BNP RESIDENTIAL PROPERTIES INC
Form 10-K
March 27, 2003

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

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

BNP RESIDENTIAL PROPERTIES, INC.
(Exact name of registrant as specified in its charter)

Maryland	56-1574675
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
301 S. College St., Suite 3850, Charlotte, NC	28202-6024
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code 704/944-0100

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered:
Common Stock, par value $.01 per share	American Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

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 __

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes__ No X

The aggregate market value of the common stock held by non-affiliates of the registrant at March 29, 2002, was approximately $62,100,000.

The number of shares of the registrant's common stock outstanding on March 14, 2003, was 5,848,652.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2003 Proxy Statement for the Registrant's Annual Meeting of Shareholders, to be filed with the Securities and Exchange Commission within 120 days after the end of the year covered by this Form 10-K, are incorporated by reference in Part III, Items 10, 11, 12 and 13 of this Form 10-K.

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BNP RESIDENTIAL PROPERTIES, INC.
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PART I

ITEM 1. BUSINESS

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 communities. We currently manage 28 multi-family communities containing 6,920 units. Of these, we own 19 apartment communities containing 4,571 units. Third parties own the remaining 9 communities, containing 2,349 units, and we manage them on a contract basis. In addition to our apartment communities, we own 41 restaurant properties that we lease to a third party under a master lease on a triple-net basis.

BNP Residential Properties, Inc. is structured as an UpREIT, or "umbrella partnership real estate investment trust." We are the sole general partner and own 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 common unitholders" or "minority interest." We currently own approximately 76% of the outstanding Operating Partnership common units.

As of March 14, 2003, we have 5,848,652 shares of common stock and 1,844,264 Operating Partnership minority units outstanding. We have approximately 1,450 shareholders of record. We estimate that there are approximately 4,800 beneficial owners of our common stock. Our shares are listed on the American Stock Exchange, trading under the symbol "BNP." We also have 454,545 shares of preferred stock outstanding, held by one investor.

We have approximately 180 employees, including management, accounting, legal, acquisitions, development, property management, leasing, maintenance and administrative personnel. Our executive offices are located at 301 South College Street, Suite 3850, Charlotte, North Carolina 28202-6024, and our telephone number is 704/944-0100.

In addition to this Annual Report, we file quarterly and special reports, proxy statements and other information with the SEC. All documents that we file with the SEC are available free of charge on our corporate website, which is www.bnp-residential.com. You may also read and copy any document that we file at the public reference facilities of the SEC at 450 Fifth Street NW, Washington, D.C. 20549. Please call the SEC at (800) SEC-0330 for further information about the public reference facilities. These documents also may be accessed through the SEC's electronic data gathering, analysis and retrieval system ("EDGAR") via electronic means, including the SEC's home page on the Internet (http://www.sec.gov). In addition, since some of our securities are listed on the American Stock Exchange, you can read our SEC filings at the offices of the American Stock Exchange, 86 Trinity Place, New York, New York 10006.

History and Development of BNP Residential Properties, Inc.

The company was originally incorporated in the state of Delaware in 1987. Beginning in 1987, we elected to be taxed as a REIT under the Internal Revenue Code. As such, we generally are not, and will not be, subject to federal or state income taxes on net income. As a REIT, we are subject to a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% of our REIT taxable income as dividends.

In 1987, we purchased 47 existing restaurant properties located in

North Carolina and Virginia for an aggregate purchase price of $43.2 million. From 1987 through 1992, our assets primarily consisted of these 47 restaurant properties. During this period we operated as an externally administered and externally managed REIT. We leased the restaurants to Boddie-Noell Enterprises, Inc. ("Enterprises"), a Hardee's franchisee, under a master lease on a triple-net basis. A master lease is a single lease that covers multiple

properties, while a triple-net lease is one where the lessee pays all operating expenses, maintenance, property insurance and real estate taxes.

In 1993, we began to change our focus from restaurant properties to apartment communities, with the objective of increasing funds from operations and enhancing shareholder value. During 1993 through 1996, we acquired five apartment communities. Four of these apartment communities are located in North Carolina, and one is located in Virginia. In 1994 we acquired BT Venture Corporation, an integrated real estate management, development and acquisition company, and began operating as a self-administered and self-managed REIT.

In 1997, we reincorporated in the state of Maryland and reorganized to our present UpREIT structure. Through our UpREIT structure, we can acquire properties in exchange for Operating Partnership units and trigger no immediate tax obligation for certain sellers. We believe that our conversion to an UpREIT enables us to acquire properties not otherwise available or at lower prices because of the tax advantages to certain property sellers of receiving limited partnership interests instead of cash as consideration. Minority unitholders will generally be able to redeem their units for cash or, at our option as general partner, for shares of common stock of the company on a one-for-one basis. Distributions of cash from the Operating Partnership are allocated between the REIT and the minority unitholders based on their respective unit ownership.

In December 1997, we completed a common stock offering and issued 2.7 million shares of common stock. We used proceeds of this offering to retire long-term debt. This common stock offering almost doubled the number of the company's common shares outstanding.

During 1997 and 1998, we acquired nine apartment communities, located in North Carolina, by issuing Operating Partnership units. In January 1999, we acquired an apartment community, located in North Carolina, in a direct purchase by paying cash and assuming long-term debt. In late December 2000, we acquired one additional apartment community, located in North Carolina, in a direct purchase. We combined this community with our Oak Hollow Apartments, and operate the combined properties as one community.

Restaurant sales and restaurant rental income have been declining since 1992, reflecting the increased competition and widespread price discounting in the fast food industry. In August 1997, CKE Restaurants, Inc. purchased Hardee's Food Systems, Inc., the restaurant franchisor. CKE operates, franchises, or owns interests in approximately 3,400 restaurants, including Hardee's and Carl's Jr. restaurants. While the rate of decline in restaurant sales has slowed in recent years, we have not seen improvement in restaurant sales to date. During 1999 through 2001, we sold five restaurants to Enterprises, the lessee, under an agreement that allows Enterprises to close up to seven restaurants and buy them back for no less than net carrying value.

In April 2000, we changed the name of the company to BNP Residential Properties, Inc. We believe the new name more clearly reflects our business activities and eliminates the confusion that existed because of the similarity of our former name to that of Boddie-Noell Enterprises.

During the fourth quarter of 2001, we expanded our third-party management activities by entering into contracts to manage selected multi-family communities.

In December 2001, our Board of Directors authorized the issuance of up to 454,545 shares of Series B Cumulative Convertible Preferred Stock, and we issued 227,273 shares of this preferred stock for proceeds of $2.5 million.

Recent Developments

Operating results for 2002 were disappointing. The same factors we cited in 2001 as having a negative impact on apartment operations continued and, in fact, intensified in 2002. While construction of

new apartment communities appears to have slowed somewhat, we continue to feel the impact of overbuilding of apartments in our markets. Compounding the oversupply issue is weak demand caused by the weak economy and extremely low interest rates. The weak economy has resulted in significant job losses, while low interest rates have made home ownership a more viable option as compared to apartment rental. While the underlying reasons why a weak economy and low interest rates impact apartment demand are quite different, both result in weakened demand for apartments. As a result, we saw lower occupancy and lower rental rates in 2002.

On a more positive note, we have continued to add to and improve our portfolio of apartment properties. During 2002, we acquired three apartment properties. Subsequent to year end, we purchased one additional apartment property.

In September 2002, we issued 227,272 shares of our Series B preferred stock for proceeds of $2.5 million.

Business Strategy

Our principal investment objectives are to provide our shareholders with current income and to increase the value of the company's common stock. We focus on increasing long-term growth in funds from operations and funds available for distribution per share, and on increasing the value of our portfolio through effective management, growth, financing and investment strategies. We expect to implement our strategies primarily through the acquisition, operation, leasing and management of apartment communities.

We seek to acquire apartment properties in areas within the southeastern United States exhibiting substantial economic growth and an expanding job base in which we can establish a significant market presence in the apartment community marketplace. Through our UpREIT structure, we have the ability to acquire apartment communities by issuing Operating Partnership units in tax-deferred exchanges with owners of such properties. We expect that we will finance future acquisitions of apartment communities principally with Operating Partnership units as well as loans and funds from additional offerings of common stock, preferred stock or joint venture arrangements.

We will selectively consider opportunities to develop new apartment communities, to add additional units to existing communities, and to acquire and rehabilitate older apartment communities. Members of our management team have directed over $115 million of development or redevelopment projects, including 13 apartment communities containing over 2,500 apartment units. This development and redevelopment experience will enable us to build additional apartment communities and to rehabilitate existing communities when economic conditions and available capital make such opportunities attractive.

Our residents are typically mid- to high-end "residents by necessity"--individuals or families with moderate to high incomes that live in apartments by necessity. They include retirees, young professionals, manager-level white-collar workers, medical personnel, teachers, members of the military and young families.

We strongly emphasize on-site property management. We seek opportunities and have developed internal programs to increase average occupancy rates, reduce resident turnover, raise rents and control costs. On-site community managers report directly to regional managers who are locally based. This flat organization provides for efficient staffing levels, reduces overhead expenses, and enables us to respond to the needs of residents and on-site employees. In an effort to reduce long-term operating costs, we regularly review each apartment community and promptly attend to maintenance and recurring capital needs. Our employees supervise all renovation and repair activities, which are generally completed by outside contractors.

We continue to seek additional sources of revenue at our existing apartment communities. These include water submetering and marketing of cable television, high-speed Internet service and telephone services.

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ITEM 2. PROPERTIES

Apartment Communities

Through the Operating Partnership, we own and operate 19 apartment communities consisting of 4,571 apartment units (including one community of 144 apartment units that we acquired in March 2003). For the fourth quarter of 2002, our average economic occupancy rate was 92.0%, and average monthly revenue per occupied unit was $728. The average age of the apartment communities is approximately 11 years. Our apartment communities are generally wood framed, two and three story buildings, with exterior entrances, individually metered gas and electric service, submetered water service, and individual heating and cooling systems.

Our apartment units are comprised of 36% one-bedroom units, 57% two-bedroom units, and 7% three-bedroom units. The units average 988 square feet in area and are well equipped with modern appliances and other conveniences. Our communities generally include swimming pools, tennis courts and clubrooms, and most have exercise facilities. The communities are held subject to loans, discussed in the notes to the financial statements.

The table on page 8 summarizes information about each of our apartment communities.

Restaurant Properties

We lease the restaurant properties on a triple-net basis to Enterprises under a master lease. The master lease, as amended in 1995, has a primary term expiring in December 2007, but grants Enterprises three five-year renewal options. Enterprises pays annual rent equal to the greater of the specified minimum rent or 9.875% of food sales from the restaurants. Under certain conditions, and subject to our approval, Enterprises has the right to substitute another restaurant property for a property covered by the lease. Assuming renewal of the lease, after December 31, 2007, Enterprises has the right to terminate the lease on up to five restaurant properties per year by offering to purchase them under specified terms. In addition, we entered into a separate agreement that allows Enterprises to purchase, under specified terms, up to seven restaurant properties deemed non-economic for no less than net carrying value.

The original lease was for 47 restaurant properties. Since 1999, we have sold six restaurants deemed non-economic to Enterprises. After the sale of the sixth such property in February 2003, the minimum rent on the remaining 41 restaurants is approximately $3.9 million per year.

The average acquisition cost of the original 47 restaurant properties was approximately $920,000 per property. The net carrying value of the 42 restaurant properties held at December 31, 2002, was $28.1 million (an average of $668,000 per property). The net carrying value of the restaurant we sold in February 2003 was approximately $588,000.

The restaurant properties are operated by Enterprises, which is responsible for all aspects of the operation, maintenance and upkeep of the properties. In addition, Enterprises is responsible for the cost of any improvement, expansion, remodeling or replacement required to keep the properties competitive or in conformity with applicable codes and standards.

Forty of the restaurant properties are operated as Hardee's restaurants pursuant to franchise agreements with Hardee's Food Systems, Inc. During 2002, one property was converted from a Hardee's to a BBQ and Ribs. Enterprises paid for the entire cost of the conversion, approximately $500,000. There is no applicable franchise agreement for the converted restaurant, as Enterprises owns the BBQ and Ribs concept.

Each of the restaurant properties consists of a one-story brick, stucco or wood building that embodies a contemporary style with substantial plate glass areas. The buildings average 3,400 square feet

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and are located on sites averaging 1.2 acres. The buildings are suitable for conversion to a number of uses, but the exteriors would have to be substantially modified prior to their use as restaurants of another concept or for non-restaurant applications.

The locations of our restaurant properties are listed on page 9 of this Annual Report.

Property Insurance

We carry insurance coverage on our properties of types and in amounts that we believe are in line with coverage customarily obtained by owners of similar properties. In addition, properties that we manage but do not own are covered by insurance policies under which we are a named insured. Our restaurant properties are subject to an indemnification agreement whereby Enterprises, the lessee, is responsible for all claims, including those relating to environmental matters, arising from a restaurant property. Enterprises is required to provide insurance, which identifies the company as a named insured, on each restaurant property.

We believe all of our properties are adequately insured, including insurance for acts of terrorism at all of our apartment properties. There are types of losses, however, such as from wars or catastrophic acts of nature, for which we cannot obtain insurance at all or at a reasonable cost. In the event of an uninsured loss or a loss in excess of our insurance limits, we could lose both the revenues generated from the affected property and the capital we have invested in the affected property. It is possible, depending on the specific circumstances of the affected property, that we could be liable for any mortgage indebtedness or other obligations related to the property. Any such loss could materially and adversely affect our business and financial condition and results of operations.

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INFORMATION ABOUT APARTMENT COMMUNITIES

Community	Location	No. of Apt. Units	Year Compl	Date Acquired	Total Acreage	Total Rentable Area (Sq. Ft.)	Apartme Unit Ty 1 BR	2 BR
Abbington Place	Greensboro, NC	360	1997	12/97	37.4	400,728	96	216
Allerton Place	Greensboro, NC	228	1998	9/98	19.2	241,842	54	126
Alta Harbour	Cornelius, NC	290	1994	9/02	33.6	254,356	128	126
Barrington Place	Charlotte, NC	348	1999	5/02	29.3	386,964	132	192
Brookford Place	Winston-Salem, NC	108	1998	5/02	6.3	103,392	36	72
Chason Ridge	Fayetteville, NC	252	1994	1/99	29.1	246,886	56	164
Harris Hill	Charlotte, NC	184	1988	12/94	18.4	167,920	67	117
Latitudes	Virginia Beach, VA	448	1989	10/94	24.9	358,700	269	159
Madison Hall	Clemmons, NC	128	1997	8/98	10.5	110,352	42	86
Oak Hollow	Cary, NC	221	1983	7/98	30.0	215,960	56	165
Oak Hollow Ph 2	Cary, NC	240	1986	12/00	26.8	220,840	160	80
Oakbrook	Charlotte, NC	162	1985	6/94	16.4	178,668	32	120
Paces Commons	Charlotte, NC	336	1988	6/93	24.8	322,046	154	142
Paces Village	Greensboro, NC	198	1988	4/96	15.5	167,886	88	110
Pepperstone	Greensboro, NC	108	1992	12/97	10.1	113,076	-	108
Savannah Place	Winston-Salem, NC	172	1991	12/97	15.4	182,196	44	128
Summerlyn Place	Burlington, NC	140	1998	9/98	12.1	156,756	48	84
Waterford Place	Greensboro, NC	240	1997	12/97	20.6	277,296	72	120
Woods Edge	Durham, NC	264	1985	6/98	32.4	268,620	66	198
Acquired March 2003:								
The Place	Greenville, SC	144	1985	3/03	10.1	158,264	40	104

Community	Average Economic Occupancy Percent(1) 2002	2001	2000	Average Monthly Revenue per Occupied Unit 2002	2001	2000

Abbington Place	93.2	95.9	96.3	$770	$785	$764
Allerton Place	92.6	95.4	95.3	769	773	778
Alta Harbour	89.4	-	-	801	-	-
Barrington Place	91.9	-	-	782	-	-
Brookford Place	93.4	-	-	690	-	-
Chason Ridge	96.1	96.0	96.2	717	682	659
Harris Hill	92.1	93.9	94.5	684	716	728
Latitudes	97.2	97.1	97.5	817	774	732
Madison Hall	93.9	92.9	94.4	598	605	612
Oak Hollow	89.3	89.2	96.6	650	732	722
Oak Hollow Ph 2	88.2	89.3	-	606	689	-
Oakbrook	90.6	92.3	95.6	763	783	783
Paces Commons	91.0	91.1	94.8	668	709	717
Paces Village	89.0	93.0	96.2	667	689	666
Pepperstone	95.4	97.3	96.5	681	695	681
Savannah Place	93.1	93.8	93.3	714	712	749
Summerlyn Place	94.5	93.6	96.1	802	803	798
Waterford Place	94.7	94.2	95.9	850	861	857
Woods Edge	92.3	95.3	97.2	754	776	751

Acquired March 2003:
The Place

RESTAURANT PROPERTIES LOCATIONS

Virginia
(28 properties)

Ashland
106 North Washington

Blackstone
North Main Street

Bluefield
701 South College Street

Chester
12401 Jefferson Davis Hwy.

Clarksville
916 Virginia Avenue

Clintwood
U.S. Highway 83

Dublin
208 College Avenue

Franklin
105 North Mechanic Street

Galax
  425 Main Street

Hopewell
  East City Point Road

Lebanon
  Route 1

Lynchburg
  8411 Timberlake Road
  2231 Langhorne road

Norfolk
  3908 Princess Anne Road

Orange
  200 Madison Road

Petersburg
  1865 Crater Road, South

Richmond
  921 Myers Street
  6850 Forest Hill Avenue
  7917 Midlothian Pike

Roanoke
  4407 Abenham Avenue SW
  3401 Hollins Road

Rocky Mount
  322 Tanyard Road, NE

Smithfield
  Smithfield Shopping Center

Staunton
  1201 Greenville Avenue

Verona
  160 East Route 612

Virginia Beach
  4261 Holland Road
  1951 Lynnhaven Parkway

Wise
  US Highway 23, Business

North Carolina
(14 properties)

Burlington
  2712 Alamance Road

Denver
  Route 1

Eden
  202 West Kings Highway

Fayetteville
  3505 Ramsey Street
  360 North Eastern Blvd.

Gastonia
  816 East Franklin Street (1)

Hillsborough
  380 S. Churton Street

Kinston
  200 West Vernon Street
  1404 Richlands Street

Newton
  South Ashe & North "D"

Siler City
  Chatham Shopping Center

Spring Lake
  400 South Main Street

Thomasville
  1116 East Main Street
  Randolph Street

(1) sold February 2003

ITEM 3. LEGAL PROCEEDINGS

We are a party to a variety of legal proceedings arising in the ordinary course of business. We do not expect any of these matters, individually or in aggregate, to have a material adverse impact on the company.

In the event a claim was successful, we believe that we are adequately covered by insurance and indemnification agreements. We have insurance coverage on each of our apartment communities. Our restaurant properties are subject to an indemnification agreement whereby Enterprises, the lessee, is responsible for all claims arising from a restaurant property. In addition, Enterprises is required to provide insurance, which identifies the company as a named insured, on each restaurant property. Each apartment property that we manage but do not own is covered by an insurance policy under which we are a named insured.

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2002.

ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT

We have set forth below a listing and brief biography of each of the executive officers of the company.

Name	Age	Position	Office
D. Scott Wilkerson	45	Director, President and Chief Executive Officer	Octob
Philip S. Payne	51	Director, Executive Vice President, Treasurer and Chief Financial Officer	Octob
Eric S. Rohm	33	Vice President, General Counsel	Decem
Pamela B. Bruno	49	Vice President, Controller and Chief Accounting Officer	Octob
Douglas E. Anderson	55	Vice President, Secretary	April

D. Scott Wilkerson--Director, President and Chief Executive Officer. Mr. Wilkerson joined BT Venture Corporation in 1987 and served in various officer level positions, including Vice President of Administration and Finance and Vice President for Acquisitions and Development, before becoming President of BT Venture in January 1994. He was named our Chief Executive Officer in April 1995 and a Director in December 1997. From 1980 to 1986, Mr. Wilkerson was with Arthur Andersen LLP, in Charlotte, North Carolina, serving as tax manager from 1985 to 1986. His specialization was in the representation of real estate syndicators, developers and management companies. Mr. Wilkerson received a BS degree in accounting from the University of North Carolina at Charlotte in 1980. He is a licensed certified public accountant and licensed real estate broker. He serves on the boards of directors of the National Multi Housing Council and the Apartment Association of North Carolina, and he is a past president of the Charlotte Apartment Association. He is active in various professional, civic and charitable activities.

Philip S. Payne--Director, Executive Vice President, Treasurer and Chief Financial Officer. Mr. Payne joined BT Venture Corporation in 1990 as Vice President of Capital Market Activities and became Executive Vice President and Chief Financial Officer of BT Venture in January 1993. He was named our Treasurer in April 1995 and a Director in December 1997. From 1987 to 1990, he was a principal in Payne Knowles Investment Group, a financial planning firm. From 1983 to 1987, he was a registered representative with Legg Mason Wood Walker. From 1978 to 1983, Mr. Payne practiced law, and he currently maintains his license to practice law in Virginia. He received a BS degree from the College of

William and Mary in 1973 and a JD degree in 1978 from the same institution. He serves on the board of directors of the National Multi Housing Council and is a member of the Urban Land Institute.

Eric S. Rohm--Vice President and General Counsel. Mr. Rohm joined the company in December 2002 as Vice President and General Counsel. Prior to joining the company, Mr. Rohm was a partner in the Real Estate Department of Kennedy Covington Lobdell & Hickman, LLP in Charlotte, North Carolina, where he practiced law from 1994 to 2002. Mr. Rohm received an AB degree in government from Georgetown University in 1991, and his JD degree from The Ohio State University College of Law in 1994. Mr. Rohm is licensed to practice law in the State of North Carolina, and is a member of the North Carolina State Bar, the American Bar Association and the North Carolina Bar Association.

Pamela B. Bruno--Vice President, Controller and Chief Accounting Officer. Ms. Bruno joined BT Venture Corporation in 1993 as Controller and became our Vice President and Chief Accounting Officer in October 1994. From 1984 to 1993, Ms. Bruno was with Ernst & Young LLP, in Charlotte, North

Carolina, and Anchorage, Alaska, serving as audit manager from 1987 through 1993. She received a BS degree in accounting from the University of North Carolina at Charlotte in 1984. She is a licensed certified public accountant, and is a member of the North Carolina Association of Certified Public Accountants.

Douglas E. Anderson--Vice President and Secretary. Mr. Anderson has served as Vice President and Secretary since our inception in 1987. He has been with Enterprises since 1977 and is currently a director, executive vice president and secretary of Enterprises. Mr. Anderson is also president of BNE Land and Development Company, the real estate development division of Enterprises. He serves as a director of Wachovia Bank of Rocky Mount, North Carolina. In addition, he serves on the Board of Visitors of the Lineberger Comprehensive Cancer Center in Chapel Hill, North Carolina. He received a BS degree in finance and accounting from the University of North Carolina at Chapel Hill in 1970.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market Information and Dividends

Our common stock is traded on the American Stock Exchange under the symbol "BNP." There were approximately 1,450 common shareholders of record and one preferred shareholder on March 14, 2003. The table below shows, for the periods indicated, the range of high, low, and closing sale prices of our common stock as reported by the American Stock Exchange and the dividends paid per share. As of March 14, 2003, the closing price of the company's common stock was $9.24 per share.

	Stock Price			Dividends Paid
	High	Low	Close	Per Share
2002				
Fourth quarter	$10.70	$9.40	$10.15	$0.31
Third quarter	12.65	9.19	9.80	0.31
Second quarter	13.00	11.30	12.60	0.31
First quarter	11.80	10.31	11.42	0.31
2001				
Fourth quarter	$10.88	$9.75	$10.31	$0.31
Third quarter	11.30	9.15	10.00	0.31
Second quarter	10.65	8.75	10.02	0.31
First quarter	9.95	7.75	9.10	0.31

We have paid regular quarterly dividends to holders of our common stock since our inception, and we intend to continue to do so. We anticipate that we will pay all dividends from current funds from operations. We expect distributions to substantially exceed the 90% annual distribution requirement for a REIT.

We have a dividend reinvestment plan that is available to all shareholders of record. Under this plan, as amended in November 2002, the plan administrator, Wachovia Bank, N. A., reinvests dividends on behalf of plan participants in our common stock. Wachovia will either issue new shares or purchase shares on the open market, at our direction. In addition, shareholders who participate in the plan may elect to make direct cash investments or supplement their reinvestment program with additional cash investments of any amount from $25 to $25,000 per quarter. Participants do not pay any commissions on stock purchased under the plan.

Equity Compensation Plan

We have reserved 570,000 shares of the company's common stock for issuance under our employee Stock Option and Incentive Plan. Options have been granted to employees at prices equal to the fair market value of the stock on the dates the options were granted or repriced. Options are generally exercisable in four annual installments beginning one year after the date of grant, and expire ten years after the date of grant.

The following table provides summary information about securities to be issued under our equity compensation plan. More detailed information is provided in the notes to our financial statements included in this Annual Report.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of se remaining a for future under eq compensatio
Equity compensation plans approved by security holders	477,500	$12.12	
Equity compensation plans not approved by security holders	-	-	
Total	477,500	$12.12	

Sales of Unregistered Securities

In September 2002, we issued 227,272 shares of our Series B Preferred Stock to a single investor. Previously, in December 2001, we issued 227,273 shares of our Series B Preferred Stock to the same investor. These shares were issued pursuant to the exemption from the registration requirements of the Securities Act of 1933 set forth in Section 4(2) of the Act. The investor will have the right to convert each Series B share into one share of the company's common stock after three years or in certain circumstances, such as a change of control or the company's calling the Series B stock for redemption. The purchaser was an accredited investor, and offers were not accompanied by any form of general solicitation.

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ITEM 6. SELECTED FINANCIAL DATA

We present below selected financial information. We encourage you to read the financial statements and the notes accompanying the financial statements in this Annual Report. This information is not intended to be a replacement for the financial statements.

This financial information includes all apartment communities and restaurant properties that we owned.

	Year ended December 31			
	2002	2001	2000	1999
	(in thousands, except per share and property data			
Operating data: (1)				
Revenue:				
Apartment rental income	$ 32,890	$ 30,867	$ 29,269	$ 28,608
Restaurant rental income	4,021	4,053	4,162	4,339
Equity and other income	1,253	1,342	427	510
Total revenue	38,164	36,262	33,858	33,457
Expenses:				
Depreciation	8,794	7,828	7,156	6,956
Amortization (1)	256	596	579	569
Apartment operations	12,682	11,182	9,766	9,395
Administrative costs	3,358	2,956	2,391	2,380
Costs of terminated equity transaction	-	-	237	-
Interest	11,452	11,100	11,151	10,703
Total expenses	36,542	33,663	31,280	30,003
Income before minority interest of Unitholders	1,622	2,599	2,578	3,454
Minority interest in Operating Partnership	300	597	595	728
Income before extraordinary item	$ 1,321	$ 2,002	$ 1,983	$ 2,726
Net income	$ 1,248	$ 1,902	$ 1,983	$ 2,726
Income available to common shareholders	$ 925	$ 1,900	$ 1,983	$ 2,726
Basic earnings per common share	$ 0.16	$ 0.33	$ 0.35	$ 0.46
Diluted earnings per common share	$ 0.16	$ 0.33	$ 0.35	$ 0.46
Dividends per common share	$ 1.24	$ 1.24	$ 1.24	$ 1.24
Balance Sheet data:				
Real estate assets (before accumulated depreciation)				
Apartment communities	$275,713	$221,589	$217,818	$203,365
Restaurant properties	39,159	39,159	39,702	40,545
Real estate assets, net	265,423	219,997	224,705	217,984
Total assets	271,723	225,385	230,691	224,270

Total debt	211,585	162,330	163,612	150,883
Minority interest	17,947	18,174	19,737	21,317
Shareholders' equity	39,271	42,034	44,548	49,896

	Year ended December 31			
	2002	2001	2000	1999
	(in thousands, except per share and property data			
Apartment Property data:				
Apartment communities owned at year end	18	15	15	15
Apartment units owned at year end	4,427	3,681	3,680	3,440
Average apartment economic occupancy	92.8%	93.9%	95.9%	95.1%
Average monthly revenue per occupied unit	$ 733	$ 744	$ 737	$ 729
Other data:				
Earnings before interest, taxes, depreciation and amortization (2)	$ 22,124	$ 22,123	$ 21,463	$ 21,682
Funds from operations (2)	10,093	10,831	10,139	10,816
Funds available for distribution (2)	8,865	9,696	9,243	9,868
Net cash provided by (used in):				
Operating activities	$ 9,984	$ 10,729	$ 10,854	$ 10,919
Investing activities	(32,535)	(2,401)	(13,407)	111
Financing activities	22,018	(7,966)	3,177	(11,089)
Weighted average number of common shares outstanding	5,787	5,717	5,708	5,973
Weighted average number of Operating Partnership minority units outstanding	1,786	1,706	1,711	1,601

(1) We adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002. Under the new rules, the intangible related to our 1994 acquisition of management operations, is no longer amortized after December 31, 2001. Amortization expense related to this intangible was approximately $406,000 per year in 1998 through 2001.

(2) Earnings before interest, taxes, depreciation and amortization, funds from operations, and funds available for distribution amounts reflect measurements for the Operating Partnership (before deduction for minority interest).

Earnings before interest, taxes, depreciation and amortization is frequently referred to as "EBITDA." This measurement is derived directly from amounts included in the Statement of Operations. We consider EBITDA to be a useful measurement of operations performance before the impact of financial structure and significant non-cash charges.

Funds from operations is frequently referred to as "FFO." FFO 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 (or losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures."

Funds available for distribution is frequently referred to as "FAD." We calculate FAD 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. Together with net income and cash flows, FFO and FAD 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. FFO and FAD 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 the company's 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. FFO and FAD do not represent cash flows from operating, investing or financing activities as defined by generally accepted accounting principles. Further, FFO and FAD as disclosed by other REITs might not be comparable to our calculation of FFO or FAD.

We calculated EBITDA as follows (all amounts in thousands):

	Year ended December 31				
	2002	2001	2000	1999	
Income before minority interest and extraordinary item	$ 1,622	$ 2,599	$ 2,578	$ 3,454	$
Interest	11,452	11,100	11,151	10,703	
Depreciation	8,794	7,828	7,156	6,956	
Amortization	256	596	579	569	
Earnings before interest, taxes, depreciation and amortization	$ 22,124	$ 22,123	$ 21,463	$ 21,682	

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For a reconciliation of FFO and FAD to net income before minority interest and extraordinary item, see "Management's Discussion and Analysis of Financial Condition and Results of Operations - Funds From Operations."

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report 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 revenues from our third-party apartment property management activities could decline, or we could incur unexpected costs in performing these activities;

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 new information, future events or otherwise.

You should read this discussion in conjunction with the financial statements and notes thereto included in this Annual Report.

Results of Operations

2002 compared to 2001

Revenues

Total revenue in 2002 was $38.2 million, an increase of 5.2% compared to 2001. Apartment related income (apartment rental income plus income from apartment management and investment activities) accounted for 89.5% of our total revenue in 2002 compared to 88.8% in 2001.

Apartment rental income in 2002 totaled $32.9 million, an increase of 6.6%, or $2.0 million, compared to 2001. This increase is attributable to $3.0 million rental income at three apartment communities that we acquired during 2002, which offsets declines at other communities. On a same units basis (for the 3,681 units that we owned throughout all of both 2001 and 2002), apartment rental income declined by 3.0% in 2002 compared to 2001.

On a same units basis, average economic occupancy was 92.8% in 2002 compared to 93.9% in 2001, and average monthly revenue per occupied apartment was $730 compared to $744 in 2001. In 2002, average economic occupancy for all apartments (including Barrington Place, Brookford Place and Alta Harbour, which we acquired during 2002) was 92.8%, and average revenue per occupied apartment was $733.

The same factors we cited in 2001 as having a negative effect on our apartment markets, an oversupply of apartments, significant job losses and surprisingly strong sales of modestly priced homes, continued and, in fact, intensified in 2002. Significant new apartment construction over the past few years has resulted in an oversupply of apartments in virtually all of our markets. While construction activity slowed in 2002, the number of apartments currently available in most markets clearly exceeds demand. This has led to intense competition for residents with discounts, specials, concessions and free rent being the rule, rather than the exception. For the first time in many years we saw true erosion in both rental rates and occupancy in our apartment markets. Until the excess supply of apartments is absorbed, we expect the competition for residents will remain intense.

Compounding the impact of oversupply, falling interest rates and a general economic slowdown have resulted in reduced demand for apartments. Low interest rates have made single-family home

ownership far more affordable. On the other hand, the economic slowdown has led to significant job losses in our markets. While the underlying explanation as to why declining interest rates or an economic slowdown impact apartment operations is quite different, both have the effect of reducing the pool of potential apartment residents, which in turn puts further negative pressure on occupancy and rental rates.

While we remain confident in the long-term prospects for our apartment properties and our markets, we do not expect material improvement in apartment operations until the economy strengthens sufficiently to promote job growth and increased demand for apartments. Exactly when this will occur is outside of our control and beyond our ability to predict. In the meantime, we cannot allow short-term market conditions to distract us from our long-term plans and objectives.

We have assembled a portfolio of high-quality, well-maintained, well-located, middle market apartment communities. Our goal is to maximize the performance of our apartment properties. We believe the best course of action for us at this time is to work diligently to improve occupancy and to continue to maintain and improve our apartment properties to ensure that they are as competitive as possible.

Restaurant rental income in 2002 totaled $4.0 million, a decline of 0.8% compared to 2001. The decrease in restaurant rental income is due to the sale of one restaurant property in April 2001. Restaurant rental income during both 2002 and 2001 was the minimum rent specified in the lease agreement. Under our master lease with Enterprises, restaurant rental income payments are the greater of specified minimum rent or 9.875% of food sales. Minimum rent is set at approximately $8,000 per month, or $96,000 per year, per restaurant property. Following the sale of one additional restaurant in February 2003, minimum rent is currently set at $327,000 per month.

"Same store" sales (for the 42 restaurants that were open throughout all of both 2001 and 2002) declined by 2.6% in 2002 compared to 2001. Sales at these restaurants would have to increase by approximately 14% before we would receive rent exceeding the minimum rent. We do not expect restaurant rental income to exceed the minimum in 2003.

Management fee income in 2002 totaled $1.1 million, a significant increase compared to $0.5 million in 2001. This increase is attributable to a significant increase in the number of managed properties in the fourth quarter of 2001 and early 2002. We expect this comparison to decline due to our acquisition of Barrington Place and Brookford Place (which we previously fee-managed) in May 2002 as well as termination of contracts for management of several smaller properties.

Interest and other income totaled $158,000 in 2002 compared to $813,000 in 2001. This comparison reflects the impact of non-routine income totaling approximately $560,000 in 2001, as well as a decline in interest income during 2002.

Expenses

Total expenses, including non-cash charges for depreciation and amortization, in 2002 were $36.5 million, an increase of $2.9 million, or 8.6%, compared to 2001.

Apartment operations expense totaled $12.7 million in 2002, an increase of 13.4%, or $1.5 million, compared to 2001. This increase is primarily attributable to the addition of three apartment communities ($1.1 million) during 2002. On a same units basis, apartment operations expense increased by 3.7% in 2002 compared to 2001, reflecting the impact of higher costs for insurance ($350,000 increase in 2002 for these communities), along with higher costs associated with marketing and maintenance.

Apartment operations expense includes only direct costs of on-site operations. Apartment operations expense in 2002 represented 38.6% of related apartment rental income, compared to 36.2% in 2001.

There is a tendency to respond to markets like those we are currently facing by indiscriminately slashing expenses. We will certainly strive to avoid unnecessary expenditures, but will not sacrifice the long-term potential of our apartment properties by delaying or deferring needed repairs, maintenance or capital improvements in order to achieve more favorable short-term results. In fact, maximizing the performance of our apartment properties in the current market environment may well require spending more money on marketing and maintenance than might be necessary in more favorable markets. While we do not intend to squander money on unnecessary expenses, we believe that competitive markets, such as the one we find ourselves in today, may in fact require increased expenses.

We incur no operating expenses for restaurant properties, because the triple-net lease arrangement requires the lessee to pay virtually all the costs and expenses associated with the restaurant properties.

Apartment administration expense (the costs associated with oversight, accounting and support of our apartment management activities for both owned and third-party properties) totaled $1.4 million in 2002, an increase of 23.3% compared to 2001. This increase is primarily attributable to a significant increase in the number of managed properties in the fourth quarter of 2001 and early 2002.

Corporate administration expense totaled $2.0 million in 2002, an increase of 7.8% compared to 2001. This increase is primarily attributable to executive bonuses paid in the fourth quarter of 2002 along with the cost of an executive compensation study conducted during 2002.

Depreciation expense totaled $8.8 million in 2002, an increase of 12.3%, or $1.0 million, compared to 2001. This increase is primarily attributable to the addition of three apartment communities ($634,000 in 2002), as well as 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 assigned at acquisition.

Amortization expense totaled $256,000 in 2002, compared to $596,000 in 2001. Effective January 1, 2002, in accordance with current accounting guidance, we no longer amortize the intangible related to our 1994 acquisition of management operations. Amortization expense for this asset was approximately $406,000 each year in 2001 and 2000.

Interest expense totaled $11.5 million in 2002, an increase of 3.2% compared to 2001. This increase reflects the impact of approximately $49 million in new debt related to apartment acquisitions in the second and third quarters of 2002, offset by the effect of lower interest rates on our lines of credit and the impact of refinancing two fixed-rate loans at lower rates during 2001 and early 2002. Variable interest rates have declined approximately 0.5% since December 2001. Overall, weighted average interest rates were 6.2% in 2002, compared to 6.8% in 2001.

In conjunction with the refinancing of long-term debt in the first quarter of 2002, we wrote off unamortized loan costs of $95,000. We have reflected this write-off, net of minority interests' share, with a charge of $73,000 as an extraordinary item in the financial statements.

In late December 2001, we issued 227,273 shares of Series B Cumulative Convertible Preferred Stock. In September 2002, we issued an additional 227,272 shares of this preferred stock. Because preferred shareholders have priority over common shareholders for receipt of dividends, we deduct the amount of net income that will be paid to preferred shareholders in calculating net income available to common shareholders. The cumulative preferred dividend totaled approximately $323,000 for 2002, compared to $3,000 for four days in the fourth quarter of 2001. The dividend on the Series B shares is $1.10 per year per share. The total cumulative preferred dividend will increase to $500,000 for 2003 for the 454,545 shares currently outstanding.

Net income

Income available to common shareholders in 2002, after the cumulative preferred dividend, was $925,000, a decrease of 51.3% compared to 2001. Operating Partnership earnings before non-cash charges for depreciation, amortization and extraordinary item totaled $10.7 million, a 3.2% decrease compared to 2001. The minority interest in Operating Partnership earnings in 2002 was $300,000, a 49.7% decrease compared to 2001.

These comparisons reflect the favorable impact of lower interest rates and the effect of discontinuing amortization of the intangible related to management operations; offset by the effect of declines in revenues from apartment operations, and further impacted by the effect of non-routine and non-recurring revenues during 2001 and the cumulative preferred dividend in 2002.

Income available to common shareholders was $0.16 per share in 2002 compared to $0.33 in 2001.

2001 compared to 2000

Revenues

Total revenue in 2001 was $36.3 million, an increase of 7.1% compared to 2000. Apartment related income (apartment rental income plus income from apartment management and investment activities) accounted for 88.8% of our total revenue in 2001 compared to 87.7% in 2000.

Apartment rental income in 2001 was $30.9 million, an increase of 5.5%, or $1.6 million, compared to 2000. This increase is attributable to $1.8 million rental income at Oak Hollow Apartments Phase 2, which we acquired in December 2000. On a same units basis (for the 3,441 units that we owned throughout all of both years), apartment rental income declined by 0.5% in 2001 compared to 2000.

On a same units basis, average economic occupancy was 94.2% in 2001 compared to 95.9% in 2000, and average monthly revenue per occupied apartment was $748 compared to $737 in 2000. Average economic occupancy for all apartments (including Oak Hollow Apartments Phase 2, which we acquired in December 2000) was 93.9% in 2001 compared to 95.9% in 2000, and average monthly revenue per occupied apartment was $744 in 2001 compared to $737 in 2000.

With the exception of Virginia Beach, Virginia, our apartment markets weakened during 2001 compared to 2000. Slight increases in revenue per occupied apartment were insufficient to overcome the impact of declines in occupancy. The weakness in the markets was largely the result of overbuilding, compounded by the impact of declining interest rates and a general economic slowdown.

Restaurant rental income in 2001 was $4.1 million, a decrease of 2.6% compared to 2000. Restaurant rental income accounted for 11.2% of our total revenue in 2001 compared to 12.3% in 2000. The decrease in restaurant rental income is due to the sales of one restaurant property in April 2001 and one restaurant property in June 2000. Restaurant rental income during both 2001 and 2000 was the minimum rent specified in the lease agreement.

Effective January 1, 2001, we acquired the minority interest in BNP Management, Inc. (the "Management Company"). For 2001, we included the revenues from management services for three third-party owned properties 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 did not have a significant impact on our financial position, overall operating results or cash flows.

During the fourth quarter of 2001, we expanded our third-party management activities by entering into contracts to manage 12 multi-family communities. Management fee income totaled $529,000 in 2001, including $123,000 generated from new contracts during the fourth quarter. If the former Management

Company activities had been reflected on a consolidated basis in our 2000 financial statements, equity income as reported would have been replaced with management fee income of approximately $457,000 in 2000.

Interest and other income includes approximately $562,000 non-routine income in 2001. Recurring interest and other income was generally comparable to 2000 amounts. The non-routine income items in 2001 are as follows:

- $351,000 shared appreciation related to our participating loan agreement with The Villages of Chapel Hill Limited Partnership, discussed below;
- $70,000 fee income for arranging refinancing at The Villages of Chapel Hill and The Villages of Chapel Hill - Phase 5, two managed apartment properties; and
- $141,000 miscellaneous income, for the refund of 1997 and 1998 state franchise taxes.

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. We received an initial payment of $325,883 of the fixed portion in July 2001, which we reflected in the financial statements as other income. Required payment of the fixed portion is subject to cash flow from The Villages property, calculated every six months, as defined in the agreement. Interest on the outstanding fixed portion accrues at the greater of a prime rate or 8%, payable monthly. Because the timing of payment 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 recognize revenue as it is realized.

Expenses

Total expenses, including non-cash charges for depreciation and amortization, in 2001 were $33.7 million, an increase of 7.6% compared to 2000.

Apartment operations expense was $11.2 million in 2001, an increase of 14.5%, or $1.4 million, compared to 2000. This increase is attributable to the addition of one apartment community ($760,000 in 2001), along with the impact of higher costs for on-site compensation, property taxes and insurance, and property administration and turnover costs.

Apartment operations expense includes only direct costs of on-site operations. Apartment operations expense in 2001 represented 36.2% of related apartment rental income, compared to 33.4% in 2000. During the second half of 2001, we experienced a significant increase in redecoration and turnover expense at our apartment communities. Intense competition due to overbuilding, home purchases, and job losses due to the current economic slowdown all contributed to higher turnover of residents. As a result, we spent more in turnover and redecoration, as well as leasing and promotion expense, in an effort to attract and retain residents.

Apartment administration expense totaled $1.1 million in 2001, including approximately $86,000 in costs directly related to servicing third-party management contracts acquired during the fourth quarter of the year. If the activities of the Management Company had been reflected on a consolidated basis in our 2000 financial statements, apartment administration expense would have been approximately $910,000 in 2000. The increase in apartment administration expense in 2001 is attributable to the impact of the increase in the number of units under management, as well as increased property management supervisory compensation and travel expenditures.

Corporate administration expense totaled $1.8 million in 2001. If the activities of the Management Company had been reflected on a consolidated basis in our 2000 financial statements, corporate administration expense would have been approximately $1.7 million in 2000. The increase in corporate

administration expense in 2001 is attributable to increased executive and corporate office staff compensation.

Depreciation expense totaled $7.8 million in 2001, an increase of 9.4%, or $670,000, compared to 2000. This increase is attributable to the addition of one apartment community ($402,000 in 2001) along with the impact of additions and replacements at other apartment communities.

Amortization expense totaled $596,000 in 2001, essentially unchanged from 2000. These amounts for both 2001 and 2000 include $406,000 amortization of the intangible related to management operations.

Interest expense totaled $11.1 million in 2001, a decline of 0.5% compared to 2000. This decline is primarily attributable to the decline in interest rates during 2001. Overall, weighted average interest rates were 6.8% in 2001, compared to 7.3% in 2000.

In conjunction with a refinance of long-term debt in September 2001, 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.

In late December 2001, we issued 227,273 shares of Series B Cumulative Convertible Preferred Stock. The cumulative preferred dividend, for four days in the fourth quarter of 2001, totaled $2,740.

Net income

Income available to common shareholders in 2001 was $1.9 million, a decrease of 4.2% compared to 2000. Operating Partnership earnings before non-cash charges for depreciation, amortization, and extraordinary item totaled $11.0 million, a 6.9% increase compared to 2000. The minority interest in Operating Partnership earnings in 2001 was $597,000, a 0.4% increase compared to 2000.

Income available to common shareholders was $0.33 per share in 2001 compared to $0.35 in 2000.

Funds from Operations

Funds from operations and funds available for distribution are defined in footnote 2 on page 14. We calculated funds from operations as follows (all amounts in thousands):

	2002	2001	2000
Income before minority interest and extraordinary item	$ 1,622	$ 2,599	$ 2,578
Cumulative preferred dividend	(323)	(3)	-
Depreciation	8,794	7,828	7,156
Amortization of management intangible	-	406	406
Funds from operations - Operating Partnership	$ 10,093	$ 10,831	$ 10,139

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

	2002	2001	2000
Funds from operations - Operating Partnership	$10,093	$10,831	$10,139
Amortization of loan costs	256	189	173
Recurring capital expenditures	(1,484)	(1,324)	(1,070)
Funds available for distribution	$ 8,865	$ 9,696	$ 9,243

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):

	2002	2001	2000
Funds from operations - Operating Partnership	$10,093	$10,831	$10,139
Minority interest in funds from operations	(2,380)	(2,490)	(2,339)
Basic funds from operations available to common shareholders	$ 7,713	$ 8,341	$ 7,801

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

	2002	2001

Net cash provided by (used in)			
Operating activities	$ 9,984	$ 10,729	$
Investing activities	(32,535)	(2,401)	
Financing activities	22,018	(7,966)	
Dividends and distributions paid to			
Preferred shareholder	$ 200	$ -	$
Common shareholders	7,163	7,082	
Minority unitholders in Operating Partnership	2,171	2,116	
Scheduled debt principal payments	$ 417	$ 348	$
Non-recurring capital expenditures			
Acquisition improvements and replacements	860	936	
Apartment property additions and betterments	387	553	
Weighted average common shares outstanding	5,787	5,717	
Weighted average Operating Partnership minority units outstanding	1,786	1,706	

Funds from operations in 2002 (before deduction for minority interest) totaled $10.1 million, a decrease of 6.8% compared to 2001. Funds from operations in 2001 (before deduction for minority interest) totaled $10.8 million, an increase of 6.8% compared to $10.1 million in 2000. The increase in 2001 is primarily attributable to non-routine revenue, while operating results for the three years were essentially flat.

Funds available for distribution totaled $8.9 million in 2002, a decrease of 8.6% compared to 2001. Funds available for distribution totaled $9.7 million in 2001, an increase of 4.9% compared to $9.2 million in 2000. The variance in comparison of funds available for distribution and funds from operations reflects the impact of recurring capital expenditures for major capital maintenance costs at our older

communities. Recurring capital expenditures averaged $369 per apartment unit in 2002, $360 per apartment unit in 2001, and $311 per apartment unit in 2000.

Capital Resources and Liquidity

Capital Resources

We intend to pursue our growth strategy through the utilization of our flexible capital structure. This may include the issuance of Operating Partnership units, common stock and/or preferred stock, additional debt, and joint venture investments. We may use our lines of credit or fixed rate, long-term debt to acquire apartment communities.

Long-term Debt

As of December 31, 2002, all of our properties were encumbered by or served as collateral for debt. As of December 31, 2002, total long-term debt was $211.6 million, including $164.6 million of notes payable at fixed interest rates ranging from 5.93% to 8.55%, and $47.0 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding at December 31, 2002, was 6.1%, compared to 6.2% at December 31, 2001. This reduction is primarily due to declines in variable rates during 2002. At our current level of variable-rate debt, a 1% fluctuation in variable interest rates would increase or decrease our annual interest expense by approximately $475,000.

In December 2002, we modified and expanded our previously established revolving line of credit with a bank secured by Latitudes Apartments. We were able to increase this line based on the lender's estimate of the appreciated fair market value of the property. Our line of credit arrangements are now as follows:

- $25.9 million, secured by a deed of trust and assignment of rents of Latitudes Apartments, due November 2004. Interest-only payments on the outstanding balance are due monthly at a variable interest rate of 30-day LIBOR plus 1.75%. At December 31, 2002, the outstanding balance on this line was $18.1 million. As of March 14, 2003, the outstanding balance on this line was $19.7 million, with approximately $6.2 million available under this revolving line of credit.

- $18.0 million, secured by a deed of trust and assignment of rents of 41 restaurant properties, due January 2004. Interest-only payments on the outstanding balance are due monthly at a variable interest rate of 30-day LIBOR plus 1.80%. The available line of credit declined to $17.2 million effective January 2003, and we retired an additional $426,000 of this debt upon sale of a restaurant property in February 2003. At December 31, 2002, the outstanding balance on this line was $18.0 million. As of March 14, 2003, the outstanding balance on this line was $16.7 million, the current maximum amount.

In February 2002, we completed refinancing for Oakbrook Apartments, with a $7.9 million note payable with interest at 7.1% and maturity in February 2012. This deed of trust note replaced an existing 7.7% note with a balance of $6.1 million, with the balance of proceeds applied to reduce our Latitudes line of credit. Oakbrook was our second apartment community, acquired in June 1994 for an initial acquisition cost of $9.4 million.

In replacing the financing on Oakbrook Apartments, we were able to substantially increase the loan amount based on the lender's estimate of the appreciated fair market value of the property. We applied excess proceeds of this fixed rate loan to reduce the outstanding balance on our variable rate lines of credit.

We utilized long-term debt, along with draws on our lines of credit, to finance acquisitions of apartment communities in 2002 as follows:

- In September 2002, we acquired Alta Harbour Apartments for a total cost of approximately $19.2 million. We financed this acquisition with a $15.9 million fixed-rate note payable, secured by a deed of trust on the community, along with $2.5 million proceeds from issuance of preferred stock and draws on our line of credit secured by Latitudes Apartments.

- In May 2002, we acquired Barrington Place Apartments and Brookford Place Apartments for a total cost of approximately $32.2 million. We financed these acquisitions by assuming the $20.3 million balance of a fixed-rate deed of trust loan for Barrington Place, by issuing a $4.9 million fixed-rate deed of trust loan for Brookford Place, by issuing Operating Partnership units with an imputed value of approximately $1.8 million, and draws on our line of credit secured by Latitudes Apartments.

We also utilized our line of credit secured by Latitudes to fund capital improvements at our apartment communities.

A summary of scheduled principal payments on long-term debt is included in Item 7A, Quantitative and Qualitative Disclosures about Market Risk, and the notes to the financial statements in this Annual Report. Significant scheduled balloon payments include maturities of:

- our line of credit secured by deeds of trust and assignment of rents of 41 restaurants, due January 2004 ($18.0 million outstanding at December 31, 2002);
- our line of credit secured by a deed of trust and assignment of rents of Latitudes Apartments, due November 2004 (up to $25.9 million, $18.1 million outstanding at December 31, 2002);
- our deed of trust loan for Oak Hollow Apartments Phase 2, due December 2004 (up to $11.7 million for acquisition and renovation construction, $10.8 million outstanding at December 31, 2002); and
- our deed of trust loan for Harris Hill Apartments, due June 2005 ($5.7 million outstanding at December 31, 2002).

Capital Stock and Operating Partnership Units

At December 31, 2002, we had approximately 5.8 million common shares and approximately 455,000 preferred shares outstanding. In addition, there were approximately 1.8 million Operating Partnership common units.

In late December 2001, we issued 227,273 shares of Series B Cumulative Convertible Preferred Stock to a single investor for proceeds of $2.5 million. In September 2002, we issued an additional 227,272 shares of this preferred stock to the same investor for additional proceeds of $2.5 million. The preferred shares have a purchase price and liquidation preference of $11.00 per share, an initial dividend yield of 10% through December 2009, and may be converted to our common stock on a one-for-one basis after three years.

During 2002, we issued approximately 78,000 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan. We generally applied these proceeds to capital expenditures at apartment communities.

All of the Operating Partnership units held by minority interest owners were issued in 1997 through 2002 in conjunction with acquisitions of apartment communities. Holders of Operating Partnership units generally are able to redeem their units for cash or, at our option, for shares of our common stock on a one-for-one basis after one year from issuance.

Cash Flows and Liquidity

Net cash flows from operating activities were $10.0 million in 2002, $10.7 million in 2001, and $10.9 million in 2000. Investing and financing activities focused primarily on apartment acquisitions and capital expenditures at apartment communities, along with payments of dividends and distributions.

We paid dividends of $0.31 per share per quarter in each quarter of 2002, 2001 and 2000. Our payout ratio (the ratio of dividends plus distributions paid to Operating Partnership funds from operations) was 92.5% in 2002, 84.9% in 2001, and 90.5% in 2000. We intend to pay dividends quarterly, expect that these dividends will substantially exceed the 90% distribution requirement for REITs, and anticipate that all dividends will be paid from current funds from operations.

In January 2003, we announced we were reducing the quarterly dividend to $0.25 per share. Our decision to reduce the dividend should not be viewed as an indication that we are concerned about the long-term financial viability of the company, for we clearly generate sufficient cash flow to meet the day-to-day operating needs of the company and to pay a dividend. The question is, given current market conditions and the outlook for the near-term future, how large should the dividend be. While we are not philosophically opposed to paying dividends that temporarily exceed current cash flow after operating expenses, this would only occur when we were confident that we would see significant improvement in operations in a relatively short period of time. In view of our somewhat negative outlook for 2003, we came to the conclusion that prudence required a reduction in our dividend.

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 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 received approximately 10.5% of our revenue in 2002, 11.2% of our revenue in 2001, and 12.3% of our revenue in 2000, from rent received from Boddie-Noell Enterprises for the use of our restaurant properties. In addition, Enterprises is responsible for all of the costs associated with the maintenance and operations of these properties. Over time, we expect that restaurant rental income will continue to represent a decreasing percentage of our total revenue.

Under our current line of credit agreement, Enterprises has the right to purchase, under specified terms, one additional restaurant deemed "non-economic," for no less than net carrying value. If that were to happen, the annual minimum rent would be reduced by approximately $96,000. We would receive sale proceeds of the greater of net carrying value or fair value. As of December 31, 2002, the average net book value of the restaurant properties was approximately $688,000. As in the past, we would most likely apply sale proceeds to reduce outstanding debt on our line of credit.

Enterprises is a privately owned company with total assets exceeding $220 million and net equity exceeding $81 million. Its principal line of business is the operation of approximately 320 Hardee's restaurants. In addition to its Hardee's operations, Enterprises is the owner of Texas Steakhouse and Saloon, a casual dining concept with 28 restaurants. Enterprises also conducts extensive real estate investment and development activities through BNE Land and Development. These activities involve a full range of property types, including land, commercial, retail, office, apartment and single-family properties. We have had extensive discussions with management of Enterprises and have reviewed their financial statements, cash flow analysis, restaurant contribution analysis, sales trend analysis and forecasts. We believe that Enterprises will have sufficient liquidity and capital resources to meet its obligations under the master lease as well as its general corporate operating needs.

Critical Accounting Policies

Our significant accounting policies are identified and discussed in the notes to our financial statements included in this Annual Report. Those policies that may be of particular interest to readers of this Annual Report are further discussed below.

Capital expenditures and depreciation

In general, for acquired apartment properties, we compute depreciation using the straight-line method over composite estimated useful lives of the related assets, generally 40 years for buildings, 20 years for land improvements, 10 years for fixtures and equipment, and five years for floor coverings.

For the acquisitions of Barrington Place, Brookford Place and Alta Harbour Apartments in 2002, we performed detailed analyses of components of the real estate assets acquired. For these properties, we assigned estimated useful lives as follows: land improvements, 7-20 years; short-lived building components, 5-20 years; base building structure, 60 years; and fixtures, equipment and floor coverings, 5-10 years.

We generally complete and capitalize acquisition improvements (expenditures that have been identified at the time the property is acquired, and which are intended to position the property consistent with our physical standards) within one to two years of acquisition. We capitalize non-recurring expenditures for additions and betterments to buildings and land improvements. In addition, we generally capitalize recurring capital expenditures for exterior 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 retire replaced assets with a charge to depreciation for any remaining carrying value. 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.

Capital expenditures at our apartment communities during 2002 totaled approximately $2.7 million, including $0.9 million for acquisition improvements, $0.4 million for additions and betterments, and $1.5 million in recurring capital expenditures.

We expense ordinary repairs and maintenance costs at apartment communities. Repairs and maintenance at our apartment communities during 2002 totaled approximately $4.5 million, including $1.6 million in compensation of service staff and $2.9 million in payments for materials and contracted services.

Costs of repairs, maintenance, and capital replacements and improvements at restaurant properties are borne by the lessee.

Impairment of long-lived assets

In accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we periodically review our real estate assets to determine whether our carrying amount will be recovered from their undiscounted future operating cash flows. If the carrying value were to be greater than the undiscounted future operating cash flows, we would recognize an impairment loss to the extent the carrying amount is not recoverable. Our estimates of the undiscounted future operating cash flows expected to be generated are based on a number of assumptions that are subject to economic and market uncertainties, including, among others, demand for apartment units, competition for tenants, changes in market rental rates, and costs to operate each property. As these factors are difficult to predict and are subject to future events that may alter our assumptions, the undiscounted future operating cash flows that we estimate in our impairment analyses may not be achieved, and it is possible that we could be required to recognize impairment losses on our properties at some point in the future.

Revenue recognition

We record rental and other income monthly as it is earned. We record rental payments that we receive prior to the first of a given month as prepaid rent. We hold tenant security deposits in trust in bank accounts separate from operating cash (these amounts are included in other current assets on our balance sheet), and we record a corresponding liability for security deposits on our balance sheet

Inflation

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.

Environmental Matters

Phase I environmental studies performed on the apartment communities when we acquired each of them did not identify any problems that we believe would have a material adverse effect on our results of operations, liquidity or capital resources. Environmental transaction screens for each of the restaurant properties in 1995 did not indicate existence of any environmental problems that warranted further investigation. Enterprises has indemnified us under the master lease for environmental problems associated with the restaurant properties.

Recently Issued Accounting Standards

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections." Statement 145 will generally require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations, rather than as extraordinary items as previously required under Statement 4. We plan to adopt Statement 145 effective January 1, 2003. Upon adoption, the extraordinary items for loss on early extinguishment of debt that we have reported in 2002 and earlier will be reclassified to conform to Statement 145. While adoption of Statement 145 will have no impact on net income, it will reduce income before extraordinary items and eliminate extraordinary items as previously reported.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which changes the accounting for and disclosure of certain guarantees. Beginning with transactions entered into after December 31, 2002, certain guarantees must be recorded at fair value, which is different from prior practice, under which a liability was recorded only when a loss was probable and reasonably estimable. In general, the change applies to contracts or indemnification agreements that contingently require the company to make payments to a guaranteed third party based on changes in an underlying asset, liability, or an equity security of the guaranteed party. We plan to adopt this Interpretation effective January 1, 2003, and we do not expect this adoption to have a significant impact on our financial position or results of operations.

Additional Information

We provide the following information to analysts and other members of the financial community for use in their detailed analysis. This information has not been included in our Annual Report to Shareholders.

A summary of capital expenditures, in aggregate and per apartment unit, follows:

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	2002		2001		2000
	Total (000's)	Per unit	Total (000's)	Per unit	Total (000's)
Recurring capital expenditures:					
Floor coverings	$ 593	$148	$ 662	$180	$ 464
Appliances/HVAC	212	53	197	54	164
Exterior paint	182	45	-	-	-
Computer/support equipment	102	25	54	15	21
Other	396	98	411	112	420
	$1,484	$369	$1,324	$360	$1,070
Non-recurring capital expenditures:					
Acquisition improvements	$ 861		$ 936		$ 297
Additions and betterments	303		502		754
Computer/support equipment	84		50		-
	$1,248		$1,489		$1,052

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A summary of long-term debt as of December 31, 2002 and 2001 is included in the notes to the financial statements in this Annual Report. At December 31, 2002, total long-term debt was $211.6 million, including $164.6 million notes payable at fixed interest rates ranging from 5.93% to 8.55%, and $47.0 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 6.1% at December 31, 2002, and 6.2% at December 31, 2001. At our current level of variable-rate debt, a 1% change in variable interest rates would increase or decrease our annual interest expense by approximately $475,000.

The table below provides information about our long-term debt instruments and presents expected principal maturities and related weighted average interest rates on those instruments (all amounts in thousands):

	Expected maturity dates					
	2003	2004	2005	2006	2007	Later
Fixed rate notes	$ 865	$ 923	$6,419	$ 920	$48,804	$106,700

Average interest rate	6.96%	6.97%	8.31%	6.75%	6.96%	6.72%
Variable rate notes	1,075	45,879	-	-	-	-
Average interest rate	3.24%	3.22%				

We estimate the fair value of fixed rate and variable rate notes using discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements. The fair value of our notes payable at December 31, 2002, totaled approximately $219 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data are listed under Item 15(a) and filed as part of this Annual Report on the pages indicated.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The section under the heading "Election of Directors" of the Proxy Statement for Annual Meeting of Shareholders to be held May 28, 2003, (the "Proxy Statement") is incorporated herein by reference for information on directors of the company. See Item X in Part I of this Annual Report for information regarding executive officers of the company.

ITEM 11. EXECUTIVE COMPENSATION

The section under the heading "Election of Directors" entitled "Compensation of Directors" of the Proxy Statement and the section entitled "Executive Compensation" of the Proxy Statement are incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The section under the heading "Security Ownership of Certain Beneficial Owners and Management" of the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The section entitled "Certain Relationships and Related Transactions" of the Proxy Statement is incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our annual and periodic reports filed with the Securities and Exchange Commission is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures are further designed to ensure that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure. SEC rules require that we disclose the conclusions of the CEO and CFO of the company about the effectiveness of our disclosure controls and procedures.

The CEO/CFO evaluation of our disclosure controls and procedures included a review of the controls' objectives and design, the controls' implementation by the company, and the effect of the controls on the information generated for use in this Annual Report. In the course of the evaluation, we sought to identify data errors, control problems or acts of fraud, and to confirm that appropriate corrective action, including process improvements, was being undertaken. Our disclosure controls and procedures are also evaluated on an ongoing basis by:

- personnel in our finance organization;
- members of our internal disclosure committee;
- members of the Audit Committee of our Board of Directors; and
- our independent auditors in connection with their audit and review activities.

Among other matters, we sought in our evaluation to determine whether there were any "significant deficiencies" or "material weaknesses" in our disclosure controls and procedures, or whether we had identified any acts of fraud involving personnel who have a significant role in our disclosure controls and procedures. In professional auditing literature, "significant deficiencies" are referred to as "reportable conditions," which are control issues that could have a significant adverse effect on our ability to record, process, summarize and report financial data in the financial statements. A "material weakness" is defined in the auditing literature as a particularly serious reportable condition where internal controls do not reduce to a relatively low level the risk that misstatements caused by error or fraud may occur in amounts that would be material in relation to the financial statements and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our management, including our CEO and CFO, does not expect that our disclosure controls and procedures will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of disclosures controls and procedures must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitation in a cost-effective control system, misstatements due to error or fraud could occur and not be detected.

Based on our most recent evaluation, which was completed within 90 days prior to the filing of this Annual Report, our CEO and CFO believe that our disclosure controls and procedures are effective to ensure that material information relating to us and our consolidated subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared, and that our disclosure controls and procedures are effective to provide reasonable assurance that our financial statements are fairly presented in conformity with generally accepted accounting principles.

Since the date of this most recent evaluation, there have been no significant changes in our internal controls or in other factors that could significantly affect the internal controls subsequent to the date we completed our evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) 1. and 2. Financial Statements and Schedules

The financial statements and schedules listed below are filed as part of this Annual Report on the pages indicated.

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Index to Financial Statements

The financial statements and schedules are filed as part of this report. All other schedules are omitted because they are not applicable or the required information is included in the financial statements or notes thereto.

(a) 3. Exhibits

The Registrant agrees to furnish a copy of all agreements related to long-term debt upon request of the Commission.

Exhibit No.	
2.1*	Master Agreement of Merger and Acquisition by and among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, Paul G. Chrysson, James G. Chrysson, W. Michael Gilley, Matthew G. Gallins, James D. Yopp, and the partnerships and limited liability companies listed therein, dated September 22, 1997 (filed as Exhibit 2.1 to Registration Statement No. 333-39803 on Form S-2, December 16, 1997, and incorporated herein by reference)
2.2*	Amendment to Master Agreement of Merger and Acquisition dated September 22, 1997, by and among BNP Residential Properties,

	Inc., BNP Residential Properties Limited Partnership, Paul G. Chrysson, James G. Chrysson, W. Michael Gilley, Matthew G. Gallins, James D. Yopp, and the partnerships and limited liability companies listed therein, dated November 3, 1997 (filed as Exhibit 2.3 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 1, 1997, and incorporated herein by reference)
3.1*	Articles of Incorporation (filed as Exhibit 3.1 to BNP Residential Properties, Inc., Current Report on Form 8-K dated March 17, 1999, and incorporated herein by reference)
3.2*	Articles Supplementary, Classifying and Designating 909,090 Shares of Series B Cumulative Convertible Preferred Stock, dated December 28, 2001 (filed as Exhibit 3.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
3.3*	Amended and Restated By-Laws (filed as Exhibit 3.2 to BNP Residential Properties, Inc., Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
4.1*	Rights Agreement, dated March 18, 1999, between the Company and First Union National Bank (filed as Exhibit 4 to BNP Residential Properties, Inc. Current Report on Form 8-K dated March 17, 1999, and incorporated herein by reference)
4.2*	Registration Rights Agreement By and Among BNP Residential Properties, Inc. and Preferred Investment I, LLC, dated December 28, 2001 (filed as Exhibit 4 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)

Exhibit No.	
10.1*	Second Amended and Restated Agreement of Limited Partnership of Boddie-Noell Properties Limited Partnership dated as of March 17, 1999 (filed as Exhibit 10.1 to the company's Annual Report on Form 10-K for the year ended December 31, 1998, and incorporated herein by reference)
10.2*	Amendment to Second Amended and Restated Agreement of Limited Partnership of BNP Residential Properties Limited Partnership, dated December 28, 2001 (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
10.3*	Investment Agreement By and Between BNP Residential Properties, Inc. and Preferred Investment I, LLC, dated December 28, 2001 (filed as Exhibit 10.2 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
10.4*	Amended and Restated Master Lease Agreement dated December 21, 1995, between BNP Residential Properties, Inc. and Boddie-Noell Enterprises, Inc. (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Annual Report on Form 10-K dated December 31, 1995, and incorporated herein by reference)
10.5*	BNP Residential Properties, Inc. 1994 Stock Option and Incentive Plan effective August 4, 1994, and amended effective May 15, 1998 (filed as an exhibit in Schedule 14A of Proxy Statement dated April 13, 1998, and incorporated herein by reference)
10.6*	Form and description of Employment Agreements dated July 15, 1997, between BNP Residential Properties, Inc. and certain officers (filed as Exhibit 10 to BNP Residential Properties, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, and incorporated herein by reference)

10.7	Employment Agreement dated December 1, 2002, between BNP Residential Properties, Inc. and Eric S. Rohm
21	Subsidiaries of the Registrant
23	Consent of Ernst & Young LLP
99.1	Section 906 Certification by Chief Executive Officer
99.2	Section 906 Certification by Chief Financial Officer

* Incorporated herein by reference

(b) Reports on Form 8-K

None

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SIGNATURES

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

BNP RESIDENTIAL PROPERTIES, INC.
(Registrant)

Date: March 26, 2003

/s/ Philip S. Payne

Philip S. Payne
Executive Vice President and
Chief Financial Officer

Date: March 26, 2003

/s/ Pamela B. Bruno

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature:	Title:	Date:
/s/ D. Scott Wilkerson D. Scott Wilkerson	President and Chief Executive Officer, Director	March 26, 2003
/s/ Philip S. Payne Philip S. Payne	Executive Vice President, Treasurer and Chief Financial Officer, Director	March 26, 2003
/s/ Pamela B. Bruno	Vice President, Controller	March 26, 2003

Pamela B. Bruno	and Chief Accounting Officer	
/s/ B. Mayo Boddie B. Mayo Boddie	Chairman of the Board of Directors	March 26, 2003
/s/ Stephen R. Blank Stephen R. Blank	Director	March 26, 2003
/s/ Paul G. Chrysson Paul G. Chrysson	Director	March 26, 2003
/s/ W. Michael Gilley W. Michael Gilley	Director	March 26, 2003
/s/ Peter J. Weidhorn Peter J. Weidhorn	Director	March 26, 2003

CERTIFICATION BY CHIEF EXECUTIVE OFFICER

I, D. Scott Wilkerson, certify that:

1. I have reviewed this annual report on Form 10-K of BNP Residential Properties, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements are made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the

Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and audit committee of the registrant's board of directors:

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ D. Scott Wilkerson

D. Scott Wilkerson
President and Chief Executive Officer

March 26, 2003

CERTIFICATION BY CHIEF FINANCIAL OFFICER

I, Philip S. Payne, certify that:

1. I have reviewed this annual report on Form 10-K of BNP Residential Properties, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements are made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and audit committee of the registrant's board of directors:

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

/s/ Philip S. Payne

Philip S. Payne
Executive Vice President and
Chief Financial Officer

March 26, 2003

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Report of Independent Auditors

Board of Directors and Stockholders
BNP Residential Properties, Inc.

We have audited the accompanying consolidated balance sheets of BNP Residential Properties, Inc. as of December 31, 2002 and 2001, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BNP Residential Properties, Inc. at December 31, 2002 and 2001, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

In 2002, as discussed in Note 1 to the consolidated financial statements, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets".

/s/ ERNST & YOUNG LLP

Raleigh, North Carolina
January 10, 2003, except for Notes 5 and 11
as to which the date is March 13, 2003

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BNP RESIDENTIAL PROPERTIES, INC.
Consolidated Balance Sheets

	Dece
	2002
Assets	
Real estate investments at cost:	
Apartment properties	$275,712,863
Restaurant properties	39,158,921
	314,871,784
Less accumulated depreciation	(49,448,825)
	265,422,959
Cash and cash equivalents	884,316
Prepaid expenses and other current assets	3,024,683
Notes receivable	100,000
Other assets, net of accumulated amortization:	
Intangible related to acquisition of management operations	1,115,088
Deferred financing costs	1,175,684
Total assets	$271,722,730

Liabilities and Shareholders' Equity

Deed of trust and other notes payable	$211,584,935
Accounts payable and accrued expenses	253,886
Accrued interest on deed of trust and other notes payable	1,018,565
Prepaid rents and security deposits	692,915
Deferred cable equipment rental revenue	620,324
Deferred credit for interest defeasance	333,376
	214,504,001
Minority interest in Operating Partnership	17,947,493
Shareholders' equity:	
Preferred stock, $.01 par value, 10,000,000 shares authorized, 454,545 shares issued and outstanding at December 31, 2002, 227,273 shares issued and outstanding at December 31, 2001	5,000,000
Common stock, $.01 par value, 100,000,000 shares authorized, 5,831,077 shares issued and outstanding at December 31, 2002, 5,744,873 shares issued and outstanding at December 31, 2001	58,311
Additional paid-in capital	70,724,671
Dividend distributions in excess of net income	(36,511,746)
Total shareholders' equity	39,271,236
Total liabilities and shareholders' equity	$271,722,730

See accompanying notes.

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BNP RESIDENTIAL PROPERTIES, INC.
Consolidated Statements of Operations

	Years ended Decem	
	2002	2001
Revenues		
Apartment rental income	$32,889,864	$30,866,8
Restaurant rental income	4,021,277	4,053,1
Management fee income	1,095,157	528,7
Equity in income of Management Company	-	
Interest and other income	157,676	812,9
	38,163,974	36,261,7
Expenses		
Apartment operations	12,681,927	11,182,4
Apartment administration	1,364,378	1,106,8
Corporate administration	1,993,629	1,849,2
Costs of terminated equity transaction	-	
Depreciation	8,794,361	7,828,4
Amortization	256,056	595,6
Interest - other	11,452,044	11,100,2
	36,542,395	33,662,9

Income before minority interest and extraordinary item	1,621,579	2,598,8
Minority interest in Operating Partnership	300,334	596,8
Income before extraordinary item	1,321,245	2,001,9
Extraordinary item - loss on early extinguishment of debt	73,297	99,5
Net income	1,247,948	1,902,4
Cumulative preferred dividend	322,603	2,7
Income available to Common Shareholders	$ 925,345	$ 1,899,6
Per share data:		
Basic earnings per share --		
Income before extraordinary item	$0.23	$0.3
Extraordinary item	(0.01)	(0.0
Income available to common shareholders	0.16	0.3
Diluted earnings per share --		
Income before extraordinary item	0.21	0.3
Extraordinary item	(0.01)	(0.0
Income available to common shareholders	0.16	0.3
Dividends declared	1.24	1.2
Weighted average common shares outstanding	5,787,154	5,716,8

See accompanying notes.

BNP RESIDENTIAL PROPERTIES, INC.
Consolidated Statements of Shareholders' Equity

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional paid-in capital	Divid distribu in exce net in
Balance December 31, 1999			5,734,906	$57,349	$69,961,625	$(20,122
Common stock retired			(27,956)	(280)	(254,470)	
Dividends paid			-	-	-	(7,076
Net income			-	-	-	1,982
Balance December 31, 2000			5,706,950	57,069	69,707,155	(25,216
Preferred stock issued	227,273	$2,500,000	-	-	(225,406)	
Common stock issued	-	-	37,923	380	391,209	
Dividends paid	-	-	-	-	-	(7,082
Net income	-	-	-	-	-	1,902
Balance December 31, 2001	227,273	2,500,000	5,744,873	57,449	69,872,958	(30,396
Preferred stock issued	227,272	2,500,000	-	-	(108,095)	
Common stock issued	-	-	86,204	862	959,808	
Dividends paid - Preferred	-	-	-	-	-	(200

Dividends paid - Common	-	-	-	-	-	(7,163
Net income	-	-	-	-	-	1,247
Balance December 31, 2002	454,545	$5,000,000	5,831,077	$58,311	$70,724,671	$(36,511

See accompanying notes.

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BNP RESIDENTIAL PROPERTIES, INC.
Consolidated Statements of Cash Flows

	Years ended Dec	
	2002	2001
Operating activities		
Net income	$ 1,247,948	$ 1,902,41
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Extraordinary item - loss on early extinguishment of debt	73,297	99,57
Minority interest in Operating Partnership	300,334	596,85
Equity in income of Management Company	-	
Depreciation and amortization of intangibles	9,050,417	8,424,06
Amortization of defeasance credit	(166,656)	(166,65
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(135,592)	(216,79
Accounts payable and accrued expenses	(162,961)	(133,57
Deferred revenue, prepaid rent and security deposits	(222,586)	222,72
Net cash provided by operating activities	9,984,201	10,728,60
Investing activities		
Acquisitions of apartment properties	(29,803,901)	(370,60
Additions to apartment communities	(2,731,434)	(2,809,34
Sale of restaurant properties	-	405,86
Investment in and advances to Management Company	-	372,93
Repayment of notes receivable	-	
Net cash used in investing activities	(32,535,335)	(2,401,15
Financing activities		
Net proceeds from issuance of preferred stock	2,231,905	2,434,59
Net proceeds from issuance of common stock	863,554	391,58
Redemption of Operating Partnership minority units	-	(14,86
Repurchase of common stock	-	
Distributions to Operating Partnership minority unitholders	(2,171,113)	(2,115,80
Payment of dividends to preferred shareholder	(200,000)	
Payment of dividends to common shareholders	(7,163,201)	(7,082,74
Proceeds from notes payable	43,346,776	22,024,08
Principal payments on notes payable	(14,425,385)	(23,305,60
Payment of deferred financing costs	(464,702)	(297,15
Net cash provided by (used in) financing activities	22,017,834	(7,965,89

Net (decrease) increase in cash and cash equivalents	(533,300)	361,56
Cash and cash equivalents at beginning of year	1,417,616	1,056,05
Cash and cash equivalents at end of year	$ 884,316	$ 1,417,61

See accompanying notes.

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BNP RESIDENTIAL PROPERTIES, INC.
Notes to Consolidated Financial Statements
December 31, 2002

Note 1. Summary of Significant Accounting Policies

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"). All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

We are a self-administered and self-managed real estate investment trust ("REIT") with operations in North Carolina, South Carolina and Virginia. Our primary activity is the ownership and operation of apartment communities. As of December 31, 2002, we managed 32 multi-family communities containing 7,392 units. Of these, we own 18 apartment communities, containing 4,427 units (see Note 11). Third parties own the remaining 14 communities, containing 2,965 units, and we manage them on a contract basis. In addition to our apartment communities, at December 31, 2002, we owned 42 properties that we lease to a third party under a master lease on a triple-net lease basis (see Notes 5, 7 and 11). The lessee operates these properties as restaurants and, under the terms of the lease, is totally responsible for the operation and maintenance of the properties.

Effective January 2001, the accounts of the Operating Partnership include BNP Management, Inc. (the "Management Company"). 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 computer and support equipment, net of depreciation, by approximately $346,000, and to eliminate approximately $715,000 investment in and advances to the Management Company previously reflected on our balance sheet. 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.

UpREIT Structure

We are structured as an UpREIT, or umbrella partnership real estate investment trust. The company is the general partner and owns a majority interest in the Operating Partnership, through which we conduct all of our operations. We currently own approximately 76% of the ownership units of the Operating Partnership. We refer to the limited partners of the Operating Partnership as minority common unitholders or as the minority interest. Limited partners will generally be able to redeem their units for cash or, at our option as general partner, for shares of common stock of the company on a one-for-one basis. UpREITs are generally structured so that distributions of cash from the Operating Partnership are allocated between the REIT and the limited partners based on their respective unit ownership.

Segment Reporting

Operating segments are revenue-producing components of the company for which separate financial information is produced internally for our management. Under this definition, we operated, for all periods presented, as a single segment (apartment operations). Our apartment operating activities are located within a relatively small geographic area, and our chief operating decision maker does not receive or utilize financial information on the basis of geographic areas. We evaluate each community's performance individually; however, all of these communities are garden-style construction, operate in the mid-market price range, share similar economic characteristics, and provide similar services. We do not conduct any operating activities with regard to restaurant rental income; the triple-net lease arrangement for these properties requires the lessee to pay virtually all of the costs associated with these properties.

Real Estate Investments

Real estate investments are stated at the lower of cost, less accumulated depreciation, or fair value. In general, for acquired properties, we compute depreciation using the straight-line method over composite estimated useful lives of the related assets, generally 40 years for buildings, 20 years for land improvements, 10 years for fixtures and equipment, and five years for floor coverings. For the acquisitions of Barrington, Brookford, and Alta Harbour in 2002, we performed detailed analyses of components of the real estate assets acquired. For these properties, we assigned estimated useful lives as follows: land improvements, 7-20 years; short-lived building components, 5-20 years; base building structure, 60 years; and fixtures, equipment and floor coverings, 5-10 years.

We generally complete and capitalize acquisition improvements (expenditures that have been identified at the time the property is acquired, and which are intended to position the property consistent with our physical standards) within one to two years of acquisition. We capitalize non-recurring expenditures for additions and betterments to buildings and land improvements. In addition, we generally capitalize recurring capital expenditures for exterior 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. We expense ordinary repairs and maintenance costs at apartment communities. Costs of repairs and maintenance and capital improvements at restaurant properties are borne by the lessee.

We evaluate our real estate assets from time to time, or upon occurrence of significant adverse changes in operations, to assess whether any impairment indicators are present that affect the recovery of the recorded value. If we considered any real estate assets to be impaired, we would record a loss to reduce the carrying value of the property to its estimated fair value. At December 31, 2002 and 2001, none of our assets were considered impaired.

Cash and Cash Equivalents

We consider all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Deferred Costs

We adopted Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, effective January 1, 2002. Under the new rules, goodwill and intangible assets deemed to have indefinite lives are no longer amortized after December 31, 2001, but are subject to annual impairment tests in accordance with the Statement. We determined that the intangible related to our 1994 acquisition of management operations, net of accumulated amortization, as of January 1, 2002, and again as of October 1, 2002, is not impaired. We plan to perform future annual tests as of October 1 of each year.

The following table reflects the effect of the amortization of the intangible related to our acquisition of management operations on the results of operations as though we had adopted FAS 142 on January 1, 2001 and 2000, respectively.

	Pro Forma	Adjustments	As
Year ended December 31, 2001			
Revenues	$36,261,773	$ -	$
Expenses	33,256,732	(406,200)	
Income before minority interest and extraordinary item	3,005,041	406,200	
Minority interest in Operating Partnership	690,228	93,374	
Income before extraordinary item	2,314,813	312,826	
Extraordinary item - loss on early extinguishment of debt	99,577	-	
Net income	$ 2,215,236	$ 312,826	$
Basic and diluted earnings per share:			
Income before extraordinary item	$0.40		
Extraordinary item	(0.01)		
Income available to common shareholders	0.39		
Year ended December 31, 2000			
Revenues	$33,857,965	$ -	$
Expenses	30,874,242	(406,200)	
Income before minority interest and extraordinary item	2,983,723	406,200	
Minority interest in Operating Partnership	688,210	93,676	
Net income	$ 2,295,513	$ 312,524	$
Basic and diluted earnings per share:			
Income before extraordinary item	$0.40		
Extraordinary item	-		
Income available to common shareholders	0.40		

Accumulated amortization on this asset was approximately $2.6 million at December 31, 2002 and 2001.

We defer financing costs and amortize them using the straight-line method over the terms of the related notes. If we pay down or pay off notes prior to their maturity, we write off the related unamortized financing costs, reflected as an extraordinary charge for loss on early extinguishment of debt. Accumulated amortization on these assets was $699,000 at December 31, 2002, and $580,000 at December 31, 2001. As of December 31, 2002, we estimate future amortization of deferred financing costs will be approximately as follows: 2003, $300,000; 2004, $220,000; 2005, $150,000; 2006, $140,000; 2007, $140,000; 2008 and thereafter, $270,000.

We defer costs incurred in connection with proposed acquisition of properties and equity transactions until the proposed transactions are consummated. If we determine that the proposed transaction is not probable, we charge these costs to expense. During 2000, we recorded a charge of $237,000 for costs of an equity transaction that was terminated by the company during the fourth quarter.

Fair Values of Financial Instruments

The carrying amount reported on the balance sheet for cash and cash equivalents approximates fair value. We estimate the fair value of fixed rate notes and variable rate notes payable using discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements. At December 31, 2002, the aggregate fair value of our deed of trust and other notes payable was approximately $219 million. At December 31, 2001, the fair value of our deed of trust and other notes payable approximated the carrying value.

Use of Estimates

We are required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes in order to prepare them in accordance with generally accepted accounting principles. Depreciation amounts included in these financial statements reflect our estimate of the life and related depreciation rates for rental properties. In addition, the carrying amount of the intangible asset related to acquisition of management operations reflects our assessment of the continuing value of this asset. Actual results could differ from these estimates.

Revenue Recognition

We record rental and other revenue as it is earned. Rental payments received prior to the first of a given month are recorded as prepaid rent. Tenant security deposits are held in trust in bank accounts separate from operating cash. Tenant security deposits totaled $306,000 at December 31, 2002, and $192,000 at December 31, 2001; related trust account balances are included in the balance sheet in other current assets.

In December 2000, we received $800,000 advance payment under a contract for use of our cable equipment at five apartment communities. This receipt, net of approximately $20,000 related costs, was recorded as deferred revenue, and we plan to recognize this rental revenue over the ten-year contract term beginning in 2001.

Advertising Costs

We expense advertising costs as they are incurred. Advertising expense totaled $419,000 in 2002, $342,000 in 2001, and $296,000 in 2000.

Stock-Based Compensation

The company has one employee Stock Option and Incentive Plan in place, which is described more fully in Note 4. We account for this plan using the intrinsic value method, under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related Interpretations.

No stock-based employee compensation cost is reflected in net income, as all options granted under this plan had an exercise price equal to the market value of the underlying common stock on the date of grant. If we had applied the fair value recognition provisions of FASB Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation, the effect would have been to reduce net income as reported by approximately $5,000 in 2002, $10,000 in 2001, and $14,000 in 2000, with no impact on basic and diluted earnings per share amounts as reported.

Earnings Per Share
We calculate earnings per share based on the weighted average number of shares outstanding during each year.

Comprehensive Income
Comprehensive income is defined as changes in shareholders' equity exclusive of transactions with owners (such as capital contributions and dividends). We did not have any comprehensive income items in 2002, 2001, or 2000, other than net income as reported.

Recent Accounting Pronouncements
We adopted Financial Accounting Standards Board Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective January 2002. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes Statement No. 121 and the reporting provisions of APB Opinion No. 30. This adoption had no impact on our results of operations or financial position.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections." Statement 145 will generally require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations, rather than as extraordinary items as previously required under Statement 4. We plan to adopt Statement 145 effective

January 1, 2003. Upon adoption, the extraordinary items for loss on early extinguishment of debt that we have reported in 2002 and earlier will be reclassified to conform to Statement 145. While adoption of Statement 145 will have no impact on net income, it will reduce income before extraordinary items and eliminate extraordinary items as previously reported.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure," which amends FAS No. 123, "Accounting for Stock-Based Compensation," to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, the statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The standard is effective for financial statements issued for fiscal years ending after December 15, 2002. We plan to continue to use the intrinsic value method to account for stock-based employee compensation. We have disclosed under the caption "Stock-Based Compensation" above in this footnote the amount of expense, which is immaterial, that would have been recorded if we had applied the fair value method.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others," which changes the accounting for, and disclosure of certain guarantees. Beginning with transactions entered into after December 31, 2002, certain guarantees must be recorded at fair value, which is different from prior practice, under which a liability was recorded only when a loss was probable and reasonably estimable. In general, the change applies to contracts or indemnification agreements that contingently require the company to make payments to a guaranteed third party based on changes in an underlying asset, liability, or an equity security of the guaranteed party. We expect to adopt this Interpretation effective January 1, 2003, and we do not expect this adoption to have a significant impact on our financial position and results of operations.

Reclassifications

Certain amounts in the 2001 and 2000 financial statements have been reclassified to conform to the 2002 presentation. These reclassifications had no effect on net income, shareholders' equity or cash flows as previously reported.

Note 2. Real Estate Investments

Real estate investments consist of the following:

	2002	2001
Apartment properties		
Land	$ 28,359,923	$ 21,128,897
Buildings and improvements	246,473,769	199,741,313
Computer and support equipment	879,171	719,260
Less accumulated depreciation	(38,364,606)	(30,374,050)
	237,348,257	191,215,420
Restaurant properties		
Land	10,935,813	10,935,813
Buildings and improvements	28,223,108	28,223,108
Less accumulated depreciation	(11,084,219)	(10,377,840)
	28,074,702	28,781,081
	$265,422,959	$219,996,501

The results of operations of the following apartment communities are included in the financial statements from the dates of acquisition, as follows:

2002 acquisitions:

- Alta Harbour Apartments acquired effective September 18, 2002, for a total cost of approximately $19.2 million, paid in cash.

- Barrington Place Apartments and Brookford Place Apartments acquired effective May 31, 2002, for a total cost of approximately $32.2 million, including assumption of a deed of trust loan with a balance of approximately $20.3 million, assumption and retirement of existing liabilities of the former owners totaling approximately $10.0 million, and issuance of Operating Partnership units with an imputed value of approximately $1.8 million.

2000 acquisition:

- Oak Hollow Apartments Phase 2 (formerly known as Page Mill Apartments) acquired effective December 28, 2000, for a total cost of approximately $12.4 million, paid in cash.

In October 2001, we purchased 7.2 acres of land adjacent to Chason Ridge Apartments for a cost of approximately $370,000. This additional land purchase compliments and provides additional buffer for the existing site, and may be used for construction of additional apartment units in the future. In addition, in September 2002, we purchased 5.4 acres of land adjacent to Paces Commons Apartments for a cost of approximately $18,000.

In April 2001, we sold one restaurant property to the lessee for its net carrying value of approximately $406,000. In June 2000, we sold one restaurant property to the lessee for its net carrying value of approximately $644,000. We applied the proceeds from these sales to improvements at apartment communities and to reduce our line of credit that is secured by the restaurant properties.

The following unaudited pro forma summary information for 2002 is presented as if we had acquired Alta Harbour, Barrington Place, and Brookford Place effective January 1, 2002. The unaudited pro forma summary information for 2001 is presented as if we had acquired Alta Harbour and Barrington Place effective January 1, 2001. We have not included Brookford Place in the pro forma information for 2001 because this community did not reach stabilized status until January 2002; an apartment community is considered stabilized when construction of all buildings has been completed and the community has attained 90% occupancy for 90 days. These pro forma amounts may not represent how we would have performed if these acquisitions had really occurred on January 1 of the respective years shown. In addition, they do not purport to project our results of operations for any future period.

	2002	2001
Total revenue	$41,572,000	$42,144,000
Income before extraordinary item	1,216,000	1,950,000
Net income	1,144,000	1,852,000
Income available to common shareholders	644,000	1,599,000
Basic earnings per share:		
Income before extraordinary item	$0.21	$0.34
Extraordinary item	(0.01)	(0.02)
Income available to common shareholders	0.11	0.32
Diluted earnings per share:		
Income before extraordinary item	0.19	0.34
Extraordinary item	(0.01)	(0.02)
Income available to common shareholders	0.11	0.32

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Note 3. Notes Payable

Notes payable at December 31 consist of the following:

	2002
Revolving lines of credit with a bank:	

Principal sum of up to $18.0 million, due January 2004 (as modified November 2001), secured by deeds of trust and assignment of rents of 42 restaurant properties. Interest-only payments on the outstanding balance due monthly at a variable interest rate of 30-day LIBOR plus 1.80% (3.18% at December 31, 2002). The maximum principal balance was reduced and paid down to $17.2 million in January 2003.	$ 18,000,000
Principal sum of up to $25.9 million, due November 2004 (as modified December 2002), secured by a deed of trust and assignment of rents of Latitudes Apartments. Interest-only payments on the outstanding balance due monthly at a variable interest rate of 30-day LIBOR plus 1.75 % (3.13% at December 31, 2002).	18,118,135
Variable rate notes payable:	
Note payable to a bank in the principal amount of up to $11.7 million due December 2004, secured by a deed of trust and assignment of rents of Oak Hollow Apartments Phase 2. Interest-only payments on the outstanding principal balance due monthly at a variable interest rate of 30-day LIBOR plus 1.85% (3.23% at December 31, 2002).	10,835,842
Fixed rate notes payable:	
Notes payable comprised of seven loans (four loans in 2001), payable in monthly installments totaling approximately $541,000 including principal and interest at rates ranging from 5.93% to 8.55%, with maturities in 2005 through 2034. Secured by deeds of trust and assignment of rents of seven apartment communities.	80,169,151
Notes payable comprised of 10 loans, interest rates ranging from 6.35% to 6.97%, payable in interest-only monthly installments totaling approximately $478,000, with maturities in 2007 and 2008. Secured by deeds of trust and assignment of rents of 10 apartment communities.	84,365,500
Notes payable, comprised of 12 loans, payable in monthly installments totaling approximately $3,000 including principal and interest at 7.90% to 7.99%, with maturities in 2005 and 2006. Secured by 12 vehicles.	96,307
	$211,584,935

In conjunction with the acquisition of Alta Harbour Apartments in September 2002, we executed a $15.9 million note payable, secured by the assets and assignment of rents of Alta Harbour Apartments. This loan provides for interest at 5.85% and monthly payments including principal and interest of approximately $94,000, with maturity in September 2012. We paid and recorded deferred loan costs of approximately $150,000 related to this loan.

In conjunction with the acquisition of Barrington Place Apartments and Brookford Place Apartments in May 2002, we assumed a first deed of trust loan secured by the assets and assignment of rents of Barrington Place Apartments with a balance of approximately $20.3 million. This loan provides for interest at an effective rate of approximately 7.0% and monthly payments including principal and interest of approximately $136,000, with maturity in November 2010. We paid and recorded deferred loan costs of approximately $160,000 related to this loan assumption.

In June 2002, we applied $4.9 million proceeds from a fixed-rate loan to retire existing loan obligations of the former owners of Barrington Place Apartments and Brookford Place Apartments. A deed of trust and assignment of rents of

Brookford Place Apartments secure this loan. This loan provides for interest at an effective rate of approximately 7.1% and monthly payments including principal and interest of approximately $32,000, with maturity in August 2012. We paid and recorded deferred loan costs of approximately $60,000 related to this loan transaction.

In January 2002, we applied a $6.0 million draw on our line of credit secured by Latitudes Apartments to retire a note payable in the amount of $6.1 million, secured by a deed of trust and assignment of rents of Oakbrook Apartments. In February 2002, we subsequently issued a note payable in the amount of $7.9 million secured by a deed of trust and assignment of rents of Oakbrook Apartments. The note provides for interest at an effective rate of approximately 7.1% and monthly payments including principal and interest of approximately $52,000, with maturity in February 2012. We applied the proceeds of the Oakbrook note to reduce our Latitudes line of credit. In conjunction with the February refinance transaction, we paid and recorded deferred loan costs of approximately $90,000.

In conjunction with the January retirement, we wrote off unamortized loan costs of approximately $95,000. We have reflected this write-off, net of minority interests' share, in the financial statements as an extraordinary item.

In September 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%. Interest-only payments of approximately $97,000 were 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 $144,000.

We applied approximately $10.1 million of the Paces Commons refinance proceeds to retire an existing deed of trust note with interest at 8.125%. 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.

We financed the acquisition of Oak Hollow Apartments Phase 2 in December 2000 with a $9.7 million draw on a variable rate deed of trust loan for up to $11.7 million. During 2001 and 2002, we drew an additional $1.1 million on this loan to fund renovations to the apartment community. The note is payable at maturity in December 2004, and provides for monthly interest payments through December 2002, then monthly principal and interest payments of approximately $51,000 beginning January 2003, with interest on the outstanding balance at 30-day LIBOR plus 1.85%. In conjunction with this financing, we paid and recorded $47,000 in deferred loan costs.

In conjunction with the acquisition of Chason Ridge Apartments in January 1999, we assumed a HUD-insured loan in the amount of $9.7 million with interest at 8.5% and mortgage insurance with a premium of 0.5% of the loan balance. The interest rate on this loan exceeded current market rates at the time of the

acquisition, and the note may not be prepaid until January 2005. Accordingly, the seller gave a $1.0 million credit for defeasance of above-market interest, which we will apply to reduce recorded interest expense monthly through 2004.

We modified the revolving lines of credit with a bank in December 2002 to increase the maximum balance available under the Latitudes line of credit from $23.0 million to $25.9 million. In conjunction with this modification, we paid and recorded $30,000 in deferred loan costs in January 2003.

Interest payments totaled $11.5 million in 2002, $11.3 million in 2001, and $11.3 million in 2000.

The loan agreements related to the lines of credit include covenants and restrictions relating to, among other things, specified levels of debt service coverage, leverage and net worth. To date, we have met all applicable requirements.

As of December 31, 2002, scheduled principal payments were approximately as follows: 2003, $1.9 million; 2004, $46.8 million; 2005, $6.4 million; 2006, $.9 million; 2007, $48.8 million; 2008 and thereafter, $106.8 million.

Note 4. Shareholders' Equity

Authorized Capital Stock
Our bylaws and certificate of incorporation allow the Board of Directors to authorize the issuance of up to 100 million shares of common stock and 10 million shares of preferred stock, issuable in series whose characteristics would be set by the Board of Directors.

In December 2001, the Board of Directors authorized the issuance of up to 454,545 shares of Series B Cumulative Convertible Preferred Stock at a price of $11.00 per share. We issued 227,273 shares in December 2001 and 227,272 shares in September 2002 to a single investor, for total proceeds of $5.0 million. The preferred shares have a purchase price and liquidation preference of $11.00 per share. The agreement provides for an initial dividend yield of 10% through December 2009, then 12% for two years, and thereafter the greater of 14% or 900 basis points over the 5-year Treasury rate. The investor will have the right to convert each Series B share into one share of the company's common stock after three years or in certain circumstances, such as a change of control or if the company calls the Series B stock for redemption. The holders of preferred shares are generally not entitled to vote on matters submitted to shareholders. Dividends on preferred shares are subject to declaration by the Board of Directors.

Approximately 2.9 million authorized shares of common stock are reserved for future issuance under the company's Stock Option and Incentive Plan, Dividend Reinvestment and Stock Purchase Plan, and for conversion of Series B Preferred shares and Operating Partnership units.

Dividend Reinvestment and Stock Purchase Plan
Our Dividend Reinvestment and Stock Purchase Plan ("DRIP Plan") allows the company, at its option, to issue shares directly to Plan participants. We issued 77,607 shares in 2002, 37,923 shares in 2001, and 29,020 shares in 1999 through the Plan.

Redemption of Operating Partnership Units
During 2002, we redeemed 8,597 Operating Partnership units from two former minority unitholders by issuing shares of the company's common stock on a one-for-one basis.

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

	2002	2001	

Numerators:			
Numerator for basic earnings per share -			
Income before extraordinary item	$1,321,245	$2,001,987	$1
Extraordinary item	(73,297)	(99,577)	
Cumulative preferred dividend	(322,603)	(2,740)	
Income available to common shareholders	$ 925,345	$1,899,670	$1
Numerator for diluted earnings per share -			
Income before extraordinary item (1)	$1,621,579	$2,598,841	$2
Extraordinary item (1)	(95,032)	(129,239)	
Cumulative preferred dividend	(322,603)	(2,740)	
Income available to common shareholders (1)	$1,203,944	$2,466,862	$2
Denominators:			
Denominator for basic earnings per share -			
Weighted average common shares outstanding	5,787,154	5,716,811	5
Effect of dilutive securities:			
Convertible Operating Partnership units	1,786,069	1,706,361	1
Stock options (2)	8,182	2,987	
Dilutive potential common stock	1,794,251	1,709,348	1
Denominator for diluted earnings per share - Adjusted weighted average common shares and assumed conversions	7,581,405	7,426,159	7

Stock Option and Incentive Plan

We have reserved 570,000 shares of the company's common stock for issuance under our employee Stock Option and Incentive Plan. Options have been granted to employees at prices equal to the fair market value of the stock on the dates the options were granted or repriced. Options are generally exercisable in four annual installments beginning one year after the date of grant, and expire ten years after the date of grant.

The following table summarizes information about stock options outstanding at December 31, 2002.

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	Weighted Average Remaining Contractual Life (Years)	Number of Options Outstanding	Number of Options Exercisable
Exercise price $9.25 per share	7.15	47,500	23,750
Exercise price $11.25 per share	5.83	60,000	60,000
Exercise price $13.125 per share	5.50	120,000	120,000
Exercise price $12.25 per share	4.33	110,000	110,000
Exercise price $12.50 per share	1.88	140,000	140,000

All options outstanding	5.37	477,500	453,750

We calculated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. No options were granted in 2002 or 2001. We used the following assumptions to estimate the fair value of options granted in 2000:

Weighted average fair value	$ 0.02
Weighted average exercise price	9.25
Weighted average dividend yield	13.41%
Expected volatility	0.163
Weighted average risk-free interest rate	5.18%
Expected useful life	4 years

Had we determined compensation cost for our fixed stock option plans consistent with the fair value method outlined in Financial Accounting Standards Board Statement No. 123, the impact on our net income and earnings per share would not have been material.

Changes in outstanding stock options were as follows:

	2002		2001		2000
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares
Beginning balance	477,500	$12.12	477,500	$12.12	430,000
Granted	-	-	-	-	47,500
Exercised	-	-	-	-	-
Repurchased	-	-	-	-	-
Forfeited	-	-	-	-	-
Ending balance	477,500	$12.12	477,500	$12.12	477,500
Exercisable at the end of the year	453,750	$12.27	396,875	$12.33	312,500

Note 5. Rental Operations

Apartment Properties
We lease our residential apartments under operating leases with monthly payments due in advance. Terms of the apartment leases are generally one year or less, with none longer than two years.

Restaurant Properties - Master Lease Agreement
The lease agreement with Boddie-Noell Enterprises ("Enterprises") has a primary term expiring in December 2007, but grants Enterprises three five-year renewal options. Enterprises pays annual rent equal

to the greater of the specified minimum rent or 9.875% of food sales from the restaurants. Under certain conditions as defined in the agreement, both Enterprises and the company have the right to substitute another restaurant property for a property covered by the lease. Assuming renewal of the lease, after December 31, 2007, Enterprises has the right to terminate the lease on up to five restaurant properties per year by offering to purchase them under specified terms.

In addition, we entered into a separate agreement with Enterprises that, after December 31, 1997, allows Enterprises to purchase, under specified terms, up to seven restaurant properties deemed non-economic. We sold one restaurant in April 2001, and one restaurant in June 2000, to Enterprises, the lessee, under the non-economic clause of the restaurant master lease. We previously sold three restaurants in June 1999 to Enterprises under this clause. In February 2003, we sold one additional restaurant to Enterprises under this clause (see Note 11). After the February 2003 sale, under the terms of this clause, the lessee may close one additional restaurant and buy it back for no less than net carrying value.

The lease requires Enterprises to pay monthly installments of minimum rent and quarterly payments calculated based on the percentage rent, subject to an annual calculation of the greater of minimum or percentage rent. We received the minimum rent in 2002, 2001, and 2000. We expect annual minimum rent will be approximately $3.9 million in years 2003 through 2007.

Note 6. Income Taxes

We operate as, and elect to be taxed as, a REIT under the Internal Revenue Code. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% (95% in 2000) of our adjusted taxable income to our common shareholders. We intend to adhere to these requirements and maintain the company's REIT status. As a REIT, we generally will not be subject to corporate level federal or state income tax on taxable income we distribute currently to our shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal and state income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on income and property, and to federal income and excise taxes on undistributed taxable income. In addition, taxable income from non-REIT activities managed through taxable REIT subsidiaries would be subject to federal, state and local income taxes.

The following table reconciles our income as reflected in our financial statements to REIT taxable income. Taxable income differs from income for financial statement purposes, primarily due to differences for tax purposes in the estimated useful lives and methods used to compute depreciation and the carrying value (basis) of the investment in properties. For federal and state income tax purposes, we reported real estate investments with a total cost basis of $286.9 million and accumulated depreciation of $65.6 million as of December 31, 2002.

	2002 Estimate	2001 Actual	
Income before extraordinary item and minority interest	$1,621,579	$2,598,841	$2
Less extraordinary item (including minority share)	(95,032)	(129,239)	
Income subject to income tax			

(including minority share)	1,526,547	2,469,602	2
Reconciling items:			
Add book depreciation	8,794,361	7,828,457	7
Less regular tax depreciation	(8,100,000)	(7,162,570)	(6

	2002 Estimate	2001 Actual	
Add amortization of intangible related to acquisition of management operations	-	406,200	
Other book/tax differences, net	(300,908)	456,344	
Adjusted taxable income of the Operating Partnership (including minority share)	1,920,000	3,998,033	3
Less minority share of taxable income	(380,000)	(862,878)	
Taxable income subject to dividend requirement	$1,540,000	$3,135,155	$2
Minimum dividend required (90% in 2002 and 2001, 95% in 2000)	$1,386,000	$2,821,640	$2

The actual tax deduction for dividends that we take, and the taxability of dividends to shareholders, is based on a measurement of "earnings and profits" as defined by the Internal Revenue Code. Earnings and profits differ from regular taxable income, primarily due to further differences in the estimated useful lives and methods used to compute depreciation. The following table reconciles the dividends paid deduction taken by the company (the portion of dividends paid that are taxable as ordinary income to shareholders) on its tax returns to cash dividends paid.

	2002 Estimate	2001 Actual	
Dividends paid deduction for			
Preferred dividends paid	$ 200,000	$ -	$
Common dividends paid	1,904,000	3,646,621	3
	2,104,000	3,646,621	3
Portion of dividends designated return of capital	5,259,000	3,436,120	3
Total dividends paid	$7,363,000	$7,082,741	$7

We paid dividend distributions totaling $1.24 per share to common shareholders each year during 2002, 2001, and 2000. In early January following each year end, we must make an estimate of earnings and profits, and publish an allocation between ordinary dividend income and non-taxable return of capital to common shareholders. The allocation between ordinary dividend income and non-taxable return of capital to common shareholders was as follows:

	2002		2001		20
	$	%	$	%	$
Ordinary income	$0.24	19.4%	$0.58	46.8%	$0.62
Return of capital	1.00	80.6%	0.66	53.2%	0.62
	$1.24	100.0%	$1.24	100.0%	$1.24

Note 7. Related Party Transactions

Certain directors and officers of the company hold similar positions with Enterprises and Boddie Investment Company. We purchased 47 restaurant properties from BNE Realty Partners, Limited Partnership (an affiliate of Enterprises) for $43.2 million in 1987. We derived approximately 10.5% of our revenue in 2002 from payment of rent from Enterprises for the use of our restaurant properties. In addition, Enterprises is responsible for all taxes, utilities, renovations, insurance and maintenance expenses relating to the operation of the restaurant properties.

Certain current and former directors of the company were the sole shareholders and directors of BT Venture Corporation, which we acquired in 1994.

In September 1997, we signed an agreement to acquire a portfolio of seven apartment communities. We refer to these acquisitions as the "Chrysson acquisitions" and to the former owners as the "Chrysson Parties." Certain current directors of the company were shareholders and officers in the Chrysson Parties. We have issued 1,349,954 Operating Partnership units through December 31, 2000, in conjunction with acquisitions of six of the apartment communities. During 2002 we issued 146,964 units to acquire Barrington Place Apartments and Brookford Place Apartments from the Chrysson Parties. Brookford Place Apartments was the last of seven properties to be acquired under our 1997 agreement with this group.

In February 1997, we signed a participating loan agreement with The Villages of Chapel Hill Limited Partnership, a limited partnership whose general partner is Boddie Investment Company. We made a loan to The Villages of $2.5 million to fund a substantial rehabilitation of its apartment community and guaranteed a $1.5 million bank loan. In exchange, we receive minimum interest on our loan at the greater of 12.5% or the 30-day LIBOR rate plus 6.125% and an annual loan guarantee fee. We also receive 25% participation in increased rental revenue and 25% participation in the increase in value of the property. The Villages subsequently reduced the outstanding principal balance of its note payable to us to $100,000, which has been outstanding since February 2000. In July 2001, we modified the participating loan agreement to establish a $950,000 "fixed portion" of our participation in the increase in value of the property and extend 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 interest and participation income of $60,000 in 2002, $85,000 in 2001, and $103,000 in 2000. In addition, we received guarantee fees of $12,000 in 2002, $37,500 in 2001, and $37,500 in 2000. We received $383,000 of the fixed portion during 2001 and 2002. 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 December 31, we have reflected the principal portion of notes receivable from The Villages of Chapel Hill Limited Partnership as follows:

	2002	2001
Advances receivable, due February 2004	$100,000	$100,000
Fixed portion of shared appreciation	567,434	598,436
Less reserve for collection of fixed portion	(567,434)	(598,436)
	$100,000	$100,000

In 1996 through 1999, we made loans totaling $180,000 to certain officers of the company. These loans are included in our balance sheets in other current assets.

Certain officers of the company are also officers of the Management Company and owned a 5% economic interest and a 99% voting interest in it. We acquired their interests in the Management Company for payment of $16,000 in January 2001.

Note 8. Profit Sharing Plan

The employees of the company are participants in a profit sharing plan pursuant to Section 401 of the Internal Revenue Code. We make limited matching contributions based on the level of employee participation as defined in the plan. We made contributions to the plan totaling $59,000 in 2002, $68,000 in 2001, and $48,000 in 2000.

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Note 9. Commitments and Contingencies

We currently lease approximately 6,500 square feet of office space in downtown Charlotte, North Carolina, for our corporate and administrative offices. Rent expense totaled approximately $169,000 in 2002 and $166,000 in 2001. The lease provides for monthly rental of approximately $14,000 and expires April 2003.

We have agreements with four of our executive officers that provide for cash compensation and other benefits if we terminate them without cause or if a change in control of the company occurs.

The company is a party to a variety of legal proceedings arising in the ordinary course of its business. We believe that such matters will not have a material effect on the financial position of the company.

Note 10. Quarterly Financial Data (Unaudited)

We present below selected financial data (unaudited) for the years ended December 31, 2002 and 2001:

	Income (Loss) before Extraordinary Item	
		Per Share

	Revenues	Total	Basic	Diluted	Incom
2002					
First quarter (1)	$ 8,826,002	$ 565,872	$0.10	$0.09	$
Second quarter	9,216,482	517,928	0.09	0.09	
Third quarter	9,936,444	353,804	0.06	0.06	
Fourth quarter	10,185,046	(116,359)	(0.02)	(0.03)	(
	$38,163,974	$1,321,245	$0.23	$0.21	$1,
2001					
First quarter	$ 8,957,270	$ 470,159	$0.08	$0.08	$
Second quarter	9,239,333	481,480	.09	.09	
Third quarter (2)	9,152,535	595,851	.10	.10	
Fourth quarter	8,912,635	454,497	.08	.08	
	$36,261,773	$2,001,987	$0.35	$0.35	$1,

Note 11. Subsequent Events

The Board of Directors declared a regular quarterly dividend of $0.25 per share on January 23, 2003, payable on February 17, 2003, to shareholders of record on February 3, 2003. The Board of Directors also authorized the payment of dividends totaling $125,000 to the Series B Preferred shareholder.

In February 2003, we sold one restaurant property to the lessee for its net carrying value of approximately $588,000. We applied approximately $426,000 of the proceeds from this sale to reduce our line of credit that is secured by the restaurant properties.

In March 2003, we acquired The Place Apartments, a community containing 144 apartment units, in Greenville, South Carolina, for a contract price of $5.6 million. We funded this acquisition by the placement of a $4.56 million first deed of trust loan and draws on our line of credit.

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BNP RESIDENTIAL PROPERTIES, INC.

Schedule III - Real Estate and Accumulated Depreciation
Year ended December 31, 2002

Description	Encumb.	Initial Costs		Costs Capitalized Subsequent to Acquisition	
		Land	Buildings & Improvem'ts		Land
Apartment Properties:					
North Carolina:					
Abbington Place, Greensboro	15,785,250	$2,302,000	23,598,676	708,853	$2,302,000
Alta Harbour, Cornelius	15,872,935	4,144,000	15,062,322	100,356	4,144,000
Allerton Place, Greensboro	10,270,000	1,384,000	14,650,428	288,844	1,384,000

Barrington Place, Charlotte	20,215,869	2,604,000	24,002,687	100,957	2,604,000
Brookford Place, Greensboro	4,838,466	465,000	5,157,507	42,270	465,000
Chason Ridge, Fayetteville	9,497,848	624,000	11,790,472	774,108	994,606
Harris Hill, Charlotte	5,710,151	1,003,298	7,867,857	1,017,165	1,003,298
Madison Hall, Clemmons	4,245,000	303,000	6,054,307	233,552	303,000
Oak Hollow, Cary	8,385,000	1,480,000	10,808,689	633,287	1,480,000
Oak Hollow - Phase 2, Cary	10,835,842	1,914,000	10,485,239	1,757,279	1,914,000
Oakbrook, Charlotte	7,808,231	848,835	8,523,384	1,008,395	848,835
Paces Commons, Charlotte	16,225,651	1,430,158	12,871,424	1,675,311	1,448,184
Paces Village, Greensboro	7,000,000	1,250,000	9,416,580	627,856	1,250,000
Pepperstone, Greensboro	3,883,750	552,000	5,015,153	376,399	552,000
Savannah Place, Winston-Salem	7,312,500	790,000	10,032,721	453,212	790,000
Summerlyn Place, Burlington	6,645,000	837,000	9,559,115	159,270	837,000
Waterford Place, Greensboro	11,089,000	1,686,000	16,745,972	320,949	1,686,000
Woods Edge, Durham	9,750,000	994,000	13,061,195	1,525,085	994,000
Computer and support equipment	96,307	-	-	879,171	-
	175,466,800	24,611,291	214,703,727	12,682,320	24,999,923
Virginia:					
Latitudes, Virginia Beach	18,118,135	3,360,000	18,606,667	1,748,858	3,360,000
Total Apartment Properties	193,584,935	27,971,291	233,310,394	14,431,178	28,359,923
Restaurant Properties:					
North Carolina:					
Burlington	(1)	162,411	417,629	-	162,411
Denver	(1)	275,484	708,387	-	275,484
Eden	(1)	253,282	651,296	-	253,282
Fayetteville (Ramsey)	(1)	260,135	668,919	-	260,135
Fayetteville (N.Eastern)	(1)	308,271	792,696	-	308,271

Description	Gross Amount at Which Carried at Close of Period (2)					
	Buildings & Improvem'ts	Total	Accumulated Depreciation	Date of Constr.	Date Acquired	Life (Years)
Apartment Properties:						
North Carolina:						
Abbington Place, Greensboro	24,307,529	$26,609,529	$4,817,657	1997	Dec-97	40
Alta Harbour, Cornelius	15,162,678	19,306,678	115,811	1994	Sep-02	60
Allerton Place, Greensboro	14,939,272	16,323,272	2,274,724	1998	Sep-98	40
Barrington Place, Charlotte	24,103,644	26,707,644	409,666	1999	May-02	60
Brookford Place, Greensboro	5,199,777	5,664,777	103,375	1998	May-02	60
Chason Ridge, Fayetteville	12,193,974	13,188,580	1,554,671	1994	Jan-99	40
Harris Hill, Charlotte	8,885,022	9,888,320	2,205,918	1988	Dec-94	40
Madison Hall, Clemmons	6,287,859	6,590,859	887,439	1997	Aug-98	40
Oak Hollow, Cary	11,441,976	12,921,976	1,516,434	1983	Jul-98	40
Oak Hollow - Phase 2, Cary	12,242,518	14,156,518	881,219	1986	Dec-00	40
Oakbrook, Charlotte	9,531,779	10,380,614	2,358,815	1985	Jun-94	40
Paces Commons, Charlotte	14,528,709	15,976,893	3,929,494	1988	Jun-93	40
Paces Village, Greensboro	10,044,436	11,294,436	2,089,076	1988	Apr-96	40
Pepperstone, Greensboro	5,391,552	5,943,552	1,019,307	1992	Dec-97	40
Savannah Place, Winston-Salem	10,485,933	11,275,933	1,883,988	1991	Dec-97	40
Summerlyn Place, Burlington	9,718,385	10,555,385	1,329,218	1998	Sep-98	40
Waterford Place, Greensboro	17,066,921	18,752,921	3,332,490	1997	Dec-97	40
Woods Edge, Durham	14,586,280	15,580,280	2,043,980	1985	Jun-98	40
Computer and support equipment	879,171	879,171	461,835			

	226,997,415	251,997,338	33,215,117			
Virginia:						
Latitudes, Virginia Beach	20,355,525	23,715,525	5,149,489	1989	Oct-94	38
Total Apartment Properties	247,352,940	275,712,863	38,364,606			
Restaurant Properties:						
North Carolina:						
Burlington	417,629	580,040	164,017	Oct-85	Apr-87	40
Denver	708,387	983,871	278,209	Jul-83	Apr-87	40
Eden	651,296	904,578	255,787	Jun-73	Apr-87	40
Fayetteville (Ramsey)	668,919	929,054	262,709	Oct-73	Apr-87	40
Fayetteville (N.Eastern)	792,696	1,100,967	311,320	Sep-83	Apr-87	40

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Description	Encumb.	Initial Costs		Costs Capitalized Subsequent to Acquisition	
		Land	Buildings & Improvem'ts		Land
Gastonia (E. Franklin)	(1)	230,421	592,511	-	230,421
Hillsborough	(1)	290,868	747,948	-	290,868
Kinston (W. Vernon)	(1)	237,135	609,777	-	237,135
Kinston (Richlands)	(1)	231,678	595,743	-	231,678
Newton	(1)	223,453	574,594	-	223,453
Siler City	(1)	268,312	689,945	-	268,312
Spring Lake	(1)	218,925	562,949	-	218,925
Thomasville (E. Main)	(1)	253,716	652,411	-	253,716
Thomasville (Randolph)	(1)	327,727	842,726	-	327,727
		3,541,818	9,107,531	-	3,541,818
Virginia:					
Ashland	(1)	296,509	762,452	-	296,509
Blackstone	(1)	275,565	708,596	-	275,565
Bluefield	(1)	205,700	528,947	-	205,700
Chester	(1)	300,165	771,852	-	300,165
Clarksville	(1)	211,545	543,972	-	211,545
Clintwood	(1)	222,673	572,588	-	222,673
Dublin	(1)	364,065	936,168	-	364,065
Franklin	(1)	287,867	740,230	-	287,867
Galax	(1)	309,578	796,057	-	309,578
Hopewell	(1)	263,939	678,701	-	263,939
Lebanon	(1)	266,340	684,876	-	266,340
Lynchburg (Langhorne)	(1)	249,865	642,509	-	249,865
Lynchburg (Timberlake)	(1)	276,153	710,107	-	276,153
Norfolk	(1)	325,822	837,829	-	325,822
Orange	(1)	244,883	629,699	-	244,883
Petersburg	(1)	357,984	920,531	-	357,984
Richmond (Forest Hill)	(1)	196,084	504,216	-	196,084
Richmond (Midlothian)	(1)	270,736	696,179	-	270,736
Richmond (Myers)	(1)	321,946	827,861	-	321,946
Roanoke (Hollins)	(1)	257,863	663,076	-	257,863
Roanoke (Abenham)	(1)	235,864	606,507	-	235,864

Rocky Mount	(1)	248,434	638,829	-	248,434
Smithfield	(1)	223,070	573,608	-	223,070

Description	Gross Amount at Which Carried at Close of Period (2)					
	Buildings & Improvem'ts	Total	Accumulated Depreciation	Date of Constr.	Date Acquired	Life (Years)
Gastonia (E. Franklin)	592,511	822,932	232,700	Apr-63	Apr-87	40
Hillsborough	747,948	1,038,816	293,745	Mar-78	Apr-87	40
Kinston (W. Vernon)	609,777	846,912	239,481	Jul-62	Apr-87	40
Kinston (Richlands)	595,743	827,421	233,969	Dec-81	Apr-87	40
Newton	574,594	798,047	225,664	Mar-76	Apr-87	40
Siler City	689,945	958,257	270,966	May-79	Apr-87	40
Spring Lake	562,949	781,874	221,090	Mar-76	Apr-87	40
Thomasville (E. Main)	652,411	906,127	256,225	Feb-66	Apr-87	40
Thomasville (Randolph)	842,726	1,170,453	330,968	Apr-74	Apr-87	40
	9,107,531	12,649,349	3,576,850			
Virginia:						
Ashland	762,452	1,058,961	299,442	Apr-87	Apr-87	40
Blackstone	708,596	984,161	278,292	Sep-79	Apr-87	40
Bluefield	528,947	734,647	207,736	Feb-85	Apr-87	40
Chester	771,852	1,072,017	303,134	May-73	Apr-87	40
Clarksville	543,972	755,517	213,637	Oct-85	Apr-87	40
Clintwood	572,588	795,261	224,875	Jan-81	Apr-87	40
Dublin	936,168	1,300,233	367,667	Jul-83	Apr-87	40
Franklin	740,230	1,028,097	290,715	Feb-75	Apr-87	40
Galax	796,057	1,105,635	312,639	Jun-74	Apr-87	40
Hopewell	678,701	942,640	266,550	Jun-78	Apr-87	40
Lebanon	684,876	951,216	268,976	Jun-83	Apr-87	40
Lynchburg (Langhorne)	642,509	892,374	252,336	Sep-82	Apr-87	40
Lynchburg (Timberlake)	710,107	986,260	278,884	Aug-83	Apr-87	40
Norfolk	837,829	1,163,651	329,045	Aug-84	Apr-87	40
Orange	629,699	874,582	247,305	Aug-74	Apr-87	40
Petersburg	920,531	1,278,515	361,526	Mar-74	Apr-87	40
Richmond (Forest Hill)	504,216	700,300	198,024	Nov-74	Apr-87	40
Richmond (Midlothian)	696,179	966,915	273,414	Jan-74	Apr-87	40
Richmond (Myers)	827,861	1,149,807	325,131	Apr-83	Apr-87	40
Roanoke (Hollins)	663,076	920,939	260,414	Feb-73	Apr-87	40
Roanoke (Abenham)	606,507	842,371	238,197	Nov-82	Apr-87	40
Rocky Mount	638,829	887,263	250,891	May-80	Apr-87	40
Smithfield	573,608	796,678	225,276	Apr-77	Apr-87	40

Description	Encumb.	Initial Costs		Costs Capitalized Subsequent to Acquisition	
		Land	Buildings & Improvem'ts		Land

Staunton	(1)	260,569	670,035	-	260,569
Verona	(1)	191,631	492,765	-	191,631
Virginia Beach (Lynnhaven)	(1)	271,570	698,322	-	231,731
Virginia Beach (Holland)	(1)	277,943	714,710	-	277,943
Wise	(1)	219,471	564,355	-	219,471
		7,433,834	19,115,577	-	7,393,995
Total Restaurant Properties	18,000,000	10,975,652	28,223,108	-	10,935,813
Total Real Estate	$211,584,935	$38,946,943	$261,533,502	$14,431,178	$39,295,736

Description	Gross Amount at Which Carried at Close of Period (2)					
	Buildings & Improvem'ts	Total	Accumulated Depreciation	Date of Constr.	Date Acquired	Life (Years)
Staunton	670,035	930,604	263,147	Sep-83	Apr-87	40
Verona	492,765	684,396	193,526	Jan-85	Apr-87	40
Virginia Beach (Lynnhaven)	698,322	930,053	274,256	Jun-80	Apr-87	40
Virginia Beach (Holland)	714,710	992,653	280,692	Aug-83	Apr-87	40
Wise	564,355	783,826	221,642	Jun-80	Apr-87	40
	19,115,577	26,509,572	7,507,369			
Total Restaurant Properties	28,223,108	39,158,921	11,084,219			
Total Real Estate	$275,576,048	$314,871,784	$49,448,825			

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BNP RESIDENTIAL PROPERTIES, INC.

Schedule III - Real Estate and Accumulated Depreciation

	2002	2001
Real estate investments:		
Balance at beginning of year	$ 260,748,391	$ 257,520,268
Additions during year		
Acquisitions	51,435,516	370,605

Effect of consolidation (1)	-	593,833	
Improvements, etc.	2,785,303	2,809,344	
Deductions during year	(97,426)	(545,659)	
Balance at close of year	$ 314,871,784	$ 260,748,391	
Accumulated depreciation:			
Balance at beginning of year	$ 25,926,208	40,751,890	
Effect of consolidation (1)	-	248,026	
Provision for depreciation	8,794,361	7,828,457	
Deductions during year	(97,426)	(139,798)	
Balance at close of year	$ 49,448,825	$ 40,751,890	

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INDEX TO EXHIBITS

Exhibit No.

2.1* Master Agreement of Merger and Acquisition by and among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, Paul G. Chrysson, James G. Chrysson, W. Michael Gilley, Matthew G. Gallins, James D. Yopp, and the partnership and limited liability companies listed therein, dated September 22, 1997 (filed as Exhibit 2.1 to Registration Statement No. 333-39803 on Form S-2, December 16, 1997, and incorporated herein by reference)

2.2* Amendment to Master Agreement of Merger and Acquisition dated September 22, 1997, b and among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, Paul G. Chrysson, James G. Chrysson, W. Michael Gilley, Matthew G. Gallins, James D. Yopp, and the partnerships and limited liability companies listed therein, dated November 3, 1997 (filed as Exhibit 2.3 to BNP Residential Properties Inc. Current Report on Form 8-K dated December 1, 1997, and incorporated herein by reference)

3.1* Articles of Incorporation (filed as Exhibit 3.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated March 17, 1999, and incorporated herein by reference)

3.2* Articles Supplementary, Classifying and Designating 909,090 Shares of Series B Cumulative Convertible Preferred Stock, dated December 28, 2001 (filed as Exhibit 3.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)

3.3* Amended and Restated By-Laws (filed as Exhibit 3.2 to BNP Residential Properties, Inc., Current Report on Form 8-K dated December 28, 2001, and incorporated herein b reference)

4.1* Rights Agreement, dated March 18, 1999, between the Company and First Union Nationa

	Bank (filed as Exhibit 4 to BNP Residential Properties, Inc. Current Report on Form 8-K dated March 17, 1999, and incorporated herein by reference)
4.2*	Registration Rights Agreement By and Among BNP Residential Properties, Inc. and Preferred Investment I, LLC, dated December 28, 2001 (filed as Exhibit 4 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, an incorporated herein by reference)
10.1*	Second Amended and Restated Agreement of Limited Partnership of Boddie-Noell Properties Limited Partnership dated as of March 17, 1999 (filed as Exhibit 10.1 to the company's Annual Report on Form 10-K for the year ended December 31, 1998, and incorporated herein by reference)
10.2*	Amendment to Second Amended and Restated Agreement of Limited Partnership of BNP Residential Properties Limited Partnership, dated December 28, 2001 (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
10.3*	Investment Agreement By and Between BNP Residential Properties, Inc. and Preferred Investment I, LLC, dated December 28, 2001 (filed as Exhibit 10.2 to BNP Residentia Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
10.4*	Amended and Restated Master Lease Agreement dated December 21, 1995, between BNP Residential Properties, Inc. and Boddie-Noell Enterprises, Inc. (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Annual Report on Form 10-K dated December 31, 1995, and incorporated herein by reference)
10.5*	BNP Residential Properties, Inc. 1994 Stock Option and Incentive Plan effective August 4, 1994, and amended effective May 15, 1998 (filed as an exhibit in Schedule 14A of Proxy Statement dated April 13, 1998, and incorporated herein by reference)

Exhibit No.

10.6*	Form and description of Employment Agreements dated July 15, 1997, between BNP Residential Properties, Inc. and certain officers (filed as Exhibit 10 to BNP Residential Properties, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, and incorporated herein by reference)
10.7	Employment Agreement dated December 1, 2002, between BNP Residential Properties, Inc. and Eric S. Rohm
21	Subsidiaries of the Registrant
23	Consent of Ernst & Young LLP
99.1	Section 906 Certification by Chief Executive Officer
99.2	Section 906 Certification by Chief Financial Officer

* Incorporated herein by reference