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BNP RESIDENTIAL PROPERTIES INC  
Form 10-Q  
November 09, 2004

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2004  
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OR

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

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

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Commission file number: 1-9496

BNP RESIDENTIAL PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

Maryland

56-1574675

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State or other jurisdiction of  
incorporation or organization

(I.R.S. Employer  
Identification No.)

301 S. College Street, Suite 3850, Charlotte, NC 28202-6024

(Address of principal executive offices) (Zip Code)

704/944-0100

(Registrant's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the preceding 12 months (or for such shorter period that the  
registrant was required to file such reports), and (2) has been subject to such  
filing requirements for the past 90 days. Yes X No

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

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APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the registrant's  
classes of common stock, as of November 4, 2004 (the latest practicable date).

Common Stock, \$.01 par value

8,636,173

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(Class)

(Number of shares)

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PART I - Financial Information

Item 1. Financial Statements.

BNP RESIDENTIAL PROPERTIES, INC.

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Consolidated Balance Sheets

	September 30 2004	Decem 2
	----- (Unaudited)	
Assets		
Real estate investments at cost:		
Apartment properties	\$387,056,730	\$29
Restaurant properties	37,405,385	3
	-----	-----
	424,462,115	33
Less accumulated depreciation	(63,324,361)	(5
	-----	-----

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	361,137,754	28
Cash and cash equivalents	1,592,608	
Prepaid expenses and other assets	7,074,664	
Intangible assets, net of accumulated amortization:		
Intangible related to acquisition of management operations	1,115,088	
Deferred financing costs	1,603,426	
	-----	-----
Total assets	\$372,523,540	\$28
	=====	=====
Liabilities and Shareholders' Equity		
Deed of trust and other notes payable	\$286,803,385	\$22
Accounts payable and accrued expenses	5,021,779	
Deferred revenue and security deposits	1,499,175	
Deferred credit for defeasance of interest, net of accumulated amortization	-	
	-----	-----
Total liabilities	293,324,339	23
Minority interest in operating partnership	14,850,572	1
Shareholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; issued and outstanding shares-- 909,090 at June 30, 2004, and December 31, 2003	10,000,000	1
Common stock, \$.01 par value, 100,000,000 shares authorized; issued and outstanding shares-- 8,576,400 at September 30, 2004, 5,907,133 at December 31, 2003	85,764	
Additional paid-in capital	102,315,047	7
Dividend distributions in excess of net income	(48,052,182)	(4
	-----	-----
Total shareholders' equity	64,348,629	3
	-----	-----
Total liabilities and shareholders' equity	\$372,523,540	\$28
	=====	=====

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BNP RESIDENTIAL PROPERTIES, INC.

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Consolidated Statements of Operations  
(Unaudited)

	Three months ended		Nine months end	
	September 30		September 30	
	2004	2003	2004	
	-----		-----	
Revenues				
Apartment rental income	\$12,297,657	\$ 9,650,103	\$32,929,903	\$
Restaurant rental income	957,446	970,316	2,872,340	
Management fee income	176,543	229,141	581,944	
Casualty gains	268,736	-	268,736	

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Interest and other income	25,947	26,528	162,282
	-----	-----	-----
	13,726,329	10,876,088	36,815,205
Expenses			
Apartment operations	5,090,831	3,999,767	13,340,773
Apartment administration	563,672	413,681	1,604,094
Corporate administration	497,243	445,267	1,724,156
Depreciation	3,160,927	2,527,557	8,390,482
Amortization of deferred loan costs	107,877	81,439	263,486
Interest	3,910,142	3,278,652	10,480,189
Write-off of unamortized loan costs at refinance	85,341	-	85,341
	-----	-----	-----
	13,416,033	10,746,363	35,888,521
Income (loss) before minority interest	310,296	129,725	926,684
Minority interest in operating partnership	11,073	(7,372)	37,768
	-----	-----	-----
Net income (loss)	299,223	137,097	888,916
Cumulative preferred dividend	250,000	160,616	750,000
	-----	-----	-----
Income (loss) available to common shareholders	\$ 49,223	\$ (23,519)	\$ 138,916
	=====	=====	=====
Per share amounts:			
Basic earnings per share - Net income (loss)	\$ 0.03	\$ 0.02	\$ 0.12
	=====	=====	=====
Income (loss) available to common shareholders	\$ 0.01	\$(0.01)	\$ 0.02
	=====	=====	=====
Diluted earnings per share - Net income (loss)	\$ 0.03	\$ 0.01	\$ 0.10
	=====	=====	=====
Income (loss) available to common shareholders	\$ 0.01	\$(0.01)	\$ 0.02
	=====	=====	=====
Dividends declared	\$ 0.25	\$ 0.25	\$ 0.75
	=====	=====	=====
Weighted average common shares outstanding	8,289,144	5,877,060	7,275,170
	=====	=====	=====

BNP RESIDENTIAL PROPERTIES, INC.

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Consolidated Statement of Shareholders' Equity  
(Unaudited)

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	Preferred Stock		Common Stock		Additional	Divid
	Shares	Amount	Shares	Amount	paid-in	in exce
					capital	in net in
Balance December 31, 2003	909,090	\$10,000,000	5,907,133	\$59,071	\$ 71,473,473	\$(42,799
Common stock issued	-	-	1,191,565	11,916	13,233,713	
Dividends paid - preferred	-	-	-	-	-	(250
Dividends paid - common	-	-	-	-	-	(1,476
Net income	-	-	-	-	-	373
Balance March 31, 2004	909,090	10,000,000	7,098,698	70,987	84,707,186	(44,153
Common stock issued	-	-	36,733	367	463,081	
Costs of stock issues	-	-	-	-	(56,299)	
Dividends paid - preferred	-	-	-	-	-	(250
Dividends paid - common	-	-	-	-	-	(1,774
Net income	-	-	-	-	-	216
Balance June 30, 2004	909,090	10,000,000	7,135,431	71,354	85,113,968	(45,961
Common stock issued	-	-	1,440,969	14,410	17,201,079	
Dividends paid - preferred	-	-	-	-	-	(250
Dividends paid - common	-	-	-	-	-	(2,140
Net income	-	-	-	-	-	299
Balance September 30, 2004	909,090	\$10,000,000	8,576,400	\$85,764	\$102,315,047	\$(48,052

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statements of Cash Flows  
(Unaudited)

	Nine months end September 30 2004	
Operating activities:		
Net income (loss)	\$ 888,916	\$
Adjustments to reconcile net income (loss) to net cash provided by operations:		
Casualty gains	(268,736)	
Write-off of unamortized loan costs at refinancing	85,341	
Minority interest in operating partnership	37,768	
Depreciation and amortization of loan costs	8,653,968	
Amortization of defeasance credit	(104,960)	
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(3,306,169)	
Accounts payable and accrued expenses	3,014,871	

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Deferred revenue and security deposits	(57,401)	
	8,943,598	
Net cash provided by operating activities		
Investing activities:		
Acquisitions of apartment properties	(48,305,072)	
Additions to apartment properties, net	(3,027,949)	
Casualty proceeds	895,060	
Sale of restaurant properties	-	
	(50,437,961)	
Net cash used in investing activities		
Financing activities:		
Net proceeds from issuance of preferred stock	-	
Net proceeds from issuance of common stock	30,555,679	
Distributions to operating partnership minority unitholders	(1,380,062)	
Dividends paid to preferred shareholder	(750,000)	
Dividends paid to common shareholders	(5,391,470)	
Proceeds from notes payable	111,905,790	
Principal payments on notes payable	(91,563,164)	
Payment of deferred financing costs	(854,228)	
	42,522,545	
Net cash provided by financing activities		
	1,028,182	
Net increase (decrease) in cash and cash equivalents		
Cash and cash equivalents at beginning of period	564,426	
	\$ 1,592,608	\$
Cash and cash equivalents at end of period		

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BNP RESIDENTIAL PROPERTIES, INC.

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Notes to Consolidated Financial Statements - September 30, 2004  
(Unaudited)

Note 1. Interim financial statements

Our independent accountants have not audited the accompanying financial statements of BNP Residential Properties, Inc., except for the balance sheet at December 31, 2003. We derived the amounts in the balance sheet at December 31, 2003, from the financial statements included in our 2003 Annual Report on Form 10-K. We believe that we have included all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of the financial position and results of operations for the periods presented.

We have condensed or omitted certain notes and other information from the interim financial statements presented in this Quarterly Report on Form 10-Q. You should read these financial statements in conjunction with our 2003 Annual Report on Form 10-K.

Note 2. Basis of presentation

The consolidated financial statements include the accounts of BNP Residential Properties, Inc. (the "company") and BNP Residential Properties Limited Partnership (the "operating partnership"). The company is the general partner

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and owns a majority interest in the operating partnership. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

### Stock-based compensation

The company has one employee Stock Option and Incentive Plan in place. 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 this significant estimate for stock-based employee compensation, the effect would have been to reduce net income as reported by less than \$200 for the nine months ended September 30, 2004 and 2003, respectively, with no impact on basic and diluted earnings per share amounts as reported.

### Note 3. Apartment property acquisitions

During the third quarter of 2004, we completed the following apartment acquisitions:

- o Savannah Shores Apartments - 198-unit property located in Myrtle Beach, South Carolina, acquired July 1, 2004, for an initial purchase price of \$12.5 million. The acquisition agreement provides for potential earn-out of additional purchase price of up to \$1.7 million within a three-year period upon attainment of certain performance standards; this would be funded through the issuance of operating partnership units with an imputed value of \$13.00 per unit to the contributors. We paid the initial purchase price through issuance of 7,695 operating partnership units with an imputed value of approximately \$0.1 million, assumption of \$12.2 million in debt obligations, and assumption of approximately \$0.2 million net operating liabilities in excess of operating assets acquired. Two members of the contributor

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group in this transaction serve on our Board of Directors. Prior to this transaction, we managed the property under a third-party management contract.

- o Fairington Apartments - 250-unit property located in Charlotte, North Carolina, acquired August 5, 2004, for a contract price of \$18.5 million, paid in cash.
- o Bridges at Southpoint Apartments (formerly named Sterling Park Apartments) - 192-unit property located in Durham, North Carolina, acquired September 30, 2004, for a contract price of \$10.2 million, paid in cash.

During the second quarter of 2004, we completed the following apartment acquisitions:

- o Bridges at Wind River Apartments (formerly named Oakwood Raleigh Apartments) - 346-unit property located in Durham, North Carolina, acquired May 12, 2004, for a contract price of \$25.0 million, including issuance of 39,270 operating partnership units with an imputed value of approximately \$511,000, assumption of approximately \$24.6 million in debt obligations, and receipt of an estimated \$0.2 million net operating assets, including approximately \$200,000 cash.

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- o Carriage Club Apartments - 268-unit property located in Mooresville, North Carolina, acquired June 29, 2004, for a contract price of \$19.65 million, paid in cash.

### Note 4. Financing transactions

During the third quarter of 2004, we completed the following financing transactions:

- o \$9.0 million variable-rate note payable, effective July 1, 2004, secured by a deed of trust and assignment of rents of Savannah Shores Apartments. The three-year note provides for interest at 30-day LIBOR plus 1.8%, payable monthly, and principal due July 2007, subject to an optional 24-month extension. If the loan is extended, principal payments of approximately \$16,000 will be payable monthly beginning August 2007, with the remaining principal balance of approximately \$8.6 million due July 2009. In conjunction with this transaction, we paid and recorded deferred loan costs of approximately \$56,000. We applied proceeds of this loan, along with additional funds drawn on our revolving line of credit, to retire the existing \$12.2 million loan obligation related to Savannah Shores.
- o \$15.0 million fixed-rate note payable, effective July 13, 2004, secured by a deed of trust and assignment of rents of The Harrington Apartments. The note provides for interest at 5.15% payable in monthly installments of approximately \$65,000 through August 2005, then principal and interest payable in monthly installments of approximately \$82,000 September 2005 through July 2009, with a balloon payment of approximately \$14.1 million at maturity in August 2009. We applied the proceeds to retire a \$14.4 million variable-rate note payable. In conjunction with this transaction, we paid and recorded deferred loan costs of approximately \$92,000.
- o \$13.4 million variable-rate note payable, effective August 5, 2004, secured by a deed of trust and assignment of rents of Fairington Apartments. The note provides for interest at 30-day LIBOR plus 1.75%, payable monthly, with principal due August 2007, subject to an optional 24-month extension. If the loan is extended, principal payments of approximately \$31,000 will be payable monthly beginning September 2007, with the remaining principal balance of

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approximately \$12.7 million due August 2009. In conjunction with this transaction, we paid and recorded deferred loan costs of approximately \$76,000.

- o \$8.2 million fixed-rate note payable, effective September 27, 2004, secured by a deed of trust and assignment of rents of Bridges at Southpoint Apartments. The note provides for interest at a fixed rate of 4.93%, payable in monthly installments of approximately \$34,000 through October 2007, then principal and interest payable in monthly installments of approximately \$44,000 November 2007 through September 2014, with a balloon payment of approximately \$7.3 million at maturity in October 2014. In conjunction with this transaction, we paid and recorded deferred loan costs of approximately \$61,000.

During the second quarter of 2004, we completed the following financing transactions:

- o \$11.5 million variable-rate note payable, effective April 30, 2004, secured by a deed of trust and assignment of rents of Chason Ridge Apartments. The



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note provides for interest at 30-day LIBOR plus 1.75%, payable monthly, and principal due May 2007, subject to an optional 24-month extension. If the loan is extended, principal payments of approximately \$27,000 will be payable monthly beginning June 2007, with the remaining principal balance of approximately \$10.9 million due April 2009. We applied approximately \$9.4 million of these proceeds to retire an existing 8.5% deed of trust note related to Chason Ridge. In conjunction with this transaction, we paid and recorded deferred loan costs of approximately \$98,000, and we wrote off unamortized loan costs of approximately \$85,000 related to the debt retired.

- o \$19.7 million fixed-rate note payable, effective May 12, 2004, secured by a deed of trust and assignment of rents of Bridges at Wind River Apartments. The note provides for interest at 5.57% payable in monthly installments of principal and interest of approximately \$113,000, with a balloon payment of approximately \$16.5 million at maturity in June 2014, subject to an optional extension for one year with interest at a variable rate. We applied the proceeds of this note, along with additional funds drawn on our revolving line of credit, to retire the existing \$24.6 million loan obligations related to Bridges at Wind River. In conjunction with this transaction, we paid and recorded deferred loan costs of approximately \$160,000.
- o \$14.9 million fixed-rate note payable, effective June 29, 2004, secured by a deed of trust and assignment of rents of Carriage Club Apartments. The note provides for interest at 5.15% payable in monthly installments of approximately \$65,000 through July 2005, then principal and interest payable in monthly installments of approximately \$81,000 August 2005 through June 2009, with a balloon payment of approximately \$14.0 million at maturity in July 2009. In conjunction with this transaction, we paid and recorded deferred loan costs of approximately \$90,000.

In June 2004, we modified our revolving line of credit with a bank secured by the Latitudes Apartments to increase the maximum loan amount to \$30.0 million, extend the term of the loan through November 2007, and reduce the variable interest rate on outstanding amounts to 30-day LIBOR plus 1.65%. In conjunction with this modification, we paid and recorded deferred loan costs of approximately \$185,000.

During the second and third quarters of 2004, we made draws on this line of credit totaling \$20.2 million in conjunction with apartment acquisitions.

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### Note 5. Casualty Gains

During the third quarter of 2004 we recorded casualty gains of \$268,736 related to fires that occurred at two apartment communities. These gains were the result of receipts during the third quarter of insurance proceeds of approximately \$895,000, offset by the write off of approximately \$626,000 net book value of an apartment building (containing 20 apartment units) that was approximately 80% destroyed and a clubhouse building that was approximately 20% destroyed.

### Note 6. Shareholders' equity

On July 19, 2004, we issued 1,420,000 shares of common stock at a price of \$12.50 per share, to a number of institutional investors and mutual funds pursuant to a registered direct placement, for a total purchase price of approximately \$17.75 million. Through September 30, 2004, we incurred costs totaling approximately \$0.8 million related to this placement. We expect to use the net proceeds to fund future acquisitions, to repay bank debt, and for

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general corporate purposes. We immediately applied \$17.0 million of the net proceeds to reduce our revolving line of credit secured by Latitudes Apartments.

On February 23, 2004, we issued 1,175,519 shares of common stock at a price of \$11.75 per share, to a number of institutional investors and mutual funds pursuant to a private placement, for a total purchase price of approximately \$13,812,000. We incurred costs associated with this placement totaling approximately \$0.8 million. We expect to use the net proceeds to fund future acquisitions, to repay bank debt, and for general corporate purposes. We immediately applied \$13.0 million of the net proceeds to reduce our revolving line of credit secured by Latitudes Apartments.

In August 2004, we issued 16,351 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan ("DRIP") for proceeds of approximately \$214,000. During the first and second quarters of 2004, we issued a total of 32,779 shares of our common stock through our DRIP for proceeds of approximately \$407,000.

In addition, in May 2004, we issued 20,000 shares of our common stock with an imputed value of \$251,000 in exchange for operating partnership units formerly held by a minority unitholder; we issued these shares to Paul Chrysson, a member of our Board of Directors. In July 2004, we issued 4,618 shares of our common stock in exchange for operating partnership units formerly held by a minority unitholder.

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

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	Three months ended September 30		Nine months ended September 30	
	2004	2003	2004	
<b>Numerators:</b>				
Numerator for basic				
earnings per share -				
Net income (loss)	\$ 299,223	\$ 137,097	\$ 888,916	\$
Cumulative preferred dividend	(250,000)	(160,616)	(750,000)	\$
Income (loss) available to common shareholders	\$ 49,223	\$ (23,519)	\$ 138,916	\$
Numerator for diluted				
earnings per share -				
Net income (loss) (1)	\$ 310,296	\$ 129,725	\$ 926,684	\$
Cumulative preferred dividend	(250,000)	(160,616)	(750,000)	\$
Income (loss) available to common shareholders (1)	\$ 60,296	\$ (30,891)	\$ 176,684	\$
<b>Denominators:</b>				
Denominator for basic				

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earnings per share - weighted average common shares outstanding	8,289,144	5,877,060	7,275,170
Effect of dilutive securities:			
Convertible Operating			
Partnership units	1,864,700	1,842,337	1,852,101
Stock options (2)	35,735	6,564	24,538
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	10,189,579	7,725,961	9,151,809
	10,189,579	7,725,961	9,151,809

### Note 7. Subsequent events

On October 22, 2004, the Board of Directors declared a regular quarterly cash dividend of \$0.25 per share to be paid on November 15, 2004, to common shareholders of record on November 1, 2004. The Board of Directors also authorized the payment of dividends totaling \$250,000 to the Series B Preferred shareholder in accordance with the company's charter provisions governing those shares.

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In early October 2004, we issued an additional 2,482 operating partnership units with an imputed value of approximately \$32,000 in final settlement of net operating assets received in the acquisition of Bridges at Wind River Apartments.

Also in October 2004, we issued 59,773 shares of our common stock for exercise of options by three of our employees. In conjunction with this issue, we received cash proceeds of approximately \$700,000.

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

This Quarterly 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;

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- 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 cause our debt service costs to exceed expectations;
- o we may not be able to meet our long-term liquidity requirements on favorable terms; and
- o we could lose the services of key executive officers.

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

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

### Company Profile

BNP Residential Properties, Inc. is a self-administered and self-managed real estate investment trust with operations in North Carolina, South Carolina and Virginia. Our primary activity is the ownership and operation of apartment communities. As of November 4, 2004, we currently own 25 apartment communities containing 6,113 units and provide third-party management services for seven communities containing a total of 1,799 units. In addition to our apartment communities, we own 40 properties that we lease on a triple-net basis to a restaurant operator.

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

Our executive offices are located at 301 South College Street, Suite 3850, Charlotte, North Carolina 28202-6024, telephone 704/944-0100.

### Results of Operations

#### Summary

From an operational point of view, we were pleased with the third quarter of 2004. During the quarter we acquired three apartment communities, raised \$17.75 million in new equity, and saw continued improvement in apartment operations and restaurant sales. We were, however, somewhat disappointed with our results for the quarter. A number of factors combined to reduce our reported results for the quarter below what we had hoped to achieve.

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- o In July 2004, we raised approximately \$17.75 million of new equity through the issuance of 1.4 million shares of common stock. While the purpose of this transaction was to provide capital to allow us to acquire additional apartment properties, we temporarily used the proceeds of this offering to pay down our operating line of credit. The net effect of this was to dilute our earnings and funds from operations for the third quarter by approximately \$0.03 per share.
- o The Sarbanes-Oxley Act requires us to document, test and certify our internal controls as of the end of this year. Like many public companies, we engaged a consulting firm to assist with this undertaking. In the third quarter, we spent in excess of \$75,000 on this project. While we expect that we will incur ongoing expenses associated with Sarbanes-Oxley requirements in the future, we do not expect that the cost of this initial internal controls documentation project will be repeated.
- o During the third quarter, we decided to lock down long-term, fixed-rate financing on a property that had been acquired using a variable-rate loan. This resulted in the one-time write off of approximately \$85,000 of unamortized loan costs incurred when the acquisition loan was put in place in 2003.
- o During the third quarter we recorded certain expenses, primarily related to payroll, that on a comparable basis were reported in the fourth quarter of 2003. As a result of this variance in timing, approximately \$150,000 in expense was recorded in the third quarter of 2004 which, on a comparable basis, would have been reported in the fourth quarter.

We are pleased with the progress we have made over the past several quarters. So far this year, we have added five apartment communities, raised more than \$31 million in new capital in two equity placements, significantly expanded our institutional investor base, completed one apartment property rehabilitation, and begun rehabilitation projects on two additional apartment properties. We believe we are well positioned to take advantage of any improvement in our markets.

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However, our long-term optimism is tempered somewhat by concern that the current economic recovery, particularly for people in the income ranges typical of our residents, is quite fragile. It is important to remember that, with the notable exception of 2003, it is normal for us to see a drop off in occupancy in our apartment properties in the winter months. Our concern is that the current economic climate will exacerbate this trend. With this in view, our primary objective through the winter months will be to maintain occupancy at acceptable levels, with the goal of putting ourselves in position to begin working to raise rental rates in the spring of 2005.

### Revenues

Total revenues in the third quarter of 2004 were \$13.7 million, an increase of 26.2% compared to the third quarter of 2003. Total revenues through the first nine months of 2004 were \$36.8 million, a 17.6% increase compared to the first nine months of 2003.

Apartment rental income totaled \$12.3 million in the third quarter of 2004, an increase of 27.4% compared to the third quarter of 2003. Through the first nine months of 2004, apartment rental income totaled \$32.9 million, a 19.8% increase compared to the first nine months of 2003. These increases are

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primarily attributable to seven apartment acquisitions in 2003 and 2004. These new apartment properties contributed approximately \$2.9 million in revenue in the third quarter of 2004 and approximately \$5.0 million in revenue through the first nine months of 2004.

On a "same-units" basis (the 18 apartment communities that we owned through the first nine months of both 2004 and 2003), apartment rental income increased by 2.3% in the third quarter of 2004 compared to the third quarter of 2003, and by 4.4% for the first nine months of 2004 compared to the first nine months of 2003. This increase was the result of improvements in occupancy as well as revenue per occupied unit. On a same-units basis, average economic occupancy was 95.2% for the third quarter of 2004, compared to 93.8% for the third quarter of 2003; and 95.2% for the first nine months of 2004, compared to 92.1% for the first nine months of 2003. On a same-units basis, average revenue per occupied unit was \$743 for the third quarter of 2004, compared to \$737 for the third quarter of 2003; and \$737 for the first nine months of 2004, compared to \$729 for the first nine months of 2003.

Summary amounts for our apartment communities' occupancy and revenue per occupied unit for the third quarter and first nine months of 2004 follow:

	Number of apartment units -----	Average economic occupancy -----	Three months ended September 30 Average monthly revenue per occupied unit -----	Nine months ended September 30 Average economic occupancy -----
Abbingtion Place	360	95.0%	\$762	93.7%
Allerton Place	228	95.2%	810	94.6%
Barrington Place	348	95.5%	741	95.0%
Brookford Place	108	98.8%	686	97.9%
Carriage Club(2)	268	94.0%	741	94.0%
Chason Ridge	252	95.3%	811	97.2%
Fairington(2)	250	93.2%	693	93.2%
The Harrington(1)	288	95.8%	749	93.4%
Harris Hill	184	96.1%	630	95.7%
Latitudes	448	97.6%	937	97.2%

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	Number of apartment units -----	Average economic occupancy -----	Three months ended September 30 Average monthly revenue per occupied unit -----	Nine months ended September 30 Average economic occupancy -----
Madison Hall	128	94.4%	607	94.6%

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Marina Shores Waterfront	290	96.5%	782	95.0%
Oakbrook	162	92.5%	695	94.9%
Oak Hollow	461	91.4%	617	93.1%
Paces Commons	336	95.6%	630	96.2%
Paces Village	198	96.0%	670	94.2%
Pepperstone	108	97.5%	660	97.2%
Savannah Place	172	93.7%	715	93.5%
Savannah Shores(2)	198	94.5%	817	94.5%
Bridges at Southpoint(3)	192			
Summerlyn Place	140	95.3%	826	94.7%
The Place(1)	144	93.9%	551	96.3%
Waterford Place	240	97.3%	882	95.6%
Woods Edge	264	92.7%	704	94.7%
Bridges at Wind River(2)	346	86.3%	818	87.4%
All apartments(3)				
- 2004	5,921	94.5%	745	94.8%
- 2003	4,859	93.7%	733	92.0%
Same units(1,2,3)	4,427			
- 2004		95.2%	743	95.2%
- 2003		93.8%	737	92.1%

Restaurant rental income was \$1.0 million in the third quarters of both 2004 and 2003. Through the first nine months of 2004, restaurant rental income was \$2.9 million, compared to \$3.0 million through the first nine months of 2003. A slight decline in 2004 restaurant rental income as compared to 2003 is attributable to the sale of two restaurant properties during 2003. "Same-store" (those 40 restaurant properties that operated through the first nine months of both 2004 and 2003) sales at our restaurant properties increased by 6.4% compared to the third quarter of 2003, and by 12.4% compared to the first nine months of 2003. For the first time in almost nine years, during the second and third quarters of 2004, sales at our restaurant properties exceeded the threshold for percentage rent; on a year-to-date basis, sales have just passed the threshold for percentage rent. Under the master lease for these 40 restaurant properties, annual rent is the greater of \$3,829,787 or 9.875% of food sales.

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Management fee income totaled \$177,000 in the third quarter of 2004, compared to \$229,000 in the third quarter of 2003. Through the first nine months of 2004, management fee income totaled \$582,000, compared to \$679,000 through the first nine months of 2003. This decrease is attributable to the termination of management contracts for several properties in 2003; along with the July 2004 acquisition of Savannah Shores, which we previously managed, and termination of the management contract for another property in June 2004. Management fees for these two properties totaled approximately \$65,000 through the first six months of 2004.

During the third quarter of 2004, we recorded casualty gains of approximately \$269,000 related to fires that occurred at two apartment communities, as follows:

- o In September 2003, approximately 20% of the clubhouse at Oakbrook Apartments was damaged by fire. In September 2004, we received final settlement from the insurance carrier. Insurance proceeds totaled approximately \$114,000, including approximately \$18,000 for out-of-pocket

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costs related to securing the damaged area and approximately \$96,000 for assets destroyed in the fire. We identified and wrote off assets destroyed with a net book value of approximately \$72,000, including building net book value of approximately \$67,000 and furniture and equipment with net book value of approximately \$5,000. We recorded a casualty gain of approximately \$24,000 related to this settlement. We have spent approximately \$111,000 to replace the damaged portion of the building and contents.

- o In April 2004, approximately 80% of one apartment building (which contained 20 apartment units) at Latitudes Apartments, a 448-unit apartment community, was damaged by fire. Through September 2004, we have received preliminary settlement from the insurance carrier totaling approximately \$917,000, including approximately \$118,000 for out-of-pocket costs related to securing the damaged area and approximately \$799,000 for assets destroyed in the fire. We identified and wrote off assets destroyed with a net book value of approximately \$554,000, including building net book value of approximately \$531,000 and furniture and equipment with net book value of approximately \$23,000. We recorded a casualty gain of approximately \$245,000 related to this preliminary settlement. Reconstruction of the building has recently begun, and we expect to complete the reconstruction in early 2005. In the meantime, we have recorded (and included in rental income) approximately \$82,000 in additional agreed-to proceeds for rental interruption on the apartment units. We are insured for the loss, including rent continuation insurance which covers 100% of lost rental income.

Generally accepted accounting principles require us to recognize this gain on the insurance proceeds for assets destroyed. However, the economic reality is that we have or will invest all of the insurance proceeds to replace the assets that were destroyed.

### Expenses

Total expenses, including non-cash charges for depreciation, amortization, and write-off of unamortized loan costs at refinance, were \$13.4 million in the third quarter of 2004, an increase of 24.8% compared to the third quarter of 2003. Through the first nine months of 2004, total expenses were \$35.9 million, an increase of 13.7% compared to the first nine months of 2003.

Apartment operations expense (the direct costs of on-site operations at our apartment communities) in the third quarter of 2004 totaled \$5.1 million, a 27.3% increase compared to the

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third quarter of 2003. Through the first nine months of 2004, apartment operations expense totaled \$13.3 million, a 17.8% increase compared to the first nine months of 2003. These increases are primarily attributable to apartment acquisitions in 2003 and 2004; these communities generated apartment operations expense of \$1.3 million in the third quarter and \$2.2 million through the first nine months of 2004. On a same-units basis, apartment operations expense decreased by 0.5% for the third quarter, and increased 1.1% through the first nine months, of 2004 as compared to 2003.

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

Apartment administration (the costs associated with oversight, accounting and support of our apartment management activities for both owned and third-party properties) and corporate administration expense totaled \$1.1 million in the third quarter of 2004, a 23.5% increase compared to the third



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quarter of 2003. Through the first nine months of 2004, administrative expenses totaled \$3.3 million, a 13.1% increase compared to the first nine months of 2003. These increases are attributable to additional corporate support staff, software and insurance costs, as well as approximately \$75,000 spent in the third quarter of 2004 for development of compliance documentation required by the Sarbanes-Oxley Act.

Depreciation expense totaled \$3.2 million in the third quarter of 2004, a 25.1% increase compared to the third quarter of 2003. Through the first nine months of 2004, depreciation expense totaled \$8.4 million, a 14.2% increase compared to the first nine months of 2003. These increases are primarily attributable to the addition of apartment communities.

Interest expense totaled \$3.9 million in the third quarter of 2004, an increase of 19.3% compared to the third quarter of 2003. Through the first nine months of 2004, interest expense totaled \$10.5 million, an increase of 7.9% compared to the first nine months of 2003. These increases are primarily attributable to new debt issued in conjunction with acquisitions of apartment properties, offset somewhat by declines in weighted average interest rates. Overall, weighted average interest rates were 5.7% for the third quarter and first nine months of 2004, compared to 5.9% for the third quarter and 6.0% for the first nine months of 2003. (See further discussion in "Capital Resources and Liquidity - Capital Resources" below.)

### Net Income

Operating partnership earnings before non-cash charges for depreciation, amortization and write-off of unamortized loan costs at refinance totaled \$3.7 million for the third quarter of 2004, a 33.8% increase compared to \$2.7 million for the third quarter of 2003. Through the first nine months of 2004, operating partnership earnings before non-cash charges for depreciation, amortization and write-off of unamortized loan costs at refinance totaled \$9.7 million, a 32.2% increase compared to \$7.3 million through the first nine months of 2003. These increases are attributable to casualty gains recorded in the third quarter of 2004, the positive impact of new apartment communities, and improvements in apartment revenues.

Income before minority interest (operating partnership income, after deducting depreciation, amortization, and the July 2004 \$85,000 charge for write-off of unamortized loan costs at refinance, and before deductions for the minority interest in the operating partnership and the cumulative preferred dividend) was \$310,000 for the third quarter of 2004, compared to \$130,000 for the third quarter of 2003. Through the first nine months of 2004, income before

minority interest totaled \$927,000, compared to a loss of \$273,000 through the first nine months of 2003. Net income (after deduction for the minority interest, but before the cumulative preferred dividend) was \$299,000 for the third quarter of 2004, compared to \$137,000 for the third quarter of 2003. Through the first nine months of 2004, net income was \$889,000, compared to a loss of \$110,000 through the first nine months of 2003.

Because the preferred shareholder has priority over common shareholders for receipt of dividends, we deduct the amount of net income that will be paid to the preferred shareholder in calculating net income available to common shareholders. In September 2003, we issued 454,545 shares of cumulative preferred stock, which doubled the number of preferred shares outstanding. The cumulative preferred dividend totaled \$750,000 through the first three quarters of 2004, compared to \$411,000 through the first three quarters of 2003.

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### Funds from Operations

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 (losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures." Our calculation of FFO is consistent with FFO as defined by NAREIT. Because we hold all of our assets in and conduct all of our operations through the operating partnership, we measure FFO at the operating partnership level (i.e., before minority interest).

Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. In fact, real estate values have historically risen or fallen with market conditions. FFO is intended to be a standard supplemental measure of operating performance that excludes historical cost depreciation from - or "adds it back" to - GAAP net income. We consider FFO to be useful in evaluating potential property acquisitions and measuring operating performance.

Funds available for distribution is frequently referred to as "FAD." We calculate FAD as FFO plus non-cash expense for amortization and write-off of unamortized loan costs, less recurring capital expenditures. We believe that, together with net income and cash flows from operating activities, FAD provides investors with an additional measure to evaluate the ability of the operating partnership to incur and service debt, to fund acquisitions and other capital expenditures, and to fund distributions to shareholders and minority unitholders.

Funds from operations and funds available for distribution do not represent net income or cash flows from operations as defined by generally accepted accounting principles. Nor do FFO or FAD measure whether cash flow is sufficient to fund all of our cash needs, including principal amortization, capital improvements and distributions to shareholders and unitholders. You should not consider FFO or FAD to be alternatives to net income as reliable measures of the company's operating performance; nor should you consider FFO or FAD to be alternatives to cash flows from operating, investing or financing activities (as defined by generally accepted accounting principals) as measures of liquidity. Further, FFO and FAD as disclosed by other REITs might not be comparable to our calculation of FFO or FAD.

Funds from operations totaled \$3.0 million in the third quarter of 2004, an 18.3% increase compared to the third quarter of 2003. Through the first nine months of 2004, FFO

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totaled \$8.3 million, a 24.5% increase compared to the first nine months of 2003. This comparison reflects the improvement in apartment operating results.

We calculated funds from operations as follows (all amounts in thousands):

Three months ended		Nine months ended
September 30		September 30
2004	2003	2004
-----		

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Income (loss) before minority interest	\$ 310	\$ 130	\$ 927
Less casualty gains	(269)	-	(269)
Cumulative preferred dividend	(250)	(161)	(750)
Depreciation	3,161	2,528	8,390
	-----	-----	-----
Funds from operations	\$2,952	\$2,497	\$8,298
	=====	=====	=====

A reconciliation of FFO to FAD follows (all amounts in thousands):

	Three months ended September 30		Nine months ended September 30
	2004	2003	2004
	-----	-----	-----
Funds from operations	\$2,952	\$2,497	\$8,298
Amortization of loan costs	108	81	263
Write-off of unamortized loan costs at refinance	85	-	85
Recurring capital expenditures	(438)	(662)	(1,339)
	-----	-----	-----
Funds available for distribution	\$2,708	\$1,916	\$7,308
	=====	=====	=====

A further reconciliation of FAD to net cash provided by operating activities follows (all amounts in thousands):

	Three months ended September 30		Nine months ended September 30
	2004	2003	2004
	-----	-----	-----
Funds available for distribution	\$2,708	\$1,916	\$7,308
Cumulative preferred dividend	250	161	750
Recurring capital expenditures	438	662	1,339
Amortization of deferred interest defeasance	-	(66)	(105)
Changes in operating assets and liabilities	(210)	(142)	(349)
	-----	-----	-----
Net cash provided by operating activities	\$3,186	\$2,531	\$8,944
	=====	=====	=====

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

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	Three months ended September 30		Nine months en September 3
	2004	2003	2004
Net cash provided by (used in):			
Operating activities	\$ 3,186	\$ 2,531	\$ 8,944
Investing activities	(29,382)	(18,064)	(50,438)
Financing activities	22,793	15,574	42,522
Dividends and distributions paid to:			
Preferred shareholders	\$ 250	\$ 125	\$ 750
Common shareholders	2,140	1,467	5,391
Minority unitholders in operating partnership	460	461	1,380
Scheduled debt principal payments	\$ 386	\$ 295	\$ 1,000
Non-recurring capital expenditures	1,046	374	1,689
Weighted average shares outstanding			
Preferred shares	909	583	909
Common shares	8,289	5,877	7,275
Weighted average Operating Partnership minority units outstanding			
	1,865	1,842	1,852

### Capital Resources and Liquidity

#### Capital Resources

We completed a number of significant investing and financing transactions during the second and third quarters of 2004. We completed the following apartment community acquisitions:

- o Bridges at Wind River Apartments, effective May 12, 2004 - We acquired this 346-unit property located in Durham, North Carolina, for a contract price of \$25.0 million, including issuance of 39,270 operating partnership units at an imputed value of \$13.00 per unit, or approximately \$511,000, assumption of approximately \$24.6 million debt, and receipt of approximately \$0.2 million net operating assets, including approximately \$200,000 cash.
- o Carriage Club Apartments, effective June 29, 2004 - We acquired this 268-unit property located in Mooresville, North Carolina, for a contract price of \$19.65 million, paid in cash.
- o Savannah Shores Apartments, effective July 1, 2004 - We acquired this 198-unit property located in Myrtle Beach, South Carolina, for an initial purchase price of \$12.5 million. The acquisition agreement provides for potential earn-out of additional purchase price of up to \$1.7 million within a three-year period, which would be funded through the

issuance of up to 130,769 operating partnership units at an imputed value of \$13.00 per unit to the contributors. Prior to this acquisition, we managed this property under a third-party management contract. In conjunction with this acquisition, we issued 7,695 operating partnership units at an imputed value of \$13.00 per unit, or approximately \$100,000, assumed approximately \$12.2 million in debt obligations; and assumed

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approximately \$0.2 million net operating liabilities in excess of operating assets acquired.

- o Fairington Apartments, effective August 5, 2004 - We acquired this 250-unit property located in Charlotte, North Carolina, for a contract price of \$18.5 million, paid in cash.
- o Bridges at Southpoint Apartments, effective September 30, 2004 - We acquired this 192-unit property located in Durham, North Carolina, for a contract price of \$10.2 million, paid in cash.

During this same period, we completed the following financing transactions:

- o \$11.5 million variable-rate loan, effective April 30, 2004, proceeds applied to retire the \$9.4 million balance on the existing deed of trust note at 8.5% related to Chason Ridge Apartments. The three-year note payable is secured by a deed of trust and assignment of rents of Chason Ridge, and provides for interest at 30-day LIBOR plus 1.75%, payable monthly, with the principal balance due May 2007, subject to an optional 24-month extension.
- o \$19.7 million fixed-rate loan, effective May 12, 2004, proceeds applied to retire the existing \$24.6 million loan obligation related to Bridges at Wind River Apartments. The ten-year note payable is secured by a deed of trust and assignment of rents of Bridges at Wind River, and provides for interest at 5.57% payable in monthly installments of principal and interest of approximately \$113,000 per month through May 2014, with a balloon payment of approximately \$16.5 million at maturity in June 2014.
- o \$14.9 million fixed-rate loan, effective June 29, 2004, secured by a deed of trust and assignment of rents of Carriage Club Apartments. The five-year note provides for interest at 5.15% payable in monthly installments of approximately \$65,000 through July 2005, then principal and interest installments of approximately \$81,000 per month through June 2009, with a balloon payment of approximately \$14.0 million at maturity in July 2009.
- o \$9.0 million variable-rate loan, effective July 1, 2004, proceeds applied to retire the existing \$12.2 million loan obligation related to Savannah Shores Apartments. The three-year note is secured by a deed of trust and assignment of rents of Savannah Shores Apartments, and provides for interest at 30-day LIBOR plus 1.8% payable monthly, with the principal balance due July 2007, subject to an optional 24-month extension.
- o \$15.0 million fixed-rate note payable, effective July 13, 2004, proceeds applied to retire the existing variable-rate \$14.4 million deed of trust note related to The Harrington Apartments. The five-year note is secured by a deed of trust and assignment of rents of The Harrington, and provides for interest at 5.15% payable in monthly installments of approximately \$65,000 through August 2005, then principal and interest payable in monthly installments of approximately \$82,000 September 2005 through July 2009, with

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a balloon payment of approximately \$14.1 million at maturity in August 2009.

- o \$13.4 million variable-rate note payable, effective August 5, 2004, secured by a deed of trust and assignment of rents of Fairington Apartments. The three-year note provides for interest at 30-day LIBOR plus 1.75% payable monthly, with the principal balance due August 2007, subject to an optional

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24-month extension.

- o \$8.2 million fixed-rate note payable, effective September 27, 2004, secured by a deed of trust and assignment of rents of Bridges at Southpoint Apartments. The ten-year note provides for interest at 4.93% payable in monthly installments of approximately \$34,000 through October 2007, then principal and interest payable in monthly installments of approximately \$44,000 November 2007 through September 2014, with a balloon payment of approximately \$7.3 million at maturity in October 2014.
- o In conjunction with the financing transactions related to acquisitions, we made draws of \$20.2 million on our line of credit secured by Latitudes Apartments.

In May 2004 we issued 20,000 shares of our common stock with an imputed value of \$251,000 in exchange for operating partnership units formerly held by a minority unitholder. We issued these shares to Paul Chrysson, a member of our Board of Directors. In July 2004 we issued 4,618 shares of our common stock in exchange for operating partnership units formerly held by a minority unitholder.

Effective July 19, 2004, we completed the placement of 1.42 million shares of common stock at a price of \$12.50 per share to a number of institutional investors and mutual funds pursuant to a registered direct placement, for net proceeds of approximately \$16.9 million. We expect to use the net proceeds to fund future acquisitions, repay bank debt, and for general corporate purposes. We immediately applied proceeds of the stock issue to reduce our revolving line of credit secured by Latitudes Apartments by \$17.0 million.

During the first quarter of 2004, we issued 1.18 million shares of common stock at a price of \$11.75 per share to a number of institutional investors and mutual funds pursuant to a private placement, for net proceeds of approximately \$13.0 million. We immediately applied \$13.0 million of the net proceeds to reduce our revolving line of credit secured by Latitudes Apartments.

As of September 30, 2004, total long-term debt was \$286.8 million, including \$215.9 million of notes payable at fixed interest rates ranging from 5.00% to 8.55%, and \$70.9 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 5.7% at September 30, 2004, compared to 5.5% at June 30, 2004, and 5.8% at December 31, 2003. A 1% fluctuation in variable interest rates would increase or decrease our annual interest expense by approximately \$720,000.

### Cash Flows and Liquidity

Net cash flows from operating activities were \$3.2 million in the third quarter of 2004, compared to \$2.5 million in the third quarter of 2003. Through the first nine months of 2004, net cash flows from operating activities were \$8.9 million, compared to \$6.7 million through the first nine months of 2003. Improvements in operating results (including as a result of apartment acquisitions) produced approximately \$725,000 of the increase in third quarter comparisons and

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\$2.1 million of the increase in nine month comparisons; remaining differences are attributable to timing of cash receipts and disbursements.

Investing and financing activities, other than those described under "Capital Resources" above, focused on capital expenditures at apartment communities, along with payment of dividends and distributions.

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We have announced that the company will pay a regular quarterly dividend of \$0.25 per share (approximately \$2.2 million) on November 15, 2004, to shareholders of record of our common stock as of November 1, 2004, as well as \$250,000 of dividends to the preferred shareholder.

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

### Critical Accounting Policies - Capital expenditures and depreciation

We identify and discuss our significant accounting policies in the notes to our financial statements included in our Annual Report on Form 10-K. Our policy and practice regarding capital expenditures and depreciation, which may be of particular interest to readers of this Quarterly Report, are further discussed below.

In general, for the 15 apartment properties acquired before 2002, 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 apartment properties acquired in 2002 and later, we have or will perform analyses of components of the real estate assets acquired. For these properties, we assign estimated useful lives as follows: base building structure, 45-60 years; land improvements, 7-20 years; short-lived building components, 5-20 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.

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Capital expenditures at our apartment communities during the first nine months of 2004 totaled approximately \$3.0 million, including \$0.5 million for acquisition improvements, \$0.1 million for casualty replacements, \$1.0 million for additions and betterments, and \$1.3 million for recurring capital expenditures.

We expense ordinary repairs and maintenance costs at apartment

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communities. Repairs and maintenance at our apartment communities during the first nine months of 2004 totaled approximately \$4.8 million, including \$1.9 million in compensation of service staff and \$2.9 million in payments for materials and contracted service.

A summary of capital expenditures at our apartment communities through September 30, 2004, in aggregate and per apartment unit, follows:

	Total	Per
	-----	-----
	(000's)	
Recurring capital expenditures:		
Floor coverings	\$ 539	
Appliances/HVAC	270	
Exterior paint	-	
Computer/support equipment	4	
Other	526	
	-----	-----
	\$ 1,339	
	=====	=====
Non-recurring capital expenditures:		
Acquisition improvements at apartment properties	\$ 518	
Casualty replacements	111	
Additions and betterments at apartment properties	1,023	
Computer/support equipment	36	
	-----	-----
	\$ 1,689	
	=====	=====

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

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

We completed a number of significant acquisition and financing transactions during the second and third quarters of 2004.

As of September 30, 2004, total long-term debt was \$286.8 million, including \$215.9 million of notes payable at fixed interest rates ranging from 5.00% to 8.55%, and \$70.9 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 5.7% at September 30, 2004, compared to 5.5% at June 30, 2004, and 5.8% at December 31, 2003. A 1% fluctuation in variable interest rates would increase or decrease our annual interest expense by approximately \$720,000.

The table below provides information about our long-term debt instruments and presents expected principal maturities and related weighted average interest rates on instruments in place as of September 30, 2004 (all amounts in thousands).



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	2004	2005	2006	2007	2008	Later
Fixed rate notes	\$ 304	\$ 6,791	\$ 1,599	\$49,537	\$38,454	\$119,209
Average interest rate	6.54%	8.12%	6.06%	6.93%	6.55%	6.03%
Variable rate notes	\$ 10,528	\$ 833	\$15,483	\$30,791	\$ 375	\$ 12,900
Average interest rate	3.50%	3.43%	3.43%	3.42%	3.42%	3.42%

### Item 4. Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information disclosed in our annual and periodic reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. In addition, we designed these disclosure controls and procedures to ensure that this information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures.

Based on our most recent evaluation, which was completed as of the end of the third quarter of 2004, our chief executive officer and chief financial officer believe that our disclosure controls and procedures are effective. There have been no significant changes in our internal controls or in other factors that could significantly affect the internal controls subsequent to the completion of this evaluation.

## Part II - Other Information

### Item 6. Exhibits

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

#### Exhibit No.

31.1	Section 302 Certification by Chief Executive Officer
31.2	Section 302 Certification by Chief Financial Officer
32.1	Section 906 Certification by Chief Executive Officer
32.2	Section 906 Certification by Chief Financial Officer

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## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

BNP RESIDENTIAL PROPERTIES, INC.  
(Registrant)

November 8, 2004

/s/ Philip S. Payne

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-----  
Philip S. Payne  
Chairman and  
Chief Financial Officer  
(Duly authorized officer)

November 8, 2004

/s/ Pamela B. Bruno

-----  
Pamela B. Bruno  
Vice President, Treasurer and  
Chief Accounting Officer

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