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BNP RESIDENTIAL PROPERTIES INC
Form 10-Q
August 10, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2001

OR

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

For the transition period from _____ to _____

Commission file number: 1-9496

BNP RESIDENTIAL PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

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

3850 One First Union Center, Charlotte, NC 28202-6032

(Address of principal executive offices) (Zip Code)

704/944-0100

(Registrant's telephone number)

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of August 6, 2001 (the latest practicable date).

| | |
|--|--------------------|
| Common Stock, \$.01 par value ----- | 5,706,950 ----- |
| (Class) | (Number of shares) |

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PART I - Financial Information

Item 1. Financial Statements.

BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Balance Sheets

| | June 30 2001 | Dece 2 |
|--|----------------------|-----------|
| | ----- (Unaudited) | |
| Assets | | |
| Real estate investments at cost: | | |
| Apartment properties | \$219,704,033 | \$21 |
| Restaurant properties | 39,158,921 | 3 |
| | ----- | ----- |
| | 258,862,954 | 25 |
| Less accumulated depreciation | (36,806,770) | (3 |
| | ----- | ----- |
| | 222,056,184 | 22 |
| Cash and cash equivalents | 665,323 | |
| Other current assets | 2,538,718 | |
| Investment in and advances to Management Company | - | |
| Notes receivable | 100,000 | |
| Intangible assets, net of accumulated amortization: | | |
| Intangible related to acquisition of management operations | 1,318,188 | |

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| | | |
|--|---------------|-------|
| Deferred financing costs | 992,051 | |
| | ----- | ----- |
| Total assets | \$227,670,464 | \$23 |
| | ===== | ===== |
| Liabilities and Shareholders' Equity | | |
| Mortgage and other notes payable | \$163,058,314 | \$16 |
| Accounts payable and accrued expenses | 1,943,376 | |
| Escrowed security deposits and deferred revenue | 1,175,373 | |
| Deferred credit for defeasance of interest, net of accumulated amortization | 583,360 | |
| | ----- | ----- |
| Total liabilities | 166,760,423 | 16 |
| Minority interest in Operating Partnership | 18,948,649 | 1 |
| Shareholders' equity: | | |
| Common stock, \$.01 par value, 100,000,000 shares authorized; issued and outstanding shares-- 5,706,950 at June 30, 2001 and at December 31, 2000 | 57,069 | |
| Additional paid-in capital | 69,707,155 | 6 |
| Dividend distributions in excess of net income | (27,802,832) | (2) |
| | ----- | ----- |
| Total shareholders' equity | 41,961,392 | 4 |
| | ----- | ----- |
| Total liabilities and shareholders' equity | \$227,670,464 | \$23 |
| | ===== | ===== |

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statements of Operations
(Unaudited)

| | Three months ended | | Six months ended | |
|---|--------------------|-------------|------------------|-------|
| | June 30 | | June 30 | |
| | 2001 | 2000 | 2001 | 2000 |
| | ----- | ----- | ----- | ----- |
| Revenues | | | | |
| Apartment rental income | \$7,814,957 | \$7,346,100 | \$15,555,937 | \$ |
| Restaurant rental income | 1,013,298 | 1,050,266 | 2,042,553 | |
| Management fee income | 104,380 | - | 217,097 | |
| Equity in income of Management Company | - | 1,643 | - | |
| Interest and other income | 306,698 | 58,519 | 381,016 | |
| | ----- | ----- | ----- | ----- |
| | 9,239,333 | 8,456,528 | 18,196,603 | |
| Expenses | | | | |
| Apartment operations | 2,887,312 | 2,576,666 | 5,459,903 | |
| Apartment administration | 296,431 | 211,242 | 511,651 | |
| Corporate administration | 492,260 | 474,284 | 1,016,166 | |
| Depreciation | 1,974,179 | 1,794,124 | 3,880,817 | |
| Amortization of intangibles | 150,643 | 144,804 | 295,401 | |

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| | | | | |
|---|------------|------------|------------|----|
| Interest | 2,813,069 | 2,761,989 | 5,796,399 | |
| | 8,613,894 | 7,963,109 | 16,960,337 | |
| Income before minority interest | 625,439 | 493,419 | 1,236,266 | |
| Minority interest in Operating Partnership | 143,959 | 113,766 | 284,627 | |
| Net income | \$ 481,480 | \$ 379,653 | \$ 951,639 | \$ |
| Per share data: | | | | |
| Basic earnings per share | \$0.09 | \$0.07 | \$0.17 | |
| Diluted earnings per share | \$0.09 | \$0.07 | \$0.17 | |
| Dividends declared | \$0.31 | \$0.31 | \$0.62 | |
| Weighted average shares outstanding | 5,706,950 | 5,706,950 | 5,706,950 | |

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BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statement of Shareholders' Equity
(Unaudited)

| | Common Shares | Stock Amount | Additional paid-in capital | Dividends Distributed in excess of net income | |
|------------------------------|------------------|-----------------|----------------------------------|--|----|
| Balance at December 31, 2000 | 5,706,950 | \$57,069 | \$69,707,155 | \$ (25,216,162) | \$ |
| Dividends paid (\$0.31) | - | - | - | (1,769,155) | |
| Net income | - | - | - | 470,159 | |
| Balance at March 31, 2001 | 5,706,950 | 57,069 | 69,707,155 | (26,515,158) | |
| Dividends paid (\$0.31) | - | - | - | (1,769,154) | |
| Net income | - | - | - | 481,480 | |
| Balance at June 30, 2001 | 5,706,950 | \$57,069 | \$69,707,155 | \$ (27,802,832) | \$ |

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BNP RESIDENTIAL PROPERTIES, INC.

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 Consolidated Statements of Cash Flows
 (Unaudited)

| | Six months ended June 30 2001 | ----- |
|--|-------------------------------------|-------------|
| Operating activities: | | |
| Net income | \$ 951,639 | \$ |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Minority interest in Operating Partnership | 284,627 | |
| Equity in income of Management Company | - | |
| Depreciation and amortization of intangibles | 4,176,218 | |
| Amortization of defeasance credit | (83,328) | |
| Changes in operating assets and liabilities: | | |
| Other current assets | (1,038,447) | |
| Accounts payable and accrued expenses | 972,033 | |
| Security deposits and deferred revenue | 25,259 | |
| Net cash provided by operating activities | 5,288,001 | ----- |
| Investing activities: | | |
| Additions to apartment properties | (1,291,992) | |
| Proceeds from sale of restaurant properties | 405,860 | |
| Investment in/advances to Management Company | 372,939 | |
| Reduction in notes receivable | - | |
| Net cash used in investing activities | (513,193) | ----- |
| Financing activities: | | |
| Redemption of Operating Partnership minority units | (14,864) | |
| Repurchase of common stock | - | |
| Distributions to Operating Partnership minority unitholders | (1,058,149) | |
| Dividends paid to common shareholders | (3,538,309) | |
| Proceeds from notes payable | 176,304 | |
| Principal payments on notes payable | (729,727) | |
| (Payment) refund of deferred financing costs | (792) | |
| Net cash used in financing activities | (5,165,537) | ----- |
| Net (decrease) increase in cash and cash equivalents | (390,729) | |
| Cash and cash equivalents at beginning of period | 1,056,052 | ----- |
| Cash and cash equivalents at end of period | \$ 665,323 | \$ ===== |

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BNP RESIDENTIAL PROPERTIES, INC.

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

Note 1. Interim financial statements

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

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

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

Note 2. Basis of Presentation

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

Effective January 2001, the consolidated financial statements include the accounts of BNP Management, Inc. (the "Management Company"). Prior to January 2001, the Operating Partnership had a 1% voting interest and 95% economic interest in the Management Company, and used the equity method to account for this investment. In January 2001, the Operating Partnership acquired the outstanding 99% voting interest and 5% economic interest in the Management Company for approximately \$16,000.

The impact of this change in basis of presentation on the balance sheet was to increase cash by approximately \$373,000 and net apartment properties equipment by approximately \$346,000, and to eliminate approximately \$715,000 investment in and advances to the Management Company previously reflected in our balance sheets.

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

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

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Note 3. Shareholders' Equity

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

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| | Three months ended June 30 | | Six months ended June 30 |
|--|-------------------------------|-----------|-----------------------------|
| | 2001 | 2000 | 2001 |
| Numerators: | | | |
| Numerator for basic earnings per share - net income | \$481,480 | \$379,653 | \$ 951,639 |
| Add minority interest in Operating Partnership (1) | 143,959 | 113,766 | 284,627 |
| Numerator for diluted earnings per share - net income before minority interest (1) | \$625,439 | \$493,419 | \$1,236,266 |
| Denominators: | | | |
| Denominator for basic earnings per share - weighted average shares outstanding | 5,706,950 | 5,706,950 | 5,706,950 |
| Effect of dilutive securities: | | | |
| Convertible Operating Partnership units | 1,706,193 | 1,710,131 | 1,706,833 |
| Stock options (2) | 3,060 | - | 1,347 |
| Denominator for diluted earnings per share - adjusted weighted average shares and assumed conversions | 7,416,203 | 7,417,081 | 7,415,130 |

Note 4. Subsequent events

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

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

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

Although we believe that our plans, intentions, and expectations reflected in or suggested by these forward-looking statements are reasonable, we cannot assure you that we will achieve our plans, intentions or expectations. When you consider such forward-looking statements, you should keep in mind the following

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

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 that owns and operates apartment communities in North Carolina and Virginia.

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We currently own and operate 15 apartment communities containing 3,681 units and have the right to acquire one additional apartment community containing 108 units. We also own 42 restaurant properties, which we lease to a third party under a master lease on a triple-net basis. In addition, we manage three other apartment communities for a third-party owner.

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

Our executive offices are located at 3850 One First Union Center,

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Charlotte, North Carolina 28202-6032, telephone 704/944-0100.

Results of Operations

Revenues

Total revenues for the second quarter of 2001 were \$9.2 million, a 9.3% increase compared to the second quarter of 2000. For the first six months of 2001, total revenues were \$18.2 million, a 7.4% increase compared to the first six months of 2000. Our primary source of revenue is apartment rental income, which generated approximately 84.6% of our total revenues in the second quarter of 2001, and 85.5% of our total revenues in the first six months of 2001.

Apartment rental income totaled \$7.8 million in the second quarter of 2001, a 6.4% increase compared to the second quarter of 2000. For the first six months of 2001, apartment rental income totaled \$15.6 million, a 6.4% increase compared to the first six months of 2000. This increase is primarily attributable to rental income at Oak Hollow Apartments Phase 2 (\$456,000 in the second quarter, and \$914,000 in the first six months of 2001), which we acquired in December 2000.

For the second quarter of 2001, overall average economic occupancy declined by 2.0% while average monthly revenue per occupied unit increased by 1.9%, compared to the second quarter of 2000. For the first six months of 2001, overall average economic occupancy declined by 1.5% while average monthly revenue per occupied unit increased by 1.4%, compared to the first six months of 2000. On a same units basis (those units that we owned throughout the first six months of both years), comparisons of average economic occupancy and average revenue per occupied unit were slightly more favorable for both the quarter and first six months.

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

| | Three months ended June 30 | | | Six months ended Ju | | |
|------------------------------------|----------------------------------|----------------------------------|--|----------------------------------|----------------------------------|-------|
| Number of apartment units | Average physical occupancy | Average economic occupancy | Average monthly revenue per occupied unit | Average physical occupancy | Average economic occupancy | |
| Abbington Place | 360 | 95.2% | 96.1% | \$787 | 95.4% | 96.4% |
| Allerton Place | 228 | 94.4% | 96.2% | 760 | 94.4% | 95.6% |

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| | Three months ended June 30 | | | Six months ended Ju | | |
|------------------------------------|----------------------------------|----------------------------------|--|----------------------------------|----------------------------------|--|
| Number of apartment units | Average physical occupancy | Average economic occupancy | Average monthly revenue per occupied unit | Average physical occupancy | Average economic occupancy | |

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| | Number of apartment units | Average physical occupancy | Average economic occupancy | revenue per occupied unit | Average physical occupancy | Average economic occupancy |
|-----------------|------------------------------------|----------------------------------|----------------------------------|------------------------------------|----------------------------------|----------------------------------|
| Chason Ridge | 252 | 94.0% | 95.3% | 683 | 94.5% | 95.6% |
| Harris Hill | 184 | 93.0% | 94.3% | 748 | 94.2% | 95.9% |
| Latitudes | 448 | 96.1% | 97.0% | 776 | 96.2% | 97.2% |
| Madison Hall | 128 | 92.8% | 94.8% | 591 | 93.5% | 95.1% |
| Oakbrook | 162 | 91.4% | 92.2% | 794 | 93.1% | 93.9% |
| Oak Hollow | 221 | 87.3% | 89.4% | 744 | 90.4% | 92.0% |
| Oak Hollow Ph2* | 240 | 89.7% | 89.7% | 706 | 89.8% | 89.9% |
| Paces Commons | 336 | 91.4% | 92.2% | 719 | 91.6% | 92.5% |
| Paces Village | 198 | 95.4% | 95.7% | 687 | 93.0% | 93.5% |
| Pepperstone | 108 | 97.4% | 97.5% | 701 | 98.1% | 98.7% |
| Savannah Place | 172 | 93.6% | 95.2% | 723 | 93.0% | 94.6% |
| Summerlyn Place | 140 | 93.6% | 95.1% | 800 | 92.1% | 93.6% |
| Waterford Place | 240 | 92.9% | 94.8% | 860 | 93.5% | 95.0% |
| Woods Edge | 264 | 95.4% | 96.5% | 779 | 96.4% | 97.3% |
| All apartments | 3,681 | | | | | |
| - 2001 | | 93.5% | 94.5% | 749 | 93.8% | 94.9% |
| - 2000 | | 95.5% | 96.5% | 735 | 95.6% | 96.4% |
| Same units | 3,440 | | | | | |
| - 2001 | | 93.7% | 94.9% | 751 | 94.1% | 95.2% |
| - 2000 | | 95.5% | 96.5% | 735 | 95.6% | 96.4% |

*Acquired December 2000

Apartment rental income was consistent with our expectations in the second quarter and first six months of 2001, reflecting intense competition with new construction throughout our markets. We do not expect any significant improvement in our apartment markets in 2001. We continue to emphasize occupancy as a means of maximizing cash flow from our apartment communities. We also strive to maintain our competitive position by keeping the apartment communities in an excellent state of repair and by making selective improvements.

Restaurant rental income was \$1.0 million in the second quarter of 2001, a 3.5% decrease compared to the second quarter of 2000. For the first six months of 2001, restaurant rental income was \$2.0 million, a 2.9% decrease compared to the first six months of 2000. This decrease is due to the sale of one restaurant property in June 2000, and another in April 2001. Through June 30, 2001, we have sold five of the original 47 restaurants to Boddie-Noell Enterprises, Inc. ("Enterprises"), the lessee, under the non-economic clause of the agreement that allows Enterprises to close up to seven restaurants and buy them back for no less than net carrying value.

Restaurant rental income during the first six months of both 2001 and 2000 was the minimum rent specified in the lease agreement. Under our master lease with Enterprises, restaurant rental income payments are the greater of a specified minimum rent or 9.875% of food

sales. The minimum rent is reduced by approximately \$8,000 per month, or \$96,000 per year, for each restaurant that is sold.

"Same store" sales (for the 42 restaurants that were open throughout the

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first six months of both 2001 and 2000) declined by 2.7% in the second quarter, and 4.7% in the first six months, of 2001 compared to 2000. Sales at these restaurants would have to increase by approximately 12% before we would receive rent exceeding the minimum rent.

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

Management fee income totaled \$104,000 for the second quarter and \$217,000 for the first six months of 2001. If these activities had been reflected on a consolidated basis in our 2000 financial statements, equity income would have been replaced with management fee income of approximately \$112,000 for the second quarter and \$229,000 for the first six months of 2000.

Interest and other income includes two non-routine income items totaling approximately \$210,000 that were recorded in June 2001--approximately \$70,000 fee income for arranging refinancing at two managed apartment properties, and approximately \$140,000 for refund of 1997 and 1998 state franchise taxes. Receivables for these amounts were included in other current assets at June 30, 2001, and payments were received in early July.

Expenses

Total expenses for the second quarter of 2001 were \$8.6 million, an 8.2% increase compared to the second quarter of 2000. For the first six months of 2001, total expenses were \$17.0 million, a 9.1% increase compared to the first six months of 2000.

Apartment operations expense for the second quarter of 2001 totaled \$2.9 million, a 12.1% increase compared to the second quarter of 2000. For the first six months of 2001, apartment operations expense totaled \$5.5 million, a 12.4% increase compared to the first six months of 2000. These increases are primarily attributable to the addition of Oak Hollow Apartments Phase 2 (\$180,000 for the second quarter of 2001 and \$337,000 for the first six months of 2001), along with the impact of higher costs for on-site compensation, property taxes and insurance.

Apartment operations expense includes only direct costs of on-site operations. Apartment operations expense for the second quarter of 2001 represented 36.9% of related apartment rental income, compared to 35.1% in the second quarter of 2000. For the first six months of 2001, apartment operations expense represented 35.1% of related apartment rental income, compared to 33.2% in the first six months of 2000.

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

We are now able to identify and compare apartment administration expenses for 2001 and 2000. These costs include our property management activities as well as accounting and support

activities directly related to apartment management, and were previously

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included in our line item for administrative expenses that included both apartment and corporate administration costs. In addition, we now include the expenses of our third-party management activities in our consolidated expense amounts.

Apartment administration expense totaled \$296,000 for the second quarter of 2001 and \$512,000 for the first six months of 2001. If these activities had been reflected on a consolidated basis in our 2000 financial statements, apartment administration expense would have been approximately \$275,000 for the second quarter and \$450,000 for the first six months of 2000. Increases in apartment administration expense are primarily attributable to increased property management supervisory compensation and travel and entertainment expenditures.

Corporate administration expense totaled \$492,000 for the second quarter of 2001 and \$1,016,000 for the first six months of 2001. If these activities had been reflected on a consolidated basis in our 2000 financial statements, corporate administration expense would have been approximately \$500,000 for the second quarter and \$990,000 for the first six months of 2000.

Depreciation expense totaled \$2.0 million in the second quarter of 2001, a 10.0% increase compared to the second quarter of 2000. For the first six months of 2001, depreciation expense totaled \$3.9 million, an 8.9% increase compared to the first six months of 2000. This increase is attributable to the addition of Oak Hollow Apartments Phase 2 (\$104,000 for the second quarter and \$190,000 for the first six months of 2001) along with the impact of additions and replacements at other apartment communities. Amortization expense was essentially the same in the first six months of 2001 compared to the first six months of 2000.

Interest expense was \$2.8 million in the second quarter of 2001, a 1.8% increase compared to the second quarter of 2000. For the first six months of 2001, interest expense totaled \$5.8 million, a 5.2% increase compared to the first six months of 2000. While long-term debt increased by approximately \$12 million, or 8%, between the second quarters of 2000 and 2001, variable interest rates have declined approximately 2.7% during the last six months. Overall, weighted average interest rates were 6.9% for the second quarter and 7.1% for the first six months of 2001, compared to 7.3% for the second quarter and 7.3% for the first six months of 2000.

Net income

Net income available to common shareholders in the second quarter of 2001 was \$481,000, a 26.8% increase compared to the second quarter of 2000. For the first six months of 2001, net income available to common shareholders was \$952,000, an 11.1% decrease compared to the first six months of 2000. These comparisons reflect the favorable effects of non-routine revenue and declining interest rates in the second quarter discussed above, as well as the impact of increased interest expense and non-cash charges for depreciation and amortization. Operating Partnership earnings before interest, depreciation and amortization, and excluding non-routine revenue, increased 3.0% for the second quarter, and 2.2% for the first six months, of 2001 compared to 2000.

Funds from Operations

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

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and after adjustments for unconsolidated partnerships and joint ventures."

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

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

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

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

Funds from operations of the Operating Partnership increased by 13.1% for the second quarter, and by 3.1% for the first six months, of 2001 compared to 2000. These increases are primarily attributable to non-routine revenue and declines in variable interest rates during the second quarter of 2001.

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

| | Three months ended June 30 | | Six months ended June 30 |
|--|-------------------------------|----------|-----------------------------|
| | 2001 | 2000 | 2001 |
| Income before minority interest | \$ 625 | \$ 493 | \$ 1,236 |
| Depreciation | 1,974 | 1,794 | 3,881 |
| Amortization of management intangible | 102 | 102 | 203 |
| Funds from operations - Operating Partnership | \$ 2,701 | \$ 2,389 | \$ 5,320 |

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

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| | Three months ended June 30 | | Six months ended June 30 |
|----------------------------------|-------------------------------|----------|-----------------------------|
| | 2001 | 2000 | 2001 |
| Funds from operations - | | | |
| Operating Partnership | \$ 2,701 | \$ 2,389 | \$ 5,320 |
| Amortization of loan costs | 49 | 43 | 92 |
| Recurring capital expenditures | (303) | (263) | (554) |
| Funds available for distribution | \$ 2,447 | \$ 2,169 | \$ 4,859 |

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

| | Three months ended June 30 | | Six months ended June 30 |
|---|-------------------------------|----------|-----------------------------|
| | 2001 | 2000 | 2001 |
| Funds from operations - | | | |
| Operating Partnership | \$ 2,701 | \$ 2,389 | \$ 5,320 |
| Minority interest in funds from operations | (622) | (551) | (1,225) |
| Basic funds from operations available to common shareholders | \$ 2,079 | \$ 1,838 | \$ 4,095 |

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

| | Three months ended June 30 | | Six months ended June 30 |
|--|-------------------------------|----------|-----------------------------|
| | 2001 | 2000 | 2001 |
| Net cash provided by (used in): | | | |
| Operating activities | \$ 2,578 | \$ 2,308 | \$ 5,288 |
| Investing activities | (264) | (204) | (513) |
| Financing activities | (2,815) | (2,031) | (5,166) |
| Dividends and distributions paid to: | | | |
| Shareholders | \$ 1,769 | \$ 1,769 | \$ 3,538 |
| Minority unitholders in Operating Partnership | 529 | 530 | 1,058 |
| Scheduled debt principal payments | \$ 96 | \$ 82 | \$ 187 |
| Non-recurring capital expenditures | 370 | 484 | 741 |

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| | Three months ended June 30 | | Six months ended June 30 |
|---|-------------------------------|-------|-----------------------------|
| | 2001 | 2000 | 2001 |
| Weighted average common shares outstanding | 5,707 | 5,707 | 5,707 |
| Weighted average Operating Partnership minority units outstanding | 1,706 | 1,710 | 1,707 |

Capital Resources and Liquidity

Capital Resources

At June 30, 2001, total long-term debt was \$163.1 million, including \$116.2 million of notes payable at fixed interest rates ranging from 6.345% to 8.55%, and \$46.8 million at variable rates indexed on 30-day LIBOR rates. Approximately \$1 million additional borrowings are available under our line of credit arrangements.

The weighted average interest rate on debt outstanding at June 30, 2001, was 6.7%, compared to 7.5% at December 31, 2000, and 7.5% at June 30, 2000. (This reduction in weighted average interest rate is attributable to an approximate 2.7% decline in variable rates during the last six months; there has been no significant change in our fixed-rate debt.) A 1% fluctuation in variable interest rates would increase or decrease our annual interest expense by approximately \$475,000.

Cash flows and liquidity

Net cash flows from operating activities were \$5.3 million during the first six months of 2001, a 1.4% decrease compared to 2000.

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

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

During the first six months of 2001, we have expended approximately \$439,000 for renovations at Oak Hollow Apartments Phase 2. As we continue this renovation project, we expect to draw against the \$2.0 million available under a variable rate note secured by Oak Hollow Apartments Phase 2.

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

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

We capitalize our expenditures to acquire new assets, to materially enhance the value of existing assets, or to substantially extend the useful life of existing assets. We record all floor covering, appliance, and HVAC replacements, as well as major capital maintenance projects, as capital expenditures.

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.

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

Recently Issued Accounting Standards

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Part II - Other Information

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

We held our Annual Meeting of Shareholders on May 24, 2001. Of the 5,706,950 shares of common stock issued, outstanding, and entitled to vote at this meeting, 5,241,234, or 91.8%, were present in person or by proxy. The following proposal was approved:

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| | For | Against | Withheld/ Abstained |
|---|-----------|---------|------------------------|
| | ----- | ----- | ----- |
| Election of directors to serve until the 2004 annual meeting: | | | |
| Stephen R. Blank | 5,196,447 | - | 44,787 |
| Philip S. Payne | 5,189,042 | - | 52,192 |

Other directors, whose terms of office as directors continued after the meeting, are as follows:

Serving until the 2002 annual meeting:

B. Mayo Boddie
D. Scott Wilkerson
Paul G. Chrysson

Serving until the 2003 annual meeting:

W. Michael Gilley
William H. Stanley

Item 5. Other Information

Re-election of officers

The Company has announced the re-election of the following officers:

| | |
|---------------------|---|
| D. Scott Wilkerson | President and Chief Executive Officer |
| Philip S. Payne | Executive Vice President, Treasurer, Chief Financial Officer, and Assistant Secretary |
| Douglas E. Anderson | Vice President, Secretary |
| Pamela B. Bruno | Vice President, Controller, Chief Accounting Officer, and Assistant Secretary |

Item 6. Exhibits and Reports on Form 8-K

a) Exhibits:

None

b) Reports on Form 8-K:

None

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)

August 9, 2001

/s/ Philip S. Payne

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

August 9, 2001

/s/ Pamela B. Bruno

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