 2000  
Page 13

Accepted and Agreed to:

/s/ GILBERT M. MEYER

-----

Gilbert M. Meyer

Dated: March 24, 2000

-----

Gilbert M. Meyer  
March 24, 2000  
Page 14

EXHIBIT A

RESTRICTED STOCK GRANTS

<TABLE>  
<CAPTION>

	Issue Date	Total Shares
<S>	1/24/97	20,000
	1/30/98	10,000

2/17/99	6,200
2/28/00	7,260
TOTAL:	43,460

</TABLE>

Gilbert M. Meyer  
March 24, 2000  
Page 15

EXHIBIT B  
STOCK OPTIONS

<TABLE>  
<CAPTION>

ISSUE DATE	SHARES	STRIKE \$	EXERCISED	OUTSTANDING
<S> 3/10/94	<C> 100,000	<C> \$20.0000	<C> --	<C> 100,000
3/31/95	60,000	\$18.3750	--	60,000
1/26/96	40,000	\$23.3750	--	40,000
1/24/97	100,000	\$36.6250	--	100,000
1/30/98	100,000	\$37.9375	--	100,000
2/17/99	62,000	\$32.0000	--	62,000
2/28/00	59,400	\$33.7500	--	59,400
TOTAL:	521,400	N/A	--	521,400

</TABLE>

CONSULTING AGREEMENT

This Consulting Agreement (the "Agreement"), made as of the Effective Date (as that term is defined in Section 7(a) below), by and between AvalonBay Communities, Inc. (the "Company," a term which for purposes of this Agreement includes its related or affiliated entities) and Gilbert M. Meyer (the "Consultant")

WITNESSETH

WHEREAS, the Consultant and the Company have agreed that the Consultant shall retire as Executive Chairman of the Company on the 10th day of May 2000 (the "Date of Retirement"); and

WHEREAS, the Company and the Consultant have agreed that the Consultant will continue to serve the Company as a consultant for a period of time following the Consultant's retirement as Executive Chairman of the Company;

NOW THEREFORE, in consideration of the mutual covenants contained in this Agreement, the Company and the Consultant agree as follows:

1. Consulting Fees.

(a) In consideration of the Consultant's provision of Consulting Services, in accordance with and subject to Section 2 below, the Company will pay the Consultant the consulting fees (the "Fees") in three installments as follows on the following payment dates:

- (i) One Million Three Hundred Ninety-Five Thousand Dollars (\$1,395,000) on the Date of Retirement;
- (ii) One Million Three Hundred Ninety-Five Thousand Dollars (\$1,395,000) on the first anniversary of the Date of Retirement; and
- (iii) One Million Three Hundred Ninety-Five Thousand Dollars (\$1,395,000) on the second anniversary of the Date of Retirement.

(b) The Consultant and the Company acknowledge that, due to transitional issues, on-going developments, and other activities during the first year of the Consulting Period, the Consultant will provide more services than in the second and third years. As additional consideration for the Consultant's provision of Consulting Services during the first year of the Consulting Period, in accordance with and subject to Section 2 below, the Company will deliver to the Consultant 5,880 shares (which shall be adjusted equitably to reflect stock splits, stock dividends or similar changes affecting the common stock of the Company occurring prior to the date such shares are to be delivered to the Consultant) of the Company's common stock on each of the Date of Retirement (i.e., May 10, 2000), July 1, 2000, October 1, 2000 and January 1, 2001 (the "Additional Fees"). Such common stock may bear a restricted securities legend to the extent the Company reasonably deems such legend necessary to comply with applicable law.

2. Consulting Services and Payment Therefore

(a) The Consultant hereby agrees to provide non-exclusive consulting services to the Company for a period of three (3) years following the Date of Retirement (the "Consulting Period"). By way of clarification, the parties agree that the Consulting Period will continue in accordance with the terms of this Agreement regardless of Consultant's continuing role as a Director of the Company and that the Consultant's failure or inability to continue as a Director shall not constitute "Cause" as defined in Section 2(f) below.

(b) In his capacity as a consultant to the Company, the Consultant, upon reasonable advance notice and at times reasonably agreeable to the Consultant, shall (i) assist with respect to transitional matters that may arise in connection with the Consultant's retirement as Executive Chairman of the Company; (ii) respond to

requests for assistance or information concerning business matters with which the Consultant became familiar while employed; and (iii) provide business advice and counsel to the Company with respect to business strategies and

acquisition, dispositions, development and redevelopment of multi-family rental properties (collectively, the "Consulting Services").

(c) It is intended and agreed by and between the parties that while providing Consulting Services, the Consultant is and shall at all times be and remain, an independent contractor. The Consultant understands and agrees that during the Consulting Period, he is not an employee of the Company or any of its affiliates and shall not be treated as an employee for any purpose. The Consultant understands that he will not be entitled by reason of providing the Consulting Services to any compensation other than the consideration provided in this Agreement, including, without limitation, the Fees and Additional Fees described in Section 1 above. The Company shall promptly reimburse the Consultant for all reasonable out-of-pocket costs incurred by him in connection with providing Consulting Services, subject to approval and documentation in accordance with applicable policies as may be in effect from time to time. Nothing in this Agreement or otherwise shall be construed as identifying the Consultant as an employee, agent or legal representative of the Company or any of its affiliates during the Consulting Period for any purpose whatsoever. The Consultant will not be authorized to transact business, incur obligations, sell goods, receive payments, solicit orders or assign or create any obligation of any kind, express or implied, on behalf of the Company, or to bind in any way whatsoever, or to make any promise, warranty or representation on behalf of the Company with respect to any matter, except as expressly authorized in writing by the Company. The Consultant shall not use any of the Company's trade names, trademarks, service names or servicemarks without the prior written approval of the Company.

(d) The Company will indemnify and hold the Consultant harmless with respect to any liability, cost, claims, damage (including reasonable attorney's fees) arising from his provision of Consulting Services except to the extent arising from the Consultant's reckless or willful misconduct and provided in any such case, that the Consultant promptly notify the Company, in writing, of any claim for indemnification made hereunder and allow the Company to assume the defense of any claim with counsel reasonably acceptable to the Consultant.

(e) During the Consulting Period, the Consultant shall be free to pursue other business opportunities or employment, except to the extent that such other business opportunities or employment might violate the terms of this Agreement, any other agreement between the Consultant and the Company, or the Consultant's fiduciary duties to the Company to the extent he remains a Director of the Company. The Consultant shall not be required to provide Consulting Services in a manner that unreasonably interferes with his ability to pursue such other business opportunities or employment; provided, that the Consultant shall remain available in any event to provide and shall provide, on reasonable notice, Consulting Services to the Company.

(f) This Agreement shall terminate prior to the end of the Consulting Period, without further obligation on the part of the Company, automatically upon the death of the Consultant or the Company's termination of this Agreement for "Cause". For purposes of this Agreement, the term "Cause" shall mean the Consultant's reckless or willful misconduct in the provision of Consulting Services or the Consultant's willful and material breach of this Agreement. Notwithstanding the foregoing, no termination of this Agreement by the Company shall be treated as for Cause unless and until all the steps described in Subparagraphs (i) to (iii) below have been complied with:

(i) Notice of intention to terminate for Cause has been given to the Consultant in writing by the Company within 120 days after the Chief Executive Officer of the Company learns of the act, failure to act or event (or latest in a series of acts, failures to act or events) constituting Cause;

(ii) Consultant has been given written notice of the particular acts, failures to act or events which forms the basis for the Company's assertion of Cause and has been afforded at least 30 days in which (A) to present his position with respect to such basis in writing and, (B) if, in the reasonable judgment of the Company, such act, failure to act or event is curable, Consultant has been given a reasonable opportunity to cure the asserted basis for Cause; and

(iii) In the event the Company reasonably determines that the Consultant's written statement of his position with respect to the Company's assertion of Cause is not satisfactory and, if curable,

Consultant failed to cure to the Company's reasonable satisfaction, the Company then may commence an arbitration proceeding to establish that it has Cause to terminate the Agreement. In the event that an arbitrator determines that the Company does not have a basis to terminate this Agreement for Cause, the

Company's obligation to continue paying the Fees shall continue. The arbitration shall take place in accordance with the procedures described in Section 5 of the Mutual Release and Separation Agreement, of even date herewith, by and between the Consultant and the Company (the "Separation Agreement"). In the event that the date of payment for any installment of the Fees or date of delivery of the Additional Fees occurs while the process described in Subsections (i) through (iii) hereof is pending, the Company shall pay that installment of the Fees or deliver that installment of the Additional Fees into an escrow account in accordance with and subject to the escrow provisions of Section 5(e) of the Separation Agreement. The arbitrator shall direct that the amount held in escrow, including accrued interest, be paid over to the prevailing party. Nothing in this Section 2(f) shall be deemed to preclude the Company or the Consultant from seeking equitable relief in a court as specified in, and for the limited purposes set forth in, Section 5(f) of the Separation Agreement.

3. Non-Compete.

(a) During the Consulting Period, the Consultant covenants and agrees that he shall not participate in any manner, directly or indirectly, whether as an officer, employee, principal, partner, agent, consultant, independent contractor or shareholder (other than through ownership of less than 3% of the outstanding shares), in any publicly-traded real estate investment trust or publicly-traded real estate company that, in either case, is primarily or significantly involved in the ownership, operation, management or rental of multi-family apartment homes. This provision in no way shall limit the Consultant's fiduciary and common law obligations to the Company in his role as a director of the Company.

(b) In furtherance of the Consultant's obligations under this Agreement, Consultant further agrees that he shall not disclose, provide or reveal, directly or indirectly, any confidential information concerning the Company, including without implication of limitation, their respective operations, plans, strategies or administration, to any other person or entity unless compelled to do so pursuant to (i) a valid subpoena or (ii) as otherwise required by law, but in either case only after providing the Company, to the attention of its Chief Executive Officer, with prior written notice and opportunity to contest such subpoena or other requirement. Written notice shall be provided to the Company as soon as practicable, but in no event less than five (5) business days before any such disclosure is compelled, or, if later, at least one (1) business day after the Consultant receives notice compelling such disclosure.

(c) By way of background, the Consultant acknowledges that he presently is under the following obligations that may limit his ability to compete with the Company: Section 3 of this Agreement, Section 10 of that certain Retirement Agreement, of even date herewith, by and between the Consultant and the Company (the "Retirement Agreement"); Annex B to the Employment Agreement; and ongoing fiduciary obligations to the extent Consultant remains a Director of the Company (collectively, the "Restrictions"). The Company agrees that aside from the Restrictions: (i) nothing else in this or any other agreement prohibits the Consultant from competing with, or providing services, to an entity that competes with, the Company; (ii) such competition or services alone would not constitute a violation of this or any other agreement or law; and (iii) the Company will not assert that such competition or services alone constitutes a violation of this or any agreement or law on the theory that it inevitably would result in the disclosure of confidential information or trade secrets. This provision, however, shall not relieve the Consultant of any obligations he may have under Sections 8(b) or 8(c) of the Employment Agreement, Annex B thereto, or common or statutory law not to use or disclose trade secrets or confidential information of the Company.

4. Adverse Actions. The Consultant agrees that for forty-eight (48) months following the date he executes this Agreement, or, if later, until that date on which he ceases to be a Director of the Company, without the prior written consent of the Company the Consultant shall not, directly or indirectly or in any manner, or solicit, request, advise, assist or encourage any other person or entity to, (a) undertake any action that would be reasonably likely to, or is intended to, result in a Change in Control (as that term is defined in the Employment Agreement) of the Company, including, for these purposes, without limitation, a valuation of the Company; (b) seek to change or control in any manner the management or the Board of Directors of the Company, or the business, operations or affairs of the Company; or (c) undertake an investment (other than in respect to the equity rights with respect to option awards and stock grants provided to the Consultant in consideration of his employment), in the Company. The foregoing shall not apply to the Consultant's routine participation as a Director of the Company or to routine interests in Company equity, such as through reinvestments of Company dividends.

5. Exclusivity. This Agreement sets forth all the consideration to which the Consultant is entitled by reason of providing Consulting Services.

6. Tax Matters. All payments and other consideration provided to the Consultant pursuant to this Agreement shall be subject to any deductions, withholding or tax reporting that the Company reasonably determines to be required for tax purposes; provided, that nothing contained in this Section 6 affects the Consultant's independent obligation and primary responsibility, which obligation and responsibility the Consultant hereby affirms, to determine and make proper judgments regarding the payment of taxes under applicable law. The Company represents that it is the Company's current belief that withholding of income taxes on the Fees is not required and the Company further intends to pay to the Consultant the full amount of the Fees (subject to offsets, if any, authorized by the Consultant) and report same for tax purposes on a Form 1099.

7. Notices, Acknowledgments and Other Terms

(a) This Agreement shall become effective on the Effective Date of the Separation Agreement, as defined in Section 7(d) of the Separation Agreement (the "Effective Date").

(b) By signing this Agreement, the Consultant acknowledges that he is doing so voluntarily and knowingly, fully intending to be bound by this Agreement. The Consultant also acknowledges that he is not relying on any representations by any representative of the Company concerning the meaning of any aspect of this Agreement.

(c) In the event of any dispute, this Agreement will be construed as a whole, will be interpreted in accordance with its fair meaning, and will not be construed strictly for or against either the Consultant or the Company. Section headings and parenthetical explanations of section references are for convenience only and shall not be used to interpret the meaning of any provision or term of this Agreement.

(d) Any notices required to be given under this Agreement shall be provided in writing and delivered by hand or certified mail, and shall be deemed to have been duly given when received at the following addresses, unless and to the extent that notice of change of address has been duly given hereunder

If to the Consultant at:

Mr. Gilbert M. Meyer  
26007 Torello Lane  
Los Altos Hills, CA 94022

with a copy to:

Ethan Lipsig, Esq.  
Paul, Hastings, Janofsky & Walker LLP

4

555 South Flower Street  
Los Angeles, CA 90071-2371

If to the Company, to it at:

AvalonBay Communities, Inc.  
2900 Eisenhower Avenue, Third Floor  
Alexandria, VA 22314  
Attention: Chief Executive Officer

with a copy to:

AvalonBay Communities, Inc.  
2900 Eisenhower Avenue, Third Floor  
Alexandria, VA 22314  
Attention: General Counsel

and a copy to:

Joseph A. Piacquad, Esq,  
Goodwin, Procter & Hoar LLP  
Exchange Place



(f) The law of the State of Maryland will govern any dispute about this Agreement, including any interpretation or enforcement of this Agreement.

(g) In the event that any provision or portion of a provision of this Agreement shall be determined to be illegal, invalid or unenforceable, the remainder of this Agreement shall be enforced to the fullest extent possible and the illegal, invalid or unenforceable provision or portion of a provision will be amended by a court of competent jurisdiction, or otherwise thereafter shall be interpreted, to reflect as nearly as possible without being illegal, invalid or unenforceable the parties' intent if possible. If such amendment or interpretation is not possible, the illegal, invalid or unenforceable provision or portion of a provision will be severed from the remainder of this Agreement and the remainder of this Agreement shall be enforced to the fullest extent possible as if such illegal, invalid or unenforceable provision or portion of a provision was not included.

(h) This Agreement may be modified only by a written agreement signed by the Consultant and an authorized representative of the Company.

(i) This Agreement, the Retirement Agreement and the Separation Agreement and Sections 4(b), 6, 7(d), 8(a) (as amended by Section 10 of the Retirement Agreement), 8(b) (as clarified by Section 14(i) of the Retirement Agreement), 8(c) and 13(a) (as amended by Section 5 of the Separation Agreement), and Annex B of the Employment Agreement constitute the entire agreement between the parties with respect to the subject matter hereof and, except as

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expressly provided therein, supersede all prior agreements between the parties with respect to any related subject matter.

(j) Neither the Company nor the Consultant may make any assignment of this Agreement or any interest herein, by operation of law or otherwise, without the prior written consent of the other party; provided that the Company may assign its rights under this Agreement without the consent of the Consultant in the event that the Company shall effect a reorganization, consolidate with or merge into any other corporation, partnership, organization or other entity, or transfer all or substantially all of its properties or assets to any other corporation, partnership, organization or other entity. This Agreement shall inure to the benefit of and be binding upon the Company and the Consultant, their respective successors, executors, administrators, heirs and permitted assigns.

(k) Subject in all events to applicable laws, in the event of the Consultant's death, any payments or other consideration then due and payable or deliverable to the Consultant by the Company under this Agreement will be paid or delivered to the Consultant's designated beneficiary, or, if the Consultant is not survived by such designated beneficiary, or the Consultant fails to effectively designate a beneficiary, to the Consultant's estate. The Company acknowledges that you have designated The Meyer 1997 Irrevocable Trust, dated February 10, 1997, Jo Ann Conner, or her successor, Trustee, as the beneficiary. The Consultant may designate a beneficiary or change such designation from time-to-time in accordance with the notice provisions of this Agreement. The Company will reasonably cooperate with you to modify this provision to the extent reasonably necessary so as to give effect to the purpose of this provision in a manner that complies with applicable laws.

(l) This Agreement may be executed in counterparts and/or by facsimile transmission, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

IN WITNESS WHEREOF, this Agreement has been executed as a sealed instrument by the Company, by its duly authorized officer, and by the Consultant.

<TABLE>  
<CAPTION>

CONSULTANT: AVALONBAY COMMUNITIES, INC.

<S>

<C>

/s/ GILBERT M. MEYER  
-----  
Gilbert M. Meyer

By: /s/ RICHARD L. MICHAUX  
-----  
Richard L. Michaux  
Its: Chief Executive Officer

Dated: March 24, 2000  
-----

Dated: March 24, 2000  
-----

</TABLE>

## EXHIBIT 12.1

## AVALONBAY COMMUNITIES, INC.

## RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

<TABLE>  
<CAPTION>

	Three Months Ended March 31, 2000 -----	Year Ended December 31, 1999 -----	Year Ended December 1998 -----
31, ---			
<S>	<C>	<C>	<C>
Net Operating Income 123,535	\$ 47,172	\$ 172,276	\$
(Less) Nonrecurring item:			
Gain on sale (25,270)	\$ (7,910)	\$ (47,093)	\$
Non-recurring charges -	-	16,782	
(Plus) Extraordinary item:			
Unamortized loan fee write-off 245	\$ -	\$ -	\$
(Plus) Fixed charges:			
Portion of rents representative of the interest factor 293	\$ 110	\$ 526	\$
Interest expense 54,650	20,067	74,699	
Interest capitalized 14,724	3,494	21,888	
Debt cost amortization 2,068	677	2,624	
Preferred dividend 28,132	9,945	39,779	
---	-----	-----	-----
Total fixed charges (1) 99,867	\$ 34,293	\$ 139,516	\$
(Less):			
Interest capitalized 14,724	\$ 3,494	\$ 21,888	\$
Preferred dividend 28,132	9,945	39,779	
Adjusted earnings (2) 155,521	\$ 60,116	\$ 219,814	\$
---	-----	-----	-----
Ratio (2 divided by 1) 1.56	1.75	1.58	
---	-----	-----	-----
	Year Ended December 31, 1997 -----	Year Ended December 31, 1996 -----	Year Ended December 1995 -----
31, --			
<S>	<C>	<C>	<C>
Net Operating Income	\$ 64,916	\$ 51,651	\$

30,937

(Less) Nonrecurring item:

	Gain on sale	\$ (677)	\$ (7,850)	\$
-				
-	Non-recurring charges	-	-	
(Plus) Extraordinary item:				
1,158	Unamortized loan fee write-off	\$ 1,183	\$ 2,356	\$
(Plus) Fixed charges:				
117	Portion of rents representative of the interest factor	\$ 172	\$ 150	\$
11,056	Interest expense	16,977	9,545	
6,004	Interest capitalized	9,024	12,883	
1,869	Debt cost amortization	700	1,842	
-	Preferred dividend	19,656	10,422	
		-----	-----	-----
19,046	Total fixed charges (1)	\$ 46,529	\$ 34,842	\$
(Less):				
6,004	Interest capitalized	\$ 9,024	\$ 12,883	\$
-	Preferred dividend	19,656	10,422	
		-----	-----	-----
45,137	Adjusted earnings (2)	\$ 83,271	\$ 57,694	\$
		-----	-----	-----
2.37	Ratio (2 divided by 1)	1.79	1.66	
		-----	-----	-----

</TABLE>

EXHIBIT 12.1 (CONTINUED)

AVALONBAY COMMUNITIES, INC.  
RATIOS OF EARNINGS TO FIXED CHARGES

<TABLE>  
<CAPTION>

	Three Months Ended March 31, 2000	Year Ended December 31, 1999	Year Ended December 1998
	-----	-----	-----
31,123,535			
<S>			
Net Operating Income	\$ 47,172	\$ 172,276	\$
(Less) Nonrecurring item:			
(25,270)	\$ (7,910)	\$ (47,093)	\$
-	-	16,782	

(Plus) Extraordinary item:			
Unamortized loan fee write-off	\$	-	\$ -
245			\$
(Plus) Fixed charges:			
Portion of rents representative of the interest factor	\$	110	\$ 526
293			\$
Interest expense		20,067	74,699
54,650			
Interest capitalized		3,494	21,888
14,724			
Debt cost amortization		677	2,624
2,068			
-----			-----
Total fixed charges (1)	\$	24,348	\$ 99,737
71,735			\$
(Less):			
Interest capitalized	\$	3,494	\$ 21,888
14,724			\$
Adjusted earnings (2)	\$	60,116	\$ 219,814
155,521			\$
-----			-----
Ratio (2 divided by 1)		2.47	2.20
2.17			
=====			=====

Ended	Year Ended	Year Ended	Year
31,	December 31,	December 31,	December
	1997	1996	1995
	-----	-----	-----
<S>	<C>	<C>	<C>
Net Operating Income	\$ 64,916	\$ 51,651	\$
30,937			
(Less) Nonrecurring item:			
Gain on sale	\$ (677)	\$ (7,850)	
-			
Non-recurring charges	-	-	
-			
(Plus) Extraordinary item:			
Unamortized loan fee write-off	\$ 1,183	\$ 2,356	\$
1,158			
(Plus) Fixed charges:			
Portion of rents representative of the interest factor	\$ 172	\$ 150	\$
117			
Interest expense	16,977	9,545	
11,056			
Interest capitalized	9,024	12,883	
6,004			
Debt cost amortization	700	1,842	
1,869			
-----			-----
Total fixed charges (1)	\$ 26,873	\$ 24,420	\$
19,046			
(Less):			
Interest capitalized	\$ 9,024	\$ 12,883	\$
6,004			
Adjusted earnings (2)	\$ 83,271	\$ 57,694	\$
45,137			
	-----	-----	-----

-----

Ratio (2 divided by 1)  
2.37

3.10

2.36

=====

=====

=====

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<PP&E>	4,315,667
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<CURRENT-LIABILITIES>	149,652
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<PREFERRED-MANDATORY>	0
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<OTHER-SE>	2,374,949
<TOTAL-LIABILITY-AND-EQUITY>	4,180,116
<SALES>	0
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<INTEREST-EXPENSE>	20,067
<INCOME-PRETAX>	47,172
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<CHANGES>	0
<NET-INCOME>	47,172
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<EPS-DILUTED>	0.55

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