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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 June 30, 1999

Commission file number 1-12672

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

Maryland
(State or other jurisdiction of
incorporation or organization)

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

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

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

(Former name, if changed since last report)

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

Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS

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

65,091,307 shares outstanding as of August 2, 1999

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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>

	6-30-99 (unaudited)	12-31-98
	----- <C>	----- <C>
<S>		
ASSETS		
Real estate:		
Land	\$ 728,289	\$ 705,989
Buildings and improvements	2,738,335	2,585,247
Furniture, fixtures and equipment	112,126	103,396
	-----	-----
Less accumulated depreciation	3,578,750 (194,923)	3,394,632 (143,135)
	-----	-----
Net operating real estate	3,383,827	3,251,497
Construction in progress (including land)	469,300	407,870
Communities held for sale	136,442	231,492
	-----	-----
Total real estate, net	3,989,569	3,890,859
Cash and cash equivalents	14,610	8,890
Cash in escrow	9,146	8,238
Resident security deposits	12,027	10,383
Investments in unconsolidated joint ventures	16,959	17,211
Deferred financing costs, net	12,478	12,376
Deferred development costs	14,282	11,983
Participating mortgage notes	45,483	45,483
Prepaid expenses and other assets	20,289	24,781
	-----	-----
TOTAL ASSETS	\$ 4,134,843	\$ 4,030,204
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Variable rate unsecured credit facility	\$ 316,500	\$ 329,000
Unsecured senior notes	835,000	710,000
Notes payable	443,670	445,371
Dividends payable	43,011	43,323
Payables for construction	42,417	49,100
Accrued expenses and other liabilities	41,160	41,579
Accrued interest payable	24,243	20,664
Resident security deposits	22,235	19,501

TOTAL LIABILITIES	1,768,236	1,658,538
Minority interest of unitholders in consolidated partnerships	31,482	32,213
Stockholders' equity:		
Preferred stock, \$.01 par value; \$25 liquidation value; 50,000,000 shares authorized at June 30, 1999 and December 31, 1998; 18,322,700 shares outstanding at both June 30, 1999 and December 31, 1998	183	183
Common stock, \$.01 par value; 140,000,000 shares authorized at both June 30, 1999 and December 31, 1998; 64,845,870 and 63,887,126 shares outstanding at June 30, 1999 and December 31, 1998, respectively	648	639
Additional paid-in capital	2,357,039	2,328,466
Deferred compensation	(5,537)	(4,356)
Dividends in excess of accumulated earnings	(17,208)	14,521
TOTAL STOCKHOLDERS' EQUITY	2,335,125	2,339,453
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 4,134,843	\$ 4,030,204

</TABLE>

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

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AVALONBAY COMMUNITIES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(Dollars in thousands, except share data)

ended	For the three months ended		For the six months	
ended	6-30-99	6-30-98	6-30-99	6-
30-98				
<S>	<C>	<C>	<C>	<C>
Revenue:				
Rental income	\$ 122,242	\$ 70,068	\$ 240,433	\$
115,471				
Management fees	314	115	653	
115				
Other income	339	10	368	
15				
Total revenue	122,895	70,193	241,454	
115,601				
Expenses:				
Operating expenses, excluding property taxes	32,817	19,135	65,218	
30,476				
Property taxes	11,090	5,639	21,747	
9,393				
Interest expense	18,612	11,150	34,949	
17,361				
Depreciation and amortization	25,938	14,597	53,441	
24,504				
General and administrative	2,376	1,778	4,743	
2,947				
Non-recurring charges	66	--	16,590	
--				
Total expenses	90,899	52,299	196,688	
84,681				

Equity in income of unconsolidated joint ventures	680	238	1,406	
238				
Interest income	1,757	360	3,422	
467				
Gain on sale of communities	225	--	5,304	
--				
Minority interest in consolidated partnerships	(495)	(250)	(928)	
(404)				
-----	-----	-----	-----	-----
Net income	34,163	18,242	53,970	
31,221				
Dividends attributable to preferred stock	(9,945)	(4,494)	(19,890)	
(8,523)				
-----	-----	-----	-----	-----
Net income available to common stockholders	\$ 24,218	\$ 13,748	\$ 34,080	\$
22,698				
=====	=====	=====	=====	=====
Per common share:				
Net income - basic	\$ 0.37	\$ 0.35	\$ 0.52	\$
0.68				
=====	=====	=====	=====	=====
Net income - diluted	\$ 0.37	\$ 0.34	\$ 0.52	\$
0.66				
=====	=====	=====	=====	=====

</TABLE>

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

3

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

	For the six months	
	6-30-99	6-30-98
	<C>	<C>
ended		
-----	-----	-----
98		
-----	-----	-----
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 53,970	\$ 31,221
31,221		
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	53,441	24,504
24,504		
Amortization of deferred compensation	1,986	--
--		
Decrease in investments in unconsolidated joint ventures	252	179
179		
Income allocated to minority interest in consolidated partnerships	928	404
404		
Gain on sale of communities	(5,304)	--
--		
Increase in cash in escrow	(908)	(988)
(988)		
Increase in participating mortgage notes, prepaid expenses and other assets	2,848	7,149
7,149		
Increase in accrued expenses, other liabilities and accrued interest payable	5,754	10,715
10,715		
-----	-----	-----

73,184	Net cash provided by operating activities	112,967	
-----		-----	-----
	CASH FLOWS USED IN INVESTING ACTIVITIES:		
14,833	(Decrease) increase in construction payables	(6,683)	
--	Proceeds from sale of communities, net of selling costs	117,161	
(288,113)	Purchase and development of real estate	(265,122)	
-----		-----	-----
(273,280)	Net cash used in investing activities	(154,644)	
-----		-----	-----
	CASH FLOWS FROM FINANCING ACTIVITIES:		
55,151	Issuance of common stock, net	25,415	
(30,990)	Dividends paid	(86,011)	
150,000	Proceeds from sale of unsecured senior notes	125,000	
(1,484)	Payment of deferred financing costs	(1,147)	
(1,035)	Repayments of notes payable	(1,701)	
281,126	Borrowings under unsecured facilities	220,300	
(240,326)	Repayments of unsecured facilities	(232,800)	
(474)	Distributions to minority partners	(1,659)	
-----		-----	-----
211,968	Net cash provided by financing activities	47,397	
-----		-----	-----
11,872	Net increase in cash	5,720	
	Cash and cash equivalents, beginning of period	8,890	
3,188			
-----		-----	-----
15,060	Cash and cash equivalents, end of period	\$ 14,610	\$
=====		=====	
10,218	Cash paid during period for interest, net of amount capitalized	\$ 28,538	\$
=====		=====	

</TABLE>

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

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

In connection with the merger of Avalon Properties, Inc. with and into the Company (the "Merger") in June 1998, the Company issued shares of Common and Preferred Stock valued at \$1,439,513 in exchange for all of the outstanding capital stock of Avalon Properties, Inc. As a result of the Merger, the Company acquired all of the assets of Avalon Properties, Inc. and also assumed or acquired \$643,410 in debt, \$6,221 in deferred compensation expense, \$67,073 in net other assets, \$1,013 in cash and cash equivalents and minority interest of \$19,409.

During the six months ended June 30, 1998, the Company assumed \$10,400 of debt in connection with acquisitions, issued \$3,851 in operating partnership units

for acquisitions, and converted 2,308,800 shares of Series A Preferred Stock and 405,022 shares of Series B Preferred Stock into an aggregate of 2,713,822 shares of Common Stock.

During the six months ended June 30, 1999, 17,598 units of limited partnership were presented for redemption to the DownREIT partnership that issued such units and were acquired by the Company for an equal number of shares of the Company's Common Stock.

Common and preferred dividends declared but not paid as of June 30, 1999 and 1998 totaled \$43,011 and \$40,978, respectively.

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

1. Organization and Significant Accounting Policies

Organization and Recent Developments

AvalonBay Communities, Inc. (the "Company," which term is often used to refer to AvalonBay Communities, Inc. together with its subsidiaries) is a Maryland corporation that has elected to be taxed as a real estate investment trust ("REIT") under the Internal Revenue Code of 1986, as amended. The Company focuses on the ownership and operation of institutional-quality apartment communities in high barrier-to-entry markets of the United States. These markets include Northern and Southern California and selected states in the Mid-Atlantic, Northeast, Midwest and Pacific Northwest regions of the country. The Company is the surviving corporation from the merger (the "Merger") of Avalon Properties, Inc. ("Avalon") with and into the Company (sometimes hereinafter referred to as "Bay" before the Merger) on June 4, 1998. The Merger was accounted for as a purchase of Avalon by Bay. In connection with the Merger, the Company changed its name from Bay Apartment Communities, Inc. to AvalonBay Communities, Inc.

At June 30, 1999, the Company owned or held an ownership interest in 125 operating apartment communities containing 37,101 apartment homes in sixteen states and the District of Columbia of which 13 communities containing 4,662 apartment homes were under reconstruction. The Company also owned 12 communities with 2,710 apartment homes under construction and rights to develop an additional 31 communities that will contain an estimated 8,939 apartment homes.

During the second quarter of 1999, three new development communities, Rosewalk at Waterford Park II and Avalon on the Alameda (both located in the San Jose, California area) and Avalon Oaks (located in the Boston, Massachusetts area) were completed containing 665 apartment homes for a total investment of \$99,500.

One redevelopment community, Avalon Westhaven, was completed during the second quarter of 1999 for a total investment in redevelopment of \$3,400. This community contains 190 apartment homes and is located in the Seattle, Washington area.

The development of two new communities (located in the Boston, Massachusetts and Northern New Jersey areas) commenced during the second quarter of 1999. These two communities are expected to contain a total of 424 apartment homes upon completion with a projected total investment of \$62,400.

The redevelopment of two existing communities (located in the Chicago, Illinois and Orange County, California areas) commenced during the second quarter of 1999. The total projected investment in redevelopment for these communities, which contain 694 apartment homes, is \$13,600.

During the second quarter of 1999, the Company disposed of five communities in the Mid-Atlantic region. The net proceeds from the sale of these communities, which contained a total of 1,536 apartment homes, were approximately \$104,200 resulting in a net gain of approximately \$225. The proceeds will be re-deployed to development and redevelopment communities. Pending such redeployment, the proceeds from the sale of these communities were primarily used to repay amounts outstanding under the Company's variable rate unsecured credit facility (the "Unsecured Facility") or deposited in escrow accounts to facilitate Section 1031 exchange transactions.

The interim unaudited financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and in conjunction with the rules and

regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements required by GAAP have been condensed or omitted pursuant to such rules and regulations. These unaudited financial statements should be read in conjunction with the financial statements and notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 1998. The results of operations for the three and six months ended June 30, 1999 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.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of the Company and its wholly-owned partnerships as well as four subsidiary partnerships structured as DownREITs. In each of the four partnerships structured as DownREITs, the Company (or one of its wholly-owned subsidiaries) is the general partner and there are one or more limited partners whose interest in the partnership is denominated in units of limited partnership interest ("Units"). For each DownREIT partnership, limited partners who hold Units are entitled to receive certain distributions (a "Stated Distribution") prior to any distribution that such DownREIT partnership makes to the general partner. Although the partnership agreements for each of the DownREITs are different, currently the Stated Distributions that are paid in respect of the DownREIT Units in general approximate the dividend rate applicable to shares of Common Stock of the Company. Each DownREIT partnership has been structured in a manner that makes it unlikely that the limited partners will be entitled to any greater distribution than the Stated Distribution. Each holder of Units has the right to require the DownREIT partnership that issued a Unit to redeem that Unit at a cash price equal to the then fair market value of a share of Common Stock of the Company. In lieu of a cash redemption of a Unit, the Company may acquire any Unit presented for redemption for one share of Common Stock. All significant intercompany balances and transactions have been eliminated in consolidation.

Real Estate

Significant expenditures which improve or extend the life of the asset are capitalized. The operating real estate assets are stated at cost and consist of land, buildings and improvements, furniture, fixtures and equipment, and other costs incurred during their development, redevelopment and acquisition. Expenditures for maintenance and repairs are charged to operations as incurred.

The capitalization of costs during the development of assets (including interest and related loan fees, property taxes and other direct and indirect costs) begins when active development commences and ends when the asset is delivered and a final certificate of occupancy is issued. Cost capitalization during redevelopment of assets (including interest and related loan fees, property taxes and other direct and indirect costs) begins when an apartment home is taken out-of-service for redevelopment and ends when the apartment home redevelopment is completed and the apartment home is placed in-service. The Company increased the West Coast portfolio's threshold for capitalization of community improvements from \$5,000 per occurrence to \$15,000 per occurrence effective January 1, 1999, in order to conform to the Company-wide threshold for capitalization of community improvements. The accompanying condensed consolidated financial statements include a charge to expense for unrecoverable deferred development costs related to pre-development communities that are unlikely to be developed.

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

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share." In accordance with the provisions of SFAS No. 128, basic earnings per share for the three and six months ended June 30, 1999 and 1998 is computed by dividing earnings available to common shares (net income less preferred stock dividends) by the weighted average number of shares outstanding during the period. Additionally, other potentially dilutive common shares are considered when calculating earnings per share on a diluted basis.

The Company's basic and diluted weighted average shares outstanding for the three and six months ended June 30, 1999 and 1998 are as follows:

<TABLE>
<CAPTION>

	Three Months Ended		Six Months Ended	
	6-30-99	6-30-98	6-30-99	6-30-98
-				
<S>	<C>	<C>	<C>	<C>
Weighted average common shares outstanding - basic 33,955,222	64,478,959	39,160,895	64,202,901	
Weighted average units outstanding 234,943	876,546	467,305	876,546	
-				
Weighted average common shares and units outstanding - basic 34,190,165	65,355,505	39,628,200	65,079,447	
Shares issuable from assumed conversion of:				
Common stock options 496,961	366,514	474,666	337,729	
Unvested restricted stock grants 243,117	146,551	243,117	146,551	
-				
Weighted average common shares and units outstanding - diluted 34,930,243	65,868,570	40,345,983	65,563,727	

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</TABLE>

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.

Reclassifications

Certain reclassifications have been made to amounts in prior years' financial statements to conform with current year presentations.

Newly 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 in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. In June 1999, the Financial Accounting Standards Board issued SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective date of SFAS No. 133." SFAS No. 137 delays the effective date of SFAS No. 133 for one year, to fiscal years beginning after June 15, 2000. The Company currently plans to

adopt this pronouncement effective January 1, 2001, and will determine both the method and impact of adoption prior to that date.

2. Merger between Bay and Avalon

In June 1998, the Company completed the Merger with Avalon. The Merger and related transactions were accounted for using the purchase method of accounting in accordance with GAAP. Accordingly, the assets and liabilities of Avalon were adjusted to fair value for financial accounting purposes and the results of operations of Avalon prior to June 4, 1998 are not included in the results of operations of the Company.

As part of the fair value adjustment discussed above, management made certain

estimates related to individual community real estate asset values. Subsequent to the Merger, the Company sold several assets previously owned by Avalon, which would have resulted in the recognition of material gains prior to the Merger, but resulted in no gain due to each asset's fair value allocation.

3. Interest Capitalized

Capitalized interest associated with projects under development or redevelopment totaled \$5,866 and \$3,561 for the three months ended June 30, 1999 and 1998, respectively, and \$13,149 and \$6,525 for the six months ended June 30, 1999 and 1998, respectively.

4. Notes Payable, Unsecured Senior Notes and Credit Facility

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

	6-30-99	12-31-98
	-----	-----
<S>	<C>	<C>
Fixed rate mortgage notes payable (conventional and tax-exempt)	\$ 386,405	\$ 388,106
Variable rate mortgage notes payable (tax-exempt)	57,265	57,265
Fixed rate unsecured senior notes	835,000	710,000
	-----	-----
Total notes payable and unsecured senior notes	1,278,670	1,155,371
Variable rate unsecured credit facility	316,500	329,000
	-----	-----
Total notes payable, unsecured senior notes and credit facility	\$ 1,595,170	\$ 1,484,371
	=====	=====

</TABLE>

Mortgage notes payable are collateralized by certain apartment communities and mature at various dates from July 1999 through December 2036. The weighted average interest rate of variable rate notes (tax-exempt) was 4.7% at June 30, 1999. The weighted average interest rate of fixed rate notes (conventional and tax-exempt) was 6.8% at June 30, 1999.

The maturity schedule for the Company's unsecured senior notes consists of the following:

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

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

The Company's \$600,000 Unsecured Facility is with Morgan Guaranty Trust Company of New York, Union Bank of Switzerland and Fleet National Bank, serving as co-agents for a syndicate of commercial banks. The Unsecured Facility bears interest at a spread over the London Interbank Offered Rate ("LIBOR") based on rating levels achieved on the Company's senior unsecured notes and on a maturity

selected by the Company. The current stated pricing is LIBOR plus .6% per annum. The Unsecured Facility, which was put into place during June 1998, replaced three separate credit facilities previously available to the separate companies prior to the Merger. The terms of the retired facilities were similar to the Unsecured Facility. In addition, the Unsecured Facility includes a competitive bid option (which allows banks that are part of the lender consortium to bid to make loans to the Company at a rate that is lower than the stated rate provided by the Unsecured Facility) for up to \$400,000. The Company is subject to certain customary covenants under the Unsecured Facility, including, but not limited to, maintaining certain maximum leverage ratios, a minimum fixed charges coverage ratio, minimum unencumbered assets and equity levels and restrictions on paying dividends in amounts that exceed 95% of the Company's Funds from Operations, as defined therein. The Unsecured Facility matures in July 2001 and has two, one-year extension options.

5. Stockholders' Equity

The following summarizes the changes in stockholders' equity for the six months ended June 30, 1999:

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<TABLE>
<CAPTION>

	Preferred stock	Common stock	Additional paid-in capital	Deferred compensation	Dividends in excess of accumulated earnings
Total					
<S>	<C>	<C>	<C>	<C>	<C>
Stockholders' equity, December 31, 1998	\$ 183	\$ 639	\$ 2,328,466	\$ (4,356)	\$ 14,521
2,339,453					
Dividends declared to common and preferred stockholders (85,699)	--	--	--	--	(85,699)
Issuance of common stock	--	9	28,573	(3,167)	--
25,415					
Amortization of deferred compensation	--	--	--	1,986	--
1,986					
Net income	--	--	--	--	53,970
53,970					
Stockholders' equity, June 30, 1999	\$ 183	\$ 648	\$ 2,357,039	\$ (5,537)	\$ (17,208)
2,335,125					

</TABLE>

During the six months ended June 30, 1999, the Company issued 406,827 Common Stock shares in connection with stock options exercised (the majority of which related to the organization changes announced in February 1999), 421,994 shares through the Company's Dividend Reinvestment Plan, 17,598 shares that were issued to acquire operating partnership units from third parties, 14,846 shares in connection with the Company's Employee Stock Purchase Plan and 97,479 shares in connection with restricted stock grants.

6. Investments in Unconsolidated Joint Ventures

In connection with the Merger, the Company succeeded to certain investments in unconsolidated joint ventures. At June 30, 1999, these investments consisted of a 50% general partnership interest in Falkland Partners, a 49% general partnership interest in Avalon Run and a 50% general partnership interest in Avalon Grove. The following is a combined summary of the financial position of these joint ventures as of the dates presented (which includes the period prior to the Merger):

<TABLE>
<CAPTION>

	6-30-99	12-31-98
<S>	<C>	<C>
Assets:		
Real estate, net	\$ 95,343	\$ 96,419
Other assets	4,704	4,532
Total assets	\$ 100,047	\$ 100,951

Liabilities and partners' equity:			
Mortgage notes payable	\$	26,000	\$ 26,000
Other liabilities		5,235	4,933
Partners' equity		68,812	70,018
		-----	-----
Total liabilities and partners' equity	\$	100,047	\$ 100,951
		=====	=====

</TABLE>

The following is a combined summary of the operating results of these joint ventures for the periods presented (which includes the periods prior to the Merger):

11

<TABLE>
<CAPTION>

	Three months ended		Six months ended	
	6-30-99	6-30-98	6-30-99	6-30-98
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Rental income	\$ 5,078	\$ 4,936	\$ 10,166	\$ 9,700
Other income	5	5	10	12
Operating expenses	(1,357)	(1,367)	(2,741)	(2,656)
Mortgage interest expense	(184)	(226)	(368)	(423)
Depreciation and amortization	(769)	(762)	(1,541)	(1,515)
	-----	-----	-----	-----
	\$ 2,773	\$ 2,586	\$ 5,526	\$ 5,118
	=====	=====	=====	=====

</TABLE>

7. Communities Held for Sale

During 1998, the Company completed a strategic planning effort resulting in a decision to pursue a disposition strategy for certain assets. The Company will solicit competing bids from unrelated parties for these individual assets, and will consider the sales price and tax ramifications of each proposal. Management sold seven communities in connection with this disposition strategy in 1998, and six communities during the first six months of 1999. Management intends to have additional selected assets actively marketed for sale during 1999. However, there can be no assurance that such assets can be sold, or that such sales will prove to be beneficial to the Company.

The communities sold during the first six months of 1999 and the respective sales price and net proceeds are summarized below:

<TABLE>
<CAPTION>

Communities	Location	Period of sale	Apartment homes	Gross sales price	Net proceeds
<S>	<C>	<C>	<C>	<C>	<C>
Blairmore	Rancho Cordova, CA	1Q99	252	\$ 13,250	\$ 12,991
Avalon at Park Center	Alexandria, VA	2Q99	492	44,250	43,820
Avalon at Lake Arbor	Mitchellville, MD	2Q99	209	14,160	13,800
Avalon Station	Fredricksburg, VA	2Q99	223	12,734	12,500
Avalon Gayton	Richmond, VA	2Q99	328	18,418	18,210
Avalon at Boulders	Richmond, VA	2Q99	284	16,075	15,840
			---	-----	-----
			1,788	\$ 118,887	\$ 117,161
			=====	=====	=====

</TABLE>

The assets targeted for sale include land, buildings and improvements and furniture, fixtures and equipment, and are recorded at the lower of cost or fair value less estimated selling costs. The Company has not recognized a write down in its real estate to arrive at net realizable value. At June 30, 1999, total real estate, net of accumulated depreciation, subject to sale totaled \$136,442. 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 of \$2,537 and \$397 for the three months ended June 30, 1999 and 1998, respectively, and \$3,019 and \$717 for the six months

ended June 30, 1999 and 1998, respectively. Depreciation expense on these assets, which was not recognized subsequent to the date of held-for-sale classification, totaled \$1,301 and \$2,606 for the three and six months ended June 30, 1999, respectively.

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8. Segment Reporting

The Company adopted SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," during 1998. SFAS No. 131 established standards for reporting financial and descriptive information about operating segments in annual financial statements. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance. The Company's chief operating decision making group consists primarily of the Company's senior officers.

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

- - Stable Communities are communities that 1) have attained stabilized occupancy levels (at least 95% occupancy) and operating costs since the beginning of the prior calendar year (these communities are also known as Established Communities); or 2) were acquired subsequent to the beginning of the previous calendar year but were stabilized in terms of occupancy levels and operating costs at the time of acquisition, and remained stabilized throughout the end of the current calendar year. Stable Communities do not include communities where planned redevelopment or development activities have not yet commenced. The primary financial measure for this business segment is Net Operating Income ("NOI"), which represents total revenue less operating expenses and property taxes. With respect to Established Communities, an additional financial measure of performance is NOI for the current year as compared against the prior year and against current year budgeted NOI. With respect to other Stable Communities, performance is primarily based on reviewing growth in NOI for the current period as compared against prior periods within the calendar year and against current year budgeted NOI.
- - Developed Communities are communities that were under active development during any portion of the preceding calendar year that attained stabilized occupancy and expense levels during the current calendar year of presentation. The primary financial measure for this business segment is Operating Yield (defined as NOI divided by total capitalized costs). 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 were under active redevelopment during any portion of the preceding calendar year that attained stabilized occupancy and expense levels during the current calendar year of presentation. The primary financial measure for this business segment is Operating Yield. 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 or lease-up at any point in time during the applicable calendar year. 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. While under lease-up, the primary performance measures for these assets are projected Operating Yield as defined above, lease-up pace compared to budget and rent levels compared to budget.

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.

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

In addition to reporting segments based on the above property types, the Company previously reported results within these segments based on the West and East Coast geographic areas. This disclosure was provided as the West and East Coast geographic areas substantially reflected the operating communities of Bay and Avalon, respectively, prior to the Merger. Management currently reviews its operating segments by geographic regions, including Northern and Southern California, Pacific Northwest, Northeast, Mid-Atlantic and Midwest regions. These individual regions contain similar economic characteristics and also meet the other criteria which permit the regions to be aggregated into one reportable region.

The accounting policies applicable to the operating segments described above are the same as those described in the summary of significant accounting policies in the Company's Form 10-K.

<TABLE>
<CAPTION>

	For the three months ended				
	Stable Communities	Developed Communities	Redeveloped Communities	Other	Total
<S>	<C>	<C>	<C>	<C>	<C>
For the three and six months ended June 30, 1999					

Segment Results					
Total revenue	\$ 87,181	\$ 8,054	\$ 7,998	\$ 19,116	\$ 122,349
Net Operating Income	\$ 61,162	\$ 6,214	\$ 5,505	\$ 12,088	\$ 84,969
Gross real estate	\$ 2,525,462	\$ 224,576	\$ 248,424	\$ 979,523	\$3,977,985
Non-allocated operations					
Total revenue	\$ --	\$ --	\$ --	\$ 546	\$ 546
Net Operating Income	\$ --	\$ --	\$ --	\$ 368	\$ 368
Gross real estate	\$ --	\$ --	\$ --	\$ 213,042	\$ 213,042
Total, AvalonBay					
Total revenue	\$ 87,181	\$ 8,054	\$ 7,998	\$ 19,662	\$ 122,895
Net Operating Income	\$ 61,162	\$ 6,214	\$ 5,505	\$ 12,456	\$ 85,337
Gross real estate	\$ 2,525,462	\$ 224,576	\$ 248,424	\$1,192,565	\$4,191,027
For the three and six months ended June 30, 1998					

Segment Results					
Total revenue	\$ 37,852	\$ 1,367	\$ 5,964	\$ 24,777	\$ 69,960
Net Operating Income	\$ 26,942	\$ 1,042	\$ 4,187	\$ 15,879	\$ 48,050
Gross real estate	\$ 1,875,634	\$ 29,507	\$ 179,903	\$1,203,294	\$3,288,338
Non-allocated operations					
Total revenue	\$ --	\$ --	\$ --	\$ 233	\$ 233
Net Operating Income	\$ --	\$ --	\$ --	\$ 212	\$ 212
Gross real estate	\$ --	\$ --	\$ --	\$ 470,890	\$ 470,890
Total, AvalonBay					
Total revenue	\$ 37,852	\$ 1,367	\$ 5,964	\$ 25,010	\$ 70,193
Net Operating Income	\$ 26,942	\$ 1,042	\$ 4,187	\$ 16,091	\$ 48,262
Gross real estate	\$ 1,875,634	\$ 29,507	\$ 179,903	\$1,674,184	\$3,759,228

</TABLE>

<TABLE>
<CAPTION>

	For the six months ended				
	Stable Communities	Developed Communities	Redeveloped Communities	Other	Total
<S>	<C>	<C>	<C>	<C>	<C>
For the three and six months ended June 30, 1999					

Segment Results					
Total revenue	\$ 174,488	\$ 15,751	\$ 15,988	\$ 34,184	\$ 240,411

Net Operating Income	\$ 121,790	\$ 11,985	\$ 11,047	\$ 20,898	\$ 165,720
Gross real estate	\$ 2,525,462	\$ 224,576	\$ 248,424	\$ 979,523	\$3,977,985
Non-allocated operations					
Total revenue	\$ --	\$ --	\$ --	\$ 1,043	\$ 1,043
Net Operating Income	\$ --	\$ --	\$ --	\$ 806	\$ 806
Gross real estate	\$ --	\$ --	\$ --	\$ 213,042	\$ 213,042
Total, AvalonBay					
Total revenue	\$ 174,488	\$ 15,751	\$ 15,988	\$ 35,227	\$ 241,454
Net Operating Income	\$ 121,790	\$ 11,985	\$ 11,047	\$ 21,704	\$ 166,526
Gross real estate	\$ 2,525,462	\$ 224,576	\$ 248,424	\$1,192,565	\$4,191,027
For the three and six months ended June 30, 1998					

Segment Results					
Total revenue	\$ 57,011	\$ 2,686	\$ 11,780	\$ 43,812	\$ 115,289
Net Operating Income	\$ 41,024	\$ 2,083	\$ 8,310	\$ 28,034	\$ 79,451
Gross real estate	\$ 1,875,634	\$ 29,507	\$ 179,903	\$1,203,294	\$3,288,338
Non-allocated operations					
Total revenue	\$ --	\$ --	\$ --	\$ 312	\$ 312
Net Operating Income	\$ --	\$ --	\$ --	\$ 291	\$ 291
Gross real estate	\$ --	\$ --	\$ --	\$ 470,890	\$ 470,890
Total, AvalonBay					
Total revenue	\$ 57,011	\$ 2,686	\$ 11,780	\$ 44,124	\$ 115,601
Net Operating Income	\$ 41,024	\$ 2,083	\$ 8,310	\$ 28,325	\$ 79,742
Gross real estate	\$ 1,875,634	\$ 29,507	\$ 179,903	\$1,674,184	\$3,759,228

</TABLE>

Operating expenses as reflected on the Condensed Consolidated Statements of Operations include \$6,349 and \$2,843 for the three months ended June 30, 1999 and 1998, respectively, and \$12,037 and \$4,010 for the six months ended June 30, 1999 and 1998 of property management overhead costs that are not allocated to individual communities. These costs are not reflected in Net Operating Income as shown in the above tables. Communities held for sale as reflected on the Condensed Consolidated Balance Sheets is net of \$6,535 of accumulated depreciation as of June 30, 1999.

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In June 1998, the Company completed the Merger with Avalon. The Merger and related transactions were accounted for using the purchase method of accounting in accordance with GAAP. Accordingly, the results of operations of the Avalon communities prior to June 4, 1998 are not included in the results of operations of the Company. Avalon communities are included in Established Communities for Management's decision making purposes although the results of operations prior to the Merger are not included in the Company's historical operating results determined in accordance with GAAP. For comparative purposes, the 1998 operating information for the Company is presented on the following page on a pro forma basis (unaudited) assuming the Merger had occurred as of January 1, 1998.

<TABLE>

<CAPTION>

	For the three months ended			
	Stable Communities	Developed Communities	Redeveloped Communities	Other
Total				
<S>	<C>	<C>	<C>	<C>
<C>				

For the three and six months ended June 30, 1998

Segment Results

Total revenue	\$ 60,488	\$ 11,610	\$ 5,964	\$ 30,081	\$ 108,143
Net Operating Income	\$ 41,717	\$ 8,992	\$ 4,187	\$ 19,232	\$ 74,128

Gross real estate	\$	1,559,804	\$	307,644	\$	179,903	\$	1,240,989	\$
3,288,340									
Non-allocated operations									
Total revenue	\$	--	\$	--	\$	--	\$	635	\$
635									
Net Operating Income	\$	--	\$	--	\$	--	\$	571	\$
571									
Gross real estate	\$	--	\$	--	\$	--	\$	470,888	\$
470,888									
Total, AvalonBay									
Total revenue	\$	60,488	\$	11,610	\$	5,964	\$	30,716	\$
108,778									
Net Operating Income	\$	41,717	\$	8,992	\$	4,187	\$	19,803	\$
74,699									
Gross real estate	\$	1,559,804	\$	307,644	\$	179,903	\$	1,711,877	\$
3,759,228									

<TABLE>
<CAPTION>

For the six months ended

	Stable Communities	Developed Communities	Redeveloped Communities	Other	
Total					
<S>	<C>	<C>	<C>	<C>	
<C>					
For the three and six months ended June 30, 1998					

Segment Results

Total revenue	\$	118,634	\$	22,901	\$	11,780	\$	55,116	\$
208,431									
Net Operating Income	\$	81,960	\$	17,725	\$	8,310	\$	35,148	\$
143,143									
Gross real estate	\$	1,559,804	\$	307,644	\$	179,903	\$	1,240,989	\$
3,288,340									
Non-allocated operations									
Total revenue	\$	--	\$	--	\$	--	\$	1,193	\$
1,193									
Net Operating Income	\$	--	\$	--	\$	--	\$	1,063	\$
1,063									
Gross real estate	\$	--	\$	--	\$	--	\$	470,888	\$
470,888									
Total, AvalonBay									
Total revenue	\$	118,634	\$	22,901	\$	11,780	\$	56,309	\$
209,624									
Net Operating Income	\$	81,960	\$	17,725	\$	8,310	\$	36,211	\$
144,206									
Gross real estate	\$	1,559,804	\$	307,644	\$	179,903	\$	1,711,877	\$
3,759,228									

9. Subsequent Events

During July 1999, the Company sold The Pointe, a 296 apartment home community located in the Napa/Solono Valley, California area. The net proceeds of approximately \$23,900 from the sale of the community were deposited into an escrow account to facilitate a like-kind exchange transaction.

During July 1999, the Company purchased Avalon at Woodbury, a 224 apartment home community located in the Minneapolis, Minnesota area for approximately \$26,000 pursuant to a presale agreement signed in 1997 with an unaffiliated company.

During July 1999, the Company issued \$150,000 of unsecured notes. The notes bear interest at 7.50% per annum and will mature August 1, 2009. The net proceeds of approximately \$148,400 to the Company were used to reduce amounts outstanding under the Company's Unsecured Facility.

PART I. FINANCIAL INFORMATION (CONTINUED)

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 and that do not relate to historical matters. We cannot assure the future results or outcome of the matter described in these statements; rather, these statements merely reflect our current expectations of the approximate outcome of the matter discussed. In addition, information concerning the following are forward-looking statements:

- the completion, and 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 communities which we are considering for future development;
- cost, yield and earnings estimates; and
- the timing and effectiveness of Year 2000 compliance.

You should not rely on forward-looking statements since 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 such 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 such 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 abandon or fail to secure development opportunities;
- construction costs of a community may exceed our original estimates;
- construction and lease-up of communities under development or redevelopment may not be completed on schedule, resulting in increased interest expense, construction costs and reduced rental revenues;
- occupancy rates and market rents may be adversely affected by local economic and market conditions which are beyond our control;
- financing may not be available on favorable terms and our cash flow from operations and access to cost effective capital may be insufficient for the development of our pipeline and could limit our pursuit of opportunities;
- our cash flow may be insufficient to meet required payments of principal and interest, and we may be unable to refinance existing indebtedness or the terms of such refinancing may not be as favorable as the terms of existing indebtedness;
- we may, with our suppliers and service providers, experience unanticipated delays or expenses in achieving Year 2000 compliance.

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, 1998 and the notes included in our annual report on Form 10-K in conjunction with the following discussion. These forward looking

statements represent our estimates and assumptions only as of the date of this report, and we do not undertake to update these forward looking statements.

General

AvalonBay is a Maryland corporation that elected to be treated as a real estate investment trust ("REIT") for federal income tax purposes. We focus on the ownership and operation of institutional-quality apartment communities in high barrier-to-entry markets of the United States. This is because we believe that the limited new supply of apartment homes in these markets helps assure more predictable cash flows. These barriers-to-entry include a difficult and lengthy

entitlement process with local jurisdictions and dense infill locations where zoned and entitled land is not available. 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. AvalonBay is the surviving corporation from the merger of Avalon Properties, Inc. ("Avalon") with and into Bay Apartment Communities, Inc. ("Bay") on June 4, 1998. The merger was accounted for as a purchase of Avalon by Bay. In connection with the merger, the Company changed its name from Bay Apartment Communities, Inc. to AvalonBay Communities, Inc.

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

- acquisition;
- development and redevelopment;
- construction and reconstruction;
- financing;
- marketing;
- leasing and management; and
- information technologies.

With our experience 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 may be constrained by capital market conditions that limit the availability of cost effective capital to finance these activities. We have acquired fewer communities in 1999 than in prior years due to these capital constraints, and expect to direct most of our invested capital to new developments for the foreseeable future.

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, 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 August 2, 1999 consist primarily of stabilized operating apartment communities and communities in various stages of the development cycle and land or land options held for development. We classify these investments into the following categories:

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<TABLE>
<CAPTION>

	Number of communities	Number of apartment homes
	----- <C>	----- <C>
<S> Current Communities	125	37,029
- -----		
Established Communities:	65	18,438
Northern California	25	6,461
Southern California	3	600
Mid-Atlantic	19	5,631
Northeast	17	5,248
Midwest	1	498
Other Stabilized Communities:	45	13,420
Northern California	8	2,400
Southern California	8	2,472
Mid-Atlantic	6	1,658
Northeast	10	3,774
Midwest	11	2,662
Pacific Northwest	2	454
Lease-Up Communities	2	509
Redevelopment Communities	13	4,662
Development Communities	12	2,710
- -----		
Development Rights	31	8,939 (*)
- -----		

</TABLE>

(*) Represents an estimate

Current Communities are apartment communities where construction is complete and the community has reached stabilized occupancy (at least 95% occupied or completed for one year), is in the initial lease-up process or is 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 by Bay (or, on a pro forma basis, by Avalon which we subsequently acquired in connection with the merger) as of January 1, 1998, with stabilized operating costs as of January 1, 1998 such that a comparison of 1998 operating results to 1999 operating results is meaningful. Each of the Established Communities falls into one of six geographic areas including Northern California, Southern California, Mid-Atlantic, Northeast and Midwest regions. At June 30, 1999, there were no Established Communities in the Pacific Northwest.
- Other Stabilized Communities. Represents Stabilized Communities as defined above, but which became stabilized or were acquired after January 1, 1998.

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Lease-Up Communities. Represents all communities where construction has been complete for less than one year and where occupancy of at least 95% has not been reached.

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

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

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

Of the Current Communities, we own:

- a fee simple ownership interest in 107 operating communities, one of which is on land subject to a 149 year land lease;
- a general partnership interest in four partnerships that hold a fee simple interest in four other operating communities;
- a general partnership interest in four partnerships structured as "DownREITs" (as described more fully below) that own 13 communities; and
- a 100% interest in a senior participating mortgage note secured by one community.

We hold a fee simple ownership interest in each of the Development Communities except for two communities that are owned by partnerships in which we hold a general partnership interest.

In each of the four partnerships structured as DownREITs, we (or one of our wholly-owned subsidiaries) are 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 certain distributions before any distribution is made to the general partner. Although the partnership agreements for each of the DownREITs are different, generally the distributions paid to the holders of units of limited partnership interests approximate the current AvalonBay common stock dividend rate. Each DownREIT partnership has been structured such that it is unlikely that the limited partners will be entitled to a distribution greater than that stated 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 a cash redemption of a unit, we may acquire any unit presented for redemption for one share of common stock. As of August 2, 1999, there were 876,546 units outstanding. The DownREIT partnerships are consolidated for financial reporting purposes.

At June 30, 1999, we had positioned our portfolio of Stabilized Communities,

excluding communities owned by joint ventures, to an average physical occupancy level of 96.1%. The Established Communities had achieved an average economic occupancy of 96.2% for the three and six months ended June 30, 1999. Average economic occupancy for the Established Communities for the three months ended June 30, 1998 was 97.1% and for the six months ended June 30, 1998 was 96.8%. Our aggressive marketing efforts combined with limited and targeted pricing adjustments are responsible for this continued high occupancy. This positioning has resulted in overall growth in rental revenue from Established Communities between

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periods. Our strategy is to maximize total rental revenue through management of rental rates and occupancy levels. If market and economic conditions change, our strategy of maximizing total rental revenue could lead to lower occupancy levels. Given the current high occupancy level of our portfolio, we believe that any rental revenue and net income gains from our Established Communities would be achieved primarily through higher rental rates and the lower average operating costs per apartment home that result from high occupancy.

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. The Company was 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 metropolitan areas:

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

Recent Developments

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

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

To affect this concentration, we are selling assets in markets that have few high barrier characteristics. Accordingly, we sold five communities, totaling 1,536 apartment homes during the second quarter of 1999. Net proceeds from these sales totaled \$104,200,000 resulting in a net gain of \$225,000. We sold one additional community, The Pointe, a 296 apartment home community located in the Napa/Solono Valley, California area, in July 1999 in connection with our disposition strategy. The net proceeds from the sale of this community were approximately \$23,900,000. We intend to redeploy the proceeds from sales to develop and redevelop communities currently under construction or reconstruction. Pending such redeployment, the proceeds from the sale of these communities will be used to repay amounts outstanding under our variable rate unsecured credit facility or deposited in escrow accounts to facilitate like-kind exchange transactions.

Community Acquisition. We acquired one community, Avalon at Woodbury, during July 1999 for approximately \$26,000,000 pursuant to a presale agreement signed in 1997 with an unaffiliated company. The community contains 224 apartment homes, and is located in the Minneapolis, Minnesota area.

Commencement and Completion of Development Communities. During the second quarter of 1999, we began development of two new communities that will contain 424 apartment homes. These communities are located in the Boston, Massachusetts and Northern New Jersey areas. The land parcels were acquired for a total purchase price of \$11,280,000, and the total projected investment in the two communities (including the land acquisition costs) is projected to be approximately \$62,400,000.

During the second quarter of 1999, three new development communities, Rosewalk at Waterford Park II and Avalon on the Alameda (both located in the San Jose, California area) and Avalon Oaks (located in the Boston, Massachusetts area) were completed containing 665 apartment homes for a total investment of \$99,500,000.

Commencement and Completion of Redevelopment Communities. The redevelopment of two existing communities (located in the Chicago, Illinois and Orange County, California areas) commenced during the second quarter of 1999. The total projected investment in redevelopment for these communities, which contain 694 apartment homes, is \$13,600,000.

One redevelopment community, Avalon Westhaven, was completed during the second quarter of 1999 for a total investment in redevelopment of \$3,400,000. This community contains 190 apartment homes and is located in the Seattle, Washington area.

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

Results of Operations

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

The analysis that follows compares our operating results for the three and six months ended June 30, 1999 and June 30, 1998.

Net income available to common stockholders increased \$10,470,000 (76.2%) to \$24,218,000 for the three months ended June 30, 1999 compared to \$13,748,000 for the comparable period of the preceding year. Net income available to common stockholders increased \$11,382,000 (50.1%) to \$34,080,000 for the six months ended June 30, 1999 compared to \$22,698,000 for the comparable period of the preceding year. Excluding non-recurring charges and gain on sale of communities, net income available to common stockholders, as adjusted, increased by \$10,311,000 for the three months ended June 30, 1999 and \$22,668,000 for the six months ended June 30, 1999 from the comparable periods of 1998. The primary reason for the increases in net income, as adjusted, is additional operating income from the communities we acquired in the merger. The increases are also attributable to additional operating income from communities developed or acquired during 1998 and the first six months of 1999 as well as growth in operating income from Established Communities.

Rental income increased \$52,174,000 (74.5%) to \$122,242,000 for the three months ended June 30, 1999 compared to \$70,068,000 for the comparable period of the preceding year. Rental income increased \$124,962,000 (108.2%) to \$240,433,000 for the six months ended June 30, 1999 compared to \$115,471,000 for the comparable period of the preceding year. Of the six month increase, \$1,202,000 relates to rental revenue increases from Established Communities and \$123,760,000 relates to rental revenue attributable to newly developed, redeveloped or acquired apartment homes, of which \$61,649,000 relates to rental revenue attributable to communities acquired in connection with the merger.

Overall Portfolio - The \$124,962,000 increase is primarily due to increases in the weighted average number of occupied apartment homes as well as an increase in the weighted average monthly rental income per occupied apartment home. The weighted average number of occupied apartment homes increased from 17,820 apartment homes for the six months ended June 30, 1998 to 34,145 apartment homes for the six months ended June 30, 1999 as a result of additional apartment homes from the former Avalon communities and the development, redevelopment and acquisition of new communities. For the six months ended June 30, 1999, the weighted average monthly revenue per occupied apartment home increased \$97 (9.0%) to \$1,172 compared to \$1,075 for the comparable period of the preceding year.

Established Communities (on a pro forma basis, assuming the merger had occurred on January 1, 1998) - Rental revenue increased \$2,460,000 (4.0%) for the three months ended June 30, 1999

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compared to the comparable period of the preceding year. Rental revenue increased \$5,201,000 (4.2%) for the six months ended June 30, 1999 compared

to the comparable period of the preceding year. The increases are due to market conditions that allowed for higher average rents, but lower economic occupancy levels. For the six months ended June 30, 1999, weighted average monthly revenue per occupied apartment home increased \$57 (4.8%) to \$1,201 compared to \$1,144 for the comparable period of the preceding year. The average economic occupancy decreased from 96.8% for the six months ended June 30, 1998 to 96.2% for the six months ended June 30, 1999. We believe that, beginning in October 1998, the Northern California sub-markets that are primarily dependent on Silicon Valley employment have softened. These sub-markets have experienced reduced rent growth and occupancy compared to other Northern California sub-markets.

Established Communities on a pro forma basis include the Established Communities as well as the communities owned by Avalon at January 1, 1998 with stabilized occupancy levels and operating costs as of that date, so that a comparison of 1998 operating results to 1999 operating results is meaningful. Established Communities on a pro forma basis include communities located in the Northeast, Mid-Atlantic and Midwest in addition to those communities located in Northern California and Southern California.

Management fees increased \$199,000 to \$314,000 for the three months ended June 30, 1999 compared to \$115,000 for the comparable period of the preceding year. Management fees increased \$538,000 to \$653,000 for the six months ended June 30, 1999 compared to \$115,000 for the comparable period of the preceding year. Management fees represent revenue from third-party contracts to which we succeeded in the merger.

Operating expenses increased \$13,682,000 (71.5%) to \$32,817,000 for the three months ended June 30, 1999 compared to \$19,135,000 for the comparable period of the preceding year. These expenses increased \$34,742,000 (114.0%) to \$65,218,000 for the six months ended June 30, 1999 compared to \$30,476,000 for the comparable period of the preceding year.

Overall Portfolio - The increase in operating expenses for the three and six months ended June 30, 1999 is primarily due to additional operating expenses from the former Avalon communities, and secondarily, due to the addition of newly developed, redeveloped or acquired apartment homes. Maintenance, insurance and other costs associated with Development and Redevelopment Communities are expensed as communities move from the initial construction and lease-up phase to the stabilized operating phase.

Established Communities, on a pro forma basis, assuming the merger had occurred on January 1, 1998 - Operating expenses increased \$512,000 (4.2%) to \$12,730,000 for the three months ended June 30, 1999 compared to \$12,218,000 for the comparable period of the preceding year. These expenses increased \$1,210,000 (5.0%) to \$25,261,000 for the six months ended June 30, 1999 compared to \$24,051,000 for the comparable period of the preceding year. The net changes are the result of higher administrative and maintenance costs, offset by lower utility and insurance costs.

Property taxes increased \$5,451,000 (96.7%) to \$11,090,000 for the three months ended June 30, 1999 compared to \$5,639,000 for the comparable period of the preceding year. Property taxes increased \$12,354,000 (131.5%) to \$21,747,000 for the six months ended June 30, 1999 compared to \$9,393,000 for the comparable period of the preceding year.

Overall Portfolio - The increases for the three and six months ended June 30, 1999 are primarily due to additional expense from the former Avalon communities and secondarily due to the

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addition of newly developed, redeveloped or acquired apartment homes. 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, on a pro forma basis, assuming the merger had occurred on January 1, 1998 - Property taxes increased \$84,000 (1.6%) to \$5,323,000 for the three months ended June 30, 1999 compared to \$5,239,000 for the comparable period of the preceding year. Property taxes increased \$342,000 (3.3%) to \$10,807,000 for the six months ended June 30, 1999 compared to \$10,465,000 for the comparable period of the preceding year. The increases are primarily the result of increased assessments of property values and increased property tax rates in the Northeast and Mid-Atlantic regions.

Interest expense increased \$7,462,000 (66.9%) to \$18,612,000 for the three months ended June 30, 1999 compared to \$11,150,000 for the comparable period of the preceding year. Interest expense increased \$17,588,000 (101.3%) to \$34,949,000 for the six months ended June 30, 1999 compared to \$17,361,000 for the comparable period of the preceding year. The increases are primarily

attributable to debt assumed in connection with the merger and the issuance of unsecured notes in 1998 and 1999, offset by an increase in capitalized interest. The increase in capitalized interest is due to an increase in the number of apartment homes under construction or reconstruction.

Depreciation and amortization increased \$11,341,000 (77.7%) to \$25,938,000 for the three months ended June 30, 1999 compared to \$14,597,000 for the comparable period of the preceding year. Depreciation and amortization increased \$28,937,000 (118.1%) to \$53,441,000 for the six months ended June 30, 1999 compared to \$24,504,000 for the comparable period of the preceding year. These increases are primarily attributable to additional expense from the former Avalon communities and secondarily to acquisitions, development and redevelopment of communities in 1998 and 1999.

General and administrative expenses increased \$598,000 (33.6%) to \$2,376,000 for the three months ended June 30, 1999 compared to \$1,778,000 for the comparable period of the preceding year. General and administrative expenses increased \$1,796,000 (60.9%) to \$4,743,000 for the six months ended June 30, 1999 compared to \$2,947,000 for the comparable period of the preceding year. These increases are primarily due to costs incurred to support our current portfolio as a result of the merger.

Equity in income of unconsolidated joint ventures increased \$442,000 to \$680,000 for the three months ended June 30, 1999 compared to \$238,000 for the comparable period of the preceding year and increased \$1,168,000 to \$1,406,000 for the six months ended June 30, 1999 compared to \$238,000 for the comparable period of the preceding year. Equity in income of unconsolidated joint ventures represents our share of income of joint ventures that we succeeded to in connection with the merger.

Interest income increased \$1,397,000 to \$1,757,000 for the three months ended June 30, 1999 compared to \$360,000 for the comparable period of the preceding year. Interest income increased \$2,955,000 to \$3,422,000 for the six months ended June 30, 1999 compared to \$467,000 for the comparable period of the preceding year. These increases are primarily due to the interest on the Avalon Arbor promissory note that we succeeded to in connection with the merger and on the Fairlane Woods promissory note acquired in August 1998.

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Capitalization of Fixed Assets and Community Improvements

Our policy with respect to capital expenditures generally provides that only non-recurring expenditures are capitalized. Improvements and upgrades are capitalized 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.

Effective January 1, 1999, we increased the West Coast portfolio's threshold for capitalization of community improvements from \$5,000 per occurrence to \$15,000 per occurrence. This increase was necessary in order to conform our West Coast portfolio to our company-wide threshold for capitalization of community improvements. Under this policy, virtually all capitalized costs are non-recurring, and 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. Purchases of personal property made for replacement purposes are expensed. The application of these policies for the six months ended June 30, 1999 resulted in non-revenue generating capitalized expenditures for Stabilized Communities of approximately \$75 per apartment home. For the six months ended June 30, 1999, we charged to maintenance expense, including carpet and appliance replacements, a total of approximately \$15,350,000 for Stabilized Communities or \$511 per apartment home. We anticipate that capitalized costs per apartment home will gradually rise as our portfolio of communities matures.

Liquidity and Capital Resources

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

- the number of apartment homes;

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

The timing, source and amount of cash flows provided by financing activities and used in investing activities have historically been sensitive to the capital markets environment. Thus, changes in the capital markets environment will affect our plans for the undertaking of construction and development as well as acquisition activity.

Cash and cash equivalents decreased from \$15,060,000 at June 30, 1998 to \$14,610,000 at June 30, 1999 due to a decrease in the excess of cash provided by financing and operating activities over cash flow used in investing activities.

Net cash provided by operating activities increased by \$38,542,000 from \$72,767,000 for the six months ended June 30, 1998 to \$111,309,000 for the six months ended June 30, 1999. The increase is due to the addition of the former Avalon communities as well as an increase in operating income of the existing Bay communities.

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Cash used in investing activities decreased by \$119,877,000 from \$272,863,000 for the six months ended June 30, 1998 to \$152,986,000 for the six months ended June 30, 1999. This decrease in expenditures reflects decreased acquisition activity and proceeds from the sale of six communities in the six months ended June 30, 1999 offset by increased construction and reconstruction activity. The decrease in acquisition activity is attributable to a lack of available properties that meet our yield requirements combined with a decrease in the availability of cost-effective capital.

Net cash provided by financing activities decreased by \$164,571,000 from \$211,968,000 for the six months ended June 30, 1998 to \$47,392,000 for the six months ended June 30, 1999. The decrease is primarily due to decreased borrowings under our unsecured facility and an increase in dividends paid as a result of additional common and preferred shares issued in connection with the merger as well as reduced capital markets activity in response to market conditions.

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

- normal recurring operating expenses;
- debt service payments;
- the distributions required with respect to our series of preferred stock; and
- the minimum dividend payments required to maintain our REIT qualification under the Internal Revenue Code of 1986.

We anticipate that these needs will be fully funded from cash flows provided by operating activities. Any short-term liquidity needs not provided by current operating cash flows will be funded from our unsecured facility.

We believe our principal long-term liquidity needs are the repayment 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, a portion of each maturity can be satisfied from this retained cash. Although we believe we are well positioned and that 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. We follow a focused strategy to help facilitate uninterrupted access to capital. This strategy includes:

1. Hiring, training and retaining associates with a strong resident service focus, which should lead to higher rents, lower turnover and reduced operating costs;
2. Managing, acquiring and developing institutional quality communities with in-fill locations that should provide consistent, sustained earnings

growth;

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3. Operating in markets with growing demand, as measured by household formation and job growth, and high barriers-to-entry. These characteristics 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. This strategy is expected to result in a high level of quality to the revenue stream;
4. 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 ratings levels can be maintained;
5. Following accounting practices that provide a high level of quality to reported earnings; and
6. Providing timely, accurate and detailed disclosures to the investment community.

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

Recent volatility in the capital markets has 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 that are important to our capital resources.

Unsecured Facility

Our unsecured facility is furnished by a consortium of banks that provides \$600,000,000 in short-term credit. We pay these banks an annual facility fee of \$900,000 in equal quarterly installments. The unsecured facility bears interest at varying levels tied to the London Interbank Offered Rate based on ratings levels achieved on our senior unsecured notes and on a maturity selected by us. The current stated pricing is LIBOR plus .6% per annum. The unsecured facility matures in July 2001, although we have two options to extend the credit facility for one-year periods. Therefore, subject to certain conditions, we may extend the maturity to July 2003. A competitive bid option is available for up to \$400,000,000. This option allows banks that are part of the lender consortium to bid to give us loans at a rate that is lower than the stated pricing provided by the unsecured facility. The competitive bid option may result in lower pricing if market conditions allow. Pricing under the competitive bid option resulted in average pricing of LIBOR plus .53% for balances most recently placed under the competitive bid option. At August 2, 1999, \$240,500,000 was outstanding, \$71,892,000 was used to provide letters of credit and \$287,608,000 was available for borrowing under the unsecured facility. We intend to use borrowings under the unsecured facility for:

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

Interest Rate Protection Agreements

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

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Financing Commitments/Transactions Completed

Although there was no capital markets activity in the second quarter of 1999, we issued \$150,000,000 of unsecured notes in July 1999 that bear interest at 7.50% per annum and will mature August 1, 2009. The net proceeds of approximately \$148,400,000 was used to repay amounts outstanding under our unsecured facility.

Future Financing and Capital Needs

As of June 30, 1999, we had 22 new communities under construction either by us or by unaffiliated third parties with whom we have entered into forward purchase

commitments. As of June 30, 1999, a total estimated cost of \$294,566,000 remained to be invested. In addition, we had a total of 13 communities that were under reconstruction, for which an estimated \$41,765,000 remained to be invested as of June 30, 1999.

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

- our \$600,000,000 unsecured credit facility;
- the net proceeds from the sale of existing communities;
- retained operating cash; or
- the issuance of debt or equity securities.

We expect to continue to fund deferred development costs related to future developments from retained operating cash and borrowings under the unsecured facility. We believe that 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 over the last twelve months. We cannot assure that cost effective capital will be available to meet future expenditures required to begin planned reconstruction activity or the construction of the Development Rights. Before planned reconstruction activity or the construction of a Development Right begins, we intend to arrange adequate capital sources to complete these undertakings, although we cannot assure 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 forego reconstruction activity which we believe would have enhanced revenues.

We estimate that a significant portion of our liquidity needs will be met from retained operating cash and borrowings under our unsecured facility. To meet the balance of our liquidity needs, we will need to arrange additional capacity under our existing unsecured facility, sell additional existing communities and/or issue additional debt or equity securities. While we believe we have the financial position to expand our short term credit capacity and support our capital markets activity, we cannot assure that we will be successful in completing these arrangements, offerings or sales. If these transactions cannot be completed on a cost-effective basis, then a continuation of the current capital market conditions described in this report could have a material adverse impact on our operating results and financial condition, including the abandonment of deferred development costs and a resultant charge to earnings.

During 1998, we determined to sell assets in markets that have few high barrier characteristics. We will solicit competing bids from unrelated parties for these individual assets, and will consider the sales price and tax ramifications of each proposal. We intend to actively seek buyers for these assets during 1999. However, we cannot assure that these assets can be sold on terms that we consider satisfactory. In

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connection with this disposition strategy, we have disposed of seven communities since January 1, 1999. The net proceeds from the sale of these communities were approximately \$141,100,000.

The remaining assets that have been 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 June 30, 1999 totaled \$136,442,000. 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 \$2,537,000 for the three months ended June 30, 1999 and \$3,019,000 for the six months ended June 30, 1999. Our Condensed Consolidated Statements of Operations include net income from the communities held for sale for the three months ended June 30, 1998 of \$397,000, or \$555,000 on a pro forma basis assuming the merger had occurred on January 1, 1998, and \$717,000 for the six months ended June 30, 1998, or \$1,485,000 on a pro forma basis assuming the merger had occurred on January 1, 1998.

Because the proceeds from the sale of communities are used initially to reduce borrowings under our unsecured facility, the immediate effect of a sale of a community is to reduce earnings. This is because the yield on a community that is sold (as measured against the net proceeds from the sale of the community) exceeds the interest rate on borrowings under our unsecured facility. 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 earnings.

Debt Maturities

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

<TABLE>

<CAPTION>

(Dollars in thousands)

COMMUNITY	ALL-IN INTEREST RATE	PRINCIPAL MATURITY DATE	BALANCE OUTSTANDING		
			12-31-98	6-30-99	1999
<S>	<C>	<C>	<C>	<C>	<C>
TAX-EXEMPT BONDS:					
FIXED RATE					
Canyon Creek	6.48%	Jun-25	\$ 38,052	\$ 37,798	\$ 263
Waterford	5.88%	Aug-14	33,100	33,100	--
City Heights	5.80%	Jun-25	20,496	20,382	119
CountryBrook	7.87%	Mar-12	19,568	19,418	155
Villa Mariposa	5.88%	Mar-17	18,300	18,300	--
Sea Ridge	6.48%	Jun-25	17,261	17,145	119
Foxchase I	5.88%	Nov-07	16,800	16,800	--
Barrington Hills	6.48%	Jun-25	13,020	12,933	90
Rivershore	6.48%	Nov-22	10,162	10,075	71
Foxchase II	5.88%	Nov-07	9,600	9,600	--
Fairway Glen	5.88%	Nov-07	9,580	9,580	--
Crossbrook	6.48%	Jun-25	8,382	8,329	56
Larkspur Canyon	5.50%	Jun-25	7,530	7,488	43
Avalon View	7.55%	Aug-24	19,085	18,955	160
Avalon at Lexington	6.56%	Feb-25	14,843	14,724	121
Avalon Knoll	6.95%	Jun-26	13,755	13,669	89
Avalon at Dulles	7.04%	Jul-24	12,360	12,360	--
Avalon Fields	7.57%	May-27	11,881	11,814	70
Avalon at Hampton II	7.04%	Jul-24	11,550	11,550	--
Avalon at Symphony Glen	7.06%	Jul-24	9,780	9,780	--
Avalon West	7.73%	Dec-36	8,681	8,657	26
Avalon Landing	6.85%	Jun-26	6,809	6,766	46
			330,595	329,223	1,428
VARIABLE RATE					
Avalon Devonshire		Dec-25	27,305	27,305	--
Avalon at Fairway Hills I		Jun-26	11,500	11,500	--
Laguna Brisas		Mar-09	10,400	10,400	--
Avalon at Hampton I		Jun-26	8,060	8,060	--
			57,265	57,265	--
CONVENTIONAL LOANS:					
FIXED RATE					
\$100 Million Senior Unsecured Notes	7.375%	Sep-02	100,000	100,000	--
\$100 Million Senior Unsecured Notes	6.625%	Jan-05	100,000	100,000	--
\$110 Million Senior Unsecured Notes	6.875%	Dec-07	110,000	110,000	--
\$50 Million Senior Unsecured Notes	6.25%	Jan-03	50,000	50,000	--
\$50 Million Senior Unsecured Notes	6.50%	Jan-05	50,000	50,000	--
\$50 Million Senior Unsecured Notes	6.625%	Jan-08	50,000	50,000	--
\$100 Million Senior Unsecured Notes	6.50%	Jul-03	100,000	100,000	--
\$150 Million Senior Unsecured Notes	6.80%	Jul-06	150,000	150,000	--
\$125 Million Medium Term Notes	6.58%	Feb-04	--	125,000	--
Governor's Square	7.65%	Aug-04	14,064	13,995	73
The Arbors	7.25%	May-04	12,870	12,870	--
Gallery Place	7.31%	May-01	11,486	11,381	109
Cedar Ridge	6.50%	Jul-99	1,000	1,000	1,000
Avalon Walk II	8.93%	Nov-04	12,762	12,653	112
Avalon Pines	8.00%	Dec-03	5,329	5,283	66
			767,511	892,182	1,360
VARIABLE RATE-NONE					
			--	--	--
TOTAL INDEBTEDNESS - EXCLUDING CREDIT FACILITY			\$1,155,371	\$1,278,670	\$2,788

</TABLE>

<TABLE>
<CAPTION>

(Dollars in thousands)

COMMUNITY	BALANCE OUTSTANDING				
	2000	2001	2002	2003	THEREAFTER
<S>	<C>	<C>	<C>	<C>	<C>
TAX-EXEMPT BONDS:					
FIXED RATE					
Canyon Creek	\$ 554	\$ 594	\$ 637	\$ 684	\$ 35,066
Waterford	--	--	--	--	33,100
City Heights	250	268	288	308	19,149
CountryBrook	330	357	386	417	17,773
Villa Mariposa	--	--	--	--	18,300
Sea Ridge	251	270	289	310	15,906
Foxchase I	--	--	--	--	16,800
Barrington Hills	190	203	218	234	11,998

Rivershore	171	184	198	213	9,238
Foxchase II	--	--	--	--	9,600
Fairway Glen	--	--	--	--	9,580
Crossbrook	117	126	136	146	7,748
Larkspur Canyon	91	98	105	112	7,039
Avalon View	330	350	373	397	17,345
Avalon at Lexington	255	271	288	307	13,482
Avalon Knoll	187	200	214	230	12,749
Avalon at Dulles	--	--	--	--	12,360
Avalon Fields	147	157	169	180	11,091
Avalon at Hampton II	--	--	--	--	11,550
Avalon at Symphony Glen	--	--	--	--	9,780
Avalon West	53	57	61	65	8,395
Avalon Landing	95	101	108	116	6,300
	-----	-----	-----	-----	-----
	3,021	3,236	3,470	3,719	314,349
VARIABLE RATE					
Avalon Devonshire	--	--	--	--	27,305
Avalon at Fairway Hills I	--	--	--	--	11,500
Laguna Brisas	--	--	--	--	10,400
Avalon at Hampton I	--	--	--	--	8,060
	-----	-----	-----	-----	-----
	--	--	--	--	57,265
CONVENTIONAL LOANS:					
FIXED RATE					
\$100 Million Senior Unsecured Notes	--	--	100,000	--	--
\$100 Million Senior Unsecured Notes	--	--	--	--	100,000
\$110 Million Senior Unsecured Notes	--	--	--	--	110,000
\$50 Million Senior Unsecured Notes	--	--	--	50,000	--
\$50 Million Senior Unsecured Notes	--	--	--	--	50,000
\$50 Million Senior Unsecured Notes	--	--	--	--	50,000
\$100 Million Senior Unsecured Notes	--	--	--	100,000	--
\$150 Million Senior Unsecured Notes	--	--	--	--	150,000
\$125 Million Medium Term Notes	--	--	--	--	125,000
Governor's Square	153	165	178	193	13,233
The Arbors	--	--	--	--	12,870
Gallery Place	230	11,042	--	--	--
Cedar Ridge	--	--	--	--	--
Avalon Walk II	241	264	288	315	11,433
Avalon Pines	121	131	142	4,823	--
	-----	-----	-----	-----	-----
	745	11,602	100,608	155,331	622,536
VARIABLE RATE-NONE					
	-----	-----	-----	-----	-----
TOTAL INDEBTEDNESS - EXCLUDING CREDIT FACILITY	\$3,766	\$14,838	\$104,078	\$159,050	\$994,150
	=====	=====	=====	=====	=====

</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. 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.

Year 2000 Compliance

The statements in the following section include "Year 2000 readiness disclosure" within the meaning of the Year 2000 Information and Readiness Disclosure Act of 1998.

The Year 2000 compliance issue concerns the inability of computer systems to accurately calculate, store or use a date after December 31, 1999. This could result in a system failure causing disruptions of operations or create erroneous results. The Year 2000 issue affects virtually all companies and organizations.

We have been taking steps to determine the nature and extent of the work required to make our information computer systems, or IT Systems, and non-information embedded systems, or Non-IT Systems, Year 2000 compliant. We are also working to determine what effects non-compliance by our significant business partners may have on us. We have assigned key personnel to our Year 2000 Task Force to coordinate compliance efforts. Our Task Force is represented by executive, financial and community operation functions. We have engaged an outside consulting firm to assist the Task Force in detecting Non-IT Systems that are not Year 2000 compliant. The consultants have aided in assessing the

compliance of our Non-IT Systems and, for non-compliant systems, have recommended replacement, upgrades or alternative solutions based on the system's importance to business operations or financial impact, likelihood of failure, life safety concerns and available contingency options.

We have identified certain phases necessary to become Year 2000 compliant and have established an estimated timetable for completion of those phases, as shown below:

<TABLE> <CAPTION>		ESTIMATED COMPLETION	
DATE	PHASE	DEFINITION	AS OF AUGUST 2,
1999	-----	-----	-----
--			
<S>	<C>	<C>	<C>
1.	Designate Task Force	Assign key management personnel to our Year 2000 Task Force to coordinate compliance efforts	Completed
2.	Introduce Year 2000 Awareness	Communicate the Year 2000 issue to our associates. Ensure current and future acquisition, development and operation processes address Year 2000 compliance	Completed

</TABLE>

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<TABLE> <CAPTION>		ESTIMATED	
COMPLETIONDATE	PHASE	DEFINITION	AS OF AUGUST 2,
1999	-----	-----	-----
--			
<S>	<C>	<C>	<C>
3.	Inventory System	INITIAL REVIEW: Identify our IT systems and Non-IT systems and provide findings to the consultants	3.1: Completed
	3.1 Initial Review		3.2: Completed
	3.2 Follow-up Review	FOLLOW-UP REVIEW: Utilize consultants' analysis of the initial review to detect previously unknown Non-IT systems	
4.	Contact Vendors	Contact vendors of all IT and Non-IT systems to request assurance information regarding	4.1: Completed
Completed	4.1 IT Systems		4.2: Substantially
	4.2 Non-IT Systems	the compliance of those systems	
5.	Prioritize and Budget	Prioritize non-compliant IT and Non-IT systems and prepare initial budget for cost of becoming compliant	Completed
6.	Identify Solutions	Identify the course of action necessary to become Year 2000 compliant, and engage third party service providers where needed	Completed
7.	Contingency Plan	Develop contingency plans to minimize	7.1: Substantially
Completed	7.1 General Community	disruptions and data processing errors in the	7.2: October 31,
1999	7.2 Site Specific	event impacted IT and Non-IT systems are not Year 2000 compliant on January 1, 2000. General community contingency plans will be developed for each community type. Where necessary, as determined by system inventory, site specific contingency plans will be developed	
8.	Replace/Upgrade and Test Solutions	Replace or upgrade certain non-compliant	Replace/Upgrade:
Substantially Completed		information and Non-IT systems and test	Test: October 31,
1999		functionality of critical systems	
9.	Communicate to Residents	Communicate to residents steps we have taken towards becoming Year 2000 compliant and remaining information and non-information	October 31, 1999

</TABLE>

Our Year 2000 Task Force has completed the Inventory System Phase for computerized information systems. The assessment determined that it was necessary to modify, update or replace limited portions of our computer hardware and software applications.

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We have completed the replacement and upgrade of our existing hardware and software information systems in the normal course of business resulting in Year 2000 compliance. The vendor that provided our previous accounting software has a compliant version of its product, but growth in our operations requires a general ledger system with scope and functionality that is not present in either the system we previously used or the Year 2000 compliant version of that system. Accordingly, we replaced the current general ledger system with an enhanced system that, in addition to increased functionality, is believed to be Year 2000 compliant. The implementation of the new general ledger system was completed July 1, 1999. We are not treating the cost of this new system as a Year 2000 expense because the implementation date was not accelerated due to Year 2000 compliance concerns. The cost of the new general ledger system, after considering anticipated efficiencies provided by the new system, is not currently expected to have a material effect, either beneficial or adverse, on our financial condition or results of operations.

Our Task Force has also completed the Inventory System Phase of our non-information embedded systems, such as security, heating and cooling, and fire and elevator systems, at each community that may not be Year 2000 compliant. The Task Force has identified areas of risks for non-compliance by community type. The high-rises, mid-rises and newer garden communities represent the greatest risk of non-compliant systems as they have the most systems per community. In conjunction with our consultants, the Task Force has conducted an assessment of these systems at all communities to identify and evaluate the changes and modifications necessary to make these systems compliant for Year 2000 processing. The Task Force has completed the Follow-up Review of the Inventory System Phase to ensure all non-information embedded systems are addressed for Year 2000 compliance.

Some believe the world's Year 2000 problem, if uncorrected, may result in a major economic crisis and cause major dislocations of business and governmental organizations. We are unable to determine whether such predictions are true or false. As mentioned above, we expect that the nature of our income, rent from residents under leases that are generally one year or less, should serve as a hedge against any short term disruptions of business. However, if a general worst case scenario proves true, all companies, including AvalonBay, will experience the effects.

We, together with our consultants, have completed the process of verifying inventory and have substantially completed the process of obtaining risk assurance regarding Year 2000 compliance of detected non-information embedded systems. The Task Force and consultants have prioritized the non-compliant systems and are proceeding according to the phases described above. We cannot assure, however, that the completion of the process of verifying inventory and obtaining risk assurance has identified all non-compliant systems.

Upon completion of each of the above described upgrades and replacements of our information and non-information systems, we will begin testing to ensure Year 2000 compliance. Testing will be performed on systems:

- which are critical to business operations or life safety;
- which entail a material financial impact in the event of non-compliance;
- with a high likelihood of failure;
- for which the Task Force is unable to obtain reliable third party assurance that the detected system is Year 2000 compliant; and
- which are not deemed to have acceptable contingency options.

We currently expect our testing to be completed during the fourth quarter of 1999. While we anticipate such tests will be successful in all material respects, the Task Force intends to closely monitor our Year 2000 compliance progress and has substantially completed development of contingency plans in the event non-information embedded systems are not compliant. The Task Force has created functional contingency plans by community type, or general community contingency plans, that encompass substantially all of our

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existing portfolio. For certain communities, primarily communities with

high-rise buildings, specific contingency plans, referred to as site specific contingency plans, may be required. The Task Force will continue to review both compliance and contingency plans, throughout all of the above phases, in an effort to detect if any systems will not be compliant on time.

We currently anticipate that the costs of becoming Year 2000 compliant for all impacted systems will be approximately \$750,000, based on the completion of the Prioritize and Budget Phase. Based on available information, we believe that the ultimate cost of achieving Year 2000 compliance will not have a material adverse effect on our business, financial condition or results of operations. However, we cannot assure that we will be Year 2000 compliant by December 31, 1999 or that we will not incur significant additional costs pursuing Year 2000 compliance.

The third parties with which we have material relationships include our utility providers and the vendor that has provided our new accounting software system. Together with the consultants, we have communicated with these and other third party vendors to determine the efforts being made on their part for compliance and to request representation that their systems will be Year 2000 compliant. Substantially all of the vendors that have responded to our inquiries have represented that Year 2000 compliance plans are being implemented for their systems. No assurance can be given that our utility providers will be Year 2000 compliant based on the responses received. As described above, we expect that our accounting software will be Year 2000 compliant.

We are not aware of third parties, other than our residents and owners of communities for which we provide community management services, to which we could have potential material liabilities should our information or non-information systems be non-compliant on January 1, 2000. The inability of AvalonBay to achieve Year 2000 compliance on its non-information systems by January 1, 2000 may cause disruption in services that could potentially lead to declining occupancy rates, rental concessions, or higher operating expenses, and other material adverse effects, which are not quantifiable at this time. These disruptions may include, but are not limited to, disabled fire control systems, lighting controls, utilities, telephone and elevator operations.

Currently, we have not delayed any information technology or non-information technology projects due to the Year 2000 compliance efforts. However, we can neither assure that future delays in such projects will not occur as a result of Year 2000 compliance efforts, nor anticipate the effects of such delays on our operations.

Funds from Operations

We generally consider Funds from Operations ("FFO") to be an appropriate measure of our operating performance because it provides investors an understanding of our ability to incur and service debt and to make capital expenditures. We believe that in order to facilitate a clear understanding of our operating results, FFO should be examined in conjunction with net income as presented in the consolidated financial statements included elsewhere in this report. FFO is determined in accordance with a definition adopted by the Board of Governors of the National Association of Real Estate Investment Trusts(R), and is defined as:

- net income or loss computed in accordance with generally accepted accounting principles, except that excluded from net income or loss are gains or losses from debt restructuring, other non-recurring items and sales of property;
- plus depreciation of real estate assets; and
- after adjustments for unconsolidated partnerships and joint ventures.

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FFO does not represent cash generated from operating activities in accordance with generally accepted accounting principles. 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 generally accepted accounting principles as a measure of liquidity. Additionally, it is not necessarily indicative of cash available to fund cash needs. Further, FFO as calculated for other REITs may not be comparable to our calculation of FFO.

For the three months ended June 30, 1999, FFO increased to \$50,559,000 from \$28,314,000 for the three months ended June 30, 1998. This increase is primarily due to the acquisition of additional communities in connection with the merger and to delivery of new development and redevelopment communities. Growth in earnings from Established Communities as well as acquisition activity in 1998 also contributed to the increase.

FFO for the three months ended June 30, 1999 and the preceding four quarters are summarized as follows (dollars in thousands):

<TABLE>
<CAPTION>

	For the three months ended				
	6-30-99	3-31-99	12-31-98	9-30-98	6-
30-98					
<S>	<C>	<C>	<C>	<C>	<C>
Net income	\$ 34,163	\$ 19,807	\$ 31,673	\$ 31,540	\$
18,242					
Preferred dividends	(9,945)	(9,945)	(9,582)	(7,769)	
(4,494)					
Depreciation - real estate assets	25,728	26,843	29,708	23,018	
14,164					
Joint venture adjustments	187	187	183	183	
62					
Minority interest expense	495	433	468	470	
250					
Gain on sale of communities	(225)	(5,079)	(3,930)	(40)	
--					
Non-recurring adjustments to net income:					
Amortization of non-recurring costs, primarily legal, from the issuance of tax exempt bonds (1)	90	90	90	90	
90					
Non-recurring charges (2)	66	16,524	--	--	
--					
Funds from Operations	\$ 50,559	\$ 48,860	\$ 48,610	\$ 47,492	\$
28,314					

</TABLE>

- (1) Represents the amortization of pre-1986 bond issuance costs carried forward to AvalonBay and costs associated with the reissuance of tax-exempt bonds incurred prior to the initial public offering of Bay in March 1994 in order to preserve the tax-exempt status of the bonds at the initial public offering.
- (2) Consists of \$16,076 related to a management and other organizational change announced during 1998 and \$514 for Year 2000 remediation costs.

Management Information Systems

We believe that a state-of-the-art management information systems infrastructure will be an important element in managing our future growth. This is because timely and accurate collection of financial and resident profile data will enable us to maximize revenue through careful leasing decisions and financial management. Accordingly, we currently employ a proprietary company-wide intranet using a digital network with high-speed digital lines. This network connects all of our communities and offices to central servers in Alexandria, Virginia, providing access to our associates and to Company information throughout the country from all locations. This infrastructure also allows us to employ new "network computers" that are less expensive to purchase and support, which reduces our "total cost of ownership" for each work station.

During 1998, we began the development of a new on-site property management system and a leasing automation system to enable management to capture, review and analyze data to a greater extent than is possible using available existing

commercial software. We intend to enter into a joint venture with another public multifamily real estate company (our "joint venturer") and to continue development of these systems through the joint venture entity. The software development process is currently managed by our employees who have significant related project management experience and the employees of the joint venturer. The actual programming and documentation of the software is being conducted by our employees and third party consultants under the supervision of these experienced project managers. We currently expect that the total development costs over a three-year period will be approximately \$7.5 million (including hardware costs and expenses, the costs of employee and related overhead, and the costs of engaging third party consultants) and that such development costs will be shared on an equal basis by us and the joint venture. Once developed, we intend to use the property management system in place of current property management information systems for which we pay a license fee to third parties

and we intend to use the leasing automation system to make the lease application process easier for residents and more efficient for us to manage. We currently project that the property management system will undergo an on-site test (i.e., a "beta test") during the second quarter of 2000 and that the system will be functional and implemented during the third and fourth quarters of 2000. The leasing automation system is currently in beta testing at two communities, and if such testing is successful, we intend to implement the system during the first quarter of 2000.

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

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

- we may not be able to maintain the schedule or budget that we have projected for the development of the software;
- the software may not provide the functionality and efficiency we have projected;
- we may decide not to endeavor to license the software to other enterprises, the software may not be attractive to other enterprises and we may not be able to effectively manage the licensing of the software to other enterprises; and
- the software may not provide AvalonBay with meaningful cost savings or a meaningful source of ancillary revenues.

Natural Disasters

Many of our West Coast communities are located in the general vicinity of active earthquake faults. In July 1998, we obtained a seismic risk analysis from an engineering firm which estimated the probable maximum damage for each of the 60 West Coast communities that we owned at that time and for each of the five West Coast communities under development at that time. The seismic risk analysis was obtained for each individual community and for all of those communities combined. To establish a probable maximum damage, the engineers first define a severe earthquake event for the applicable geographic area, which is an earthquake that has only a 10% likelihood of occurring over a 50-year period. The probable maximum damage is determined as the structural and architectural damage and business interruption loss that has only a 10% probability of being exceeded in the event of such an earthquake. Because a significant number of our communities are located in the San Francisco Bay Area, the engineers' analysis defined an earthquake on the Hayward Fault with a Richter Scale magnitude of 7.1 as a severe earthquake with a 10% probability of occurring within a 50-year period. The engineers then established an aggregate probable maximum damage at that time of \$113 million for the 60 West Coast communities that we owned at that time and the five West

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Coast communities under development. The \$113 million probable maximum damage for those communities was a probable maximum level that the engineers expected to be exceeded only 10% of the time in the event of such a severe earthquake. The actual aggregate probable maximum damage could be higher or lower as a result of variations in soil classifications and structural vulnerabilities. For each community, the engineers' analysis calculated an individual probable maximum damage as a percentage of the community's replacement cost and projected revenues. We cannot assure that:

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

In August 1998, we renewed our earthquake insurance, both for physical damage and lost revenue, with respect to all communities we owned at that time and all of the communities under development. For any single occurrence, we have in place \$75,000,000 of coverage with a five percent deductible. The five percent deductible is a minimum of \$100,000 and a maximum of \$25,000,000 per occurrence.

In addition, our general liability and property casualty insurance provides coverage for personal 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 June 30, 1999, there were 12 Development Communities under construction. These Development Communities are expected to add a total of 2,710 apartment homes to our portfolio upon completion. The total capitalized cost of the Development Communities, when completed, is expected to be approximately \$448.5 million. Statements regarding the future development or performance of the Development Communities are forward-looking statements. We cannot assure that:

- we will complete the Development Communities;
- our budgeted costs or estimates of occupancy rates or "Projected EBITDA as a % of Total Budgeted Cost" will be realized;
- our schedule of leasing start dates or construction completion dates will be achieved; or
- future developments will realize comparable returns.

See the discussion under "Risks of Development and Redevelopment" below.

We hold a fee simple ownership interest in each of the Development Communities except for two communities that are owned by partnerships in which we hold a general partnership interest. The following page presents a summary of Development Communities:

AVALONBAY COMMUNITIES, INC.
DEVELOPMENT COMMUNITIES SUMMARY

<TABLE>
<CAPTION>

Projected

EBITDA as a
% of total
budgeted
cost (3)

Number of apartment homes	Budgeted cost (1) (\$ millions)	Construction start	Initial occupancy	Estimated completion date	Estimated stabilization date (2)
---------------------------------	---------------------------------------	-----------------------	----------------------	---------------------------------	--

----- <S> <C>	<C>	<C>	<C>	<C>	<C>	<C>
1. Avalon Willow Mamaroneck, NY 8.6%	227	\$46.8	Q2 1997	Q1 1999	Q4 1999	Q2 2000
2. The Tower at Avalon Cove Jersey City, NJ 10.5%	269	\$51.8	Q1 1998	Q1 1999	Q3 1999	Q4 1999
3. The Avalon Bronxville, NY 10.5%	110	\$28.1	Q1 1998	Q2 1999	Q3 1999	Q4 1999
4. Avalon Valley Danbury, CT 11.0% (4)	268	\$26.1	Q1 1998	Q1 1999	Q3 1999	Q4 1999
5. Avalon Lake Danbury, CT 11.0% (4)	135	\$17.0	Q2 1998	Q1 1999	Q3 1999	Q4 1999
6. Avalon Crest Fort Lee, NJ 11.0%	351	\$57.4	Q4 1997	Q2 1999	Q4 1999	Q1 2000
7. Avalon Towers by the Bay San Francisco, CA 9.6%	226	\$65.9	Q4 1997	Q3 1999	Q3 1999	Q1 2000
8. Avalon Corners Stamford, CT 10.4%	195	\$32.5	Q3 1998	Q3 1999	Q1 2000	Q3 2000
9. Avalon Fox Mill Herndon, VA 10.2%	165	\$20.1	Q4 1998	Q3 1999	Q1 2000	Q2 2000
10. Avalon Court North Melville, NY	340	\$40.4	Q4 1998	Q3 1999	Q1 2000	Q3 2000

11.7%	11. Avalon Essex Peabody, MA	154	\$21.4	Q2 1999	Q2 2000	Q4 2000	Q1 2001
10.6%	12. Avalon at Florham Park Florham Park, NJ	270	\$41.0	Q2 1999	Q1 2000	Q2 2001	Q4 2001
12.1%		---	-----				
-----	Total Weighted Average	2,710	\$448.5				
10.5%		-----	-----				

</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 generally accepted accounting principles.
- (2) Stabilized operations is defined as the first full quarter of 95% or greater occupancy after completion of construction.
- (3) Projected EBITDA represents gross potential earnings projected to be achieved at completion of construction before interest, income taxes, depreciation, amortization and extraordinary items, minus (a) projected economic vacancy and (b) projected stabilized operating expenses.
- (4) Represents a combined yield for Avalon Valley and Avalon Lake.

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Redevelopment Communities

As of June 30, 1999, we had 13 communities under redevelopment. The total budgeted cost to complete these Redevelopment Communities, including the cost of acquisition and redevelopment, is expected to be approximately \$456.9 million, of which approximately \$89.4 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 and estimate 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 that we will not exceed budgeted costs, either individually or in the aggregate, or that projected unleveraged returns on cost will be achieved. See the discussion under "Risks of Development and Redevelopment" below.

The following presents a summary of Redevelopment Communities:

AVALONBAY COMMUNITIES, INC. REDEVELOPMENT COMMUNITIES SUMMARY (1)

Projected as a total budgeted (4)	Number of apartment homes	Budgeted cost (2) (\$ millions)	Reconstruction start	Reconstruction completion	Estimated restabilized operations (3)	EBITDA % of cost
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1. Arbor Heights Hacienda Heights, CA	351	\$28.7	Q2 1998	Q3 1999	Q1 2000	
9.4%						
2. Gallery Place Redmond, WA	222	\$25.3	Q1 1998	Q3 1999	Q3 1999	
8.3%						
3. Viewpointe Woodland Hills, CA	663	\$72.7	Q2 1998	Q3 1999	Q3 1999	
9.7%						
4. Waterhouse Place Beaverton, OR	279	\$20.3	Q2 1998	Q4 1999	Q4 1999	
8.9%						
5. Westside Terrace Los Angeles, CA	363	\$39.9	Q3 1998	Q3 1999	Q3 1999	
9.3%						

6. Warner Oaks Woodland Hills, CA	227	\$25.0	Q3 1998	Q4 1999	Q1 2000
9.2%					
7. Amberway Anaheim, CA	272	\$21.2	Q3 1998	Q3 1999	Q4 1999
8.8%					
8. Avalon Ridge Renton, WA	421	\$35.7	Q3 1998	Q2 2000	Q3 2000
9.8%					
9. Governor's Square Sacramento, CA	302	\$27.7	Q1 1998	Q4 1999	Q1 2000
8.4%					
10. Mission Bay Club (5) San Diego, CA	564	\$57.3	Q3 1998	Q2 2000	Q3 2000
9.1%					
11. Avalon at Pacific Bay (6) Huntington Beach, CA	304	\$34.8	Q1 1999	Q4 1999	Q1 2000
8.6%					
12. Avalon at West Grove Westmont, IL	400	\$28.5	Q2 1999	Q4 1999	Q4 1999
9.0%					
13. Creekside Mountain View, CA	294	\$39.8	Q2 1999	Q4 2000	Q1 2001
9.9%					
-	---	-----			---
Total Weighted Average	4,662	\$456.9			
9.2%	-----	-----			---
-					

</TABLE>

- (1) Redevelopment Communities are communities acquired for which redevelopment costs are expected to exceed 10% of the original acquisition cost or \$5,000,000.
- (2) 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 generally accepted accounting principles.
- (3) Restabilized operations is defined as the first full quarter of 95% or greater occupancy after completion of redevelopment.
- (4) Projected EBITDA represents gross potential earnings projected to be achieved at completion of redevelopment before interest, income taxes, depreciation, amortization and extraordinary items, minus (a) projected economic vacancy and (b) projected stabilized operating expenses.
- (5) Formerly named "Bay Pointe."
- (6) Formerly named "Pacifica Club."

Development Rights

As of June 30, 1999, we are considering the development of 31 new apartment communities. These Development Rights range from land owned or under contract for which design and architectural planning has just begun to land under contract or owned by us with completed site plans and drawings where construction can begin almost immediately. We estimate that the successful completion of all of these communities would ultimately add 8,939 institutional-quality apartment homes to our portfolio. At June 30, 1999, the cumulative capitalized costs incurred in pursuit of the 31 Development Rights, including the cost of land acquired in connection with five of the Development Rights, was approximately \$64 million. 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, CT is controlled through a joint venture partnership that owns 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 financial, demographic and other analysis is performed. Finally, we currently intend to limit the percentage of debt used to finance new developments. To comply with our policy on the use of debt, other financing alternatives may be required to finance the development of those Development Rights scheduled to start construction after June 30, 1999. Although the development of any particular Development Right cannot be assured, we believe that the Development Rights, in the aggregate, present attractive potential opportunities for future development and growth of our FFO.

Statements regarding the future development of the Development Rights are forward-looking statements. We cannot assure 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
- construction of any particular community will be undertaken or, if undertaken, will begin at the expected times assumed in the financial projections or be completed by the anticipated date and/or at the total budgeted cost assumed in the financial projections.

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AVALONBAY COMMUNITIES, INC.
DEVELOPMENT RIGHTS SUMMARY

<TABLE>
<CAPTION>

Location	Estimated number of homes	Total budgeted costs (\$ millions)
1. Bellevue, WA (1)	202	29.6
2. Mountain View, CA (1)	211	61.3
3. San Jose, CA (1)	253	45.3
4. Hull, MA	162	17.8
5. New Rochelle, NY	409	85.4
6. Stamford, CT	327	58.1
7. Freehold, NJ	296	29.7
8. Orange, CT	168	16.4
9. New Canaan, CT (1) (2)	104	26.4
10. Darien, CT	189	30.1
11. Yonkers, NY	256	35.0
12. Greenburgh - II, NY	500	81.7
13. Greenburgh - III, NY	266	43.4
14. Arlington I, VA	510	65.6
15. Arlington II, VA	332	37.0
16. Edgewater, NJ (1)	408	75.5
17. Hopewell, NJ	280	33.9
18. Naperville, IL	100	14.4
19. Westbury, NY	361	48.6
20. Providence, RI	247	30.4
21. Port Jefferson, NY	232	27.3
22. Yorktown, NY	396	47.2
23. North Haven, CT	128	13.2
24. Marlboro, MA	160	19.8
25. Newtown, CT	304	34.3
26. Wilton, CT	132	21.6
27. North Potomac, MD	564	62.5
28. Los Angeles, CA	272	46.1
29. Weymouth, MA	304	32.0
30. San Diego, CA	485	67.0
31. Long Island City, NY	381	80.2
Totals	8,939	\$1,316.8

</TABLE>

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

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Risks of Development and Redevelopment

We intend to continue to pursue the development and redevelopment of apartment home communities in accordance with our business and financial policies. Our development and redevelopment activities may be exposed to the following risks:

- we may abandon opportunities we have already begun to explore based on further financial, demographic or other analysis;
- we may encounter liquidity constraints, including the unavailability of financing on favorable terms for the development or redevelopment

- of a community;
- we may be unable to obtain, or we may experience delays in obtaining, all necessary zoning, land-use, building, occupancy, and other required governmental permits and authorizations;
- we may incur construction or reconstruction costs for a community that exceed our original estimates due to increased materials, labor or other expenses, which could make completion or redevelopment of the community uneconomical;
- occupancy rates and rents at a newly completed or redevelopment community may fluctuate depending on a number of factors, including market and general economic conditions, and may not be sufficient to make the community profitable; and
- we may be unable to complete construction and lease-up on schedule, resulting in increased debt service expense and construction costs.

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

For each Development and Redevelopment Community, we establish a target for projected EBITDA as a percentage of total budgeted cost. Projected EBITDA represents gross potential earnings projected to be achieved at completion of development or redevelopment before interest, income taxes, depreciation, amortization, and extraordinary items minus projected economic vacancy and projected stabilized operating expenses. 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 GAAP.

Gross potential earnings and 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

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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. Nonetheless, because of increases in prevailing market rents we believe that, in the aggregate, we will still achieve our targeted projected EBITDA as a percentage of total budgeted cost 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 you that market rents in effect at the time new development communities or repositioned communities complete lease-up will be sufficient to fully offset the effects of any increased construction costs.

Capitalized Interest

In accordance with GAAP, 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 during the three months ended June 30, 1999 totaled \$5,866,000 and for the six months ended June 30, 1999 totaled \$13,149,000. Capitalized interest during the three months ended June 30, 1998 totaled \$3,561,000 and during the six months ended June 30, 1998 totaled \$6,525,000.

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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

We are involved in certain ordinary routine litigation incidental to the conduct of our business. While the outcome of such litigation cannot be predicted with certainty, we do not expect any current litigation to have a material effect on our business or financial condition.

Item 2. Changes in Securities

None

Item 3. Defaults Upon Senior Securities

None

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

The Company held its 1999 Annual Meeting of Stockholders on May 5, 1999. The stockholders voted to elect Gilbert M. Meyer, Richard L. Michaux, Bruce A. Choate, Michael A. Futterman, John J. Healy, Jr., Richard W. Miller, Brenda J. Mixson, Lance R. Primis and Allan D. Schuster to serve as directors of the Company until the 2000 Annual Meeting of Stockholders and until their respective successors are duly elected and qualified.

55,079,397 votes were cast for, and 40,942 votes were withheld from the election of Mr. Meyer.

55,089,247 votes were cast for, and 31,092 votes were withheld from the election of Mr. Michaux.

55,090,483 votes were cast for, and 29,856 votes were withheld from the election of Mr. Choate.

55,092,893 votes were cast for, and 27,446 votes were withheld from the election of Mr. Futterman.

55,088,211 votes were cast for, and 32,128 votes were withheld from the election of Mr. Healy.

55,089,264 votes were cast for, and 31,075 votes were withheld from the election of Mr. Miller.

55,090,283 votes were cast for, and 30,056 votes were withheld from the election of Ms. Mixson.

54,294,504 votes were cast for, and 825,835 votes were withheld from the election of Mr. Primis.

55,090,505 votes were cast for, and 29,834 votes were withheld from the election of Mr. Schuster.

Item 5. Other Information

None

Item 6. Exhibits and Reports on Form 8-K

(a) EXHIBITS

<TABLE>

<CAPTION>

Exhibit No.

Description

- - - - -

<S>

<C>

3(i).1 -- Articles of Amendment and Restatement of Articles of Incorporation of AvalonBay Communities, Inc. (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.)

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, dated February 10, 1999, to Bylaws of the Company (Incorporated by reference to Exhibit 3(ii).2 to Form 10-K of the Company filed March 31, 1999.)

3(ii).3 -- Amendment, dated May 5, 1999, to Bylaws of the Company.

4.1 -- Indenture of Avalon dated as of September 18, 1995. (Incorporated by reference to Form 8-K of Avalon dated September 18, 1995.)

4.2 -- First Supplemental Indenture of Avalon dated as of September 18, 1995. (Incorporated by reference to Avalon's Current Report on Form 8-K dated September 18, 1995.)

4.3 -- Second Supplemental Indenture of Avalon dated as of December 16, 1997. (Incorporated by reference to Avalon's Current Report on Form 8-K filed on January 26, 1998.)

4.4 -- Third Supplemental Indenture of Avalon dated as of January 22, 1998. (Incorporated by reference to Avalon's 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 the Company's Form 8-K filed on December 21, 1998.)

4.9 -- Dividend Reinvestment and Stock Purchase Plan of the Company filed October 8, 1998. (Incorporated by reference to Form S-3 of the Company, File No. 333-16647.)

4.10 -- Shareholder Rights Agreement, dated March 9, 1998, between the Company and First

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<TABLE>
<S> <C> Union National Bank (a 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.)

10.1 -- Amendment, dated as of July 30, 1999, to Employment Agreement, dated as of March 9, 1998, between the Company and Richard L. Michaux.

10.2 -- Amendment, dated as of July 30, 1999, to Employment Agreement, dated as of March 9, 1998, between the Company and Bryce Blair.

10.3 -- Amendment, dated as of July 30, 1999, to Employment Agreement, dated as of March 9, 1998, between the Company and Robert H. Slater.

10.4 -- Letters of clarification, dated as of July 30, 1999, to the Employment Agreements, as amended, of Messrs. Michaux, Blair and Slater.

10.5 -- Separation Agreement, dated as of April 15, 1999, by and between the Company and Jeffrey B. Van Horn.

10.6 -- Separation Agreement, dated as of May 27, 1999, by and between the Company and Charles H. Berman

10.7 -- Amendment, dated May 6, 1999, to the Avalon Properties, Inc. Amended and Restated 1995 Equity Incentive Plan.

10.8 -- Amendment, dated May 6, 1999, to the AvalonBay Communities, Inc. Stock Incentive Plan, as amended and restated on April 13, 1998.

12.1	--	Statements re: Computation of Ratios.
27.1	--	Financial Data Schedule

</TABLE>

(b) REPORTS ON FORM 8-K

There were no reports filed by the Company on Form 8-K during the quarter ending June 30, 1999.

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.

<TABLE>		
<S>		<C>
Date:	August 13, 1999	/s/ Richard L. Michaux

		Richard L. Michaux
		President, Chief Executive Officer and Director
Date:	August 13, 1999	/s/ Thomas J. Sargeant

		Thomas J. Sargeant
		Chief Financial Officer and Treasurer
</TABLE>		

AVALONBAY COMMUNITIES, INC.

SECRETARY'S CERTIFICATE

AMENDMENT TO BYLAWS

On May 5, 1999, at a duly called and held meeting of the Board of Directors of AvalonBay Communities, Inc. (the "Company"), the Board adopted the following amendment to the Company's Bylaws:

To modify the first sentence of Section 4.01 as indicated below (additions are CAPITALIZED, deletions are [bracketed]):

"The Corporation shall have an Executive Chairman of the Board, a Chief Executive Officer, a President, A CHIEF OPERATING OFFICER, A CHIEF FINANCIAL OFFICER, one or more Vice Presidents (including VICE PRESIDENTS OF VARYING DEGREES, SUCH AS Executive [Vice Presidents], REGIONAL or Senior Vice Presidents), a Secretary, a Treasurer (who shall also be the Chief Financial Officer of the Corporation) and such Assistant Secretaries and Assistant Treasurers and such other officers as the Board of Directors, or any committee or officer appointed by the Board of Directors for such purpose, may from time to time elect.

IN WITNESS WHEREOF, the undersigned has signed this certificate as of May 5, 1999.

AVALONBAY COMMUNITIES, INC.

/s/ Edward M. Schulman

Name: Edward M. Schulman
Title: Secretary

AMENDMENT TO EMPLOYMENT AGREEMENT

Reference is made to that certain Employment Agreement (the "Employment Agreement") dated as of March 9, 1998 by and between Richard L. Michaux ("Executive") and AvalonBay Communities, Inc., a Maryland corporation and successor by name change to Bay Apartment Communities, Inc. (the "Company").

Whereas, Executive has recently consented to accept the position of President in addition to Executive's current position as Chief Executive Officer; and

Whereas, Executive and the Company desire to amend the Employment Agreement to reflect such additional position and to make certain clarifications and related changes.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties do hereby agree to amend the Employment Agreement as follows (section references are to sections in the Employment Agreement):

1. In the first sentence of Section 1 of the Employment Agreement, the words "and terminating on the third anniversary of the Effective Date (the 'Original Term')" are hereby replaced with the words "and terminating on December 31 of the year in which the third anniversary of the Effective Date falls (the 'Original Term')". For clarity, it is noted that the effect of this amendment is to make the Original Term of the Employment Agreement expire on December 31, 2001.

2. The second sentence of the first paragraph of Section 2(a) of the Employment Agreement is hereby amended to add the words "and President" after the words "Chief Executive Officer."

3. In the last sentence of the second paragraph of Section 2(a), the word "Midwest" before the phrase "projects of Trammell Crow Residential" is hereby deleted.

4. The first sentence of Section 3(a) is hereby amended to read in its entirety as follows (for convenience, language deleted from such sentence is [bracketed]; and language added to such sentence is CAPITALIZED:

"During the Employment Period, the Executive shall receive an annual rate of base salary ("Base Salary") in an amount, [not less than \$350,000] FROM AND AFTER MARCH 29, 1999, OF NOT LESS THAN \$380,000."

5. In Section 8, the definitions of "Competing Enterprise" and "Restricted Activities" are hereby amended by changing the phrase "residential real estate" in each such definition wherever such phrase appears to "multifamily rental real estate" and, further, by deleting clause (a) from the definition of "Competing Enterprise."

6. In the event that the Company has or hereafter makes any special, mid-year or other non-routine grant of equity outside of the Company's restricted stock and option annual compensation programs, or in the event that the Company grants, outside of the current restricted stock and option annual compensation programs, any equity based compensation pursuant to a "shareholder value" or other long-term plan under which equity grants may be made based on multi-year Company results, the value of any such mid-year, special, or "shareholder value" or long-term plan equity based compensation shall not be included in the calculation of Covered Compensation or Covered Average Compensation, and the value of such equity shall have no impact on any cash payments made under Section 7(c) of the Agreement.

Capitalized terms used herein and not defined herein have the meanings given thereto in the Employment Agreement.

IN WITNESS WHEREOF, this amendment is entered into and is effective as of this 30th day of July, 1999.

AVALONBAY COMMUNITIES, INC.

/s/ Gilbert M. Meyer

Name: Gilbert M. Meyer
Title: Executive Chairman

/s/ Richard L. Michaux

Executive: Richard L. Michaux

AMENDMENT TO EMPLOYMENT AGREEMENT

Reference is made to that certain Employment Agreement (the "Employment Agreement") dated as of March 9, 1998 by and between Bryce Blair ("Executive") and AvalonBay Communities, Inc., a Maryland corporation and successor by name change to Bay Apartment Communities, Inc. (the "Company").

Whereas, Executive has recently consented to a promotion from the position of Senior Vice President-Development and Acquisitions to Chief Operating Officer; and

Whereas, Executive and the Company desire to amend the Employment Agreement to reflect such change in position and to make certain clarifications and related changes.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties do hereby agree to amend the Employment Agreement as follows (section references are to sections in the Employment Agreement):

1. References in the Employment Agreement to the "Effective Date" shall hereafter refer to "March 29, 1999," and thus the Original Term of the Employment Agreement, as amended, shall terminate on March 29, 2002.

2. The first paragraph of Section 2(a) of the Employment Agreement is hereby amended to read in its entirety as follows (for convenience, language deleted from such paragraph is [bracketed]; and language added to such paragraph is CAPITALIZED:

During the Employment Period, Executive shall be employed in the business of the Company and its affiliates. Executive shall serve as a corporate officer of the Company with the title of [Senior Vice-President Development and Acquisitions] CHIEF OPERATING OFFICER. Executive's duties and authority shall be commensurate with his title and position with the Company, and shall INCLUDE RESPONSIBILITY FOR OVERSEEING THE COMPANY'S OVERALL DEVELOPMENT, CONSTRUCTION, ACQUISITION AND PROPERTY OPERATION ACTIVITIES AND EFFORTS. [not be materially diminished from, or materially inconsistent with, his primary duties and authority with Avalon immediately prior to the date of this Agreement.]

3. References in the Employment Agreement to "Braintree, Massachusetts" (including, without limitation, the references in Sections 2(b) and 7(b)(4)) are hereby changed to "Quincy, Massachusetts."

4. In the last sentence of the second paragraph of Section 2(a), the word "Midwest" before the phrase "projects of Trammell Crow Residential" is hereby deleted.

5. The first sentence of Section 3(a) is hereby amended to read in its entirety as follows (for convenience, language deleted from such sentence is [bracketed]; and language added to such sentence is CAPITALIZED:

"During the Employment Period, the Executive shall receive an annual rate of base salary ("Base Salary") in an amount, [not less than \$300,000] FROM AND AFTER MARCH 29, 1999, OF NOT LESS THAN \$330,000."

6. In Section 8, the definitions of "Competing Enterprise" and "Restricted Activities" are hereby amended by changing the phrase "residential real estate" in each such definition wherever such phrase appears to "multifamily rental real estate" and, further, by deleting clause (a) from the definition of "Competing Enterprise."

7. In the event that the Company has or hereafter makes any special, mid-year or other non-routine grant of equity outside of the Company's restricted stock and option annual compensation programs, or in the event that the Company grants, outside of the current restricted stock and option annual compensation programs, any equity based compensation pursuant to a "shareholder value" or other long-term plan under which equity grants may be made based on multi-year Company results, the value of any such mid-year, special, or "shareholder value" or long-term plan equity based compensation shall not be included in the calculation of Covered Compensation or Covered Average Compensation, and the value of such equity shall have no impact on any cash payments made under Section 7(c) of the Agreement.

Capitalized terms used herein and not defined herein have the meanings given thereto in the Employment Agreement.

IN WITNESS WHEREOF, this amendment is entered into and is effective as of this

30th day of July, 1999.

AVALONBAY COMMUNITIES, INC.

/s/ Gilbert M. Meyer

Name: Gilbert M. Meyer
Title: Executive Chairman

/s/ Bryce Blair

Executive: Bryce Blair

AMENDMENT TO EMPLOYMENT AGREEMENT

Reference is made to that certain Employment Agreement (the "Employment Agreement") dated as of March 9, 1998 by and between Robert H. Slater ("Executive") and AvalonBay Communities, Inc., a Maryland corporation and successor by name change to Bay Apartment Communities, Inc. (the "Company").

Whereas, Executive has recently consented to a promotion from the position of Senior Vice President-Property Operations to Executive Vice President; and

Whereas, Executive and the Company desire to amend the Employment Agreement to reflect such change in position and to make certain clarifications and related changes.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties do hereby agree to amend the Employment Agreement as follows (section references are to sections in the Employment Agreement):

1. References in the Employment Agreement to the "Effective Date" shall hereafter refer to "March 29, 1999," and thus the Original Term of the Employment Agreement, as amended, shall terminate on March 29, 2002.

2. The first paragraph of Section 2(a) of the Employment Agreement is hereby amended to read in its entirety as follows (for convenience, language deleted from such paragraph is [bracketed]; and language added to such paragraph is CAPITALIZED:

During the Employment Period, Executive shall be employed in the business of the Company and its affiliates. Executive shall serve as a corporate officer of the Company with the title of [Senior Vice-President - Property Operations] EXECUTIVE VICE PRESIDENT. Executive's duties and authority shall be commensurate with his title and position with the Company, and shall INCLUDE RESPONSIBILITY FOR DIRECT OVERSIGHT OF THE COMPANY'S PROPERTY OPERATIONS. [not be materially diminished from, or materially inconsistent with, his primary duties and authority with Avalon immediately prior to the date of this Agreement.]

3. In the last sentence of the second paragraph of Section 2(a), the word "Midwest" before the phrase "projects of Trammell Crow Residential" is hereby deleted.

4. The first sentence of Section 3(a) is hereby amended to read in its entirety as follows (for convenience, language deleted from such sentence is [bracketed]; and language added to such sentence is CAPITALIZED:

"During the Employment Period, the Executive shall receive an annual rate of base salary ("Base Salary") in an amount, [not less than \$300,000] FROM AND AFTER MARCH 29, 1999, OF NOT LESS THAN \$315,000."

5. In Section 8, the definitions of "Competing Enterprise" and "Restricted Activities" are hereby amended by changing the phrase "residential real estate" in each such definition wherever such phrase appears to "multifamily rental real estate" and, further, by deleting clause (a) from the definition of "Competing Enterprise."

6. In the event that the Company has or hereafter makes any special, mid-year or other non-routine grant of equity outside of the Company's restricted stock and option annual compensation programs, or in the event that the Company grants, outside of the current restricted stock and option annual compensation programs, any equity based compensation pursuant to a "shareholder value" or other long-term plan under which equity grants may be made based on multi-year Company results, the value of any such mid-year, special, or "shareholder value" or long-term plan equity based compensation shall not be included in the calculation of Covered Compensation or Covered Average Compensation, and the value of such equity shall have no impact on any cash payments made under Section 7(c) of the Agreement.

Capitalized terms used herein and not defined herein have the meanings given thereto in the Employment Agreement.

IN WITNESS WHEREOF, this amendment is entered into and is effective as of this 30th day of July, 1999.

AVALONBAY COMMUNITIES, INC.

/s/ Gilbert M. Meyer

Name: Gilbert M. Meyer
Title: Executive Chairman

/s/ Robert H. Slater

Executive: Robert H. Slater

[AvalonBay Letterhead]

July 30, 1999

[ADDRESS OF MR. MICHAUX/BLAIR/SLATER]

Dear _____ :

Reference is made to the employment agreement between you and AvalonBay Communities, Inc. (sometimes referred to below as the "Company") dated March 9, 1998 (as the same has been or may hereafter be amended, the "Employment Agreement"). This letter sets forth our understanding with regard to certain matters related to, or certain interpretations of, the Employment Agreement. Capitalized terms that are used herein and not defined herein have the meanings given thereto in the Employment Agreement, and section references refer to sections of the Employment Agreement.

(i) TREATMENT OF "MERGER OPTIONS." On or about March 8, 1998 you were granted, by Avalon Properties, Inc., the Avalon Stock Option, which is now an option to purchase shares of common stock of the Company. You acknowledge that, since such option was not part of your normal annual equity compensation, it was not the intent of you or the Company to include, and there shall not be included, the value of such option in any calculation of Covered Compensation or Covered Average Compensation, and that the value of such option shall have no impact on any cash payments made under Section 7(c) of the Agreement. [NOT APPLICABLE TO MR. MICHAUX - NO GRANT ON 3/8/98 OF AN OPTION]

(ii) OPTION VALUATIONS. You acknowledge that, for purposes of Section 7(b)(6)(A), the value of any option may be determined by the Compensation Committee of the Board of Directors at any time after its grant date by setting such value at the value determined by a nationally recognized accounting firm or employee benefits compensation firm, selected by such Committee, that calculates such value in accordance with a Black-Scholes formula or variations thereof using such parameters and procedures (including, without limitation, parameters and procedures used to measure the historical volatility of the Company's common stock as of the relevant grant date) as the Compensation Committee and/or such firm deems reasonably appropriate. In all events, if the parameters used for valuing any option for purposes of Section 7(b)(6)(A) are the same as the parameters used for valuing any other options for purposes of disclosure or inclusion in the Company's financial statements or financial statement footnotes, then such parameters shall be deemed reasonable.

(iii) EFFECT ON OPTIONS OF A TERMINATION UNDER EMPLOYMENT AGREEMENT. The stock option and restricted stock agreements (the "Equity Award Agreements") that you have or may hereafter receive may contain language regarding the effect of a termination of your employment under certain circumstances. Notwithstanding such language in the Equity Award Agreements, for so long as the Employment Agreement is in effect the Company will be obligated, if the terms of the Employment Agreement are more favorable in this regard than the terms of the Equity Award Agreements, to take the actions required under Sections 7(c)(ii), 7(c)(iii)(C), 7(c)(iv)(C), and 7(c)(v)(C) of the Employment Agreement upon the happening of the circumstances described in such sections. Those sections provide that the Company will cause you to become vested as of the Date of Termination in all equity based awards, and that such equity based awards will thereafter be subject to the provisions of the applicable Equity Award Agreement as it applies to vested awards upon a termination.

For purposes of clarification, you acknowledge that although an option grant may vest under the termination circumstances described above, such option will thereafter be exercisable only for so long as the related option agreement provides, except that the Compensation Committee may, in its sole discretion, elect to extend the expiration date of such option. For example, in general your option agreements provide that (in the absence of an extension by the Compensation Committee) upon a termination of employment for any reason other than death, disability, retirement or cause, any vested options will only be exercisable for three months from the date of termination or, if earlier, the expiration date of the option.

(iv) PAYMENT OF ACCRUED SALARY AND BONUS UPON TERMINATION FOR CAUSE. The last sentence of Section 7(b)(1), which states that upon the giving of a notice of termination for Cause no further payments shall be due you, is subject, nevertheless, to the provisions of Section 7(c)(vi), which states that upon a termination other than for death, disability, non-renewal, or termination without cause you shall receive, through the Date of Termination, all accrued but unpaid Base Salary and all earned but unpaid

cash incentive compensation.

(v) DEFINITION OF CAUSE IN EQUITY AWARD AGREEMENTS. Notwithstanding the definition of "Cause" which may appear in an Equity Award Agreement, for so long as the Employment Agreement is in effect (X) any "for Cause" termination must be in compliance with the terms of the Employment Agreement, including the definition of "Cause" set forth therein and (Y) only in the event of a "for Cause" termination that meets both the definition in the Employment Agreement and the definition in the Equity Award Agreement will the disposition of options and restricted stock under such Equity Award Agreement be treated in the manner described in such Equity Award Agreement in the case of a termination "for Cause".

Please indicate your acknowledgement and agreement with the above by executing this letter below and returning one copy to Edward M. Schulman, Vice President - General Counsel.

Very truly yours,

Gilbert M. Meyer
Executive Chairman

ACKNOWLEDGED AND AGREED:

- -----
Name:

April 15, 1999

Mr. Jeffrey B. Van Horn
[address]

Dear Jeff:

This letter agreement (the "Agreement") confirms the terms of the termination of your employment with AvalonBay Communities, Inc. (the "Company," a term which for purposes of this Agreement includes its related or affiliated entities).

1. TERMINATION DATE. By mutual agreement, the effective date of the termination of your employment and office(s) with the Company and any of its related or affiliated entities was February 16, 1999 (the "Date of Termination"). By entering into this Agreement, you also are acknowledging that you resigned, as of the date of Termination, as a director of all entities that are related or affiliated to the Company. For purposes of the Employment Agreement, dated as of March 9, 1998 by and between you and Bay Apartment Communities, Inc. (a predecessor to the Company) (the "Employment Agreement"), the termination of your employment shall be deemed to be a termination without Cause.

2. SEVERANCE PAY AND BENEFITS. The Company shall provide you with the payments and benefits set forth in Sections 3(i) (forgiveness of outstanding balance of a certain Company loan with a balance as of this day of \$73,200), 7(c)(i) (payment of salary, compensation and benefits earned through Date of Termination), 7(c)(v) (termination payments and benefits upon termination without Cause) and 7(d) (Partial Gross-up Payment) of the Employment Agreement subject to and in accordance with the terms and conditions of the Employment Agreement and subject, in all events, to the provisions set forth below.

(a) For purposes of Sections 7(c)(v) of the Employment Agreement, you and the Company agree that in satisfaction of the Company's

Mr. Jeffrey B. Van Horn
April 15, 1999
Page 2

obligation to pay you three times your Covered Average Compensation, the Company shall pay you, promptly after the execution hereof, the sum of Two Million, Nine Hundred Fifty-Seven Thousand, Eight Hundred Dollars (\$2,957,800) (the "Lump Sum Compromise Amount") (less applicable tax withholding). You and the Company agree that there has not been agreement as to the individual components that constitute three times your Covered Average Compensation, but that there is agreement that the Lump Sum Compromise Amount is being paid in full satisfaction of any and all claims that you have to receive three times your Covered Average Compensation. In addition to the Lump Sum Compromise Amount, pursuant to Section 7(d) the Company shall pay to you the Partial Gross-up Payment required under the Employment Agreement. You and the Company have determined that the Partial Gross-up Payment is Seven Hundred Twenty Nine Thousand Five Hundred Ten Dollars (\$729,510) but that such amount may require modification, and you and the Company each agree to cooperate in the final calculation of the Partial Gross-up Payment. For clarity, you and we each agree that, since the Partial Gross-up Payment is in respect of taxes owed by you, the full amount of the Partial Gross-up Payment will be retained by the Company as tax withholding. You and the Company agree that you have been paid all accrued but unpaid compensation to which you are entitled under Section 7(c)(i) of the Employment Agreement and that the Company owes you no other compensation under Section 7(c)(i) in respect of your employment through the Date of Termination.

(b) In accordance with Section 7(c)(v)(A) of the Employment Agreement, the Company will continue, without cost to you, benefits comparable to the medical and disability benefits provided to you immediately prior to the Date of Termination under Sections 3(c) and 3(d) of the Employment Agreement for a period of 36 months following the Date of Termination or until such earlier date as you may obtain comparable benefits through other employment. For purposes of Section 7(c)(v)(A) of the Employment Agreement, if, within 36 months of the Date of Termination, you obtain medical or disability benefits through other employment (whether self-employment or otherwise) comparable to those provided to you pursuant to Section 7(c)(v)(A), you will promptly notify the Company.

(c) In accordance with Section 7(c)(v)(B) of the Employment Agreement, the Company will continue to pay, or reimburse you, for so long as such payments are due, all premiums then due and payable on the whole-life portion of the split dollar life insurance policy obtained pursuant to Section 3(d) of the Employment Agreement.

(d) In accordance with Section 7(c)(v)(C) of the Employment Agreement, all shares of the Company's stock that you were granted as Restricted Shares vested as of the Date of Termination (i.e., you own as of the Date of Termination a total of 16,030 shares of common stock of the Company that were originally granted to you as Restricted Shares, as set forth on Exhibit A hereto). To the extent the Company has not already done so, promptly following your execution of this Agreement the Company shall deliver to you certificates representing such shares with no restrictive legends, and such shares shall be freely transferable by you subject to applicable securities laws. You acknowledge that the Company has advised you to consult an attorney regarding your continuing obligations under Section 16 of the Securities Exchange Act of 1934, as amended, as well as other federal and state securities (including insider trading) laws.

(e) In accordance with Section 7(c)(v)(C) of the Employment Agreement, all options to purchase shares of the Company's common stock that you were granted vested as of the Date of Termination. Exhibit B hereto lists all of such options and their respective exercise prices. You have until the expiration of three (3) months following the Date of Termination in which to exercise the options granted on June 19, 1996. The Board of Directors, or the Compensation Committee of the Board of Directors, of the Company has taken such action as is necessary so that, with respect to the other options listed in Exhibit B, you will have until the expiration of four (4) months following the Date of Termination in which to exercise such options. The Company will provide reasonable and customary cooperation in your consummation of a "cashless exercise" with a broker in which the proceeds of the sale of shares of the Company common stock are used, directly or indirectly, to finance your remittance of the exercise price on the options. The Company will not assert that you are in possession of information regarding the Company such that there is a basis for the Company to not provide such cooperation.

(f) The Company shall reimburse you for your reasonable legal fees, in an amount not to exceed \$20,000, in connection with review and negotiation of this Agreement. This reimbursement is not required under the Employment Agreement but the Company has agreed to pay such amount in connection with its settlement with you as provided in this Agreement.

3. RELEASE OF CLAIMS. In accordance with Section 7(h) of the Employment Agreement, the parties agreed that the payments to you under Section 7 of the Employment Agreement (as described and/or modified in Section 2 of this Agreement) are in full satisfaction of all claims you may have in respect of your employment by the Company or its affiliates and are provided as the sole

and exclusive benefits to be provided to you in respect of the termination of your employment. To effectuate that agreement, you hereby covenant and agree as follows:

(a) You, on behalf of yourself and your successors, heirs, assigns, executors, administrators and/or estate, hereby irrevocably and unconditionally release, acquit and forever discharge the Company, its subsidiaries, divisions and related or affiliated entities, and each of their respective predecessors, successors or assigns, and the officers, directors, partners, shareholders, representatives, employees and agents of each of the foregoing (the "Releasees"), from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred), known or unknown, that directly or indirectly arise out of, relate to or concern your employment or termination of employment with the Company ("Claims"), which you have, own or hold, or at any time heretofore had, owned or held against the Releasees up to the date on which you execute this Agreement, including without limitation, express or implied, all Claims for: breach of express or implied contract; promissory estoppel; fraud, deceit or misrepresentation; intentional, reckless or negligent infliction of emotional distress; breach of any express or implied covenant of employment, including the covenant of good faith and fair dealing; interference with contractual or advantageous relations; discrimination on any basis under federal, state or local law, including without limitation, Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, as amended, and the California Fair Employment and Housing Act, Cal. Gov't. Code Sections 12940, et seq., as amended; and all claims for defamation or damaged reputation.

(b) You acknowledge that you are familiar with Section 1542 of

the California Civil Code, which reads as follows:

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

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

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

(d) You agree that you will not hereafter pursue any Claim against any Releasee by filing a lawsuit in any local, state or federal court for or on account of anything which has occurred up to the present time as a result of your employment, and you shall not seek reinstatement with, or damages of any nature, severance, incentive or retention pay, attorney's fees, or costs from the Company or any of the other Releasees; provided, however, that nothing in this Section 3 shall be deemed to release the Company from any claims that you may have (i) under this Agreement, (ii) for indemnification pursuant to and in accordance with applicable statutes, the by-laws of the Company and Section 4(b) of the Employment Agreement, (iii) vested pension or retirement benefits under the terms of qualified employee pension benefit plans, or (iv) accrued but unpaid wages.

4. RELEASE BY THE COMPANY.

(a) The Company, on behalf of itself, its subsidiaries, divisions and related or affiliated entities and each of their respective predecessors, successors or assigns hereby irrevocably and unconditionally releases, acquits and forever discharges you, your successors, heirs, assigns, executors, administrators and/or estate (the "Van Horn Releasees"), from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorney's fees and costs actually incurred) known or unknown, that directly or indirectly arise out of, relate to or concern acts or omissions reasonably taken or not taken by you in the course of your employment with the Company in good faith (the "Company Claims").

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

(c) The Company agrees that it will not hereafter pursue any Company Claim against any Van Horn Releasee by filing a lawsuit in any local,

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state or federal court for or on account of anything which has occurred up to the present time as a result of your employment to the extent set forth in Subparagraph 4(a) above; provided, however, that nothing in this Section 4 shall be deemed to release you from any claims the Company may have (i) under this Agreement or (ii) for claims not otherwise released by Section 4(a) above.

5. EMPLOYMENT AGREEMENT. Except as set forth in the next sentence or as expressly provided elsewhere in this Agreement, this Agreement supersedes all provisions of the Employment Agreement and all such provisions terminated upon the Date of Termination. Nothing contained herein, however, shall be deemed to terminate your obligations to the Company or the Company's obligations to you under Sections 4 (b) (indemnification), 6 (Records/Nondisclosure/Company Policies), 7(d) (Excise Tax Payment), 8(b)-(c) (Non-Solicitation and Specific Enforcement), and 13 (Resolution of Disputes) of the Employment Agreement, Annexes A (Code of Ethics) or B (Nondisclosure Agreement) thereto, or the Company's Stock Option Plan or the stock option agreements entered into by you from time to time.

6. RETURN OF PROPERTY. In accordance with Section 4 of the Nondisclosure Agreement, dated as of March 9, 1998, by and between you and Bay Apartment

Communities, Inc. (a predecessor to the Company) and incorporated in the Employment Agreement as Annex B ("Nondisclosure Agreement"), to the extent you have not already done so, (i) you will return to the Company all records, correspondence, notes, financial statements, computer printouts and other documents and recorded material of every nature (including copies thereof) that may be in your possession or control dealing with Confidential Information (as defined in Section 8 of the Nondisclosure Agreement), and (ii) you will return to the Company all other property. Reference is made to your memorandum of March 19, 1999 in which a Senior Vice President of the Company acknowledged your return of the items referenced on such memorandum.

7. LITIGATION COOPERATION. You agree to continue to serve the Company as a litigation consultant and, in connection therewith, to cooperate reasonably with the Company in (i) the defense or prosecution of any claims or actions which already have been brought or which may be brought in the future against or on behalf of the Company and (ii) responding to, cooperating with, or contesting any governmental audit, inspection, inquiry, proceeding or investigation, which relate to events or occurrences that transpired during your employment with the Company. Your cooperation in connection with such claims or actions shall include, without implication of limitation: promptly

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notifying the Company in writing of any subpoena, interview, investigation, request for information, or other contact concerning events or occurrences that transpired during your employment with any of the Company; being reasonably available to meet with counsel for any of the Company to prepare for discovery or trial; to testify truthfully as a witness when reasonably requested and at reasonable times designated by the Company; and to meet with counsel or other designated representatives of the Company at reasonable times and places; to prepare responses to and to cooperate with any Company's processing of governmental audits, inspections, inquiries, proceedings or investigations. The Company agrees to reimburse you for any reasonable out-of-pocket expenses that you incur in connection with such cooperation, subject to reasonable documentation. The Company shall compensate you at an hourly rate derived from your last applicable Base Salary for time that you reasonably spend complying with your obligations as a litigation consultant under this Section, except that the Company shall not, under any circumstances, compensate you for time spent testifying under oath or responding to questions from governmental investigators in a capacity as a fact witness. The Company will try, in good faith, to exercise its rights under this Section so as not to unreasonably interfere with your personal schedule or ability to engage in gainful employment. In the event other commitments preclude you from being available to the Company when requested, you may decline a Company request for cooperation so long as you promptly provide to the Company reasonable alternative dates when you will be available to provide such cooperation.

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

8. NONDISPARAGEMENT AND NONDISCLOSURE. You agree not to take any action or make any statement, written or oral, which disparages or criticizes the Company or its officers, directors, agents, or management and business practices, or which disrupts or impairs the Company's normal operations. The Company agrees to instruct its directors and executive officers

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not to take any action or make any statement, written or oral, which disparages or criticizes you or your management and business practices. The provisions of this Section 8 shall not apply to any truthful statement required to be made by you or any director or executive officer of the Company, as the case may be, in any legal proceeding, governmental or regulatory investigation, in any public filing or disclosure legally required to be filed or made, or in any confidential discussion or consultation with professional advisors. You agree not to disclose the terms of this Agreement except (a) to your professional advisors, including accountants and attorneys (provided they agree to keep such information confidential), (b) to the extent that, prior to your disclosure, the

Company has previously disclosed such information in its filings with the Securities and Exchange Commission, and (c) (i) pursuant to a valid subpoena or (ii) as otherwise required by law, but in either of the latter two cases only after providing the Company, to the attention of its Chief Executive Officer, with prior written notice and reasonable opportunity to contest such subpoena or other requirement. In the case of the circumstances contemplated by Subsections 8(c)(i) or (ii), written notice shall be provided to the Company as soon as practicable, but in no event less than five (5) business days before any such disclosure is compelled, or, if later, at least one (1) business day after you receive notice compelling such disclosure.

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

10. TAX MATTERS. All payments and other consideration provided to you pursuant to this Agreement shall be subject to any deductions, withholding or tax reporting that the Company reasonably determines to be required for tax purposes.

11. NOTICES, ACKNOWLEDGMENTS AND OTHER TERMS

(a) You are advised to consult with an attorney and tax advisor before signing this Agreement. You acknowledge that you have consulted with an attorney of your choice. You acknowledge that you have been given a reasonable period of time to consider this Agreement before executing it.

(b) By signing this Agreement, you acknowledge that you are doing so voluntarily and knowingly, fully intending to be bound by this Agreement. You also acknowledge that you are not relying on any

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representations by any representative of the Company concerning the meaning of any aspect of this Agreement. You understand that this Agreement shall not in any way be construed as an admission by the Company of any liability or any act of wrongdoing whatsoever by the Company against you and that the Company specifically disclaims any liability or wrongdoing whatsoever against you on the part of itself and its officers, directors, shareholders, employees and agents. You understand that if you do not enter into this Agreement and bring any claims against the Company, the Company will dispute the merits of those claims and contend that it acted lawfully and for good business reasons with respect to you.

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

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

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

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

(g) This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and, except as expressly provided herein, supersedes all prior agreements between the parties with respect to any related subject matter.

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April 15, 1999

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

[End of Text]

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If you agree to these terms, please sign and date below and return this Agreement to the Company's Chief Executive Officer by May 3, 1999. This Agreement may be executed in counterparts, each of which shall be deemed to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

Sincerely,

AVALONBAY COMMUNITIES, INC.

By: /s/ Richard L. Michaux

Richard L. Michaux
Chief Executive Officer and
President

Accepted and Agreed to:

/s/ Jeffrey B. Van Horn

Jeffrey B. Van Horn

Dated: April 15, 1999

June 2, 1999

Mr. Charles H. Berman
[address]

Dear Mr. Berman:

This letter agreement (the "Agreement") confirms the terms of the termination of your employment with AvalonBay Communities, Inc. (the "Company," a term which for purposes of this Agreement includes its related or affiliated entities).

1. TERMINATION DATE. By mutual agreement, the effective date of the termination of your employment and offices with the Company and all of its related and affiliated entities was March 24, 1999 (the "Date of Termination"). By entering into this Agreement, you also are acknowledging that you resigned, as of the Date of Termination, as a director of the Company and all entities that are related or affiliated to the Company. For purposes of the Employment Agreement, dated as of March 9, 1998 by and between you and Bay Apartment Communities, Inc. (a predecessor name of the Company) (the "Employment Agreement"), the termination of your employment was a termination without Cause.

2. SEVERANCE PAY AND BENEFITS. The Company shall provide you with the payments and benefits set forth in Sections 7(c) (i) (payment of salary, cash incentive compensation and generally applicable employee benefits earned through Date of Termination), 7(c) (v) (termination payments and benefits upon termination without Cause) and 7(d) (Partial Gross-up Payment) of the Employment Agreement in each case subject to and in accordance with the terms and conditions of the Employment Agreement and subject, in all events, to the provisions set forth immediately hereinbelow and in Sections 10 and 13(c) below.

(a) For purposes of Section 7(c) (i) of the Employment Agreement, you and the Company have calculated your accrued bonus through the Date of Termination as Fifty-six Thousand Six Hundred Fourteen Dollars (\$56,614) (i.e., \$252,000, prorated to reflect services during 1999 from January 1, 1999 through the Date of Termination). You also shall receive through the Date of Termination the benefits for which you are eligible under the Company's generally applicable employee benefit plans, practices and policies (including, without limitation, accrued vacation in the amount of \$26,081), other than severance plans.

(b) For purposes of Section 7(c) (v) of the Employment Agreement, you and the Company agree that in satisfaction of the Company's obligation to pay you three times your Covered Average Compensation, the Company shall pay you, not later than the eighth (8th) day following your execution of this Agreement (the "Payment Date"), the gross sum of Five Million Five Hundred Seventy-eight Thousand Seven Hundred and Fifty-seven Dollars (\$5,578,757) (the "Lump Sum Compromise Amount"), reduced by the gross amount paid to you by our Payroll Department in respect of your base salary from and after the Date of Termination, (i.e., Fifty-seven Thousand Five Hundred Sixty-five and 57/100 Dollars (\$57,565.57)) (the "Post-Termination Salary"). You and the Company agree that there has not been agreement as to the individual components that constitute three times your Covered Average Compensation, but that there is agreement that the Lump Sum Compromise Amount is being paid in full satisfaction of any and all claims that you have to receive three times your Covered Average Compensation. The Company may deduct from the Lump Sum Compromise Amount such withholding taxes as it reasonably determines to be required on the Payment Date for tax purposes with respect to income earned by you from the company, including, without limitation, the cash payments described under Sections 2(a) and 2(b) hereof, the value of the restricted stock that has vested, the forgiveness of the loan referred to in Section 2(h) (i) below, and the compensation income that accrued in connection with your exercise of options. In the event that the Company fails to pay the Lump Sum Compromise Amount, reduced by the Post-Termination Salary but increased by the amount required under Section 2(h) (i) (A), net of withholding taxes, on or before the second business day after the date you execute this Agreement (the "Execution Date"), the Company additionally shall pay you interest on that amount paid to you (i.e., the Lump Sum Compromise Amount reduced by the Post-Termination Salary, plus the amount required under Section 2(h) (i) (A), after deduction for withholding taxes) (i) calculated from the day next following the second business day after the Execution Date until the fifth business day after the Execution Date (or, if earlier, the date of payment of such amount) at the rate of six percent per annum based on a 365 day year, and (ii) if not paid on or before the fifth business day after the Execution Date, from the day next following such fifth business day until the date of payment of such amount at the rate of 12 percent per annum based on a 365 day year.

(c) In accordance with Section 7(c) (v) (A) of the Employment Agreement, the Company will continue, without cost to you, benefits comparable

to the medical and disability benefits provided to you immediately prior to the Date of Termination under Sections 3(c) and 3(d) of the Employment Agreement for a period of 36 months following the Date of Termination or until such earlier date as you may obtain comparable benefits through other employment. For purposes of Section 7(c)(v)(A) of the Employment Agreement, if, within 36 months of the Date of Termination, you obtain medical or disability benefits through other employment (whether self-employment or otherwise) comparable to those provided to you pursuant to Section 7(c)(v)(A), you will promptly notify the Company.

(d) In accordance with Section 7(c)(v)(B) of the Employment Agreement, the Company will continue to pay, for so long as such payments are due, all premiums then due and payable on, but only to the extent relating to the whole-life portion of, the split dollar life insurance policy obtained pursuant to Section 3(d) of the Employment Agreement; provided that the Company's obligations to pay under this Section 2(d) are conditioned upon your payment of all premiums payable on, but only to the extent relating to the term-life portion of, said split dollar life insurance policy. You agree to cooperate with the Company in verifying your continuing satisfaction of the foregoing condition. The Company agrees to promptly notify you, and you agree to promptly notify the Company, of any premium notice or other notice it or you receive from the insurer relating to the policy. In the event that the Company determines that its obligation to make payments under this Section 2(d) has ceased by reason of your non-payment of premiums relating to the term-life portion of said split dollar life insurance policy, the Company shall provide you with thirty (30) days advance written notice of its intent to terminate payments hereunder. Such notice shall identify specifically your non-payment of the term life premium that is the basis on which the Company asserts its right to cease payments and shall provide you with a reasonable opportunity to cure.

(e) In accordance with Section 7(c)(v)(C) of the Employment Agreement, all shares of the Company's stock that you were granted as Restricted Shares vested as of the Date of Termination (i.e., you own as of the Date of Termination a total of 57,100 shares of common stock of the Company that were originally granted to you as Restricted Shares, as set forth on Exhibit A hereto). To the extent the Company has not already done so, the Company shall (or shall cause the Company's transfer agent to) (i) promptly deliver to you certificates representing such shares with no restrictive legends, and such shares shall be freely transferable by you subject to applicable securities laws and (ii) remove all restrictive legends on shares previously issued to you. You acknowledge that the Company has advised you to consult an attorney regarding your continuing obligations under Section 16 of the Securities Exchange Act of 1934, as amended, as well as other federal and state securities (including insider trading) laws.

(f) In accordance with Section 7(c)(v)(C) of the Employment Agreement, all options to purchase shares of the Company's common stock that you were granted vested as of the Date of Termination. Exhibit B hereto lists all such options and their respective exercise prices. You have until the expiration of three (3) months following the Date of Termination in which to exercise the options granted on November 11, 1993 and February 17, 1999 (the "Regular Options"). The Board of Directors, or the Compensation Committee of the Board of Directors, of the Company has taken such action as is necessary so that, with respect to the options granted on October 29, 1997 you will have until October 29, 2007 in which to exercise such options and that with respect to the options granted to you on March 8, 1998 you have until March 8, 2008 in which to exercise such options (collectively, the "Extended Options"). The Company will provide reasonable and customary cooperation in your

consummation of a "cashless exercise" with a broker in which the proceeds of the sale of shares of the Company common stock are used, directly or indirectly, to finance your remittance of the exercise price on the options. The Company will not assert that you are in possession of information regarding the Company such that there is a basis for the Company to not provide such cooperation. The Company has agreed that payment of the exercise price for any such option also may be made by you in the form of shares of Company stock which are unrestricted and which have been held by you for at least six months, and has agreed that any tax withholding obligations with respect to the exercise of stock options may, if you so elect in writing, be made by the Company withholding shares of stock which would otherwise be deliverable to you or by you transferring shares of such stock to the Company. Such shares shall be valued for such purposes in accordance with the stock option plans and stock option agreements under which such options were issued.

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

In the event that you willfully and materially breach the terms of Section 3, 5 (but only to the extent that Section 5 incorporates by reference Sections 6(b), 8(b) and Annex B of the Employment Agreement), 6, 7, 8(a) or 8(c) of this Agreement (a "Material Breach") at any time after the date hereof and within

thirty-six (36) months of the Date of Termination, in addition to the Company's rights to obtain equitable relief or damages for such breach, the Company may suspend thirty-three percent (33%) of the original amount of each tranche of the Extended Options (or, with respect to a tranche of Extended Options for which less than thirty-three percent (33%) of the original amount is outstanding at that time, all of such tranche of Extended Options) (any such suspended options, "Suspended Options"). The Company shall suspend your right to exercise the Suspended Options by (i) filing a request for arbitration within a reasonable time after any Senior Manager (i.e., any individual holding the title of Senior Vice President or higher) learns of the Material Breach, which request specifically states that the Company is suspending your right to exercise, or (ii) in the event the Company reasonably determines that your asserted Material Breach is curable, by sending you a written notice describing the Material Breach and the steps you must take to cure such Material Breach. In the event that the Company asks you to cure a Material Breach and you fail to cure such breach to the Company's satisfaction within five (5) business days following delivery to you of written notice from the Company, the Company then may commence an arbitration proceeding, in which case your right to exercise the Suspended Options will remain suspended. In the event that an arbitrator determines that you have not committed a Material Breach, the arbitrator may award you damages directly caused by the suspension of your right to exercise the Suspended Options. In the event that an arbitrator determines that you have committed a Material Breach, the exercise period of the Suspended Options shall terminate immediately without further action or decision by the arbitrator, without prejudice to the Company's right to obtain equitable relief or damages for such Material Breach; provided that an award of additional damages (if any) shall take into account

termination of the Suspended Options. Nothing contained herein otherwise shall be deemed to limit the Company's right to obtain equitable relief or damages for a Material Breach that occurs before or after thirty-six (36) months after the date you execute this Agreement.

(g) The Company has determined in good faith after consultation with Arthur Anderson LLP that none of the payments provided hereunder is subject to an excise tax under Section 4999 of the Internal Revenue Code of 1986, as amended. The provisions of Section 7(d) of the Employment Agreement shall survive the Date of Termination. Notwithstanding the provisions of the Employment Agreement, however, for purposes of application of said Section 7(d) and Exhibit 2 to the Employment Agreement and for purposes of this Agreement, the term "Accounting Firm" shall be deemed to refer to Arthur Anderson LLP.

(h) In addition to the payments and benefits set forth pursuant to Section 7 of the Employment Agreement, the Company further has agreed to provide you with the following:

(i) (A) The Company will pay to you on the Payment Date a supplemental payment in an amount equal to Seventy-six Thousand Dollars (\$76,000), less applicable withholding and (B) the Company will forgive the amount you currently owe the Company in consideration of loans the Company made to you in connection with the grant of restricted stock (i.e., approximately \$84,000), which indebtedness will be forgiven on the Payment Date. On or promptly following the Payment Date, the promissory notes representing the approximately \$84,000 of indebtedness and referenced in subsection (i)(B) shall be returned to you marked "Paid in Full."

(ii) From and after the March 24, 1999, in lieu of any rights you would otherwise have under Exhibit 2 to the Employment Agreement with respect to time periods from and after March 24, 1999 or any payments or benefits accrued from and after March 24, 1999 in accordance with such Exhibit, you will receive payments and benefits in accordance with and subject to the provisions of Exhibit C hereto.

(iii) You have purchased the following computer items of the Company currently in your possession: Office computer: HP Vectra VL 166 MHZ (fair market value \$350.00), Monitor 17" - Sony Multiscan 200GS (fair market value \$300.00), and HP Omnibook 800 + accessories (fair market value \$1300.00). Accordingly, subtracted from the amount paid to you in respect of the reimbursements under subclause (iv) immediately below will be the fair market value of such items, which it is agreed is \$1,950.

(iv) The Company shall reimburse you for (A) reasonable and customary business expenses incurred by you in the course of performing your duties for the Company through the Date of Termination, and for the reasonable cost of the commercial flight you took to New York City to attend a meeting with representatives of the Company on May 3, 1999; the total reimbursement on account of the foregoing is agreed to be \$23,120.16; and (B) the relocation benefits described on Exhibit D [\$856.25].

(v) Subject to additional interest on account of the late payment provision in Section 2(b), interest on the net amounts paid (i.e., after tax withholding) under Sections 2(b) and 2(h)(i)(A) calculated from April 24, 1999 through June 2, 1999 (or, if earlier, the date on which this Agreement is executed by the Company and delivered (including by facsimile) to you or your attorneys) at the rate of 6% per annum based on a 365 day year.

3. RELEASE OF CLAIMS.

(a) You, on behalf of yourself and your successors, heirs, assigns, executors, administrators and/or estate, hereby irrevocably and unconditionally release, acquit and forever discharge the Company, its subsidiaries, divisions and related or affiliated entities, and each of their respective predecessors, successors or assigns, and the officers, directors, partners, shareholders, representatives, employees and agents of each of the foregoing (the "Releasees"), from any and all charges, complaints, claims, liabilities, obligations, promises, agreements, controversies, damages, actions, causes of action, suits, rights, demands, costs, losses, debts and expenses (including attorneys' fees and costs actually incurred), known or unknown, that directly or indirectly arise out of, relate to or concern your employment or termination of employment with the Company ("Claims"), which you have, own or hold, or at any time heretofore had, owned or held against the Releasees up to the date on which you execute this Agreement, including without limitation, express or implied, all Claims for: breach of express or implied contract; promissory estoppel; fraud, deceit or misrepresentation; intentional, reckless or negligent infliction of emotional distress; breach of any express or implied covenant of employment, including the covenant of good faith and fair dealing; interference with contractual or advantageous relations; discrimination on any basis under federal, state or local law, including without limitation, Title VII of the Civil Rights Act of 1964, as amended, the Americans with Disabilities Act, as amended, The Age Discrimination in Employment Act, as amended, and the California Fair Employment and Housing Act, Cal. Gov't. Code Sections 12940, et seq., as amended; and all claims for defamation or damaged reputation.

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

A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at

the time of executing the release, which if known by him must have materially affected his settlement with the debtor.

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

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

(d) You agree that you will not hereafter pursue any Claim against any Releasee (including without limitation any claim seeking reinstatement with, or damages of any nature, severance, incentive or retention pay, attorney's fees, or costs) by filing a lawsuit in any local, state or federal court for or on account of anything which has occurred up to the present time as a result of your employment or termination of employment; provided, however, that nothing in this Section 3 shall be deemed to release the Company from any claims that you may have (i) under this Agreement, (ii) for indemnification pursuant to and in accordance with applicable statutes, the by-laws of the Company and Section 4(b) of the Employment Agreement, (iii) vested pension or retirement benefits under the terms of qualified employee pension benefit plans, (iv) accrued but unpaid wages, or (v) for excise tax payments pursuant to Section 7(d) of the Employment Agreement.

4. RELEASE BY THE COMPANY.

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

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

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

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

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

(d) The Company agrees that it will not hereafter pursue any Company Claims against any Berman Releasee by filing a lawsuit in any local, state or federal court for or on account of anything which has occurred up to the present time as a result of your employment or termination of employment; provided, however, that nothing in this Section 4 shall be deemed to release you from any claims the Company may have (i) under this Agreement, or (ii) for breaches prior to the date hereof of the nondisclosure provisions of Section 6 of the Employment Agreement or Annex B to the Employment Agreement.

5. EMPLOYMENT AGREEMENT. Except as set forth in the next sentence or as expressly provided elsewhere in this Agreement, this Agreement supersedes all provisions of the Employment Agreement and all such provisions terminated upon the Date of Termination. Nothing contained herein, however, shall be deemed to terminate your obligations to the Company or the Company's obligations to you under Sections 4(b) (Indemnification), 6 (Records/Nondisclosure/Company Policies), 7(d) (Excise Tax Payment), 8(b)-(c) (Non-Solicitation and Specific Enforcement), and 13(a) (Resolution of Disputes) (as modified by Section 12 hereinbelow) of the Employment Agreement, Annexes A (Code of Ethics) or B (Nondisclosure Agreement) thereto, or the Company's Stock Option Plan or the stock option agreements entered into by you from time to time, (as modified by Section 2(f) hereinabove). Nothing in this Agreement shall extend the non-solicitation period set forth in Section 8(b) of the Employment Agreement.

6. RETURN OF PROPERTY. In accordance with Section 4 of the Nondisclosure Agreement, dated as of March 9, 1998, by and between you and Bay Apartment Communities, Inc. (a predecessor name to the Company), and incorporated in the Employment Agreement as Annex B ("Nondisclosure Agreement"), you represent and warrant that have returned to the Company (a) all records, correspondence, notes, financial statements, computer printouts and other documents

and recorded material of every nature (including copies thereof) that may be in your possession or control dealing with Confidential Information (as defined in Section 8 of the Nondisclosure Agreement) and, (b) subject to your purchase rights under Section 2(h)(iii) above, other property, such as your laptop computer, to the extent you have not already done so.

7. ADVERSE ACTIONS. You agree that for forty-eight (48) months following the date you execute this Agreement without the prior written consent of the Company you shall not, directly or indirectly or in any manner, or solicit, request, advise, assist or encourage any other person or entity to, (a) undertake any action that would be reasonably likely to, or is intended to, result in a Change in Control (as that term is defined in the Employment Agreement) of the Company, including, for these purposes, without limitation, a valuation of the Company; (b) seek to change or control in any manner the management or the Board of Directors of the Company, or the business, operations or affairs of the Company; or (c) undertake an investment (other than in respect to the equity rights described in Section 2 above) in the Company.

8. NONDISPARAGEMENT AND NONDISCLOSURE.

(a) You agree not to take any action or make any statement, written or oral, which disparages or criticizes the Company or its officers, directors, agents, or management and business practices, or which disrupts or impairs the Company's normal operations. The Company and its directors and senior management (i.e., individuals holding the title of Senior Vice President or above) shall not take any action or make any statement, written or oral, which disparages or criticizes you or your management and business practices. The provisions of this Section 8 shall not apply to any truthful statement required to be made by you or any director or executive officer of the Company, as the case may be, in any legal proceeding, governmental or regulatory investigation, in any public filing or disclosure legally required to be filed or made, and also shall not apply to any confidential discussion or consultation with professional advisors. In

furtherance of your obligations under this Agreement, you agree that you shall not make any statements or comments to the media concerning the Company or the circumstances surrounding your termination from the Company without the Company's prior written approval.

(b) You agree not to disclose the terms of this Agreement, except (i) to your professional advisors, including accountants and attorneys (provided they agree to keep such information confidential), (ii) to the extent that, prior to your disclosure, the Company has previously disclosed such information publicly, whether in its filings with the Securities & Exchange Commission or otherwise, and (iii) (A) pursuant to a valid subpoena or (B) as otherwise required by law, but in either (iii)(A) or (iii)(B) only after providing the Company, to the attention of its Chief Executive Officer, with prior written notice and reasonable opportunity to contest such subpoena or other requirement. In the case of the circumstances contemplated by subsections 8(b)(iii)(A)

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

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

(d) The Company agrees that nothing in this or any other agreement prohibits you from competing with, or providing services to an entity that competes with, the Company; that such competition or services alone would not constitute a violation of this or any other agreement or law; and that the Company will not assert that such competition or services alone constitutes a violation of this or any agreement or law on the theory that it inevitably would result in the disclosure of confidential information or trade secrets. This provision, however, shall not relieve you of any obligation you may have under Section 8 of The Employment Agreement, Annex B thereto, or common or statutory law not to actually disclose trade secrets or confidential information. Nor does this provision relieve you of your obligations under section 7 of this Agreement.

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

10. TAX MATTERS. All payments and other consideration provided to you pursuant to this Agreement shall be subject to any deductions, withholding or tax reporting that the Company reasonably determines to be required for tax purposes; provided, that nothing contained in this Section 10 affects your independent obligation and primary responsibility, which obligation and responsibility you hereby affirm, to determine and make proper judgments regarding the payment of taxes under applicable law.

11. SALE OF EQUITY INTERESTS. Contemporaneously with execution of this Agreement, you will sell to Gilbert M. Meyer all of your interests in AvalonBay

Services I, Inc. and AvalonBay Services II, Inc. pursuant to the documents attached hereto at Exhibit E.

12. ARBITRATION.

(a) Any controversy or claim arising out of or relating to this Agreement or the breach hereof shall be resolved in the manner set forth in Section 13(a) (Resolution of Disputes) of the Employment Agreement, as modified by this Section 12.

(b) In the event any legal action or proceeding, including arbitration or declaratory relief, is commenced by the Company with respect to any controversy or claim arising out of or relating to this Agreement or the breach hereof, or otherwise to enforce any rights or obligations under this Agreement, the arbitrator or, in the case of a claim for equitable relief, the judge in such proceeding (i) shall have discretion to award to you if you are the prevailing

party reasonable attorney's fees and costs, if any, in said action or proceeding, but (ii) regardless of the outcome in said action or proceeding, shall not award to the Company any of its attorney's fees or costs.

(c) In the event any legal action or proceeding, including arbitration or declaratory relief, is commenced by you with respect to any controversy or claim arising out of or relating to this Agreement or the breach hereof, or otherwise to enforce any rights or obligations under this Agreement, the arbitrator or, in the case of a claim for equitable relief, the judge in such proceeding shall have discretion to award the prevailing party reasonable attorney's fees and costs, if any, in said action or proceeding.

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

13. NOTICES, ACKNOWLEDGMENTS AND OTHER TERMS

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

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

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

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

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

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

If to you at:

Mr. Charles H. Berman
[address]

with a copy to:

Herbert W. Krueger, Esq.
Mayer Brown & Platt
190 South LaSalle Street
Chicago, IL 60603-3441

If to the Company, to it at:

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

with a copy to:
Joseph A. Piacquad, Esq,
Goodwin, Procter & Hoar LLP
Exchange Place
Boston, MA 02109-2881

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

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

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

(j) This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and, except as expressly provided herein, supersedes all prior agreements between the parties with respect to any related subject matter.

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

If you agree to these terms, please sign and date below and return this Agreement to the Company's Chief Executive Officer by June 2, 1999. This Agreement may be executed in counterparts and/or by facsimile transmission, each of which shall be deemed

to be an original but all of which together shall constitute one and the same instrument. The execution of this Agreement may be by actual or facsimile signature.

Sincerely,

AvalonBay Communities, Inc.

By: /s/ Richard L. Michaux

Its: Chief Executive Officer

Accepted and Agreed to:

/s/ Charles H. Berman
Charles H. Berman

Dated: June 7, 1999

EXHIBIT A

Restricted Stock

<TABLE>
<CAPTION>

	Grant Date	Number of Shares Granted

<S>	<C>	<C>

2/6/96	16,326
1/22/97	17,287
2/3/98	17,287
2/19/99	6,200
	57,100
	=====

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EXHIBIT B

Options

<TABLE>

<CAPTION>

Grant Date	Number of Shares	Price Price
11/11/93	115,245	\$ 26.6823
10/27/97	192,075	\$ 38.1531
3/8/98	125,000	\$ 37.5830
2/17/99	62,000	\$ 32.00
	494,320	=====

</TABLE>

EXHIBIT C

1. HOUSING. The Company will continue to permit you to occupy the house the Company heretofore has provided to you on Bryant Street in Palo Alto, California (the "Company House") until July 31, 2000. You will not pay rent to the Company for the use of the Company House, but will be responsible for the payment of utilities.

The Company shall continue to have the right to cause you to rent out your residence in New Canaan, Connecticut (the "New Canaan House") until the earlier of the date that you return possession of the Company House to the Company or you purchase the Company House, and until the earlier of such date the Company shall retain the proceeds of such rental. Thereafter, if the New Canaan House remains under rental agreement, you shall receive the proceeds of such rental. The Company will pay for the routine maintenance (but not landscaping) of the New Canaan House through the date the Agreement is executed. From and after the date you execute the Agreement, you shall pay landscaping and routine maintenance. You will remain responsible for your mortgage payments, real estate taxes, utilities and home insurance on the New Canaan House.

At any time prior to August 1, 2000, you may elect to purchase the Company House. If you purchase the Company House on or before July 31, 1999 (or such later date provided that the delay in closing beyond July 31, 1999 is not attributable to your failure to provide reasonable cooperation in signing a standard purchase and sale agreement and closing thereon) the purchase price shall equal \$2,856,046.57 (i.e., \$2,850,000 in respect of the Company's cost for such house plus the \$6,046.57 in closing costs it incurred in purchasing the home). Subject to the preceding sentence, if you purchase the Company House between August 1, 1999 and July 31, 2000, the purchase price shall equal \$3,056,046.57 (i.e., \$2,850,000 in respect of the Company's cost for such house plus \$200,000 plus the \$6,046.57 in closing costs it incurred in purchasing the home).

2. TAXES. The Company shall provide you with the Local Tax Reimbursement and Reimbursement Gross Up Payments in accordance with paragraph 6 of Exhibit 2 of the Employment Agreement, but only with respect to (a) investment income earned by you prior to March 24, 1999, and income and benefits earned from the Company and paid or provided to you prior to the date you executed the Agreement for services rendered through March 24, 1999, (b) the Lump Sum Compromise

Amount, (c) income earned in respect of exercising the Regular Options, (d) income earned in respect of the accelerated vesting of restricted stock due to the termination of your employment, (e) income attributable to forgiving Company loans pursuant to Section 2(h)(i)(B)(I) of the Agreement, and (f) the gross amount of the \$101,000 payment described in Section 2(h)(i)(A) of the Agreement.

AVALONBAY COMMUNITIES, INC.

SECRETARY'S CERTIFICATE

AMENDMENTS TO
THE AVALON PROPERTIES, INC.
AMENDED AND RESTATED 1995 EQUITY INCENTIVE PLAN

On May 6, 1999, at a duly called and held meeting of the Compensation Committee of the Board of Directors of AvalonBay Communities, Inc. (the "Company") and at a duly called and held meeting of the full Board of Directors of the Company, such Committee and the Board adopted the following amendments to the Avalon Properties, Inc. Amended and Restated 1995 Equity Incentive Plan (the "Avalon Plan"):

1. The definition of "Retirement" set forth in Section 1 of the Avalon Plan was amended to read in its entirety as follows:

"Retirement" means (i) the employee's termination of employment with the Company and its Subsidiaries, other than for Cause, after attainment of age 55, but only if upon such termination of employment the employee has been employed in the aggregate for a period of at least 120 contiguous months by the Company, by any company of which the Company is the successor by name change or reincorporation, by Avalon Properties, Inc. or by Trammell Crow Residential, or any affiliate of any of the foregoing; and (ii) with respect to any employee of the Company who as of May 5, 1999 has attained the age of 50 or more and who, upon retirement, has served in the capacity of senior vice president or a more senior position for at least one year (including service with Avalon Properties), "retirement" means the employee's termination of employment with the Company and its Subsidiaries other than for Cause."

2. A new Section 5(a)(vii)(C) to the Avalon Plan was adopted, such section reading in its entirety as follows:

"Any Stock Option held by an optionee whose employment by the Company and its Subsidiaries is terminated by reason of Retirement (but not if such termination qualifies as a retirement only under clause (ii) of the definition of Retirement) shall be automatically vested as of the date of termination of such employee's Retirement notwithstanding that the provisions of the related stock option agreement provide for forfeiture of the unvested portion of the award upon termination."

3. The following sentence was added at the end of Section 6(a) (Nature of Restricted Stock Awards), such sentence reading in its entirety as follows:

"In the event of termination of an employee by reason of Retirement (but not if such termination qualifies as a retirement only under clause (ii) of the definition of Retirement), then in such event any Restricted Stock Awards held by such employee on the date of termination shall continue to vest in accordance with their terms following such termination, notwithstanding that the provisions of the Restricted Stock Award agreement provide for forfeiture of the unvested portion of the award upon termination."

IN WITNESS WHEREOF, the undersigned has signed this certificate as of May 6, 1999.

AVALONBAY COMMUNITIES, INC.

/s/ Edward M. Schulman

Name: Edward M. Schulman
Title: Secretary

AVALONBAY COMMUNITIES, INC.

SECRETARY'S CERTIFICATE

AMENDMENTS TO
THE AVALONBAY COMMUNITIES, INC.
1994 STOCK INCENTIVE PLAN
AS AMENDED AND RESTATED ON APRIL 13, 1998

On May 6, 1999, at a duly called and held meeting of the Compensation Committee of the Board of Directors of AvalonBay Communities, Inc. (the "Company") and at a duly called and held meeting of the full Board of Directors of the Company, such Committee and the Board adopted the following amendments to the AvalonBay Communities, Inc. 1994 Stock Incentive Plan, as amended and restated on April 13, 1998 (the "Plan"):

1. The definition of "Retirement" set forth in Section 1 of the Plan refers to the "retirement policy" of the Company. To clarify its retirement policy for the purposes of the Plan, the Company adopted the following retirement policy for purposes of interpreting the operation of the Plan after May 6, 1999:

"Retirement" means (i) the employee's termination of employment with the Company and its Subsidiaries, other than for Cause, after attainment of age 55, but only if upon such termination of employment the employee has been employed in the aggregate for a period of at least 120 contiguous months by the Company, by any company of which the Company is the successor by name change or reincorporation, by Avalon Properties, Inc. or by Trammell Crow Residential, or any affiliate of any of the foregoing; and (ii) with respect to any employee of the Company who as of May 5, 1999 has attained the age of 50 or more and who, upon retirement, has served in the capacity of senior vice president or a more senior position for at least one year (including service with Avalon Properties), "retirement" means the employee's termination of employment with the Company and its Subsidiaries other than for Cause."

2. A new Section 5(a)(vii)(C) to the Plan was adopted, such section reading in its entirety as follows:

"Any Stock Option held by an optionee whose employment by the Company and its Subsidiaries is terminated by reason of Retirement (but not if such termination qualifies as a retirement only under clause (ii) of the definition of Retirement) shall be automatically vested as of the date of termination of such employee's Retirement notwithstanding that the provisions of the related stock option agreement provide for forfeiture of the unvested portion of the award upon termination."

3. The following sentence was added at the end of Section 6(a) (Nature of Restricted Stock Awards), such sentence reading in its entirety as follows:

"In the event of termination of an employee by reason of Retirement (but not if such termination qualifies as a retirement only under clause (ii) of the definition of Retirement), then in such event any Restricted Stock Awards held by such employee on the date of termination shall continue to vest in accordance with

their terms following such termination, notwithstanding that the provisions of the Restricted Stock Award agreement provide for forfeiture of the unvested portion of the award upon termination."

4. The following sentence was added at the end of Section

7(a) (Nature of Deferred Stock Award), such sentence reading in its entirety as follows:

"In the event of termination of an employee by reason of Retirement (but not if such termination qualifies as a retirement only under clause (ii) of the definition of Retirement), then in such event any Deferred Stock Awards held by such employee on the date of termination shall continue to vest in accordance with their terms following such termination, notwithstanding that the provisions of the Deferred Stock Award agreement provide for forfeiture of the unvested portion of the award upon termination."

IN WITNESS WHEREOF, the undersigned has signed this certificate as of May 6, 1999.

AVALONBAY COMMUNITIES, INC.

/s/ Edward M. Schulman

Name: Edward M. Schulman
Title: Secretary

EXHIBIT 12.1

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

<TABLE>
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	Six Months Ended June 30, 1999	Year Ended December 31, 1998	Year Ended December 31, 1997
<S>	<C>	<C>	<C>
Net Operating Income	\$ 53,970	\$ 94,434	\$ 38,941
(Less) Nonrecurring item:			
Gain on sale	\$ (5,304)	\$ (3,970)	\$ -
Non-recurring charges	\$ 16,590	\$ -	\$ -
(Plus) Extraordinary item:			
Unamortized loan fee write-off	\$ -	\$ -	\$ -
(Plus) Fixed charges:			
Interest expense	\$ 34,949	\$ 54,003	\$ 14,113
Interest capitalized	13,149	16,977	6,985
Debt cost amortization	332	670	505
Preferred dividend	19,890	25,874	7,480
	-----	-----	-----
Total fixed charges (1)	\$ 68,320	\$ 97,524	\$ 29,083
(Less):			
Interest capitalized	\$ 13,149	\$ 16,977	\$ 6,985
Preferred dividend	19,890	25,874	7,480
Adjusted earnings (2)	\$ 100,537	\$ 145,137	\$ 53,559
	-----	-----	-----
Ratio (2 divided by 1)	1.47	1.49	1.84
	=====	=====	=====

</TABLE>

<TABLE>
<CAPTION>

	Year Ended December 31, 1996	Year Ended December 31, 1995	March 17- December 31 1994
<S>	<C>	<C>	<C>
January 1- March 16, 1994	-----	-----	-----
Net Operating Income \$ (716)	\$ 19,626	\$ 11,460	\$ 7,486
(Less) Nonrecurring item:			
Gain on sale	\$ -	\$ (2,412)	\$ -
Non-recurring charges	\$ -	\$ -	\$ -
(Plus) Extraordinary item:			
Unamortized loan fee write-off	\$ 511	\$ -	\$ -
(Plus) Fixed charges:			
Interest expense	\$ 14,276	\$ 11,472	\$ 4,782
Interest capitalized	2,567	3,641	2,096
Debt cost amortization	667	1,278	241
Preferred dividend	4,264	917	-
	-----	-----	-----
Total fixed charges (1)	\$ 21,774	\$ 17,308	\$ 7,119
\$ 2,438			

(Less):			
Interest capitalized	\$ 2,567	\$ 3,641	\$ 2,096
\$ -			
Preferred dividend	4,264	917	-
-			
Adjusted earnings (2)	\$ 35,080	\$ 21,798	\$ 12,509
\$ 1,722			

Ratio (2 divided by 1)	1.61	1.26	1.76
0.71			
=====			

</TABLE>

AVALONBAY COMMUNITIES, INC.
RATIOS OF EARNINGS TO FIXED CHARGES

<TABLE>
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	Six Months Ended June 30,	Year Ended December 31,	Year Ended December 31,	Year Ended December
31,	1999	1998	1997	1996
	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
Net Operating Income	\$ 53,970	\$ 94,434	\$ 38,941	\$
19,626				
(Less) Nonrecurring item:				
Gain on sale	\$ (5,304)	\$ (3,970)	\$ -	\$
-				
Non-recurring charges	\$ 16,590	\$ -	\$ -	\$
-				
(Plus) Extraordinary item:				
Unamortized loan fee write-off	\$ -	\$ -	\$ -	\$
511				
(Plus) Fixed charges:				
Interest expense	\$ 34,949	\$ 54,003	\$ 14,113	\$
14,276				
Interest capitalized	13,149	16,977	6,985	
2,567				
Debt cost amortization	332	670	505	
667				
--	-----	-----	-----	-----
Total fixed charges (1)	\$ 48,430	\$ 71,650	\$ 21,603	\$
17,510				
(Less):				
Interest capitalized	\$ 13,149	\$ 16,977	\$ 6,985	\$
2,567				
Adjusted earnings (2)	\$ 100,537	\$ 145,137	\$ 53,559	\$
35,080				
--	-----	-----	-----	-----
Ratio (2 divided by 1)	2.08	2.03	2.48	
2.00	=====	=====	=====	

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	Year Ended December 31, 1995	March 17- December 31 1994	January 1- March 16, 1994
	-----	-----	-----
<S>	<C>	<C>	<C>
Net Operating Income	\$ 11,460	\$ 7,486	\$ (716)
(Less) Nonrecurring item:			
Gain on sale	\$ (2,412)	\$ -	\$ -

Non-recurring charges	\$ -	\$ -	\$ -
(Plus) Extraordinary item:			
Unamortized loan fee write-off	\$ -	\$ -	\$ -
(Plus) Fixed charges:			
Interest expense	\$ 11,472	\$ 4,782	\$ 2,358
Interest capitalized	3,641	2,096	-
Debt cost amortization	1,278	241	80
	-----	-----	-----
Total fixed charges (1)	\$ 16,391	\$ 7,119	\$ 2,438
(Less):			
Interest capitalized	\$ 3,641	\$ 2,096	\$ -
Adjusted earnings (2)	\$ 21,798	\$ 12,509	\$ 1,722
	-----	-----	-----
Ratio (2 divided by 1)	1.33	1.76	0.71
	=====	=====	=====

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