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BNP RESIDENTIAL PROPERTIES INC  
Form 10-Q  
November 14, 2001

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2001  
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OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 1-9496  
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BNP RESIDENTIAL PROPERTIES, INC.  
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(Exact name of Registrant as specified in its charter)

Maryland 56-1574675  
-----  
State or other jurisdiction of (I.R.S. Employer  
incorporation or organization Identification No.)

3850 One First Union Center, Charlotte, NC 28202-6032  
-----  
(Address of principal executive offices) (Zip Code)

704/944-0100  
-----  
(Registrant's telephone number)

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 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 90 days. Yes X No \_\_\_\_

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of November 9, 2001 (the latest practicable date).

Common Stock, \$.01 par value 5,726,700  
-----  
(Class) (Number of shares)

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## PART I - Financial Information

## Item 1. Financial Statements.

BNP RESIDENTIAL PROPERTIES, INC.

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Consolidated Balance Sheets

	September 30 2001	Dece 2
	----- (Unaudited)	-----
Assets		
Real estate investments at cost:		
Apartment properties	\$220,531,616	\$21
Restaurant properties	39,158,921	3
	-----	-----
	259,690,537	25
Less accumulated depreciation	(38,751,519)	(3
	-----	-----
	220,939,018	22
Cash and cash equivalents	6,955,360	
Other current assets	2,459,822	
Investment in and advances to Management Company	-	
Notes receivable, net of reserve	100,000	
Intangible assets, net of accumulated amortization:		
Intangible related to acquisition of management operations	1,216,638	
Deferred financing costs	948,974	
	-----	-----
Total assets	\$232,619,812	\$23
	=====	=====

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Liabilities and Shareholders' Equity		
Mortgage and other notes payable	\$169,503,761	\$16
Accounts payable and accrued expenses	1,924,666	
Escrowed security deposits and deferred revenue	1,187,655	
Deferred credit for defeasance of interest, net of accumulated amortization	541,696	
Total liabilities	173,157,778	16
Minority interest in Operating Partnership	18,567,994	1
Shareholders' equity:		
Common stock, \$.01 par value, 100,000,000 shares authorized; issued and outstanding shares-- 5,726,700 at September 30, 2001, 5,706,950 at December 31, 2000	57,267	
Additional paid-in capital	69,912,486	6
Dividend distributions in excess of net income	(29,075,713)	(2)
Total shareholders' equity	40,894,040	4
Total liabilities and shareholders' equity	\$232,619,812	\$23

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statements of Operations  
(Unaudited)

	Three months ended September 30		Nine months end September 30	
	2001	2000	2001	
Revenues				
Apartment rental income	\$7,690,482	\$7,341,027	\$23,246,419	\$
Restaurant rental income	1,005,319	1,029,256	3,047,872	
Management fee income	93,863	-	310,960	
Equity in income of Management Company	-	25,741	-	
Interest and other income	362,871	58,471	743,887	
	9,152,535	8,454,495	27,349,138	
Expenses				
Apartment operations	2,850,283	2,397,150	8,310,186	
Apartment administration	227,764	188,392	739,415	
Corporate administration	437,441	387,561	1,453,607	
Depreciation	1,946,325	1,784,289	5,827,142	
Amortization of intangibles	147,678	144,804	443,079	
Interest	2,769,358	2,815,719	8,565,757	
	8,378,849	7,717,915	25,339,186	

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Income before minority interest and extraordinary item	773,686	736,580	2,009,952	
Minority interest in Operating Partnership	177,835	169,831	462,462	
Income before extraordinary item	595,851	566,749	1,547,490	
Extraordinary item - loss on early extinguishment of debt	99,577	-	99,577	
Net income	\$ 496,274	\$ 566,749	\$ 1,447,913	\$
Per share data:				
Basic and diluted earnings per share -				
Income before extraordinary item	\$0.10	\$0.10	\$0.27	
Extraordinary item	(0.02)	-	(0.02)	
Net income	\$0.08	\$0.10	\$0.25	
Dividends declared	\$0.31	\$0.31	\$0.93	
Weighted average shares outstanding	5,717,040	5,706,950	5,710,350	

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statement of Shareholders' Equity  
(Unaudited)

	Common Shares	Stock Amount	Additional paid-in capital	Dividends distributed in excess of net income	
Balance at December 31, 2000	5,706,950	\$57,069	\$69,707,155	\$(25,216,162)	\$
Dividends paid (\$0.31)	-	-	-	(1,769,155)	
Net income	-	-	-	470,159	
Balance at March 31, 2001	5,706,950	57,069	69,707,155	(26,515,158)	
Dividends paid (\$0.31)	-	-	-	(1,769,154)	
Net income	-	-	-	481,480	
Balance at June 30, 2001	5,706,950	57,069	69,707,155	(27,802,832)	
Common stock issued - DRIP	19,750	198	205,331	-	
Dividends paid (\$0.31)	-	-	-	(1,769,155)	
Net income	-	-	-	496,274	
Balance at September 30, 2001	5,726,700	\$57,267	\$69,912,486	\$(29,075,713)	\$

## BNP RESIDENTIAL PROPERTIES, INC.

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Consolidated Statements of Cash Flows  
(Unaudited)

	Nine months end September 30 2001	
	-----	
Operating activities:		
Net income	\$ 1,447,913	\$
Adjustments to reconcile net income to net cash provided by operations:		
Extraordinary item - loss on early extinguishment of debt	99,577	
Minority interest in Operating Partnership	462,462	
Equity in income of Management Company	-	
Depreciation and amortization of intangibles	6,270,221	
Amortization of defeasance credit	(124,992)	
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(967,944)	
Accounts payable and accrued expenses	953,323	
Security deposits and deferred revenue	45,934	
	-----	
Net cash provided by operating activities	8,186,494	
Investing activities:		
Additions to apartment properties, net	(2,121,151)	
Proceeds from sale of restaurant properties	405,860	
Acquisition of minority interest in Management Company	372,939	
Reduction in notes receivable	-	
	-----	
Net cash used in investing activities	(1,342,352)	
Financing activities:		
Redemption of Operating Partnership minority units	(14,864)	
Issuance of common stock through DRIP	205,529	
Repurchase of common stock	-	
Distributions to Operating Partnership minority unitholders	(1,586,976)	
Dividends paid to common shareholders	(5,307,464)	
Proceeds from notes payable	16,847,999	
Principal payments on notes payable	(10,955,975)	
(Payment) refund of deferred financing costs	(133,083)	
	-----	
Net cash used in financing activities	(944,834)	
	-----	
Net increase in cash and cash equivalents	5,899,308	
Cash and cash equivalents at beginning of period	1,056,052	
	-----	
Cash and cash equivalents at end of period	\$ 6,955,360	\$

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BNP RESIDENTIAL PROPERTIES, INC.

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Notes to Consolidated Financial Statements - September 30, 2001  
(Unaudited)

Note 1. Interim financial statements

Our independent accountants have not audited the accompanying financial statements of BNP Residential Properties, Inc., except for the balance sheet at December 31, 2000. We derived the amounts in the balance sheet at December 31, 2000, from the financial statements included in our 2000 Annual Report on Form 10-K. We believe that we have included all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the financial position and results of operations for the periods presented.

We have condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. You should read these financial statements in conjunction with our 2000 Annual Report on Form 10-K.

We have reclassified amounts for apartment administration and corporate administration expense in the 2000 financial statements to conform to our 2001 presentation of these amounts.

Note 2. Basis of Presentation

The consolidated financial statements include the accounts of BNP Residential Properties, Inc. (the "company") and BNP Residential Properties Limited Partnership (the "Operating Partnership"). The company is the general partner and owns a majority interest in the Operating Partnership. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

Effective January 2001, the accounts of the Operating Partnership include BNP Management, Inc. (the "Management Company"). Prior to January 2001, the Operating Partnership had a 1% voting interest and 95% economic interest in the Management Company, and used the equity method to account for this investment.

In January 2001, the Operating Partnership acquired the outstanding 99% voting interest and 5% economic interest in the Management Company for approximately \$16,000. The impact of this change in basis of presentation on the balance sheet was to increase cash by approximately \$373,000 and apartment properties equipment, net of depreciation, by approximately \$346,000, and to eliminate approximately \$715,000 investment in and advances to the Management Company previously reflected in our balance sheets.

In addition, we now reflect our third-party management operations, including management fee income and related administration expenses, directly in our statements of operations rather than reporting equity in the net income of the Management Company.

We do not expect this change in basis of presentation to have a significant impact on our financial position, operating results or cash flows.

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Note 3. Long-term debt refinancing

On September 27, 2001, we issued a note payable in the amount of \$16,250,000 secured by a deed of trust and assignment of rents of Paces Commons Apartments. The note provides for interest at an effective rate of 6.96%. Interest-only payments of approximately \$97,000 are due monthly through October 2002. Beginning November 2002, monthly payments of principal and interest total \$106,600, with maturity in October 2011. In conjunction with this transaction, we paid and recorded deferred loan costs of \$133,000.

We applied approximately \$10.1 million of the refinance proceeds to retire an existing deed of trust note for Paces Commons. In conjunction with this payoff, we wrote off unamortized loan costs of \$129,000. We have reflected this write-off, net of minority interests' share, in the financial statements as an extraordinary item.

Note 4. Shareholders' Equity

We calculated basic and diluted earnings per share using the following amounts:

	Three months ended September 30		Nine months end September 30
	2001	2000	2001
-----			
Numerators:			
Numerator for basic			
earnings per share -			
Income before			
extraordinary item	\$595,851	\$566,749	\$1,547,490
Extraordinary item	(99,577)	-	(99,577)
	-----	-----	-----
Net income	\$496,274	\$566,749	\$1,447,913
	=====	=====	=====
Numerator for diluted			
earnings per share -			
Income before			
extraordinary item (1)	\$773,686	\$736,580	\$2,009,952
Extraordinary item (1)	(129,239)	-	(129,239)
	-----	-----	-----
Net income (1)	\$644,447	\$736,580	\$1,880,713
	=====	=====	=====

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	Three months ended September 30		Nine months end September 30
	2001	2000	2001
	-----	-----	-----

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Denominators:

Denominator for basic earnings per share - weighted average shares outstanding	5,717,040	5,706,950	5,710,350
Effect of dilutive securities:			
Convertible Operating Partnership units	1,705,897	1,710,131	1,706,517
Stock options (2)	4,301	-	2,376
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	7,427,238	7,417,081	7,419,243

Note 5. Related party transactions

Effective July 1, 2001, we modified our participating loan agreement with The Villages of Chapel Hill Limited Partnership. This modification established a \$950,000 "fixed portion" of our participation in the increase in value of the property and extended the period for our 25% participation in increased rental revenue and increase in value of the property to the earlier of July 2011 or sale or refinance of the property.

Required payment of the fixed portion is subject to cash flow from The Villages property, as defined in the agreement. Interest on the outstanding fixed portion accrues at the greater of a prime rate or 8%, payable monthly.

We received \$325,883 of the fixed portion in July 2001. Because the collectibility of the remaining fixed portion is subject to cash flow and therefore uncertain, we have provided a reserve for collection of this receivable. At September 30, 2001, we have reflected the principal portion of notes receivable from The Villages of Chapel Hill Limited Partnership as follows:

Advances receivable, due February 2004	\$100,000
Fixed portion of shared appreciation	624,117
Less reserve for collection of fixed portion	(624,117)
	\$100,000
	\$100,000

Note 6. Subsequent events

On October 19, 2001, we declared a regular quarterly cash dividend of \$0.31 per share, which we will pay on November 15, 2001, to shareholders of record on November 1, 2001.

On October 5, 2001, we applied \$5.0 million proceeds of the Paces Commons refinance to reduce the balance of our variable rate line of credit secured by a deed of trust and assignment of rents of Latitudes Apartments.

Effective October 1, 2001, we entered into third-party management contracts for the management of 11 communities containing 1,504 units. We expect these contracts to generate approximately \$400,000 in annual management fees and



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incremental expenses of approximately \$250,000 per year.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion contains forward-looking statements within the meaning of federal securities law. You can identify such statements by the use of forward-looking terminology, such as "may," "will," "expect," "anticipate," "estimate," "continue" or other similar words. These statements discuss future expectations, contain projections of results of operations or of financial condition or state other "forward-looking" information.

Although we believe that our plans, intentions, and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve our plans, intentions or expectations. When you consider such forward-looking statements, you should keep in mind the following important factors that could cause our actual results to differ materially from those contained in any forward-looking statement:

- o our markets could suffer unexpected increases in the development of apartment, other rental, or competitive housing alternatives;
- o our markets could suffer unexpected declines in economic growth or an increase in unemployment rates;
- o general economic conditions could cause the financial condition of a large number of our tenants to deteriorate;
- o we may not be able to lease or re-lease apartments quickly or on as favorable terms as under existing leases;
- o we may have incorrectly assessed the environmental condition of our properties;
- o an unexpected increase in interest rates could increase our debt service costs;
- o we may not be able to meet our long-term liquidity requirements on favorable terms; and
- o we could lose key executive officers.

Given these uncertainties, we caution you not to place undue reliance on forward-looking statements. We undertake no obligation to publicly release the results of any revision to these forward-looking statements that may be made to reflect any future events or circumstances or to reflect the occurrence of unanticipated events.

You should read the discussion in conjunction with the financial statements and notes thereto included in this Quarterly Report and our Annual Report on Form 10-K.

#### Company Profile

BNP Residential Properties, Inc. is a self-administered and self-managed real estate investment trust with operations in North Carolina, South Carolina and Virginia. Our primary activity is the ownership and operation of apartment

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communities. Including 11 new management contracts entered into on October 1, 2001, we currently manage 29 communities

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containing 5,898 units. Of these, we own 15 apartment communities, containing 3,681 units. The remaining 14 communities, containing 2,217 units, are owned by third parties, and we management them on a contract basis.

In addition to our apartment communities, we own 42 properties that are leased to a third party under a master lease on a triple-net lease basis. The third party operates these properties as restaurants and, under the terms of the lease, is totally responsible for the operation and maintenance of the properties.

We are structured as an UpREIT, or umbrella partnership real estate investment trust. The company is the sole general partner and owns a controlling interest in BNP Residential Properties Limited Partnership, through which we conduct all of our operations. We refer to this partnership as the Operating Partnership. We refer to the limited partners of the Operating Partnership as minority unitholders or as the minority interest.

Our executive offices are located at 3850 One First Union Center, Charlotte, North Carolina 28202-6032, telephone 704/944-0100.

### Results of Operations

#### Revenues

Total revenues for the third quarter of 2001 were \$9.2 million, an 8.3% increase compared to the third quarter of 2000. For the first nine months of 2001, total revenues were \$27.3 million, a 7.7% increase compared to the first nine months of 2000. Our primary source of revenue is apartment rental income, which generated approximately 84.0% of our total revenues in the third quarter of 2001, and 85.0% of our total revenues in the first nine months of 2001.

Apartment rental income totaled \$7.7 million in the third quarter of 2001, a 4.8% increase compared to the third quarter of 2000. For the first nine months of 2001, apartment rental income totaled \$23.2 million, a 5.9% increase compared to the first nine months of 2000. This increase is primarily attributable to rental income at Oak Hollow Apartments Phase 2 (\$431,000 in the third quarter, and \$1,346,000 in the first nine months of 2001), which we acquired in December 2000. On a same units basis (those units that we owned throughout the first nine months of both years), apartment rental income declined by 1.1% in the third quarter of 2001, and 0.3% in the first nine months of 2001, compared to 2000.

For the third quarter of 2001, overall average economic occupancy declined by 3.3%, while average monthly revenue per occupied unit increased by 1.8%, compared to the third quarter of 2000. For the first nine months of 2001, overall average economic occupancy declined by 2.1%, while average monthly revenue per occupied unit increased by 1.5%, compared to the first nine months of 2000.

On a same units basis, comparisons of average economic occupancy and average revenue per occupied unit were slightly more favorable for both the quarter and first nine months. On a same units basis, average economic occupancy for the third quarter was 93.2% in 2001 compared to 96.1% in 2000, and average revenue per occupied unit was \$755 per month in 2001 compared to \$737 per month in 2000. For the first nine months of 2001, average economic occupancy on a same units basis was 94.5% compared to 96.3% in 2000, and average revenue per occupied unit was \$748 per month compared to \$734 per month in 2000.

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Summary amounts for our apartment communities' occupancy and revenue per occupied unit for the third quarter and first nine months of 2001 follow:

	Number of apartment units	Three months ended September 30			Nine months ended Sept	
		Average physical occupancy	Average economic occupancy	Average monthly revenue per occupied unit	Average physical occupancy	Average economic occupancy
Abbingtion Place	360	94.1%	95.5%	\$803	95.0%	96.1%
Allerton Place	228	95.4%	95.8%	787	94.7%	95.7%
Chason Ridge	252	95.1%	96.2%	682	94.7%	95.8%
Harris Hill	184	90.6%	92.6%	711	93.0%	94.8%
Latitudes	448	96.6%	96.7%	779	96.3%	97.1%
Madison Hall	128	89.1%	91.4%	612	92.0%	93.9%
Oakbrook	162	89.3%	89.3%	786	91.8%	92.3%
Oak Hollow	221	83.9%	84.6%	734	88.2%	89.6%
Oak Hollow Ph2*	240	86.2%	87.2%	688	88.6%	89.0%
Paces Commons	336	89.3%	90.9%	715	90.9%	91.9%
Paces Village	198	94.1%	94.6%	695	93.4%	93.9%
Pepperstone	108	92.9%	93.5%	704	96.4%	96.9%
Savannah Place	172	90.4%	90.5%	718	92.1%	93.2%
Summerlyn Place	140	91.0%	92.6%	821	91.7%	93.2%
Waterford Place	240	91.9%	93.2%	869	93.0%	94.4%
Woods Edge	264	93.2%	94.3%	776	95.3%	96.3%
All apartments	3,681					
- 2001		91.9%	92.8%	750	93.2%	94.2%
- 2000		94.8%	96.1%	737	95.3%	96.3%
Same units	3,440					
- 2001		92.3%	93.2%	755	93.5%	94.5%
- 2000		94.8%	96.1%	737	95.3%	96.3%

\*Acquired December 2000

With the exception of Virginia Beach, Virginia, our apartment markets remain weak. For both the quarter and year-to-date periods, slight increases in revenue per occupied unit were insufficient to overcome the impact of declines in occupancy. While we remain confident in the long-term prospects for our markets and our properties, we do not foresee any significant improvement in apartment operations over the near term.

The weakness in the markets is largely the result of overbuilding. While construction activity has slowed recently, it will take some time for the excess supply of new apartments to be absorbed. Until then, the competition for residents will remain intense.

Declining interest rates and, more recently, a general economic slowdown have also had an impact on apartment occupancy and rental rates. For those with jobs, lower interest rates have made single-family home ownership far more

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affordable. On the other hand, the general economic slowdown has led to significant job losses. While the underlying explanation as to why declining interest rates or a general economic slowdown impact apartment operations is quite

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different, both have the effect of reducing the pool of potential apartment residents, which, in turn, puts negative pressure on occupancy and rental rates.

Restaurant rental income was \$1.0 million in the third quarter of 2001, a 2.3% decrease compared to the third quarter of 2000. For the first nine months of 2001, restaurant rental income was \$3.0 million, a 2.7% decrease compared to the first nine months of 2000. This decrease is due to the sale of one restaurant property in June 2000, and another in April 2001. Through September 30, 2001, we have sold five of the original 47 restaurants to Boddie-Noell Enterprises, Inc. ("Enterprises"), the lessee, under the non-economic clause of the agreement that allows Enterprises to close up to seven restaurants and buy them back for no less than net carrying value.

Restaurant rental income during the first nine months of both 2001 and 2000 was the minimum rent specified in the lease agreement. Under our master lease with Enterprises, restaurant rental income payments are the greater of a specified minimum rent or 9.875% of food sales. The minimum rent is reduced by approximately \$8,000 per month, or \$96,000 per year, for each restaurant that is sold.

"Same store" sales (for the 42 restaurants that were open throughout the first nine months of both 2001 and 2000) declined by 2.1% in the third quarter, and 3.8% in the first nine months, of 2001 compared to 2000. Sales at these restaurants would have to increase by approximately 10% before we would receive rent exceeding the minimum rent.

As we discussed in the notes to our financial statements, effective January 1, 2001, we acquired the minority 5% economic interest and 99% voting interest in BNP Management, Inc. (the "Management Company"). We now include the revenues from our third-party management activities in our consolidated revenue amounts. In 2000, we reported (net) equity income related to activities of the Management Company. This change in basis of presentation has not had a significant impact on our financial position, overall operating results or cash flows.

Management fee income totaled \$94,000 for the third quarter and \$311,000 for the first nine months of 2001. If these activities had been reflected on a consolidated basis in our 2000 financial statements, equity income would have been replaced with management fee income of approximately \$80,000 for the third quarter and \$309,000 for the first nine months of 2000.

Effective October 1, 2001, we entered into additional third-party management contracts for management of 11 apartment communities containing 1,504 units. We estimate that, going forward, these contracts will generate approximately \$400,000 additional management fee income per year.

Interest and other income includes approximately \$326,000 in non-routine income in the third quarter of 2001, and approximately \$537,000 non-routine income through the first nine months of 2001. Recurring interest and other income was generally comparable to 2000 amounts. The non-routine income items are as follows:

- o \$326,000 shared appreciation, recorded July 2001, related to our participating loan agreement with The Villages of Chapel Hill Limited

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- Partnership, discussed below;
- o \$70,000 fee income, recorded June 2001, for arranging refinancing at The Villages of Chapel Hill and The Villages of Chapel Hill - Phase 5, two managed apartment properties;
- o \$141,000 miscellaneous income, recorded June 2001, for refund of 1997 and 1998 state franchise taxes.

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Effective July 1, 2001, we modified our participating loan agreement with The Villages of Chapel Hill Limited Partnership. This modification established a \$950,000 "fixed portion" of our participation in the increase in value of the property and extended the period for our 25% participation in increased rental revenue and increase in value of the property to the earlier of July 2011 or sale or refinance of the property. Required payment of the fixed portion is subject to cash flow from The Villages property, as defined in the agreement. Interest on the outstanding fixed portion accrues at the greater of a prime rate or 8%, payable monthly. We received payment of \$325,883 of the fixed portion in July 2001, which we reflected in the financial statements as other income. Because the collectibility of the remaining fixed portion is subject to cash flow and therefore uncertain, we have provided a reserve for collection of this receivable, and we will recognize revenue as it is realized.

### Expenses

Total expenses for the third quarter of 2001 were \$8.4 million, an 8.6% increase compared to the third quarter of 2000. For the first nine months of 2001, total expenses were \$25.3 million, an 8.9% increase compared to the first nine months of 2000.

Apartment operations expense for the third quarter of 2001 totaled \$2.9 million, an 18.9% increase compared to the third quarter of 2000. For the first nine months of 2001, apartment operations expense totaled \$8.3 million, a 14.6% increase compared to the first nine months of 2000. These increases are primarily attributable to the addition of Oak Hollow Apartments Phase 2 (\$204,000 for the third quarter of 2001 and \$542,000 for the first nine months of 2001), along with the impact of higher costs for on-site compensation, property taxes and insurance, and property administration and turnover costs.

During the third quarter of 2001, we experienced a significant increase in redecoration and turnover expense at our apartment communities. Intense competition due to overbuilding, home purchases due to declining interest rates, and job losses due to the current economic slowdown have all contributed to higher turnover of residents at the apartment communities. As a result, we have spent more in turnover expense and, in an effort to attract and retain residents, more in redecoration expense. We expect that turnover and redecoration expense will remain at relatively high levels for as long as current market conditions persist.

Apartment operations expense includes only direct costs of on-site operations. Apartment operations expense for the third quarter of 2001 represented 37.1% of related apartment rental income, compared to 32.7% in the third quarter of 2000. For the first nine months of 2001, apartment operations expense represented 35.7% of related apartment rental income, compared to 33.0% in the first nine months of 2000.

Operating expenses for restaurant properties are insignificant because the triple-net lease arrangement requires the lessee to pay virtually all of the expenses associated with the restaurant properties.

We are now able to identify and compare apartment administration expenses

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for 2001 and 2000. These costs include our property management activities as well as accounting and support activities directly related to apartment management, and were previously included in our line item for administrative expenses that included both apartment and corporate administration costs. In addition, we now include the expenses of our third-party management activities in these consolidated expense amounts.

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Apartment administration expense totaled \$228,000 for the third quarter of 2001 and \$739,000 for the first nine months of 2001. If these activities had been reflected on a consolidated basis in our 2000 financial statements, apartment administration expense would have been approximately \$236,000 for the third quarter and \$686,000 for the first nine months of 2000. The increase in apartment administration expense on a year-to-date basis is primarily attributable to increased property management supervisory compensation and travel expenditures. In addition, these expenses are impacted by the increase in the number of units under management.

As previously noted, effective October 1, 2001, we entered into additional third-party management contracts for management of 11 communities containing 1,504 units. We estimate that, going forward, we will incur incremental costs of approximately \$250,000 per year to provide these services. These costs will be included in apartment administration expense on our financial statements.

Corporate administration expense totaled \$438,000 for the third quarter of 2001 and \$1,454,000 for the first nine months of 2001. If these activities had been reflected on a consolidated basis in our 2000 financial statements, corporate administration expense would have been approximately \$380,000 for the third quarter and \$1,370,000 for the first nine months of 2000. The increases in corporate administration expense are primarily attributable to increased executive and corporate office staff compensation.

Depreciation expense totaled \$1.9 million in the third quarter of 2001, a 9.1% increase compared to the third quarter of 2000. For the first nine months of 2001, depreciation expense totaled \$5.8 million, a 9.0% increase compared to the first nine months of 2000. This increase is attributable to the addition of Oak Hollow Apartments Phase 2 (\$99,000 in the third quarter of 2001 and \$290,000 in the first nine months of 2001) along with the impact of additions and replacements at other apartment communities (we have generally assigned shorter lives to these specifically identifiable assets than the composite lives initially recorded at acquisitions). Amortization expense was essentially the same in the third quarter and first nine months of 2001 compared to 2000.

Interest expense totaled \$2.8 million in the third quarter of 2001, a 1.6% decline compared to the third quarter of 2000. For the first nine months of 2001, interest expense totaled \$8.6 million, a 2.9% increase compared to the first nine months of 2000. While long-term debt increased by approximately \$12.5 million, or 8%, between the third quarters of 2000 and 2001, variable interest rates have declined approximately 4.1% during this period, particularly during the second and third quarters of 2001. Overall, weighted average interest rates were 6.8% for the third quarter and 7.0% for the first nine months of 2001, compared to 7.5% for the third quarter and 7.4% for the first nine months of 2000.

In late September 2001, we refinanced long-term debt related to Paces Commons Apartments. (This refinance is described below in our discussion of Capital Resources and Liquidity.) In conjunction with this transaction, we wrote off unamortized loan costs of \$129,000. We have reflected this write-off, net of minority interests' share, with a charge of \$100,000 as an extraordinary item in the financial statements.

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### Net income

Net income available to common shareholders in the third quarter of 2001 was \$496,000, a 12.4% decline compared to the third quarter of 2000. For the first nine months of 2001, net

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income available to common shareholders was \$1,448,000, an 11.6% decline compared to the first nine months of 2000. These comparisons reflect the favorable effects of non-routine revenue and declining interest rates in the second and third quarters of 2001 discussed above; offset by the extraordinary charge to earnings, the impact of interest on increasing debt, and increased non-cash charges for depreciation and amortization. Operating Partnership earnings before interest, depreciation and amortization, and the extraordinary item increased by 2.8% for the third quarter, and 3.8% for the first nine months, of 2001 compared to 2000. Operating Partnership earnings before interest, depreciation and amortization, and the extraordinary item, excluding non-routine revenue, declined by 3.1% for the third quarter, and increased by 0.5% for the first nine months, of 2001 compared to 2000.

### Funds from Operations

Funds from operations is defined by the National Association of Real Estate Investment Trusts ("NAREIT") as "net income (computed in accordance with generally accepted accounting principles), excluding gains (losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures."

We calculate funds available for distribution as funds from operations plus non-cash expense for amortization of loan costs, less recurring capital expenditures.

We consider funds from operations and funds available for distribution to be useful in evaluating potential property acquisitions and measuring the operating performance of an equity REIT. We believe that, together with net income and cash flows, funds from operations and funds available for distribution provide investors with additional measures to evaluate the ability of the REIT to incur and service debt and to fund acquisitions and other capital expenditures. Funds from operations and funds available for distribution do not represent net income or cash flows from operations as defined by generally accepted accounting principles. You should not consider funds from operations or funds available for distribution:

- o to be alternatives to net income as reliable measures of our operating performance, or
- o to be alternatives to cash flows as measures of liquidity.

Funds from operations and funds available for distribution do not measure whether cash flow is sufficient to fund all of our cash needs, including principal amortization, capital improvements and distributions to shareholders. Funds from operations and funds available for distribution do not represent cash flows from operating, investing or financing activities as defined by generally accepted accounting principles. Further, funds from operations and funds available for distribution as disclosed by other REITs might not be comparable to our calculation of funds from operations or funds available for distribution.

Funds from operations of the Operating Partnership increased by 7.6% for

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the third quarter and by 4.6% for the first nine months of 2001 compared to 2000. These increases are primarily attributable to non-routine revenue and declines in variable interest rates.

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We calculated funds from operations of the Operating Partnership as follows (all amounts in thousands):

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Income before minority interest and extraordinary item	\$ 774	\$ 737	\$ 2,010	\$ 1,946
Depreciation	1,946	1,784	5,827	5,827
Amortization of management intangible	102	102	305	305
Funds from operations - Operating Partnership	\$ 2,822	\$ 2,622	\$ 8,142	\$ 7,978

A reconciliation of funds from operations to funds available for distribution follows (all amounts in thousands):

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Funds from operations - Operating Partnership	\$ 2,822	\$ 2,622	\$ 8,142	\$ 7,978
Amortization of loan costs	46	43	138	138
Recurring capital expenditures	(418)	(242)	(972)	(972)
Funds available for distribution	\$ 2,450	\$ 2,423	\$ 7,309	\$ 7,144

A further reconciliation of funds from operations of the Operating Partnership to basic funds from operations available to common shareholders follows (all amounts in thousands):

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Funds from operations - Operating Partnership	\$ 2,822	\$ 2,622	\$ 8,142	\$ 7,978
Minority interest in funds from operations	(648)	(605)	(1,873)	(1,873)



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Basic funds from operations available to common shareholders	\$ 2,173	\$ 2,018	\$ 6,268	\$

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Other information about our historical cash flows follows (all amounts in thousands):

	Three months ended September 30		Nine months ended September 30	
	2001	2000	2001	2000
Net cash provided by (used in):				
Operating activities	\$ 2,898	\$ 2,788	\$ 8,186	\$
Investing activities	(829)	(354)	(1,342)	\$
Financing activities	4,221	(2,383)	(945)	\$
Dividends and distributions paid to:				
Shareholders	\$ 1,769	\$ 1,769	\$ 5,307	\$
Minority unitholders in Operating Partnership	529	530	1,587	\$
Scheduled debt principal payments	\$ 98	\$ 84	\$ 285	\$
Non-recurring capital expenditures	413	113	1,154	\$
Weighted average common shares outstanding	5,717	5,707	5,710	\$
Weighted average Operating Partnership minority units outstanding	1,706	1,710	1,707	\$

### Capital Resources and Liquidity

#### Capital Resources

On September 27, 2001, we issued a \$16.25 million note payable, secured by a deed of trust and assignment of rents of Paces Commons Apartments. The note provides for interest at an effective rate of 6.96%, payable in interest-only monthly installments of approximately \$97,000 for one year, then monthly installments of \$106,600 principal and interest, with maturity in October 2011. We applied approximately \$10.1 million of these proceeds to retire an existing 8.125% deed of trust note for the same property.

Paces Commons was our first apartment community. We acquired Paces Commons in June 1993 for an initial acquisition cost of \$14.3 million. Since then, we have made additional capital expenditures for this community of approximately \$1.3 million.

At September 30, 2001, total long-term debt was \$169.5 million, including \$122.2 million of notes payable at fixed interest rates ranging from 6.345% to 8.55%, and \$47.3 million at variable rates indexed on 30-day LIBOR rates.

On October 4, 2001, we applied \$5.0 million of proceeds from the Paces

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Commons refinance to reduce the balance of our variable rate line of credit secured by a deed of trust and assignment of rents of Latitudes Apartments. We currently have approximately \$6 million additional borrowings available under our line of credit arrangements.

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The weighted average interest rate on debt outstanding at September 30, 2001, adjusted for the October 4 paydown of variable-rate debt, was 6.4%, compared to 7.5% at December 31, 2000, and 7.4% at September 30, 2000. This reduction is primarily attributable to declines in variable rates during the last nine months. A 1% fluctuation in variable interest rates would increase or decrease our annual interest expense by approximately \$430,000.

In August 2001, we issued 19,750 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan, with proceeds totaling approximately \$206,000.

### Cash flows and liquidity

Net cash flows from operating activities were \$8.2 million during the first nine months of 2001, a 0.5% increase compared to 2000.

Effective January 1, 2001, we acquired the minority 5% economic interest and 99% voting interest in BNP Management, Inc. (the "Management Company"). We now include the assets and liabilities related to our third-party management operations in our consolidated balance sheet. The effect of this transaction and change in basis of presentation was to increase cash by approximately \$373,000 and apartment properties equipment, net of depreciation, by approximately \$346,000.

Effective April 30, 2001, we sold a restaurant property for its net book value of approximately \$406,000. We applied these proceeds, along with a draw of \$137,000 against our line of credit secured by Latitudes Apartments, to pay down approximately \$543,000 of our line of credit secured by restaurant properties.

During the first nine months of 2001, we have expended approximately \$717,000 for renovations at Oak Hollow Apartments Phase 2. In September 2001, we drew \$172,000 against the \$2.0 million available under a variable rate note secured by Oak Hollow Apartments Phase 2.

In October 2001, we paid approximately \$370,000 to acquire vacant land adjacent to our Chason Ridge Apartments.

Other investing and financing activities during 2001 focused on capital expenditures at apartment communities, along with payments of dividends and distributions.

To date we have produced sufficient cash flow to fund our regular dividend and recurring capital expenditures. We have announced that the company will pay a regular quarterly dividend of \$0.31 per share on November 15, 2001, to shareholders of record on November 1, 2001.

We capitalize non-recurring expenditures for additions and betterments to buildings and land improvements. In addition, we generally capitalize recurring capital expenditures for painting, roofing, and other major maintenance projects that substantially extend the useful life of existing assets. For financial reporting purposes, we depreciate these additions and replacements on a straight-line basis over estimated useful lives of 5-20 years. We capitalize all floor covering, appliance, and HVAC replacements, and depreciate them using a straight-line, group method over estimated useful lives of 5-10 years.

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We generally expect to meet our short-term liquidity requirements through net cash provided by operations and utilization of credit facilities. We believe that net cash provided by operations is, and will continue to be, adequate to meet the REIT operating requirements in both the short

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term and the long term. We anticipate funding our future acquisition activities primarily by using short-term credit facilities as an interim measure, to be replaced by funds from equity offerings, long-term debt, or joint venture investments. We expect to meet our long-term liquidity requirements, such as scheduled debt maturities and repayment of short-term financing of possible property acquisitions, through long-term secured and unsecured borrowings and the issuance of debt securities or additional equity securities. We believe we have sufficient resources to meet our short-term liquidity requirements.

We do not believe that inflation poses a material risk to the company. The leases at our apartment properties are short term in nature; none are longer than two years. The restaurant properties are leased on a triple-net basis, which places the risk of rising operating and maintenance costs on the lessee.

### Recently Issued Accounting Standards

We adopted Financial Accounting Standards Board Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, as amended by Statements No. 137 and No. 138, effective January 2001. This Statement requires the recognition of all derivatives on our consolidated balance sheet at fair value. This adoption had no impact on our results of operations or financial position.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in information that would be provided under Item 305 of Regulation S-K since December 31, 2000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity" above.

## Part II - Other Information

### Item 6. Exhibits and Reports on Form 8-K

a) Exhibits:

None

b) Reports on Form 8-K:

None

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SIGNATURES

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Pursuant to the requirements 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.

BNP RESIDENTIAL PROPERTIES, INC.  
(Registrant)

November 13, 2001

/s/ Philip S. Payne

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Philip S. Payne  
Executive Vice President and  
Chief Financial Officer  
(Duly authorized officer)

November 13, 2001

/s/ Pamela B. Bruno

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Pamela B. Bruno  
Vice President, Controller and  
Chief Accounting Officer