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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 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 [X] No []

APPLICABLE ONLY TO CORPORATE ISSUERS

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

67,058,099 shares outstanding as of November 1, 2000

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AVALONBAY COMMUNITIES, INC.
FORM 10-Q
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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>

	9-30-00 (unaudited)	12-31-99
	-----	-----

ASSETS		
Real estate:		
<S>	<C>	<C>
Land	\$ 758,796	\$
663,007		
Buildings and improvements	3,168,903	
2,942,866		
Furniture, fixtures and equipment	102,576	
82,467		

	4,030,275	
3,688,340		
Less accumulated depreciation	(306,758)	
(206,962)		

Net operating real estate	3,723,517	
3,481,378		
Construction in progress (including land)	413,595	
395,187		
Communities held for sale	29,847	
164,758		

Total real estate, net	4,166,959	
4,041,323		
Cash and cash equivalents	10,362	
7,621		
Cash in escrow	34,159	
8,801		

Resident security deposits	17,725	
14,113		
Investments in unconsolidated real estate joint ventures	8,450	
8,101		
Deferred financing costs, net	13,075	
14,056		
Deferred development costs	14,723	
12,938		
Participating mortgage notes	21,483	
21,483		
Prepaid expenses and other assets	43,301	
26,226		

TOTAL ASSETS	\$ 4,330,237	\$
4,154,662		
=====		
LIABILITIES AND STOCKHOLDERS' EQUITY		
Variable rate unsecured credit facility	\$ 146,000	\$
178,600		
Unsecured notes	1,135,000	
985,000		
Notes payable	408,431	
430,047		
Dividends payable	47,320	
44,139		
Payables for construction	20,643	
18,874		
Accrued expenses and other liabilities	53,239	
40,226		
Accrued interest payable	16,739	
28,134		
Resident security deposits	28,353	
23,980		

TOTAL LIABILITIES	1,855,725	
1,749,000		

Minority interest of unitholders in consolidated partnerships	55,294	
35,377		
Stockholders' equity:		
Preferred stock, \$.01 par value; \$25 liquidation value; 50,000,000 shares authorized at both September 30, 2000 and December 31, 1999; 18,322,700 shares outstanding at both September 30, 2000 and December 31, 1999	183	
183		
Common stock, \$.01 par value; 140,000,000 shares authorized at both September 30, 2000 and December 31, 1999; 66,748,339 and 65,758,009 shares outstanding at September 30, 2000 and December 31, 1999, respectively	667	
658		
Additional paid-in capital	2,477,119	
2,442,510		
Deferred compensation	(4,200)	
(3,559)		
Dividends in excess of accumulated earnings	(54,551)	
(69,507)		

TOTAL STOCKHOLDERS' EQUITY	2,419,218	
2,370,285		

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,330,237	\$
4,154,662		
=====		

</TABLE>

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in thousands, except per share data)

	For the three months ended		For the nine months ended	
	9-30-00	9-30-99	9-30-00	9-30-99
Revenue:				
<S>	<C>	<C>	<C>	<C>
Rental income	\$ 145,954	\$ 130,734	\$ 420,371	\$ 372,114
Management fees	261	277	761	930
Other income	136	97	265	198
	-----	-----	-----	-----
Total revenue	146,351	131,108	421,397	373,242
	-----	-----	-----	-----
Expenses:				
Operating expenses, excluding property taxes	36,390	35,996	104,860	102,244
Property taxes	12,158	10,718	34,717	32,058
Interest expense	21,385	19,752	61,815	54,915
Depreciation and amortization	30,599	28,144	91,227	80,798
General and administrative	3,359	2,370	9,591	7,163
Non-recurring charges	--	54	--	16,644
	-----	-----	-----	-----
Total expenses	103,891	97,034	302,210	293,822
	-----	-----	-----	-----
Equity in income of unconsolidated joint ventures	721	860	2,117	2,266
Interest income	1,277	2,304	3,245	5,723
Minority interest in consolidated partnerships	(485)	(524)	(1,499)	(1,452)
	-----	-----	-----	-----
Income before gain on sale of communities	43,973	36,714	123,050	85,957
Gain (loss) on sale of communities	14,521	(2,434)	33,273	26,145
	-----	-----	-----	-----
Net income	58,494	34,280	156,323	112,102
Dividends attributable to preferred stock	(9,944)	(9,944)	(29,834)	(29,834)
	-----	-----	-----	-----
Net income available to common stockholders	\$ 48,550	\$ 24,336	\$ 126,489	\$ 82,268
	=====	=====	=====	=====
Per common share:				
Net income - basic	\$ 0.72	\$ 0.37	\$ 1.89	\$ 1.26
	=====	=====	=====	=====
Net income - diluted	\$ 0.71	\$ 0.37	\$ 1.86	\$ 1.25
	=====	=====	=====	=====

</TABLE>

See accompanying notes to condensed consolidated financial statements.

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

	For the nine months ended	
	9-30-00	9-30-99

99	-----	-----

CASH FLOWS FROM OPERATING ACTIVITIES:		
<S>	<C>	<C>
Net income	\$ 156,323	\$
112,102		

Adjustments to reconcile net income to cash provided			
by operating activities:			
80,798	Depreciation and amortization	91,227	
2,517	Amortization of deferred compensation	2,394	
383	Decrease (increase) in investments in unconsolidated real estate joint ventures	(100)	
1,452	Income allocated to minority interest in consolidated partnerships	1,499	
(26,145)	Gain on sale of communities	(33,273)	
(7,016)	Increase in resident security deposits, accrued interest on participating mortgage notes, prepaid expenses and other assets	(25,073)	
7,773	Increase in accrued expenses, other liabilities and accrued interest payable	6,286	
-		-----	-----
171,864	Net cash provided by operating activities	199,283	
-		-----	-----
	CASH FLOWS USED IN INVESTING ACTIVITIES:		
(20,718)	Increase (decrease) in construction payables	1,769	
(21,136)	Increase in cash in escrow	(25,358)	
165,055	Proceeds from sale of communities, net of selling costs	101,393	
(386,148)	Purchase and development of real estate	(299,488)	
-		-----	-----
(262,947)	Net cash used in investing activities	(221,684)	
-		-----	-----
	CASH FLOWS FROM FINANCING ACTIVITIES:		
35,498	Issuance of common stock	25,513	
(128,504)	Dividends paid	(138,186)	
275,000	Proceeds from sale of unsecured notes	150,000	
(3,255)	Payment of deferred financing costs	(1,482)	
(3,574)	Repayments of notes payable	(2,591)	
(82,000)	Net repayments of unsecured facility	(32,600)	
(1,929)	Contributions from (distributions to) minority partners	24,488	
--		-----	-----
91,236	Net cash provided by financing activities	25,142	
--		-----	-----
153	Net increase in cash	2,741	
8,890	Cash and cash equivalents, beginning of period	7,621	
--		-----	-----
9,043	Cash and cash equivalents, end of period	\$ 10,362	\$
=====		=====	
55,536	Cash paid during period for interest, net of amount capitalized	\$ 68,158	\$
=====		=====	

</TABLE>

See accompanying notes to condensed consolidated financial statements.

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

During the nine months ended September 30, 2000:

- 147,060 units of limited partnership, valued at \$6,070, 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.
- 1,520 units of limited partnership in DownREIT partnerships, valued at \$60 were issued in connection with an acquisition for cash and units pursuant to a forward purchase contract agreed to in 1997 with an unaffiliated party.
- Common and preferred dividends declared but not paid totaled \$47,320.

During the nine months ended September 30, 1999:

- 22,623 units of limited partnership, valued at \$868, 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.
- 117,178 units of limited partnership in DownREIT partnerships, valued at \$4,614, were issued in connection with an acquisition for cash and units pursuant to a forward purchase contract agreed to in 1997 with an unaffiliated party.
- Common and preferred dividends declared but not paid totaled \$43,829.

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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 September 30, 2000, the Company owned or held an interest in 126 operating apartment communities containing 36,724 apartment homes in twelve states and the District of Columbia, of which two communities containing 1,041 apartment homes were under reconstruction. The Company also owned ten communities with 2,894 apartment homes under construction and rights to develop an additional 34 communities that, if developed, are expected to contain an estimated 8,825 apartment homes.

During the third quarter of 2000:

- - The Company completed the development of Avalon Essex (located in the Boston, Massachusetts area) containing 154 apartment homes and Avalon Haven (located in the Fairfield-New Haven, Connecticut area) containing 128 apartment homes for a total collective investment of approximately \$36,000. The Company commenced the development of three development communities, Avalon Harbor (located in Stamford, Connecticut), Avalon Belltown (located in downtown Seattle, Washington) and Avalon Towers on the Peninsula (located in the San Jose, California area). When completed, these communities are expected to contain 634 apartment homes with a projected total investment of approximately \$145,800.
- - The Company acquired two communities pursuant to the terms of a forward purchase contract agreed to in 1997 with an unaffiliated party. Avalon WildReed (located in the Seattle, Washington area) containing 234 apartment homes, was acquired for approximately \$22,900. Avalon Palladia (located in the Portland, Oregon area), containing 497 apartment homes, was acquired for approximately

\$46,300.

- - The Company completed four redevelopment communities, Avalon Greenbriar (located in the Seattle, Washington area), Avalon at Mission Bay (located in the San Diego, California area), Avalon at Creekside (located in the San Jose, California area) and Avalon Laguna Niguel (located in the Orange County, California area). These communities contain 1,455 apartment homes with a total investment in redevelopment (i.e., exclusive of acquisition costs) of \$40,300.
- - The Company acquired three parcels of land for an aggregate purchase price of \$21,115. The parcels are located in downtown Washington, D.C., downtown Seattle, Washington, and the Oakland, California area. The Company expects to develop three apartment communities, with an aggregate of 487 apartment homes, on these parcels. As of September 30, 2000, development had commenced on one of these sites, Avalon Belltown, as mentioned above.

As further discussed in Footnote 7, "Communities Held for Sale", the Company has adopted a strategy of disposing of certain assets in markets that do not meet its long-term strategic direction and redeploying the proceeds from such

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sales to help fund the Company's development and redevelopment activities. In connection with this strategy, the Company sold three communities containing 708 apartment homes for net proceeds of approximately \$45,941 during the three months ended September 30, 2000. The net proceeds from these dispositions will be redeployed to develop or redevelop communities currently under construction or reconstruction. Pending such redeployment, the proceeds from the sale of these communities 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 accounting principles generally accepted in the United States ("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 and nine months ended September 30, 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 and Nine Months Ended September 30, 1999

The financial presentation of the historical financial statements for the three and nine months ended September 30, 1999, has been changed from the presentation that appeared in the Company's Form 10-Q for the three and nine months ended September 30, 1999. For a discussion of the change in the presentation, 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.

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 a cash redemption of a limited partner's unit, the Company 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.

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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.

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 (primarily 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.

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 and nine months ended September 30, 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 in accordance with the provisions of SFAS No. 128.

The Company's basic and diluted weighted average shares outstanding for the three and nine months ended September 30, 2000 and 1999 are as follows:

<TABLE>
<CAPTION>

	Three months ended		Nine months ended	
	9-30-00	9-30-99	9-30-00	9-30-99
<S>	<C>	<C>	<C>	<C>
Weighted average common shares outstanding - basic	66,490,846	64,832,386	66,109,093	64,412,322
Weighted average units outstanding	851,677	984,398	901,854	915,606
Weighted average common shares and units outstanding - basic	67,342,523	65,816,784	67,010,947	65,327,928
Effect of dilutive securities	1,273,141	406,112	854,312	431,926
Weighted average common shares and units outstanding - diluted	68,615,664	66,222,896	67,865,259	65,759,854

</TABLE>

Certain options to purchase shares of common stock totaling 3,000 and 65,500 were outstanding during the three and nine months ended September 30, 2000, respectively, and 2,390,176 and 2,401,676 were outstanding during the three and nine months ended September 30, 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 \$16,076 in the first quarter of 1999 related to the

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expected costs associated with this management realignment and certain related organizational adjustments. The non-recurring charge consisted of \$15,476 in severance benefits, \$250 related to costs to eliminate duplicate accounting functions and \$350 in legal fees. As of September 30, 2000 all cash payments related to the non-recurring charge had been incurred.

The non-recurring charge also included \$54 and \$568 of Year 2000 remediation costs that had been incurred for the three and nine months ended September 30, 1999, respectively.

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. In June 2000, the Financial Accounting Standards Board issued SFAS No. 138, "Accounting for Certain Instruments and Certain Hedging Activities." SFAS No. 138 addresses a limited number of issues causing implementation difficulties for entities that apply SFAS No. 133. The Company currently plans to adopt these pronouncements 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, "Revenue Recognition in Financial Statements". SAB No. 101 provides guidance on applying generally accepted accounting principles to revenue recognition issues in financial statements. The Company adopted SAB No. 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. Insured Fire at Development Community

On August 30, 2000, a fire occurred at Avalon River Mews, a 408 apartment home development community located in the Northern New Jersey area. At the time, the community was still under construction and was unoccupied. The book value of the destroyed assets approximated \$13,900. The Company has property damage and business interruption insurance and is currently preparing its insurance claim for the cost of replacing the destroyed assets as well as for business interruption losses. As of September 30, 2000, the Company has reduced the carrying value of the destroyed assets to zero, and has concurrently recorded an insurance receivable of \$10,900, equal to the book value of the destroyed assets less an initial insurance recovery of \$3,000. The Company does not anticipate this event will have a material adverse impact on the financial condition or results of operations of the Company.

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3. Interest Capitalized

Capitalized interest associated with communities under development or redevelopment totaled \$5,255 and \$5,208 for the three months ended September 30, 2000 and 1999, respectively, and \$12,912 and \$18,357 for the nine months ended September 30, 2000 and 1999, respectively.

4. Notes Payable, Unsecured Notes and Credit Facility

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

<TABLE>
<CAPTION>

	9-30-00 -----	12-31-99 -----
<S>	<C>	<C>
Fixed rate mortgage notes payable (conventional and tax-exempt)	\$ 340,471	\$ 362,087
Variable rate mortgage notes payable (tax-exempt)	67,960	67,960
Fixed rate unsecured notes	1,135,000	985,000
	-----	-----
Total notes payable and unsecured notes	1,543,431	1,415,047
Variable rate unsecured credit facility	146,000	178,600
	-----	-----
Total notes payable, unsecured notes and credit facility	\$1,689,431	\$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 7.3% at September 30, 2000. The weighted average interest rate of the Company's fixed rate notes (conventional and tax-exempt) was 7.0% at September 30, 2000.

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

<TABLE>
<CAPTION>

Year of Maturity	Principal	Interest Rate

<S>	<C>	<C>
2002	\$ 100,000	7.375%
2003	\$ 50,000	6.25%
	\$ 100,000	6.5%
2004	\$ 125,000	6.58%
2005	\$ 100,000	6.625%
	\$ 50,000	6.5%
2006	\$ 150,000	6.8%
2007	\$ 110,000	6.875%
2008	\$ 50,000	6.625%
	\$ 150,000	8.25%
2009	\$ 150,000	7.5%

</TABLE>

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 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 credit 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 (7.1% at September 30, 2000). In addition, the credit 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 credit facility) for up to \$400,000. The Company is subject to certain customary covenants under the credit 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 credit facility matures in July 2001 and has two, one-year extension options.

5. Stockholders' Equity

The following summarizes the changes in stockholders' equity for the nine months ended September 30, 2000:

<TABLE>
<CAPTION>

	Preferred stock	Common stock	Additional paid-in capital
	-----	-----	-----
<S>	<C>	<C>	<C>
Stockholders' equity, December 31, 1999	\$ 183	\$ 658	\$ 2,442,510
Dividends declared to common and preferred stockholders	--	--	--
Issuance of common stock, net of forfeitures	--	9	34,609
Amortization of deferred compensation	--	--	--
Net income	--	--	--
	-----	-----	-----
Stockholders' equity, September 30, 2000	\$ 183	\$ 667	\$ 2,477,119
	=====	=====	=====

</TABLE>

<TABLE>
<CAPTION>

	Deferred compensation	Dividends in excess of accumulated earnings	Total stockholders' equity
	-----	-----	-----
<S>	<C>	<C>	<C>
Stockholders' equity, December 31, 1999	\$ (3,559)	\$ (69,507)	\$ 2,370,285
Dividends declared to common and preferred stockholders	--	(141,367)	(141,367)
Issuance of common stock, net of forfeitures	(3,035)	--	31,583
Amortization of deferred compensation	2,394	--	2,394
Net income	--	156,323	156,323
	-----	-----	-----
Stockholders' equity, September 30, 2000	\$ (4,200)	\$ (54,551)	\$ 2,419,218
	=====	=====	=====

</TABLE>

During the nine months ended September 30, 2000, the Company issued 360,197 shares of common stock upon the exercise of stock options, 388,155 shares of common stock through the Company's Dividend Reinvestment Plan, 147,060 shares of common stock to acquire DownREIT limited partnership units from third parties, 10,568 shares of common stock in connection with the Company's Employee Stock Purchase Plan and 133,456 shares of common stock in connection with restricted stock grants to employees. A total of 49,106 shares of common stock issued in connection with restricted stock grants were forfeited during the nine months ended September 30, 2000.

6. Investments in Unconsolidated Real Estate Joint Ventures

The Company accounts for investments in unconsolidated entities in accordance

with Accounting Principles Board Opinion No. 18. The Company applies the equity method of accounting to an investment in an entity if it has the ability to significantly influence that entity. All other unconsolidated investments are recorded under the cost method of accounting. The Company's investments in unconsolidated real estate ventures are generally recorded under the equity method of accounting, whereas the Company's investments in unconsolidated non-real estate entities are recorded under the cost method of accounting. At September 30, 2000, the Company's investments in unconsolidated real estate joint ventures consisted of:

- - a 50% general partnership interest in a partnership that owns the Falkland Chase community;

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- - a 49% general partnership interest in a partnership that owns the Avalon Run community;
- - a 50% limited liability company membership interest in a limited liability company that owns the Avalon Grove community.

The following is a combined summary of the financial position of these joint ventures as of the dates presented.

<TABLE>
<CAPTION>

	9-30-00 (unaudited)	12-31-99
	-----	-----
Assets:		
<S>	<C>	<C>
Real estate, net	\$ 92,869	\$ 94,644
Other assets	5,699	4,874
	-----	-----
Total assets	\$ 98,568	\$ 99,518
	=====	=====
Liabilities and partners' equity:		
Mortgage notes payable	\$ 25,900	\$ 26,000
Other liabilities	6,502	5,915
Partners' equity	66,166	67,603
	-----	-----
Total liabilities and partners' equity	\$ 98,568	\$ 99,518
	=====	=====

</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)		Nine months ended (unaudited)	
	9-30-00	9-30-99	9-30-00	9-30-99
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Rental income	\$ 5,645	\$ 5,323	\$ 16,434	\$ 15,489
Other income	20	8	27	18
Operating and other expenses	(1,597)	(1,455)	(4,363)	(4,196)
Mortgage interest expense	(274)	(196)	(816)	(564)
Depreciation and amortization	(808)	(773)	(2,390)	(2,314)
	-----	-----	-----	-----
Net income	\$ 2,986	\$ 2,907	\$ 8,892	\$ 8,433
	=====	=====	=====	=====

</TABLE>

7. Communities Held for Sale

During 1998, the Company adopted a strategy of disposing of certain assets in markets that do not meet its 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 an aggregate of 23

communities and a participating mortgage note during 1998 and 1999.

The communities sold during the first nine months of 2000 and the respective sales price and net proceeds are summarized below:

<TABLE>
<CAPTION>

Communities proceeds	Location	Period of sale	Apartment homes	Debt	Gross sales price	Net
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Avalon Chase 29,325	Marlton, NJ	1Q00	360	\$ --	\$ 29,700	\$
Avalon Pines 5,354	Virginia Beach, VA	2Q00	174	5,177	11,000	
Avalon Birches 20,773	Chesapeake, VA	2Q00	312	--	21,000	
Glen Creek 18,780	Morgan Hill, CA	3Q00	138	--	19,050	
Avalon Woods 11,814	Richmond, VA	3Q00	268	--	12,100	
Governor's Square 15,347	Sacramento, CA	3Q00	302	13,848	30,250	
			1,554	\$ 19,025	\$ 123,100	\$

Management intends to market additional communities for sale. However, there can be no assurance that such assets will be sold, or that we will sell the assets on financially advantageous terms. 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 determined a need to recognize 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 September 30, 2000, total real estate, net of accumulated depreciation, subject to sale totaled \$29,847. 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 September 30, 2000 of \$528 and \$152 for the three months ended September 30, 2000 and 1999, respectively, and \$1,440 and \$487 for the nine months ended September 30, 2000 and 1999, respectively.

8. Segment Reporting

SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," 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 period ending September 30, 2000. 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.

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<TABLE>
<CAPTION>

	For the three months ended				
	Stable Communities	Developed Communities	Redeveloped Communities	Other	Total
For the three and nine months ended 9-30-00					
Segment Results					
<S>	<C>	<C>	<C>	<C>	<C>
Total revenue	\$ 80,377	\$ 25,794	\$ 9,091	\$ 30,634	\$ 145,896
Net operating income	\$ 57,733	\$ 19,508	\$ 6,012	\$ 21,508	\$ 104,761
Gross real estate	\$ 2,150,725	\$ 661,073	\$ 292,954	\$ 1,078,157	\$ 4,182,909
Operating Yield	10.7%	11.8%	8.2%		
Non-allocated operations					
Total revenue	\$ --	\$ --	\$ --	\$ 455	\$ 455
Net operating income	\$ --	\$ --	\$ --	\$ 286	\$ 286
Gross real estate	\$ --	\$ --	\$ --	\$ 292,193	\$ 292,193
Total, AvalonBay					

Total revenue	\$ 80,377	\$ 25,794	\$ 9,091	\$ 31,089	\$ 146,351
Net operating income	\$ 57,733	\$ 19,508	\$ 6,012	\$ 21,794	\$ 105,047
Gross real estate	\$ 2,150,725	\$ 661,073	\$ 292,954	\$ 1,370,350	\$ 4,475,102

</TABLE>

<TABLE>
<CAPTION>

For the three months ended

	Stable Communities	Developed Communities	Redeveloped Communities	Other	Total
For the three and nine months ended 9-30-99					
Segment Results					
<S>	<C>	<C>	<C>	<C>	<C>
Total revenue	\$ 86,982	\$ 8,488	\$ 7,401	\$ 27,654	\$ 130,525
Net operating income	\$ 59,870	\$ 6,235	\$ 5,326	\$ 18,069	\$ 89,500
Gross real estate	\$2,465,020	\$ 225,469	\$ 232,549	\$1,065,549	\$3,988,587
Operating Yield	9.7%	11.1%	9.2%		
Non-allocated operations					
Total revenue	\$ --	\$ --	\$ --	\$ 583	\$ 583
Net operating income	\$ --	\$ --	\$ --	\$ 626	\$ 626
Gross real estate	\$ --	\$ --	\$ --	\$ 248,128	\$ 248,128
Total, AvalonBay					
Total revenue	\$ 86,982	\$ 8,488	\$ 7,401	\$ 28,237	\$ 131,108
Net operating income	\$ 59,870	\$ 6,235	\$ 5,326	\$ 18,695	\$ 90,126
Gross real estate	\$2,465,020	\$ 225,469	\$ 232,549	\$1,313,677	\$4,236,715

</TABLE>

<TABLE>
<CAPTION>

For the nine months ended

	Stable Communities	Developed Communities	Redeveloped Communities	Other	Total
For the three and nine months ended 9-30-00					
Segment Results					
<S>	<C>	<C>	<C>	<C>	<C>
Total revenue	\$ 233,027	\$ 74,182	\$ 26,627	\$ 86,287	\$ 420,123
Net operating income	\$ 168,495	\$ 55,987	\$ 17,566	\$ 59,252	\$ 301,300
Gross real estate	\$2,150,725	\$ 661,073	\$ 292,954	\$1,078,157	\$4,182,909
Operating Yield	10.4%	11.3%	8.0%		
Non-allocated operations					
Total revenue	\$ --	\$ --	\$ --	\$ 1,274	\$ 1,274
Net operating income	\$ --	\$ --	\$ --	\$ 942	\$ 942
Gross real estate	\$ --	\$ --	\$ --	\$ 292,193	\$ 292,193
Total, AvalonBay					
Total revenue	\$ 233,027	\$ 74,182	\$ 26,627	\$ 87,561	\$ 421,397
Net operating income	\$ 168,495	\$ 55,987	\$ 17,566	\$ 60,194	\$ 302,242
Gross real estate	\$2,150,725	\$ 661,073	\$ 292,954	\$1,370,350	\$4,475,102

</TABLE>

<TABLE>
<CAPTION>

For the nine months ended

Stable Communities	Developed Communities	Redeveloped Communities	Other	Total
-----------------------	--------------------------	----------------------------	-------	-------

For the three and nine months
ended 9-30-99

Segment Results

<S>	<C>	<C>	<C>	<C>	<C>
Total revenue	\$ 261,866	\$ 24,288	\$ 21,726	\$ 63,701	\$ 371,581
Net operating income	\$ 181,406	\$ 18,201	\$ 15,362	\$ 39,729	\$ 254,698
Gross real estate	\$2,465,020	\$ 225,469	\$ 232,549	\$1,065,549	\$3,988,587
Operating Yield	9.8%	10.8%	8.8%		

Non-allocated operations

Total revenue	\$ --	\$ --	\$ --	\$ 1,661	\$ 1,661
Net operating income	\$ --	\$ --	\$ --	\$ 1,465	\$ 1,465
Gross real estate	\$ --	\$ --	\$ --	\$ 248,128	\$ 248,128

Total, AvalonBay

Total revenue	\$ 261,866	\$ 24,288	\$ 21,726	\$ 65,362	\$ 373,242
Net operating income	\$ 181,406	\$ 18,201	\$ 15,362	\$ 41,194	\$ 256,163
Gross real estate	\$2,465,020	\$ 225,469	\$ 232,549	\$1,313,677	\$4,236,715

</TABLE>

In addition to reporting segments based on the above property types, Management currently reviews its operating segments by geographic 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.

Operating expenses as reflected on the Condensed Consolidated Statements of Operations include \$7,244 and \$5,732 for the three months ended September 30, 2000 and 1999, respectively, and \$20,422 and \$17,223 for the nine months ended September 30, 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 \$1,385 of accumulated depreciation as of September 30, 2000.

9. Subsequent Events

During October 2000, the Company commenced construction of Avalon Westpark, a 218 apartment home community located in the San Jose, California area. The expected development cost for Avalon Westpark is \$49,500. Also, the Company commenced redevelopment of Avalon at Prudential Center, located in downtown Boston, Massachusetts. Total investment in redevelopment (i.e., exclusive of acquisition costs) for this 781 apartment home community is expected to total \$25,000.

Subsequent to September 30, 2000, the Company made investments in BroadBand Residential, Inc. and Viva Group Inc., companies which specialize in the development of real estate-based software applications and ancillary services.

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The aggregate investment in BroadBand Residential, Inc. and Viva Group Inc. combined with an existing investment in a separate real estate-based software development company, totals \$4,114.

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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; and
- - the development, implementation and use of management information systems.

We cannot assure the future results or outcome of the matters described in forward-looking 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, and 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 that are beyond our control, such as changes in employment rates or population levels;
- - 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 future development activity 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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- - software applications and ancillary services being developed by companies in which we have invested may be unsuccessful in achieving their business plans, which could lead to a partial or complete loss of the investment in these companies.

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. You should also carefully review the section in Item 2 of this report that is captioned "Risks of Development and Redevelopment." 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 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 growth in 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:

- - development and redevelopment;
- - construction and reconstruction;
- - leasing and management;
- - acquisition and disposition;
- - financing;
- - marketing; 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. 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 to pursue appropriate new investments, including both new developments and acquisitions of communities, subject to the availability of cost-effective capital. We intend to pursue these investments 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 November 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:

<TABLE>
<CAPTION>

Number of apartment homes	Number of communities
-----	-----
<S>	<C>
Current Communities	126
36,724	
Stabilized Communities	124
35,683	
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:	50
16,090	
Northern California	10
3,028	

2,920	Southern California	8
1,075	Mid-Atlantic	3
6,270	Northeast	19
624	Midwest	2
2,173	Pacific Northwest	8
--	Lease-Up Communities	--
1,041	Redevelopment Communities	2
2,894	Development Communities	10
8,825 (*)	Development Rights	34

</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.

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- 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 November 1, 2000, there were no lease-up communities.

Redevelopment Communities. Represents all communities where substantial redevelopment has begun. Redevelopment is considered substantial when capital expected to be 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 November 1, 2000, we owned:

- - a fee simple, or absolute, ownership interest in 108 operating communities, one of which is on land subject to a 149 year land lease;
- - a general partnership interest in four 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 13 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 nine 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 September 30, 2000, there were 827,618 units outstanding. The DownREIT partnerships are consolidated for financial reporting purposes.

At September 30, 2000, we had positioned our portfolio of Stabilized Communities, excluding communities owned by unconsolidated joint ventures, to an average physical occupancy level of 98.2%.

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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 rental rates or occupancy levels. Given the current high occupancy level of our portfolio, we believe that any rental revenue and net income gains from our Stabilized 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 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;
- Iselin, New Jersey;
- Los Angeles, California;
- Minneapolis, Minnesota;
- Newport Beach, California;
- New York, New York; and
- Seattle, Washington.

Recent Developments

Sales of Existing Communities. We seek 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 are selling assets in certain submarkets and intend to redeploy the proceeds from those sales to develop and redevelop communities currently under construction or reconstruction. Pending such redeployment, we will generally use the proceeds from the sale of these communities to reduce amounts outstanding under our variable rate unsecured credit facility. On occasion, we will set aside the proceeds from the sale of communities into a cash escrow account to facilitate a like-kind exchange transaction. Accordingly, we sold three communities containing 708 apartment homes in connection with our capital redeployment strategy during the three months ended September 30, 2000. Net proceeds from these sales totaled \$45,941,000. We intend to dispose of additional assets as described more fully under "Future Financing and Capital Needs."

Development, Redevelopment and Acquisition Activities. During the third quarter of 2000:

- We completed development of Avalon Essex (located in the Boston, Massachusetts area) containing 154 apartment homes and Avalon Haven (located in the Fairfield-New Haven, Connecticut area) containing 128 apartment homes for a total investment of approximately \$36,000,000.
- We commenced the development of three communities, Avalon Harbor (located in Stamford, Connecticut), Avalon Belltown (located in downtown Seattle, Washington) and Avalon Towers

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on the Peninsula (located in the San Jose, California area). When completed, these communities are expected to contain 634 apartment homes with a projected total investment of approximately \$145,800,000. In addition, during October 2000, we commenced construction of Avalon Westpark, a 218 apartment home community located in the San Jose, California area. The expected development cost for Avalon Westpark is \$49,500,000.

- We acquired two communities pursuant to the terms of a forward purchase contract agreed to in 1997 with an unaffiliated party. Avalon WildReed (located in the Seattle, Washington area), containing 234 apartment homes, was acquired during July 2000 for approximately \$22,900,000. Avalon Palladia (located in the Portland, Oregon area), containing 497 apartment homes, was acquired during September 2000 for approximately \$46,300,000.
- We acquired three parcels of land, for an aggregate purchase price of \$21,115,000. The parcels are located in downtown Washington, D.C., downtown Seattle, Washington, and the Oakland, California area. We expect to develop three apartment communities, with an aggregate of 487 apartment homes, on these parcels. As of September 30, 2000, we had commenced development on one of these sites, Avalon Belltown, as mentioned above.
- We completed four redevelopment communities, Avalon Greenbriar (located in the Seattle, Washington area), Avalon at Mission Bay (located in the San Diego, California area), Avalon at Creekside (located in the San Jose, California area) and Avalon Laguna Niguel (located in the Orange County, California area). These communities contain 1,455 apartment homes for a total investment in redevelopment (i.e., exclusive of acquisition costs) of \$40,300,000. In addition, during October 2000, the Company commenced redevelopment on Avalon at Prudential Center, located in downtown Boston, Massachusetts. Total investment in redevelopment (i.e., exclusive of acquisition costs) for this 781 apartment home community is expected to total \$25,000,000.

The development and redevelopment of communities involve risks that the costs will be more than expected and 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.

Investment in Technology Initiatives. We have invested in three technology companies in the belief that the development and application of their technology and services will improve the operating performance of our real estate holdings. In prior reports, we discussed the development of an onsite property management system and leasing automation system to enable management to capture, review and analyze data to a greater extent than is possible using existing commercial software. The joint venture that was developing this software (consisting of AvalonBay, United Dominion Realty Trust, Inc., and Post Properties, Inc.), was restructured into a corporation and has been renamed Realeum, Inc. During the third quarter, Realeum received \$15 million of venture capital through the sale of Series A Preferred stock to a group of venture capital funds. Subsequent to September 30, 2000, we made investments in BroadBand Residential, Inc., and Viva Group, Inc. BroadBand Residential will specialize in providing broadband communication services (such as Internet access and video) to residents of multifamily communities. Viva provides a system for renters and property owners to identify each other and interact and negotiate lease terms over the Internet. Our aggregate investment in Realeum, BroadBand Residential and Viva is \$4.1 million. We are not obligated to provide any more capital to any of these entities, although we may have the opportunity to exercise preemptive rights that would allow us to make further investments. We hold a minority interest position in each of these entities.

Insured Fire at Development Community. On August 30, 2000, a fire occurred at Avalon River Mews, a 408 apartment home development community located in the Northern New Jersey area. At the time, the community was still under

construction and was unoccupied. The book value of the destroyed assets approximated \$13.9 million. We have property damage and business interruption insurance and are

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currently preparing our insurance claim for the cost of replacing the destroyed assets as well as for business interruption losses. As of September 30, 2000, we have reduced the carrying value of the destroyed assets to zero, and have concurrently recorded an insurance receivable of \$10.9 million, equal to the book value of the destroyed assets, less an initial insurance recovery of \$3.0 million. In addition to damage to the community, the fire caused substantial damage to a number of single family and multiple dwelling homes, causing the displacement of approximately 35 households. We expect that our liability insurance will reimburse us for substantially all amounts that may be owed to third parties on account of damages caused by the fire. We do not anticipate this event will have a material adverse impact on the financial condition or results of operations of our company.

Promotion of Chief Operating Officer to President. On September 7, 2000, we announced that Bryce Blair, Chief Operating Officer, would assume the additional position of President. This position was formerly held by Richard L. Michaux, who retains the position of Chief Executive Officer and Chairman of the Board.

Results of Operations and Funds from Operations

The financial presentation of our historical financial statements for the three and nine months ended September 30, 1999, has been changed from the presentation that appeared in our Form 10-Q for the three and nine months ended September 30, 1999. For a discussion of the change in the presentation, see Footnote 2 to the consolidated financial statements presented in our Form 10-K for the fiscal year ended December 31, 1999.

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A comparison of our operating results for the three and nine months ended September 30, 2000 and September 30, 1999 follows.

<TABLE>
<CAPTION>

	For the three months ended			
	9-30-00	9-30-99	\$ Change	% Change
Revenue:				
<S>	<C>	<C>	<C>	<C>
Rental income	\$ 145,954	\$ 130,734	\$ 15,220	11.6%
Management fees	261	277	(16)	(5.8%)
Other income	136	97	39	40.2%
Total revenue	146,351	131,108	15,243	11.6%
Expenses:				
Operating expenses, excluding property taxes	36,390	35,996	394	1.1%
Property taxes	12,158	10,718	1,440	13.4%
Total operating expenses	48,548	46,714	1,834	3.9%
Net Operating Income	97,803	84,394	13,409	15.9%
Other Expenses:				
Interest expense	21,385	19,752	1,633	8.3%
Depreciation and amortization	30,599	28,144	2,455	8.7%
General and administrative	3,359	2,370	989	41.7%
Non-recurring charges	--	54	(54)	--
Total other expenses	55,343	50,320	5,023	10.0%
Equity in income of unconsolidated joint ventures	721	860	(139)	(16.2%)
Interest income	1,277	2,304	(1,027)	(44.6%)

Minority interest in consolidated partnerships	(485)	(524)	39	7.4%
Income before gain on sale of communities	43,973	36,714	7,259	19.8%
Gain (loss) on sale of communities	14,521	(2,434)	16,955	696.6%
Net income	58,494	34,280	24,214	70.6%
Dividends attributable to preferred stock	(9,944)	(9,944)	--	--
Net income available to common stockholders	\$ 48,550	\$ 24,336	\$ 24,214	99.5%

</TABLE>

<TABLE>
<CAPTION>

	For the nine months ended			
	9-30-00	9-30-99	\$ Change	% Change
Revenue:				
<S>	<C>	<C>	<C>	<C>
Rental income	\$ 420,371	\$ 372,114	\$ 48,257	13.0%
Management fees	761	930	(169)	(18.2%)
Other income	265	198	67	33.8%
Total revenue	421,397	373,242	48,155	12.9%
Expenses:				
Operating expenses, excluding property taxes	104,860	102,244	2,616	2.6%
Property taxes	34,717	32,058	2,659	8.3%
Total operating expenses	139,577	134,302	5,275	3.9%
Net Operating Income	281,820	238,940	42,880	17.9%
Other Expenses:				
Interest expense	61,815	54,915	6,900	12.6%
Depreciation and amortization	91,227	80,798	10,429	12.9%
General and administrative	9,591	7,163	2,428	33.9%
Non-recurring charges	--	16,644	(16,644)	--
Total other expenses	162,633	159,520	3,113	2.0%
Equity in income of unconsolidated joint ventures	2,117	2,266	(149)	(6.6%)
Interest income	3,245	5,723	(2,478)	(43.3%)
Minority interest in consolidated partnerships	(1,499)	(1,452)	(47)	(3.2%)
Income before gain on sale of communities	123,050	85,957	37,093	43.2%
Gain (loss) on sale of communities	33,273	26,145	7,128	27.3%
Net income	156,323	112,102	44,221	39.4%
Dividends attributable to preferred stock	(29,834)	(29,834)	--	--
Net income available to common stockholders	\$ 126,489	\$ 82,268	\$ 44,221	53.8%

</TABLE>

Net income available to common stockholders (after adjusting for non-recurring charges and gain on sale of communities) increased by \$7,205,000 for the three months ended September 30, 2000 and \$20,449,000 for the nine months ended September 30, 2000 compared to the same periods of the preceding year. The increase in net income, as adjusted, for the three and nine months ended September 30, 2000 is primarily attributable to additional operating income from newly developed or redeveloped communities as well as growth in operating income from Established Communities.

As discussed in "Recent Developments - Sales of Existing Communities" and "Future Financing and Capital Needs," we have funded a significant portion of our development and redevelopment activities since 1998 through the sale of assets in certain markets where we have a limited presence. The short term effect of a sale of a community is that net operating income will be negatively impacted because that community's contribution to net operating income has been eliminated and the development or redevelopment community in which the proceeds from the sale are being invested is not complete yet. Interest expense will also decrease as the proceeds from the sale of communities are initially used to repay amounts outstanding on our credit facility. The historical long term effect of this strategy has been that net

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operating income attributable to newly developed and redeveloped communities is higher than net operating income of assets identified for sale. For the period January 1, 1999 through September 30, 2000, we have generated approximately \$382 million in net proceeds from the sale of assets, which represents approximately 10% of our total real estate assets as of January 1, 1999.

The increase in net operating income of \$42,880,000 for the nine months ended September 30, 2000 as compared to the same period of the preceding year is attributable to:

- an increase of \$41,317,000 related to communities where development activities, redevelopment activities or acquisitions were completed subsequent to January 1, 1999;
- an increase of \$15,311,000 related to Established Communities;
- a decrease of \$16,835,000 related to communities sold subsequent to January 1, 1999; and
- an increase of \$3,087,000 related to all other communities.

Depreciation expense will be impacted by the timing of asset sales and the completion of development or redevelopment activities. Gain on sale of communities will be impacted by the number of assets sold in a given period, and the carrying value of those assets.

Rental income increases are primarily the result of our disposition and capital redeployment strategy discussed above and improved operating results related to Established Communities.

Overall Portfolio - The increase in rental income (11.6% for the three months ended and 13.0% for the nine months ended September 30, 2000) 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. For the nine months ended September 30, 2000, the weighted average monthly revenue per occupied apartment home increased \$264 (24.0%) to \$1,365 compared to \$1,101 for the same period of the preceding year. The weighted average number of occupied apartment homes decreased from 36,628 apartment homes for the nine months ended September 30, 1999 to 33,503 apartment homes for the nine months ended September 30, 2000 due to asset sales.

Established Communities - Rental revenue increased \$7,189,000 (9.8%) for the three months ended September 30, 2000 compared to the same period of the preceding year. Rental revenue increased \$17,400,000 (8.1%) for the nine months ended September 30, 2000 compared to the same 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 nine months ended September 30, 2000, weighted average monthly revenue per occupied apartment home increased \$84 (6.9%) to \$1,353 compared to \$1,269 for the same period of the preceding year. The average economic occupancy increased from 96.4% for the nine months ended September 30, 1999 to 97.6% for the nine months ended September 30, 2000.

Management fees decreases (5.8% for the three months ended and 18.2% for the nine months ended September 30, 2000) are primarily due to a decline in the number of third-party communities that we manage.

Operating expenses, excluding property taxes increases (1.1% for the three months ended and 2.6% for the nine months ended September 30, 2000) are primarily a result of our disposition and capital redeployment strategy discussed above, and an increase in expense related to Established Communities. 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.

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Established Communities - Operating expenses, excluding property taxes increased \$419,000 (2.6%) to \$16,049,000 for the three months ended September 30, 2000 compared to \$15,630,000 for the same period of the preceding year. These expenses increased \$1,789,000 (4.1%) to \$45,741,000 for the nine months ended September 30, 2000 compared to \$43,952,000 for the same period of the preceding year. These increases are the result of higher redecorating, maintenance, payroll, insurance and administrative costs offset by lower utility and marketing costs.

Property taxes increases (13.4% for the three months ended and 8.3% for the nine months ended September 30, 2000) are primarily the result of our disposition and capital redeployment strategy discussed above and an increase in operating expense related to Established Communities. 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 increased \$722,000 (12.3%) to \$6,595,000 for the three months ended September 30, 2000 compared to \$5,873,000 for the same period of the preceding year. Property taxes increased \$300,000 (1.6%) to \$18,791,000 for the nine months ended September 30, 2000 compared to \$18,491,000 for the same period of the preceding year. These increases are primarily the result of an adjustment in the third quarter of 1999 to eliminate accrued but unassessed taxes related to previously renovated communities. In addition, payments were made during the third quarter of 2000 in resolution of a dispute over property tax calculations from 1997 to present for one of our communities in the Northeast region.

Interest expense increases (8.3% for the three months ended and 12.6% for the nine months ended September 30, 2000) are primarily attributable to a decrease in capitalized interest and secondarily to the issuance of unsecured debt securities during 1999 and 2000. This reflects our strategy to mitigate the risk of floating rate debt in a rising interest rate environment by repaying floating rate debt under our credit facility (with relatively lower current interest rates) with fixed rate unsecured debt that has a higher current interest rate and a longer term to maturity.

General and administrative increases (41.7% for the three months ended and 33.9% for the nine months ended September 30, 2000) are primarily attributable to professional fees and payments required under a consulting and non-competition arrangement with a retired executive. An increase in consulting costs as well as compensation expense for a senior officer, whose salary was capitalized in 1999 while he served the company in a different capacity, also contributed to the overall increase in expense. 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 represents our share of net income from joint ventures.

Interest income decreases (44.6% for the three months ended and 43.3% for the nine months ended September 30, 2000) are primarily attributable to the sale of the Fairlane Woods participating mortgage note that was sold in the fourth quarter of 1999.

We 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 for 2000 is determined based on a definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts (R) (NAREIT) in October 1999, and is defined as:

- - 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

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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 September 30, 2000, FFO increased to \$64,498,000 from \$54,831,000 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 and nine months ended September 30, 1999 excluded the effect on net income of a non-recurring restructuring charge of \$54,000 and \$16,644,000, respectively 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 clarified the definition of FFO and the treatment of certain non-recurring charges. The clarified definition includes the effect on net income of 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 on the following page for the three and nine months ended September 30, 2000 and 1999 (dollars in thousands):

<TABLE>
<CAPTION>

ended	For the three months ended		For the nine months	
	9-30-00	9-30-99	9-30-00	9-
30-99				
<S>	<C>	<C>	<C>	<C>
Net income	\$ 58,494	\$ 34,280	\$ 156,323	\$
112,102				
Preferred dividends	(9,944)	(9,944)	(29,834)	
(29,834)				
Depreciation - real estate assets	29,830	27,349	88,877	
79,595				
Joint venture adjustments	200	188	590	
562				
Minority interest expense	439	524	1,399	
1,452				
(Gain) loss on sale of communities	(14,521)	2,434	(33,273)	
(26,145)				
Funds from Operations - Clarified Definition (1)	\$ 64,498	\$ 54,831	\$ 184,082	\$
137,732				
Non-recurring charges (2)	--	54	--	
16,644				
Funds from Operations - Original Definition (3)	\$ 64,498	\$ 54,885	\$ 184,082	\$
154,376				
Net cash provided by operating activities	\$ 67,778	\$ 57,989	\$ 199,283	\$
171,864				
Net cash used in investing activities	\$ (61,383)	\$ (107,395)	\$ (221,684)	\$
(262,947)				
Net cash provided by financing activities	\$ 2,295	\$ 43,839	\$ 25,142	\$
91,236				

</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 \$568 for Year 2000 remediation costs. 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.
- (3) Funds from Operations calculated based on NAREIT's definition of FFO prior to the issuance of the October 1999 White Paper on FFO.

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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.

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 nine months ended September 30, 2000 resulted in non-revenue generating capitalized expenditures for Stabilized Communities of approximately \$114 per apartment home. For the nine months ended September 30, 2000, we charged to maintenance expense, including carpet and appliance replacements, related to Stabilized Communities approximately \$866 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. Our primary source of liquidity is 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 we must pay, because changes in interest rates affect our decisions 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 \$2,741,000 to \$10,362,000 for the nine months ended September 30, 2000. Cash and cash equivalents increased \$153,000 to \$9,043,000 for the comparable period during 1999.

- Net cash provided by operating activities totaled \$199,283,000 for the nine months ended September 30, 2000, an increase of \$27,419,000 over the \$171,864,000 provided over the same period of 1999. The increase was primarily from additional operating cash flow from Established Communities as well as the development and redevelopment of new communities.

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- Net cash used in investing activities totaled \$221,684,000 for the nine months ended September 30, 2000, a decrease of \$41,263,000

from the \$262,947,000 used over the same period of 1999. The decrease is a combination of a reduction in expenditures for the purchase and development of real estate and a related reduction in proceeds from the sale of communities.

- Net cash provided by financing activities totaled \$25,142,000 for the nine months ended September 30, 2000, a decrease of \$66,094,000 from the \$91,236,000 provided over the same period of 1999. The decrease was 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.

We regularly review our short and long-term liquidity needs and the adequacy of Funds from Operations, as defined above, 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 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 our credit facility. We anticipate that we can satisfy any short-term liquidity needs not satisfied by current operating cash flows from our credit facility.

We believe our principal long-term liquidity needs are the repayment or refinancing 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.

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

Capital markets conditions over the past several years 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.

Variable Rate Unsecured Credit Facility

Our variable rate unsecured 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 credit facility bears interest at varying rates 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 credit 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 credit 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 0.42% for amounts most recently borrowed under the competitive bid option. At November 1, 2000, \$166,200,000 was outstanding, \$82,559,000 was used to provide letters of credit and \$351,241,000 was available for borrowing under the credit facility. We intend to use borrowings under the credit facility for:

- capital expenditures;
- construction, development, reconstruction, and redevelopment costs;
- acquisitions;
- 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 us in managing our interest rate risks and exposure.

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Financing Commitments/Transactions Completed

During July 2000, we issued \$150,000,000 of medium-term notes. The notes bear interest at 8.25%, and will mature on July 15, 2008. We used the net proceeds of approximately \$149,000,000 to repay amounts outstanding under our unsecured credit facility.

Future Financing and Capital Needs

As of September 30, 2000, we had 15 new communities under construction either by us or by unaffiliated third parties with whom we have entered into forward purchase contracts. As of September 30, 2000, a total estimated cost of \$250,339,000 remained to be invested in these communities. In addition, we had two other communities under reconstruction, for which an estimated \$14,636,000 remained to be invested as of September 30, 2000. Subsequent to September 30, 2000, we began additional development and redevelopment projects for which an estimated \$74,500,000 will be invested.

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 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 our credit 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. While the capital market environment has improved during 2000, 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 financing 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 cash flows from operations.

Our liquidity could be adversely impacted by expanding development activities and/or reduced capital (as compared to prior years) available from asset sales. To meet the balance of our liquidity needs under such conditions, we would 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.

To increase our concentration of communities in selected high barrier-to-entry markets, we are selling assets in certain submarkets and redeploying the proceeds. Under our disposition program, we solicit competing bids from unrelated parties for these individual assets, and consider the sales price and tax

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ramifications of each proposal. We have disposed of six communities since January 1, 2000 for net proceeds of approximately \$101,393,000. 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 September 30, 2000 totaled \$29,847,000. 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 \$528,000 for the three months ended September 30, 2000 and \$1,440,000 for the nine months ended September 30, 2000. Our Condensed Consolidated Statements of Operations include net income from the communities held for sale of \$152,000 for the three months ended September 30, 1999 and \$487,000 for the nine months ended September 30, 1999.

Because the proceeds from the sale of communities are used initially to reduce borrowings under our credit facility, the immediate effect of a sale of a community is to have a negative effect on 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.

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Debt Maturities

The following table details debt maturities for the next five years, excluding

the credit facility:

(Dollars in thousands)

<TABLE>
<CAPTION>

	COMMUNITY	ALL-IN INTEREST RATE (1)	PRINCIPAL MATURITY DATE	BALANCE OUTSTANDING 12-31-99	9-30-
00					

TAX-EXEMPT BONDS					
Fixed Rate					
<S>		<C>	<C>	<C>	<C>
37,123	Canyon Creek	6.48%	Jun-2025	\$ 37,535	\$
33,100	Waterford	5.88%	Aug-2014	33,100	
20,077	City Heights	5.80%	Jun-2025	20,263	
19,020	CountryBrook	7.87%	Mar-2012	19,264	
18,300	Villa Mariposa	5.88%	Mar-2017	18,300	
16,839	Sea Ridge	6.48%	Jun-2025	17,026	
16,800	Foxchase I	5.88%	Nov-2007	16,800	
12,702	Barrington Hills	6.48%	Jun-2025	12,843	
9,600	Foxchase II	5.88%	Nov-2007	9,600	
9,580	Fairway Glen	5.88%	Nov-2007	9,580	
8,186	Crossbrook	6.48%	Jun-2025	8,273	
7,377	Larkspur Canyon	5.50%	Jun-2025	7,445	
18,550	Avalon View	7.55%	Aug-2024	18,795	
14,411	Avalon at Lexington	6.56%	Feb-2025	14,602	
13,441	Avalon Knoll	6.95%	Jun-2026	13,580	
12,360	Avalon at Dulles	7.04%	Jul-2024	12,360	
11,647	Avalon Fields	7.57%	May-2027	11,756	
9,780	Avalon at Symphony Glen	7.06%	Jul-2024	9,780	
8,592	Avalon West	7.73%	Dec-2036	8,632	
6,650	Avalon Landing	6.85%	Jun-2026	6,721	
				-----	-----
				306,255	
304,135					
Variable Rate					
27,305	Avalon Devonshire		Dec-2025	27,305	
11,500	Avalon at Fairway Hills I		Jun-2026	11,500	
10,400	Laguna Brisas		Mar-2009	10,400	
18,755	Avalon Greenbriar		May-2026	18,755	
				-----	-----
				67,960	
67,960					
CONVENTIONAL LOANS:					
Fixed Rate					
100,000	\$100 Million Unsecured Notes	7.375%	Sep-2002	100,000	
100,000	\$100 Million Unsecured Notes	6.625%	Jan-2005	100,000	
110,000	\$110 Million Unsecured Notes	6.875%	Dec-2007	110,000	
50,000	\$50 Million Unsecured Notes	6.25%	Jan-2003	50,000	
50,000	\$50 Million Unsecured Notes	6.50%	Jan-2005	50,000	

50,000	\$50 Million Unsecured Notes	6.625%	Jan-2008	50,000
100,000	\$100 Million Unsecured Notes	6.50%	Jul-2003	100,000
150,000	\$150 Million Unsecured Notes	6.80%	Jul-2006	150,000
125,000	\$125 Million Medium Term Notes	6.58%	Feb-2004	125,000
150,000	\$150 Million Medium Term Notes	7.50%	Jul-2009	150,000
150,000	\$150 Million Medium Term Notes	8.25%	Jul-2008	--
-- (2)	Govenor's Square	7.65%	Aug-2004	13,923
12,870	The Arbors	7.25%	May-2004	12,870
11,102	Gallery Place	7.31%	May-2001	11,272
-- (2)	Avalon Pines	8.00%	Dec-2003	5,226
12,364	Avalon Walk II	8.93%	Nov-2004	12,541

				1,040,832
Variable Rate-None				--

TOTAL INDEBTEDNESS - EXCLUDING CREDIT FACILITY				\$ 1,415,047
1,543,431				\$
				=====

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

(2) The remaining loan balance was repaid in connection with the disposition of the property during 2000.
</TABLE>

<TABLE>
<CAPTION>

MATURITIES	COMMUNITY	SCHEDULED		
		2000	2001	2002
2003				

TAX-EXEMPT BONDS				
Fixed Rate				
<S>		<C>	<C>	<C>
684	Canyon Creek	\$ 142	594	637
--	Waterford	--	--	--
308	City Heights	64	268	288
417	CountryBrook	86	357	386
--	Villa Mariposa	--	--	--
310	Sea Ridge	64	270	289
--	Foxchase I	--	--	--
234	Barrington Hills	49	203	218
--	Foxchase II	--	--	--
--	Fairway Glen	--	--	--
146	Crossbrook	30	126	136
112	Larkspur Canyon	23	98	105
397	Avalon View	85	350	373
	Avalon at Lexington	64	271	288

307	Avalon Knoll	48	200	214
230	Avalon at Dulles	--	--	--
--	Avalon Fields	38	157	169
180	Avalon at Symphony Glen	--	--	--
--	Avalon West	13	57	61
65	Avalon Landing	24	101	108
116				
		-----	-----	-----
		730	3,052	3,272
3,506	Variable Rate			
--	Avalon Devonshire	--	--	--
--	Avalon at Fairway Hills I	--	--	--
--	Laguna Brisas	--	--	--
--	Avalon Greenbriar	--	--	--
		-----	-----	-----
		--	--	--
--	CONVENTIONAL LOANS:			
	Fixed Rate			
--	\$100 Million Unsecured Notes	--	--	100,000
--	\$100 Million Unsecured Notes	--	--	--
--	\$110 Million Unsecured Notes	--	--	--
--	\$50 Million Unsecured Notes	--	--	--
50,000	\$50 Million Unsecured Notes	--	--	--
--	\$50 Million Unsecured Notes	--	--	--
--	\$100 Million Unsecured Notes	--	--	--
100,000	\$150 Million Unsecured Notes	--	--	--
--	\$125 Million Medium Term Notes	--	--	--
--	\$150 Million Medium Term Notes	--	--	--
--	\$150 Million Medium Term Notes	--	--	--
--	Govenor's Square	--	--	--
--	The Arbors	--	--	--
--	Gallery Place	60	11,042	--
--	Avalon Pines	--	--	--
315	Avalon Walk II	64	264	288
		-----	-----	-----
		124	11,306	100,288
150,315		-----	-----	-----
	Variable Rate-None	--	--	--
		-----	-----	-----
	TOTAL INDEBTEDNESS - EXCLUDING CREDIT FACILITY	\$ 854	\$ 14,358	\$ 103,560
153,821		=====	=====	=====

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

(2) The remaining loan balance was repaid in connection with the disposition of the property during 2000.

</TABLE>

<TABLE>
<CAPTION>

	COMMUNITY	2004	THEREAFTER
TAX-EXEMPT BONDS			
Fixed Rate			
<S>		<C>	<C>
	Canyon Creek	\$ 733	\$ 34,333
	Waterford	--	33,100
	City Heights	331	18,818
	CountryBrook	451	17,323
	Villa Mariposa	--	18,300
	Sea Ridge	332	15,574
	Foxchase I	--	16,800
	Barrington Hills	251	11,747
	Foxchase II	--	9,600
	Fairway Glen	--	9,580
	Crossbrook	157	7,591
	Larkspur Canyon	121	6,918
	Avalon View	425	16,920
	Avalon at Lexington	326	13,155
	Avalon Knoll	246	12,503
	Avalon at Dulles	--	12,360
	Avalon Fields	193	10,910
	Avalon at Symphony Glen	--	9,780
	Avalon West	70	8,326
	Avalon Landing	124	6,177
		-----	-----
		3,760	289,815
Variable Rate			
	Avalon Devonshire	--	27,305
	Avalon at Fairway Hills I	--	11,500
	Laguna Brisas	--	10,400
	Avalon Greenbriar	--	18,755
		-----	-----
		--	67,960
CONVENTIONAL LOANS:			
Fixed Rate			
	\$100 Million Unsecured Notes	--	--
	\$100 Million Unsecured Notes	--	100,000
	\$110 Million Unsecured Notes	--	110,000
	\$50 Million Unsecured Notes	--	--
	\$50 Million Unsecured Notes	--	50,000
	\$50 Million Unsecured Notes	--	50,000
	\$100 Million Unsecured Notes	--	--
	\$150 Million Unsecured Notes	--	150,000
	\$125 Million Medium Term Notes	125,000	--
	\$150 Million Medium Term Notes	--	150,000
	\$150 Million Medium Term Notes	--	150,000
	Govenor's Square	--	--
	The Arbors	12,870	--
	Gallery Place	--	--
	Avalon Pines	--	--
	Avalon Walk II	11,433	--
		-----	-----
		149,303	760,000
		-----	-----
	Variable Rate-None	--	--
		-----	-----
TOTAL INDEBTEDNESS - EXCLUDING CREDIT FACILITY		\$ 153,063	\$ 1,117,775
		=====	=====

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

(2) The remaining loan balance was repaid in connection with the disposition of the property during 2000.

</TABLE>

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.

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 loss (PML) for each of the 63 West Coast communities that we owned at that time and for each of the four West Coast communities under development at that time. To establish a PML, the engineers define a

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severe earthquake event for the applicable geographic area. The PML is the building damage and business interruption loss that is estimated to have only a 10% probability of being exceeded in a fifty year period 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 assumed an earthquake on the Hayward Fault with a Richter Scale magnitude of 7.1. Based on this earthquake scenario, the engineers determined the PML at that time to be \$113 million for the 63 West Coast communities that we owned at that time and the four West Coast communities then under development. The actual aggregate PML 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 PML 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 PML assessments indicate;
- future PML levels will not be higher than the current PML levels described above for our communities located on the West Coast; or
- acquisitions or developments after July 1998 will not have PML assessments indicating the possibility of greater damage or losses than currently indicated.

In November 2000, 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 for communities located in California. The five percent deductible is subject to a minimum of \$100,000 per occurrence. Earthquake coverage outside of California is subject to a \$200,000,000 limit and a \$25,000 deductible. 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.

Development Communities

As of September 30, 2000, we had ten Development Communities under construction. We expect these Development Communities, when completed, to add a total of 2,894 apartment homes to our portfolio for a total capitalized cost, including land acquisition costs, of approximately \$507.8 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 o 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 nine of the Development Communities and a membership interest in a limited liability company that holds a fee simple interest in one Development Community.

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The following table presents a summary of the Development Communities:

<TABLE>
<CAPTION>

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 at Florham Park Florham Park, NJ Q4 2001	270	\$41.0	Q2 1999	Q1 2000	Q2 2001
2. Avalon River Mews Edgewater, NJ Q4 2002	408	\$75.6	Q3 1999	Q3 2001	Q2 2002
3. Avalon Bellevue Bellevue, WA Q3 2001	202	\$29.9	Q4 1999	Q1 2001	Q2 2001
4. Avalon at Arlington Square I Arlington, VA Q3 2002	510	\$69.9	Q4 1999	Q4 2000	Q4 2001
5. Avalon on the Sound (4) New Rochelle, NY Q3 2002	412	\$92.1	Q4 1999	Q3 2001	Q4 2001
6. Avalon Estates Hull, MA Q4 2001	162	\$20.4	Q4 1999	Q3 2000	Q2 2001
7. Avalon Manor Freehold, NJ Q2 2002	296	\$33.1	Q2 2000	Q1 2001	Q4 2001
8. Avalon Harbor Stamford, CT Q2 2003	323	\$60.7	Q3 2000	Q1 2002	Q4 2002
9. Avalon Belltown Seattle, WA Q3 2002	100	\$19.2	Q3 2000	Q4 2001	Q1 2002
10. Avalon Towers on the Peninsula Mountain View, CA Q4 2002	211	\$65.9	Q3 2000	Q1 2002	Q2 2002
Total	2,894	\$507.8			

</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 is being 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 September 30, 2000, we had two communities under redevelopment. We expect the total budgeted cost to complete these Redevelopment Communities, including the cost of acquisition and redevelopment, to be approximately \$109.1 million, of which approximately \$29.4 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>

Restabilized Operations (3)	Number of apartment homes	(\$ millions)			Estimated	
		Acquisition cost	Total cost (1)	Reconstruction start	Reconstruction completion (2)	
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1. Avalon at Cortez Hill San Diego, CA 2001	293	\$24.4	\$33.8	Q1 2000	Q2 2001	Q3
2. Lakeside Burbank, CA 2002	748	\$55.3	\$75.3	Q1 2000	Q1 2002	Q2
Total	1,041	\$79.7	\$109.1			

</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.

Development Rights

As of September 30, 2000, we are considering the development of 34 new apartment communities. These Development Rights range from land under contract or owned by us 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 8,825 upscale apartment homes to our portfolio. At September 30, 2000, the cumulative capitalized costs incurred in pursuit of the 34 Development Rights, including the cost of land acquired in connection with eight of the Development Rights, was approximately \$90.7 million, of which \$57.3 million was land or deposits for 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. 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 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 pursuing as

<TABLE>
<CAPTION>

Location	Estimated number of homes	Total budgeted costs (\$ millions)
<S>	<C>	<C>
1. San Jose, CA	(1) 218	\$49
2. Long Island City, NY	372	102
3. Wilmington, MA	120	17
4. Darien, CT	(1) 189	37
5. San Francisco, CA	250	65
6. Washington, D.C.	(1) 209	43
7. Weymouth, MA	304	35
8. Orange, CT	(1) 168	18
9. San Diego, CA	(1) 378	55
10. Lawrence, NJ	342	41
11. New Canaan, CT	(1) (2) 104	26
12. Marlborough, MA	156	20
13. North Bethesda, MD	386	41
14. Arlington II, VA	(1) 332	40
15. Seattle, WA	152	44
16. Westborough, MA	280	34
17. Los Angeles, CA	309	51
18. San Francisco, CA	303	82
19. Newton, MA	272	48
20. Hingham, MA	270	41
21. Andover, MA	140	21
22. Wilton, CT	113	23
23. Coram, NY	450	61
24. Oakland, CA	(1) 178	36
25. North Potomac, MD	520	61
26. Danbury, CT	240	29
27. Cohasset, MA	240	34
28. Greenburgh - II, NY	500	83
29. Greenburgh - III, NY	266	44
30. Bedford, MA	144	19
31. St. James, NY	112	16
32. Stratford, CT	182	21
33. Milford, CT	370	43
34. Yonkers, NY	256	35
-----		-----
Totals	8,825	\$1,415
=====		=====

</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.

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 and capital 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 redevelopment communities complete lease-up will be sufficient to fully offset the effects of any increased construction or reconstruction costs.

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Capitalized Interest

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 \$5,255,000 for the three months ended September 30, 2000 and \$12,912,000 for the nine months ended September 30, 2000. Capitalized interest totaled \$5,208,000 for the three months ended September 30, 1999 and \$18,357,000 for the nine months ended September 30, 1999.

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PART I. FINANCIAL INFORMATION (CONTINUED)

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

PART II. OTHER INFORMATION

- Item 1. Legal Proceedings

The Company is involved in certain ordinary routine litigation

incidental to the conduct of its business. In addition, as reported in the Company's Form 10-K for the year ended December 31, 1999, the Company is 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, the Company does not expect any current litigation, including the litigation with York Hunter and National Union, to have a material effect on its business or financial condition.

Item 2. Changes in Securities

During the three months ended September 30, 2000, the Company issued 27,472 shares of common stock in exchange for units of limited partnership held by limited partners of DownREIT partnership subsidiaries of the Company. Specifically, the Company issued 24,125 shares of common stock in exchange for units in Avalon DownREIT V, L.P., and 3,347 shares of common stock in exchange for units in Bay Countrybrook, L.P. 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

Exhibit No. Description

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.)

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<TABLE>
<CAPTION>

<S> <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 S-3 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>

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<TABLE>
<CAPTION>

- | | | |
|------|-----|--|
| <S> | <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.) |
| 12.1 | -- | Statements re: Computation of Ratios. |
| 27.1 | -- | Financial Data Schedule. |

(b) REPORTS ON FORM 8-K

None

</TABLE>

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SIGNATURES

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

AVALONBAY COMMUNITIES, INC.

Date: November 14, 2000

/s/ RICHARD L. MICHAUX

Richard L. Michaux
Chairman and
Chief Executive Officer,

Date: November 14, 2000

/s/ THOMAS J. SARGEANT

Thomas J. Sargeant
Executive Vice President,
Chief Financial Officer and
Treasurer

EXHIBIT 12.1

AVALONBAY COMMUNITIES, INC.
RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS

<TABLE>
<CAPTION>

	Nine Months Ended September 30, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
<S>	<C>	<C>	<C>	<C>
Net Income	\$ 156,323	\$ 172,276	\$ 123,535	\$ 64,916
(Less) Nonrecurring item:				
Gain on sale	\$ (33,273)	\$ (47,093)	\$ (25,270)	\$ (677)
Non-recurring charges	-	16,782	-	-
(Plus) Extraordinary item:				
Unamortized loan fee write-off	\$ -	\$ -	\$ 245	\$ 1,183
(Plus) Fixed charges:				
Portion of rents representative of the interest factor	\$ 343	\$ 526	\$ 293	\$ 172
Interest expense	61,815	74,699	54,650	16,977
Interest capitalized	12,912	21,888	14,724	9,024
Debt cost amortization	2,007	2,624	2,068	700
Preferred dividend	29,834	39,779	28,132	19,656
	-----	-----	-----	-----
Total fixed charges (1)	\$ 106,911	\$ 139,516	\$ 99,867	\$ 46,529
(Less):				
Interest capitalized	\$ 12,912	\$ 21,888	\$ 14,724	\$ 9,024
Preferred dividend	29,834	39,779	28,132	19,656
Adjusted earnings (2)	\$ 187,215	\$ 219,814	\$ 155,521	\$ 83,271
	-----	-----	-----	-----
Ratio (2 divided by 1)	1.75	1.58	1.56	1.79
	=====	=====	=====	=====

<CAPTION>

	Year Ended December 31, 1996	Year Ended December 31, 1995
<S>	<C>	<C>
Net Income	\$ 51,651	\$ 30,937
(Less) Nonrecurring item:		
Gain on sale	\$ (7,850)	\$ -
Non-recurring charges	-	-
(Plus) Extraordinary item:		
Unamortized loan fee write-off	\$ 2,356	\$ 1,158
(Plus) Fixed charges:		
Portion of rents representative of the interest factor	\$ 150	\$ 117
Interest expense	9,545	11,056
Interest capitalized	12,883	6,004
Debt cost amortization	1,842	1,869
Preferred dividend	10,422	-
	-----	-----
Total fixed charges (1)	\$ 34,842	\$ 19,046
(Less):		
Interest capitalized	\$ 12,883	\$ 6,004
Preferred dividend	10,422	-
Adjusted earnings (2)	\$ 57,694	\$ 45,137
	-----	-----
Ratio (2 divided by 1)	1.66	2.37
	=====	=====

</TABLE>

EXHIBIT 12.1 (CONTINUED)

AVALONBAY COMMUNITIES, INC.
RATIOS OF EARNINGS TO FIXED CHARGES

<TABLE>
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	Nine Months Ended September 30, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
<S>	<C>	<C>	<C>	<C>
Net Income	\$ 156,323	\$ 172,276	\$ 123,535	\$ 64,916
(Less) Nonrecurring item:				
Gain on sale	\$ (33,273)	\$ (47,093)	\$ (25,270)	\$ (677)
Non-recurring charges	-	16,782	-	-
(Plus) Extraordinary item:				
Unamortized loan fee write-off	\$ -	\$ -	\$ 245	\$ 1,183
(Plus) Fixed charges:				
Portion of rents representative of the interest factor	\$ 343	\$ 526	\$ 293	\$ 172
Interest expense	61,815	74,699	54,650	16,977
Interest capitalized	12,912	21,888	14,724	9,024
Debt cost amortization	2,007	2,624	2,068	700
	-----	-----	-----	-----
Total fixed charges (1)	\$ 77,077	\$ 99,737	\$ 71,735	\$ 26,873
(Less):				
Interest capitalized	\$ 12,912	\$ 21,888	\$ 14,724	\$ 9,024
Adjusted earnings (2)	\$ 187,215	\$ 219,814	\$ 155,521	\$ 83,271
	-----	-----	-----	-----
Ratio (2 divided by 1)	2.43	2.20	2.17	3.10
	=====	=====	=====	=====

<CAPTION>

	Year Ended December 31, 1996	Year Ended December 31, 1995
<S>	<C>	<C>
Net Income	\$ 51,651	\$ 30,937
(Less) Nonrecurring item:		
Gain on sale	\$ (7,850)	\$ -
Non-recurring charges	-	-
(Plus) Extraordinary item:		
Unamortized loan fee write-off	\$ 2,356	\$ 1,158
(Plus) Fixed charges:		
Portion of rents representative of the interest factor	\$ 150	\$ 117
Interest expense	9,545	11,056
Interest capitalized	12,883	6,004
Debt cost amortization	1,842	1,869
	-----	-----
Total fixed charges (1)	\$ 24,420	\$ 19,046
(Less):		
Interest capitalized	\$ 12,883	\$ 6,004
Adjusted earnings (2)	\$ 57,694	\$ 45,137
	-----	-----
Ratio (2 divided by 1)	2.36	2.37
	=====	=====

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