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BNP RESIDENTIAL PROPERTIES INC  
Form 10-Q  
November 07, 2003

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, 2003  
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OR

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

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

Commission file number: 1-9496

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

Maryland  
-----  
State or other jurisdiction of  
incorporation or organization

56-1574675  
-----  
(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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the registrant's  
classes of common stock, as of November 3, 2003 (the latest practicable date).

Common Stock, \$.01 par value  
-----  
(Class)

5,887,626  
-----  
(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 2003	December 31 2002
	(Unaudited)	
Assets		
Real estate investments at cost:		
Apartment properties	\$298,929,355	\$273,343,740
Restaurant properties	37,405,385	31,405,385
	336,334,740	304,749,125
Less accumulated depreciation	(53,590,873)	(44,800,000)
	282,743,867	259,949,125
Cash and cash equivalents	653,700	653,700
Other current assets	5,599,351	5,599,351
Notes receivable, net of reserve	100,000	100,000
Intangible assets, net of accumulated amortization:		
Intangible related to acquisition of management operations	1,115,088	1,115,088

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Deferred financing costs	1,183,636	
	-----	-----
Total assets	\$291,395,642	\$27
	=====	=====
Liabilities and Shareholders' Equity		
Deed of trust and other notes payable	\$230,032,694	\$21
Accounts payable and accrued expenses	3,522,550	
Deferred revenue and security deposits	1,338,010	
Deferred credit for defeasance of interest, net of accumulated amortization	183,680	
	-----	-----
Total liabilities	235,076,934	21
Minority interest in Operating Partnership	16,365,493	1
Shareholders' equity:		
Preferred stock, \$.01 par value, 10,000,000 shares authorized; issued and outstanding shares-- 909,090 at September 30, 2003, 454,545 at December 31, 2002	10,000,000	
Common stock, \$.01 par value, 100,000,000 shares authorized; issued and outstanding shares-- 5,887,626 at September 30, 2003, 5,831,077 at December 31, 2002	58,876	
Additional paid-in capital	71,278,423	7
Dividend distributions in excess of net income	(41,384,084)	(3
	-----	-----
Total shareholders' equity	39,953,215	3
	-----	-----
Total liabilities and shareholders' equity	\$291,395,642	\$27
	=====	=====

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BNP RESIDENTIAL PROPERTIES, INC.

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Consolidated Statements of Operations  
(Unaudited)

	Three months ended September 30		Nine months end September 30	
	2003	2002	2003	(Re
	-----		-----	
Revenues				
Apartment rental income	\$ 9,650,103	\$ 8,648,684	\$27,488,052	\$
Restaurant rental income	970,316	1,005,320	2,951,025	
Management fee income	229,141	258,297	679,035	
Interest and other income	26,528	24,143	180,876	
	-----	-----	-----	
	10,876,088	9,936,444	31,298,988	
Expenses				
Apartment operations	3,999,767	3,304,638	11,325,654	

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Apartment administration	413,681	311,272	1,153,851
Corporate administration	445,267	399,602	1,789,607
Depreciation	2,527,557	2,345,959	7,349,954
Amortization of deferred loan costs	81,439	82,427	236,222
Interest	3,278,652	3,049,032	9,716,800
Write-off of unamortized loan costs at debt refinance	-	-	-
	10,746,363	9,492,930	31,572,088
Income (Loss) before minority interest	129,725	443,514	(273,100)
Minority interest in Operating Partnership	(7,372)	89,710	(163,465)
Net income (loss)	137,097	353,804	(109,635)
Cumulative preferred dividend	160,616	72,603	410,616
(Loss) Income available to common shareholders	\$ (23,519)	\$ 281,201	\$ (520,251)
Per share amounts:			
Basic earnings per share -			
Net income (loss)	\$ 0.02	\$ 0.06	\$ (0.02)
(Loss) Income available to common shareholders	(0.01)	0.05	(0.09)
Diluted earnings per share -			
Net income (loss)	\$ 0.01	\$ 0.06	\$ (0.04)
(Loss) Income available to common shareholders	(0.01)	0.05	(0.09)
Dividends declared	\$0.25	\$0.31	\$ 0.75
Weighted average common shares outstanding	5,877,060	5,797,197	5,858,082

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statement of Shareholders' Equity  
(Unaudited)

	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, 2002	454,545	\$5,000,000	5,831,077	\$58,311	\$70,724,671	\$ (36,
Common stock issued	-	-	17,575	176	176,996	
Dividends paid - preferred	-	-	-	-	-	

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Dividends paid - common	-	-	-	-	-	(1,
Net income	-	-	-	-	-	-
-----						
Balance March 31, 2003	454,545	5,000,000	5,848,652	58,487	70,901,667	(37,
Common stock issued	-	-	16,740	167	174,599	-
Dividends paid - preferred	-	-	-	-	-	(
Dividends paid - common	-	-	-	-	-	(1,
Net loss	-	-	-	-	-	(
-----						
Balance June 30, 2003	454,545	5,000,000	5,865,392	58,654	71,076,266	(39,
Preferred stock issued	454,545	5,000,000	-	-	(29,701)	-
Common stock issued	-	-	22,234	222	231,858	-
Dividends paid - preferred	-	-	-	-	-	(
Dividends paid - common	-	-	-	-	-	(1,
Net income	-	-	-	-	-	-
-----						
Balance September 30, 2003	909,090	\$10,000,000	5,887,626	\$58,876	\$71,278,423	\$ (41,
=====						

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BNP RESIDENTIAL PROPERTIES, INC.

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 Consolidated Statements of Cash Flows  
 (Unaudited)

	Nine months end September 30 2003	
	-----	-----
Operating activities:		(Re
Net (loss) income	\$ (109,635)	\$
Adjustments to reconcile net (loss) income to net cash provided by operations:		
Minority interest in Operating Partnership	(163,465)	
Depreciation and amortization of loan costs	7,586,176	
Write-off of unamortized loan costs at debt refinance	-	
Amortization of defeasance credit	(149,696)	
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(2,381,973)	
Accounts payable and accrued expenses	2,017,373	
Deferred revenue and security deposits	(78,362)	
	-----	
Net cash provided by operating activities	6,720,418	
Investing activities:		
Acquisition of apartment properties	(23,382,176)	
Additions to apartment properties, net	(2,389,560)	
Sale of restaurant properties	1,244,038	
	-----	
Net cash used in investing activities	(24,527,698)	

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Financing activities:		
Net proceeds from issuance of preferred stock	4,970,299	
Issuance of common stock	550,633	
Distributions to Operating Partnership minority unitholders	(1,385,150)	
Dividends paid to preferred shareholder	(376,027)	
Dividends paid to common shareholders	(4,386,676)	
Proceeds from notes payable	25,985,610	
Principal payments on notes payable	(7,537,851)	
Payment of deferred financing costs	(244,174)	
	-----	-----
Net cash provided by financing activities	17,576,664	
	-----	-----
Net decrease in cash and cash equivalents	(230,616)	
Cash and cash equivalents at beginning of period	884,316	
	-----	-----
Cash and cash equivalents at end of period	\$ 653,700	\$
	=====	=====

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BNP RESIDENTIAL PROPERTIES, INC.

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Notes to Consolidated Financial Statements - September 30, 2003  
(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, 2002. We derived the amounts in the balance sheet at December 31, 2002, from the financial statements included in our 2002 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 2002 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 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

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Statement No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation, the effect would be to reduce net income as reported by approximately \$240 in 2003 and \$5,000 in 2002, with no impact on basic and diluted earnings per share amounts as reported.

### Reclassifications

We adopted 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," effective January 1, 2003. Statement 145 generally requires 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 have reclassified the extraordinary item for loss on early extinguishment of debt in the first quarter of 2002 to conform to Statement 145. While adoption of Statement 145 has no impact on net income, it reduces income before extraordinary items and eliminates extraordinary items as previously reported. We have adjusted the 2002 comparative amounts in our consolidated financial statements to conform to the 2003 presentation as follows:

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	2002 as Currently Presented	Adjustments	
Nine months ended September 30, 2002			
Revenues	\$27,978,928	\$ -	\$
Expenses	26,259,435	95,032	
Income before minority interest and extraordinary item	1,719,493	(95,032)	
Minority interest in Operating Partnership	355,186	(21,735)	
Income before extraordinary item	1,364,307	(73,297)	
Extraordinary item - loss on early extinguishment of debt	-	(73,297)	
Net income	\$ 1,364,307	\$ -	\$

### Note 3. Apartment property acquisitions

Effective August 28, 2003, we acquired The Harrington Apartments for approximately \$18.0 million in cash, less credits of \$108,000 for exterior painting and approximately \$200,000 for accrued expenses. Through September 30, 2003, we have incurred and capitalized other direct costs of this acquisition totaling approximately \$12,000. We funded this acquisition by the placement of a \$14.4 million first deed of trust loan together with draws of approximately \$3.4 million on our existing line of credit. In conjunction with this acquisition, we paid lender fees and costs totaling approximately \$118,000.

Effective March 13, 2003, we acquired The Place Apartments for approximately \$5.6 million in cash. Through September 30, 2003, we have incurred and capitalized other direct costs of this acquisition totaling approximately \$20,000. We funded this acquisition by the placement of a \$4.56 million first deed of trust loan together with draws of approximately \$1.1 million on our

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existing line of credit. In conjunction with this acquisition and financing, we funded repair escrows of approximately \$65,000 and paid lender fees and costs totaling approximately \$61,000.

### Note 4. Restaurant property sales

Effective August 19, 2003, we sold one restaurant property to the lessee for its net carrying value of approximately \$656,000. Effective February 21, 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 each of these sales to reduce our line of credit secured by the restaurant properties.

### Note 5. Shareholders' Equity

Effective September 5, 2003, we issued 454,545 shares of the Company's Series B Cumulative Convertible Preferred Stock for \$5.0 million to a single accredited investor. This private placement is an expansion of the original offering in December 2001. The preferred shares have a purchase price and liquidation preference of \$11.00 per share, and an initial dividend yield of 10%. The investor will have the right to convert each Series B share into one share of the Company's common stock beginning in December 2004, or in certain circumstances such as a change of control or the Company's calling the Series B stock for redemption. Through September 30, 2003, we have incurred costs related to this placement totaling approximately

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\$30,000. We applied proceeds of the placement to reduce the outstanding amount of our existing lines of credit.

In August 2003, we issued 19,068 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of approximately \$199,000. During the first nine months of 2003, we have issued a total of 53,383 shares of our common stock through this Plan.

In addition, during the third quarter of 2003, we issued 3,166 shares of our common stock in exchange for Operating Partnership units formerly held by minority unitholders.

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

	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	
<b>Numerators:</b>				
Numerator for basic earnings per share -				
Net income (loss)	\$ 137,097	\$ 353,804	\$ (109,635)	\$
Cumulative preferred dividend	(160,616)	(72,603)	(410,616)	\$
(Loss) Income available to common shareholders	\$ (23,519)	\$ 281,201	\$ (520,251)	\$



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Numerator for diluted earnings per share -				
Net income (loss) (1)	\$ 129,725	\$ 443,514	\$ (273,100)	\$
Cumulative preferred dividend	(160,616)	(72,603)	(410,616)	
-----				
(loss) Income available to common shareholders (1)	\$ (30,891)	\$ 370,911	\$ (683,716)	\$
=====				
Denominators:				
Denominator for basic earnings per share -				
weighted average shares outstanding	5,877,060	5,797,197	5,858,082	
Effect of dilutive securities:				
Convertible Operating Partnership units	1,842,337	1,845,056	1,843,614	
Stock options (2)	6,564	7,484	5,161	
-----				
Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions	7,725,961	7,649,737	7,706,857	
=====				

- (1) Assumes conversion of Operating Partnership units to common shares; minority interest in Operating Partnership income has been eliminated.
- (2) We excluded options to purchase 140,000 shares of common stock at \$12.50, 110,000 shares at \$12.25, and 120,000 shares at \$13.125 from the calculation of diluted earnings per share

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for the three and nine months ended September 30, 2003 and 2002. We also excluded additional options to purchase 60,000 shares of common stock at \$11.25 from the calculation of diluted earnings per share for the three and nine months ended September 30, 2003, and from the three months ended September 30, 2002. The exercise price of these options was greater than the average market price of the common shares for those periods, and the effect would be anti-dilutive.

### Note 6. Subsequent event

On October 23, 2003, the Board of Directors declared a regular quarterly cash dividend of \$0.25 per share to be paid on November 17, 2003, to common shareholders of record on November 3, 2003. The Board of Directors also authorized the payment of dividends totaling \$160,616 to the Series B Preferred shareholder in accordance with the investment agreement for those shares.

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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

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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 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. We currently own 20 apartment communities containing 4,859 units and provide third-party management services for 8 communities containing a total of 2,061 units. In addition to our apartment communities, we own 40 properties that we lease on a triple-net basis to a restaurant operator.

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

Overall, we were pleased with the operating results for the third quarter of 2003. Operating results for both the quarter and year-to-date periods were in line with our expectations. We saw improvement in apartment occupancy and revenue per occupied unit during the quarter as compared to the second quarter of 2003. On a same-units basis, occupancy and revenue per occupied unit returned to third quarter of 2002 levels and reflect a significant improvement over the first and second quarters of 2003. Whether this is the beginning of a long-awaited improvement in our apartment markets remains to be seen. In any case, we are confident in the long-term outlook for both our apartment properties and our apartment markets.

The lessee of our restaurant properties pays us annual rent equal to the greater of a specified minimum rent or 9.875% of food sales. During the third quarter of 2003, we saw a significant improvement in sales at our restaurant properties. While this improvement did not result in any additional restaurant rental income, it did mark a significant departure from several years of declining sales.

Overall, we are positive about the future. We have a portfolio of well-maintained apartment properties with excellent locations in markets with good long-term growth prospects. We believe we are well positioned to benefit from any improvement in our apartment markets.

#### Revenues

Total revenues in the third quarter of 2003 were \$10.9 million, an increase of 9.5% compared to the third quarter of 2002. Total revenues through the first nine months of 2003 were \$31.3 million, an increase of 11.9% compared to the first nine months of 2002. Apartment related income (apartment rental income plus income from apartment management and investment activities) accounted for approximately 91.1% of total revenues in the third quarter of 2003, compared to 89.9% in the third quarter of 2002. Through the first nine months of 2003, apartment related income accounted for approximately 90.6% of total revenues, compared to 89.2% in the first nine months of 2002.

Apartment rental income totaled \$9.7 million in the third quarter of 2003, an increase of 11.6% compared to the third quarter of 2002. Through the first nine months of 2003, apartment rental income totaled \$27.5 million, an increase of 14.6% compared to the first nine months of 2002. These increases are primarily attributable to the acquisition of three apartment communities in 2002 and two apartment communities in 2003. For the third quarter of 2003, overall average economic occupancy increased by 0.2% while average revenue per occupied unit declined by 0.5%, compared to the third quarter of 2002. For the first nine months of 2003, overall average economic occupancy declined by 1.0% while average revenue per occupied unit declined by 1.1%, compared to the first nine months of 2002.

On a "same-units" basis (the 15 apartment communities that we owned throughout the first nine months of both years), apartment rental income

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decreased by 0.1% in the third quarter

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of 2003 compared to the third quarter of 2002, and by 1.9% for the first nine months of 2003 compared to the first nine months of 2002. These decreases were generally attributable to declines in both average economic occupancy and average revenue per occupied unit. For the third quarter of 2003, same-units average economic occupancy was flat while average revenue per occupied unit declined by 0.1%, compared to the third quarter of 2002. For the first nine months of 2003, same-units average economic occupancy declined by 1.1% while average revenue per occupied unit declined by 0.8%, compared to the first nine months of 2002.

Summary amounts for our apartment communities' occupancy and revenue per occupied unit for the third quarter and first nine months of 2003 follow:

	Number of apartment units	Three months ended September 30		Nine months September
		Average economic occupancy	Average monthly revenue per occupied unit	Average economic occupancy
Abbingtion Place	360	90.7%	\$778	89.7%
Allerton Place	228	89.8%	762	90.6%
Alta Harbour (2)	290	93.8%	778	89.6%
Barrington Place (2)	348	94.9%	761	93.8%
Brookford Place (2)	108	95.7%	663	95.2%
Chason Ridge	252	97.5%	756	96.5%
Harrington (1)	288	93.6%	801	93.6%
Harris Hill	184	93.6%	673	92.5%
Latitudes	448	98.2%	885	96.2%
Madison Hall	128	89.9%	583	94.6%
Oakbrook	162	93.3%	700	91.3%
Oak Hollow	461	94.6%	600	87.5%
Paces Commons	336	91.3%	670	90.3%
Paces Village	198	92.4%	685	94.1%
Pepperstone	108	94.2%	666	93.7%
Savannah Place	172	94.6%	711	93.6%
Summerlyn Place	140	94.8%	832	93.3%
The Place (1)	144	91.1%	584	88.1%
Waterford Place	240	92.6%	871	90.8%
Woods Edge	264	93.9%	710	92.0%
All apartments	4,859			
- 2003		93.7%	733	92.0%
- 2002		93.5%	737	93.0%
Same units (3)	3,681			
- 2003		93.7%	733	92.0%
- 2002		93.7%	734	93.1%

Restaurant rental income was \$1.0 million in the third quarters of both 2003 and 2002, and \$3.0 million in the first nine months of both 2003 and 2002. A slight decline in 2003 restaurant rental income, as compared to 2002, was the result of the sale of two restaurant properties in 2003 (one in first quarter, and one in third quarter). Restaurant rental income for both 2003 and 2002 was equal to the minimum rent under the master lease agreement with our lessee. "Same-store" (those 40 restaurant properties that operated throughout the first nine months of both 2003 and 2002) sales at our restaurant properties increased by 7.4% in the third quarter and declined by 0.8% in the first nine months of 2003 compared to these periods in 2002.

Through September 30, 2003, we have sold seven of the original 47 restaurants to Boddie-Noell Enterprises, Inc. ("Enterprises"), the lessee, under the non-economic clause of the agreement that allows Enterprises to close up to seven restaurants and buy them back from us for no less than net carrying value. Under our master lease with Enterprises, restaurant rental income payments are the greater of a specified minimum rent or 9.875% of food sales. The minimum rent is reduced by approximately \$8,000 per month, or \$96,000 per year, for each restaurant that is sold. Going forward, minimum rent for our remaining restaurant properties will be approximately \$319,000 per month, or \$3.8 million per year.

Management fee income for the third quarter of 2003 decreased to \$229,000, compared to \$258,000 in 2002. For the first nine months of 2003, management fee income decreased to \$679,000 from \$839,000 for the same period in 2002. These decreases are primarily attributable to our acquisitions of two previously managed properties in May 2002, as well as the termination of management contracts for several smaller properties in the first quarter of 2003. Going forward, we expect management fee income to decline further, reflecting our acquisition of The Harrington Apartments in August 2003; third-party management services for this property from March through August 2003 generated \$41,000 in management fee income.

#### Expenses

Effective January 1, 2003, in accordance with current accounting guidance, we report the loss on extinguishment of debt as an operating expense, rather than as an extraordinary item as previously required. Accordingly, we have reclassified the write-off of unamortized loan costs at refinance in the first quarter of 2002 to conform to the 2003 presentation in our financial statements. This reclassification has no impact on net income; however, it reduces income before extraordinary items and eliminates extraordinary items as previously reported. A more detailed description of the reclassification adjustments is included in the notes to the financial statements included in this Quarterly Report.

Total expenses, including non-cash charges for depreciation, amortization and write-off of unamortized loan costs, were \$10.7 million in the third quarter of 2003, an increase of 13.2% compared to the third quarter of 2002. Through the first nine months of 2003, total expenses were \$31.6 million, an increase of 20.2% compared to the first nine months of 2002.

Apartment operations expense (the direct costs of on-site operations at our apartment communities) in the third quarter of 2003 was \$4.0 million, a 21.0% increase compared to the third quarter of 2002. In the first nine months of 2003, apartment operations expense totaled \$11.3 million, a 25.3% increase compared to the first nine months of 2002. These increases reflect the addition of three apartment communities during 2002 and two communities during 2003, as

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well as significant increases in compensation, contracted services and apartment redecoration costs. On a same-units basis, apartment operations expense increased by 6.5% in the

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third quarter and 5.0% in the first nine months of 2003 as compared to the comparable periods in 2002.

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 expense (the costs associated with oversight, accounting and support of our apartment management activities for both owned and third party properties) was \$414,000 in the third quarter of 2003, a 32.9% increase compared to the third quarter of 2002. In the first nine months of 2003, apartment administration expense totaled \$1.2 million, an increase of 24.0% compared to the first nine months of 2002. These increases are primarily attributable to increased compensation and costs arising from implementation of new property management software.

Corporate administration expense was \$445,000 in the third quarter of 2003, an increase of 11.4% compared to the third quarter of 2002. In the first nine months of 2003, corporate administration expense totaled \$1.8 million, a 20.2% increase compared to the first nine months of 2002. This increase was primarily attributable to increases in compensation and insurance expense. In January 2003, we added an in-house general counsel position to our executive team.

Depreciation expense totaled \$2.5 million in the third quarter of 2003, a 7.7% increase compared to the third quarter of 2002. In the first nine months of 2003, depreciation expense totaled \$7.3 million, a 16.4% increase compared to the first nine months of 2002. This increase is attributable to the addition of apartment communities, as well as the impact of additions and replacements at other apartment communities.

Amortization expense (of deferred loan costs) was \$81,000 in the third quarter of 2003, compared to \$82,000 in the third quarter of 2002. In the first nine months of 2003, amortization expense totaled \$236,000, compared to \$180,000 in the first nine months of 2002. These increases are primarily attributable to the impact of loan costs associated with financing transactions in 2002 and 2003.

Interest expense totaled \$3.3 million in the third quarter of 2003, a 7.5% increase compared to the third quarter of 2002. In the first nine months of 2003, interest expense totaled \$9.7 million, an 18.3% increase compared to the first nine months of 2002. This increase reflects the impact of approximately \$70 million in new debt related to apartment acquisitions in 2002 and 2003, reduced by the effect of lower interest rates on our lines of credit. Overall, weighted average interest rates were 5.9% for the third quarter and 6.0% for the first nine months of 2003, compared to 6.2% for the third quarter and first nine months of 2002.

During the first quarter of 2002, we refinanced long-term debt related to Oakbrook Apartments. In conjunction with this transaction, we wrote off unamortized loan costs of \$95,000. As discussed above, we have reclassified the write-off of unamortized loan costs at the date of the refinance in the first quarter of 2002 to conform to the 2003 presentation in our financial statements. We previously reflected this write-off, net of minority interests' share, with a charge of \$73,000 as an extraordinary item in the financial statements.

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In late December 2001, we issued 227,273 shares of Series B Cumulative Convertible Preferred Stock. We sold an additional 227,272 shares in September 2002 and an additional 454,545 shares in September 2003. Because preferred shareholders have priority over common

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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 dividend on the Series B shares is \$1.10 per share per year. The cumulative preferred dividend totaled approximately \$161,000 for the third quarter and \$411,000 for the first nine months of 2003, compared to approximately \$73,000 for the third quarter and \$197,000 for the first nine months of 2002.

Net income/loss

Net income (before the cumulative preferred dividend) for the third quarter of 2003 was \$137,000, compared to net income of \$354,000 for the third quarter of 2002. For the first nine months of 2003, the net loss was \$110,000, compared to \$1.4 million net income for the first nine months of 2002. These comparisons reflect the impact of decline in apartments operating results.

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.

We calculate funds available for distribution 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, funds available for distribution 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, as well as 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. 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.

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Funds from operations and funds available for distribution do not measure whether cash flow is sufficient to fund all of our cash needs, including principal amortization, capital improvements and distributions to shareholders. Funds from operations and funds available for distribution do not represent cash flows from operating, investing or financing activities as

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defined by generally accepted accounting principles. Further, funds from operations and funds available for distribution as disclosed by other REITs might not be comparable to our calculation of funds from operations or funds available for distribution.

Funds from operations of the Operating Partnership totaled \$2.5 million in the third quarter of 2003, an 8.1% decrease compared to the third quarter of 2002. For the first nine months of 2003, funds from operations totaled \$6.7 million, a 14.9% decrease compared to the first nine months of 2002. This comparison reflects the impact of decline in apartment operating results and the increased cumulative preferred dividend.

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

	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Net income (loss)	\$ 137	\$ 354	\$ (110)	\$ (110)
Add minority interest in Operating Partnership	(7)	90	(163)	(163)
Income (Loss) before minority interest	130	444	(273)	(273)
Less cumulative preferred dividend	(161)	(73)	(411)	(411)
Add depreciation	2,528	2,346	7,350	7,350
Funds from operations - Operating Partnership	\$ 2,497	\$ 2,717	\$ 6,666	\$ 6,666
Per share amounts - diluted*:				
Net income (loss)	\$ 0.01	\$ 0.06	\$ (0.04)	\$ (0.04)
(Loss) Income available to common shareholders	(0.01)	0.05	(0.09)	(0.09)
Funds from operations	0.32	0.36	0.86	0.86

\* assumes conversion of Operating Partnership units to common shares; minority interest in the Operating Partnership has been eliminated. Preferred stock is antidilutive for all periods.

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



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	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Funds from operations -				
Operating Partnership	\$ 2,497	\$ 2,717	\$ 6,666	\$ 6,666
Add amortization of loan costs	81	82	236	236
Add write-off of unamortized loan costs at refinance	-	-	-	-

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	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Less recurring capital expenditures	(662)	(542)	(1,352)	(1,352)
Funds available for distribution - Operating Partnership	\$ 1,915	\$ 2,258	\$ 5,550	\$ 5,550

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

	Three months ended September 30		Nine months ended September 30	
	2003	2002	2003	2002
Funds from operations -				
Operating Partnership	\$ 2,497	\$ 2,717	\$ 6,666	\$ 6,666
Less minority interest in funds from operations	(596)	(656)	(1,596)	(1,596)
Funds from operations available to common shareholders	\$ 1,901	\$ 2,061	\$ 5,070	\$ 5,070

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
	2003	2002	2003
Net cash provided by (used in):			
Operating activities	\$ 2,531	\$ 2,722	\$ 6,720
Investing activities	(18,064)	(20,660)	(24,528)
Financing activities	15,574	18,202	17,577
Dividends and distributions paid to:			
Preferred shareholders	\$ 125	\$ 63	\$ 376
Common shareholders	1,467	1,794	4,387
Minority unitholders in Operating Partnership	461	542	1,385
Scheduled debt principal payments	\$ 295	\$ 117	\$ 854
Non-recurring capital expenditures	374	340	1,038
Weighted average shares outstanding			
Preferred shares	583	262	498
Common shares	5,877	5,797	5,858
Weighted average Operating Partnership minority units outstanding			
	1,842	1,845	1,844

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Capital Resources and Liquidity

Capital Resources

On August 28, 2003, we acquired The Harrington Apartments for approximately \$18.0 million in cash, less credits of \$108,000 for exterior painting and approximately \$200,000 for accrued expenses. We financed this acquisition through the issuance of a first deed of trust note in the amount of \$14.4 million together with draws of approximately \$3.4 million on our line of credit secured by Latitudes Apartments. The variable rate deed of trust provides for interest at LIBOR plus 1.75%, payable monthly, for a three-year term, with an optional two-year extension. In conjunction with this acquisition and financing, we paid lender fees and costs totaling approximately \$118,000. Through September 30, 2003, we have incurred and capitalized other direct costs of this acquisition totaling approximately \$12,000.

On March 13, 2003, we acquired The Place Apartments for approximately \$5.6 million in cash. We financed this acquisition through the issuance of a first deed of trust note in the amount of \$4.56 million together with draws of approximately \$1.1 million on our line of credit secured by Latitudes Apartments. The fixed-rate deed of trust loan provides for interest at 5.06% and monthly payments including principal and interest of approximately \$33,000, with maturity in 2013. In conjunction with this acquisition and financing, we funded repair escrows of approximately \$65,000 and paid lender fees and costs totaling approximately \$61,000. Through September 30, 2003, we have incurred and capitalized other direct costs of this acquisition totaling approximately \$20,000.

Effective August 19, 2003, we sold one restaurant property to the lessee for its net carrying value of approximately \$656,000. Effective February 21, 2003, we sold one restaurant property to the lessee for its net carrying

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value of approximately \$588,000. We applied approximately \$426,000 of the proceeds from each of these sales to reduce our line of credit secured by the restaurant properties.

Through the first nine months of 2003, we have made draws on our variable-rate lines of credit totaling approximately \$6.0 million to fund acquisition activities and capital replacements and improvements. We currently have approximately \$5.9 million available under our lines of credit.

As of September 30, 2003, total long-term debt was \$230.0 million, including \$168.5 million of notes payable at fixed interest rates ranging from 5.06% to 8.55%, and \$61.5 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 5.8% at September 30, 2003, compared to 6.1% at December 31, 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 \$625,000.

Effective September 5, 2003, we issued 454,545 shares of our Series B Cumulative Convertible Preferred Stock for \$5.0 million to a single investor. This placement is an expansion of the original offering in December 2001. The preferred shares have a purchase price and liquidation preference of \$11.00 per share, and an initial dividend yield of 10%. The investor will have the right to convert each Series B share into one share of the Company's common stock beginning in December 2004, or in certain circumstances such as a change of control or the Company's calling the Series B stock for redemption. Through September 30, 2003, we have incurred costs related to this placement totaling approximately \$30,000. We applied proceeds of

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the placement to reduce the outstanding amount of our existing line of credit secured by Latitudes Apartments.

In August 2003, we issued 19,068 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for proceeds of approximately \$199,000. During the first nine months of 2003, we have issued a total of 53,383 shares of our common stock through this Plan.

In addition, during the third quarter of 2003, we issued 3,166 shares of our common stock in exchange for Operating Partnership units formerly held by minority unitholders.

### Cash flows and liquidity

Net cash flows from operating activities were \$2.5 million in the third quarter of 2003, compared to \$2.7 million in the third quarter of 2002. Through the first nine months of 2003, net cash flows from operating activities were \$6.7 million, compared to \$7.1 million in the first nine months of 2002. Investing and financing activities, other than those described under "Capital Resources" above, consisted of capital expenditures at apartment communities, along with payment of dividends and distributions.

We have announced that the company will pay a regular quarterly dividend of \$0.25 per share on November 17, 2003, to shareholders of record of our common stock on November 3, 2003; in addition, the company will pay a preferred dividend of \$0.275 per share, or approximately \$160,000, to the preferred shareholder on November 17, 2003.

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,

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adequate to meet our operating requirements for 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 do not intend to reserve funds to retire existing long-term debt upon maturity. We believe we have sufficient resources to meet our short-term liquidity requirements. However, if these sources of funds are insufficient or unavailable, our ability to continue to make distributions to shareholders may be adversely affected.

### Critical Accounting Policies - Capital expenditures and depreciation

Our critical accounting policies are identified and discussed in our Annual Report on Form 10-K under "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies." 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 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.

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For the acquisitions of Barrington Place, Brookford Place and Alta Harbour Apartments in 2002, and The Place Apartments in 2003, 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 (45 years for The Place); and fixtures, equipment and floor coverings, 5-10 years. We expect to complete a detailed analysis of components for The Harrington Apartments in the near future.

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 the third quarter of 2003 totaled approximately \$1.0 million, including \$295,000 for acquisition improvements, \$79,000 for additions and betterments, and \$662,000 for recurring capital expenditures.

We expense ordinary repairs and maintenance costs at apartment communities. Repairs and maintenance at our apartment communities during the third quarter of 2003 totaled approximately \$1.5 million. Through the first nine

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months of 2003, repairs and maintenance at our apartment communities totaled \$4.1 million, including \$1.5 million in compensation of service staff and \$2.6 million in payments for materials and contracted services.

A summary of capital expenditures at our apartment communities through September 30, 2003, in aggregate and per apartment unit, follows:

	Total	Per unit
	-----	-----
	(000's)	
Recurring capital expenditures:		
Floor coverings	\$ 603	\$132
Appliances/HVAC	183	40
Exterior paint	182	40
Computer/support equipment	53	12
Other	330	72
	-----	-----
	\$1,352	\$297
	=====	=====

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	Total
	-----
	(000's)
Non-recurring capital expenditures:	
Acquisition improvements	\$ 609
Additions and betterments	412
Computer/support equipment	17
	-----
	\$1,038
	=====

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

There have been no material changes in information that would be provided under Item 305 of Regulation S-K since December 31, 2002. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources and Liquidity" above for a discussion of our exposure to interest rate risks.

### Item 4. 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 SEC 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 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

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of the third quarter of 2003, 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 2. Changes in Securities and Use of Proceeds

During the three months ended September 30, 2003, we sold 454,545 shares of our Series B Cumulative Preferred Stock to an accredited investor in a private offering pursuant to Section 4(2) of the Securities Act.

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

##### a) Exhibits:

###### 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

##### b) Reports on Form 8-K:

- o Current Report on Form 8-K filed August 8, 2003, to furnish under Items 9 and 12 a press release announcing the results of operations and financial condition of the company as of and for the quarter ended June 30, 2003.
- o Current Report on Form 8-K filed August 15, 2003, to furnish under Items 9 and 12 a report to shareholders announcing the results of operations and financial condition of the company as of and for the quarter ended June 30, 2003.
- o Current Report on Form 8-K filed August 29, 2003, to report under Item 5 the acquisition of The Harrington Apartments.
- o Current Report on Form 8-K filed September 10, 2003, to report under Item 5 the placement of 454,545 shares of the company's Series B Cumulative Preferred Stock.

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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

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undersigned, thereunto duly authorized.

BNP RESIDENTIAL PROPERTIES, INC.  
(Registrant)

November 7, 2003

/s/ Philip S. Payne

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

November 7, 2003

/s/ Pamela B. Bruno

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Pamela B. Bruno  
Vice President and  
Chief Accounting Officer

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