BNP RESIDENTIAL PROPERTIES INC
Form 10-K
February 24, 2004

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

FORM 10-K

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

For the fiscal year ended December 31, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______________ to ______________.

Commission File Number 1-9496

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

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

301 S. College St., Suite 3850, Charlotte, NC	28202-6024
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant at February 23, 2004, was approximately $83.5 million.

The number of shares of the registrant's common stock outstanding on February 23, 2004, was 7,097,480.

Index to exhibits at page 62

BNP RESIDENTIAL PROPERTIES, INC.
TABLE OF CONTENTS

PART I

ITEM 1. BUSINESS

Company Profile

BNP Residential Properties, Inc. is a self-administered and self-managed real estate investment trust ("REIT") with operations in North Carolina, South Carolina and Virginia. Our primary activity is the ownership and operation of apartment communities. We currently manage 28 multi-family communities containing 6,920 units. Of these, we own 20 apartment communities containing 4,859 units. Third parties own the remaining 8 communities, containing 2,061 units, and we manage them on a contract basis. In addition to our apartment communities, we own 40 restaurant properties that we lease on a triple-net basis to a third party under a master lease.

BNP Residential Properties, Inc. is structured as an UpREIT, or "umbrella partnership real estate investment trust." We are the sole general partner and own a controlling interest in BNP Residential Properties Limited Partnership, through which we conduct all of our operations. We refer to this partnership as the Operating Partnership. We refer to the limited partners of the Operating Partnership as "minority common unitholders" or "minority interest." We currently own approximately 76% of the outstanding Operating Partnership common units and 100% of the outstanding Operating Partnership preferred units.

As of February 23, 2004, we have 7,097,480 shares of common stock and 909,090 shares of preferred stock outstanding. We have approximately 1,375 shareholders of record. We estimate that there are approximately 3,600 beneficial owners of our common stock. Our shares are listed on the American Stock Exchange, trading under the symbol "BNP." The Operating Partnership has an additional 1,841,098 Operating Partnership minority common units outstanding.

We have approximately 200 employees, including management, accounting, legal, acquisitions, development, property management, leasing, maintenance and administrative personnel. Our executive offices are located at 301 South College Street, Suite 3850, Charlotte, North Carolina 28202-6024, and our telephone number is 704/944-0100.

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

History and Development of BNP Residential Properties, Inc.

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

In 1987, we purchased 47 existing restaurant properties located in North Carolina and Virginia for an aggregate purchase price of $43.2 million. From 1987 through 1992, our assets primarily consisted of these 47 restaurant properties. During this period we operated as an externally administered and externally managed REIT. We leased the restaurants on a triple-net basis to Boddie-Noell Enterprises, Inc.

("Enterprises"), a Hardee's franchisee, under a master lease. A master lease is a single lease that covers multiple properties, while a triple-net lease is one where the lessee pays all operating expenses, maintenance, property insurance and real estate taxes.

In 1993, we began to change our focus from restaurant properties to apartment communities, with the objective of increasing funds from operations and enhancing shareholder value. In 1994 we acquired BT Venture Corporation, an integrated real estate company specializing in the management, development and acquisition of apartment properties, and began operating as a self-administered and self-managed REIT.

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

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

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

In December 2001, our Board of Directors authorized the issuance of up to 454,545 shares of Series B Cumulative Convertible Preferred Stock, and we issued 227,273 shares of this preferred stock for proceeds of $2.5 million. In September 2002, we issued an additional 227,272 shares of our Series B preferred stock for proceeds of $2.5 million.

From 1993 through 2002, we acquired 19 apartment properties through a combination of cash purchases, assumption of long-term debt, and issuance of Operating Partnership units. (We combined two of these properties to operate as a single apartment community.)

To date we have sold seven restaurants to Enterprises, the lessee, under an agreement that allowed Enterprises to close up to seven restaurants and buy them back for no less than net carrying value.

Recent Developments

During 2003, we continued to add to and improve our portfolio of apartment properties with two acquisitions - The Place Apartments in Greenville, South Carolina, and The Harrington Apartments in Charlotte, North Carolina - in direct purchases. With these acquisitions, we now own 20 apartment communities.

Results for 2003 were in line with our expectations. We entered 2003 expecting it to be a difficult year, but believed we would begin to see some improvement in apartment operations by late in the year. A combination of overbuilding of apartments, a weak economy, and extremely low interest rates that made home ownership a more viable alternative to renting, resulted in declines in both occupancy and rental rates beginning in 2001. This trend continued until the middle of 2003, when we began to see improvement in apartment performance. For apartments owned for the full period in both years ("same units"), average economic occupancy for the fourth quarter of 2003 improved by 3.3%, from 92.1% in the fourth quarter of 2002 to 95.4%in the fourth quarter of 2003. At the same time, revenue per occupied unit improved from $721 per month in the fourth quarter of 2002 to $725 per month in the fourth quarter of 2003. This was the

4

first time in several years that we have had simultaneous improvement in year-over-year quarterly comparisons for both same-unit occupancy and monthly revenue per occupied unit.

The surprise of 2003 was the significant improvement in sales at our restaurant properties during the third and fourth quarters. On a same-store basis, sales at our 40 restaurant properties increased by 7.4% in the third quarter and 12.7% in the fourth quarter of 2003 as compared to the same periods in 2002. As a result, same-store sales for the year 2003 increased by 2.4% over 2002. These increases, which appear to be the result of the introduction of Hardee's new "Thickburger" menu and a revitalized advertising campaign, represent the first significant positive same-store sales comparisons in over ten years. While this improvement in sales at the restaurant properties did not result in our receiving any rent beyond the specified minimum annual rent, it certainly raises the hope that Hardee's efforts to reinvigorate the concept may, at least, be taking hold. For us to begin to receive more than minimum rent, annual sales at our restaurant properties would need to improve by 10% over 2003 levels.

We are cautiously optimistic about our prospects for 2004. The past few years have been a very difficult period in which to operate apartments. It is simply too early to tell whether the improvement in apartment operations we saw during the fourth quarter is the beginning of an extended period of improving apartment operations. In any event, we have a portfolio of well-maintained, well-located apartment properties that, we believe, are positioned to take advantage of any improvement in the apartment markets.

In September 2003, our Board of Directors authorized, and we issued, an additional 454,545 shares of our Series B preferred stock for proceeds of $5.0 million.

On February 23, 2004, we sold 1,175,519 shares of our common stock to a number of institutional investors and mutual funds pursuant to a private placement for a total purchase price of approximately $13.8 million.

Business Strategy

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

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

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

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

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

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

ITEM 2. PROPERTIES

Apartment Communities

Through the Operating Partnership, we own and operate 20 apartment communities consisting of 4,859 apartment units. For the fourth quarter of 2003, our average economic occupancy rate was 95.2%, and average monthly revenue per occupied unit was $720. The average age of the apartment communities is approximately 11 years. Our apartment communities are generally wood framed, two- and three-story buildings, with exterior entrances, individually metered gas and electric service, submetered water service, and individual heating and cooling systems.

Our apartment units are comprised of 36% one-bedroom units, 57% two-bedroom units, and 7% three-bedroom units. The units average approximately 1,000 square feet in area and are well equipped with modern appliances and other conveniences. Our communities generally include swimming pools, tennis courts and clubrooms, and most have exercise facilities.

As of December 31, 2003, our total investment, on a historical cost basis, in our 20 apartment communities was approximately $299.7 million, and the net carrying value of our 20 apartment communities was approximately $254.9 million (an average of $12.7 million per property). The apartment properties are held subject to loans, discussed in the notes to the financial statements.

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

Restaurant Properties

We lease the restaurant properties on a triple-net basis to Enterprises under a master lease. The master lease, as amended in 1995, has a primary term expiring in December 2007, but grants Enterprises three five-year renewal options. Enterprises pays annual rent equal to the greater of the specified minimum rent or 9.875% of food sales from the restaurants. Under certain conditions, and subject to our approval, Enterprises has the right to substitute another restaurant property for a property covered by the lease. Assuming renewal of the lease, after December 31, 2007, Enterprises has the right to terminate the lease on up to five restaurant properties per year by offering to purchase them under specified terms.

In addition, we entered into a separate agreement that allowed Enterprises to purchase, under specified terms, up to seven restaurant properties deemed non-economic for no less than net carrying value. The original lease was for 47 restaurant properties; since 1999, we have sold seven restaurants deemed non-economic to Enterprises for total proceeds of $4,373,000, which equaled the net carrying value of the properties.

The minimum rent on the remaining 40 restaurants is approximately $3.8 million per year.

6

The average acquisition cost of the original 47 restaurant properties was approximately $920,000 per property. The net carrying value of the 40 restaurant properties held at December 31, 2003, was $26.1 million (an average of $654,000 per property). The restaurant properties are held subject to a line of credit loan, discussed in the notes to the financial statements.

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

Thirty-nine of the restaurant properties are operated as Hardee's restaurants pursuant to franchise agreements with Hardee's Food Systems, Inc. One property is operated as a "BBQ and Ribs" restaurant. Enterprises converted this property to the BBQ and Ribs concept in 2002 and paid for the entire cost of the conversion, approximately $500,000. There is no applicable franchise agreement for the converted restaurant, as Enterprises owns the BBQ and Ribs concept.

Each of the restaurant properties consists of a one-story brick, stucco or wood building that embodies a contemporary style with substantial plate glass areas. The buildings average 3,400 square feet and are located on sites averaging 1.2 acres. The buildings are suitable for conversion to a number of uses, but the exteriors would have to be substantially modified prior to their use as restaurants of another concept or for non-restaurant applications.

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

Property Insurance

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

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

7

INFORMATION ABOUT APARTMENT COMMUNITIES

Community	Location	No. of Apt. Units	Year Compl	Date Acquired	Total Acreage	Total Rentable Area (Sq. Ft.)	Apartme Unit T 1 BR	2 BR
Abbington Place	Greensboro, NC	360	1997	12/97	37.4	400,728	96	216
Allerton Place	Greensboro, NC	228	1998	9/98	19.2	241,842	54	126
Barrington Place	Charlotte, NC	348	1999	5/02	29.3	386,964	132	192
Brookford Place	Winston-Salem, NC	108	1998	5/02	6.3	103,392	36	72
Chason Ridge	Fayetteville, NC	252	1994	1/99	29.1	246,886	56	164
Harrington	Charlotte, NC	288	1997	8/03	25.0	321,190	103	140
Harris Hill	Charlotte, NC	184	1988	12/94	18.4	167,920	67	117
Latitudes	Virginia Beach, VA	448	1989	10/94	24.9	358,700	269	159
Madison Hall	Clemmons, NC	128	1997	8/98	10.5	110,352	42	86
Marina Waterfront	Cornelius, NC	290	1994	9/02	33.6	254,356	128	126
Oak Hollow	Cary, NC	221	1983	7/98	30.0	215,960	56	165
Oak Hollow Ph 2	Cary, NC	240	1986	12/00	26.8	220,840	160	80
Oakbrook	Charlotte, NC	162	1985	6/94	16.4	178,668	32	120
Paces Commons	Charlotte, NC	336	1988	6/93	24.8	322,046	154	142
Paces Village	Greensboro, NC	198	1988	4/96	15.5	167,886	88	110
Pepperstone	Greensboro, NC	108	1992	12/97	10.1	113,076	-	108
Savannah Place	Winston-Salem, NC	172	1991	12/97	15.4	182,196	44	128
Summerlyn Place	Burlington, NC	140	1998	9/98	12.1	156,756	48	84
The Place	Greenville, SC	144	1985	3/03	10.1	158,264	40	104
Waterford Place	Greensboro, NC	240	1997	12/97	20.6	277,296	72	120
Woods Edge	Durham, NC	264	1985	6/98	32.4	268,620	66	198

Community	Location	Average Economic Occupancy Percent(1) 2003	2002	2001	Average Monthly Revenue per Occupied Unit 2003	2002	2001
Abbington Place	Greensboro, NC	90.9	93.2	95.9	$764	$770	$785
Allerton Place	Greensboro, NC	91.4	92.6	95.4	745	769	773
Barrington Place	Charlotte, NC	94.3	91.9	-	748	782	-
Brookford Place	Winston-Salem, NC	95.1	93.4	-	667	690	-
Chason Ridge	Fayetteville, NC	96.6	96.1	96.0	753	717	682
Harrington	Charlotte, NC	92.0	-	-	739	-	-
Harris Hill	Charlotte, NC	93.3	92.1	93.9	663	684	716
Latitudes	Virginia Beach, VA	96.5	97.2	97.1	873	817	774
Madison Hall	Clemmons, NC	94.2	93.9	92.9	578	598	605
Marina Waterfront	Cornelius, NC	91.0	89.4	-	750	801	-
Oak Hollow	Cary, NC	90.0	89.3	89.2	617	650	732
Oak Hollow Ph 2	Cary, NC	89.1	88.2	89.3	599	606	689
Oakbrook	Charlotte, NC	91.9	90.6	92.3	709	763	783
Paces Commons	Charlotte, NC	92.2	91.0	91.1	660	668	709
Paces Village	Greensboro, NC	94.3	89.0	93.0	654	667	689
Pepperstone	Greensboro, NC	93.8	95.4	97.3	655	681	695
Savannah Place	Winston-Salem, NC	93.4	93.1	93.8	699	714	712
Summerlyn Place	Burlington, NC	93.5	94.5	93.6	832	802	803
The Place	Greenville, SC	91.1	-	-	569	-	-
Waterford Place	Greensboro, NC	91.8	94.7	94.2	852	850	861
Woods Edge	Durham, NC	92.7	92.3	95.3	722	754	776

8

RESTAURANT PROPERTIES LOCATIONS

Virginia
(27 properties)

Ashland
106 North Washington

Blackstone
North Main Street

Bluefield
701 South College Street

Chester
12401 Jefferson Davis Hwy.

Clarksville
916 Virginia Avenue

Clintwood
U.S. Highway 83

Dublin
208 College Avenue

Franklin
105 North Mechanic Street

Galax
425 Main Street

Hopewell
East City Point Road

Lebanon
Route 1

Lynchburg
8411 Timberlake Road
2231 Langhorne road

Norfolk
3908 Princess Anne Road

Orange
200 Madison Road

Petersburg
1865 Crater Road, South

Richmond
921 Myers Street
6850 Forest Hill Avenue
7917 Midlothian Pike

Roanoke
4407 Abenham Avenue SW
3401 Hollins Road

Rocky Mount
322 Tanyard Road, NE

Smithfield
Smithfield Shopping Center

Verona
160 East Route 612

Virginia Beach
4261 Holland Road
1951 Lynnhaven Parkway

Wise
US Highway 23, Business

North Carolina
(13 properties)

Burlington
2712 Alamance Road

Denver
  Route 1

Eden
  202 West Kings Highway

Fayetteville
  3505 Ramsey Street
  360 North Eastern Blvd.

Hillsborough
  380 S. Churton Street

Kinston
  200 West Vernon Street
  1404 Richlands Street

Newton
  South Ashe & North "D"

Siler City
  Chatham Shopping Center

Spring Lake
  400 South Main Street

Thomasville
  1116 East Main Street
  Randolph Street

ITEM 3. LEGAL PROCEEDINGS

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

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

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

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2003.

ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position	Officer Sin
Philip S. Payne	52	Chairman of the Board of Directors, Treasurer, Chief Financial Officer	October 19
D. Scott Wilkerson	46	Director, President, Chief Executive Officer	October 19
Eric S. Rohm	34	Vice President, General Counsel, Assistant Secretary	December 2
Pamela B. Bruno	50	Vice President, Chief Accounting Officer, Assistant Secretary	October 19
Douglas E. Anderson	56	Vice President, Secretary	April 1987

Messrs. Payne and Wilkerson are also members of our Board of Directors. Brief biographies of Messrs. Payne and Wilkerson are included at Part III, Item 10. Directors and Officers of the Registrant in this Annual Report. Biographical information for our other executive officers follows.

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

Pamela B. Bruno - Vice President, Chief Accounting Officer, Assistant Secretary. Ms. Bruno joined BT Venture Corporation in 1993 as Controller and became our Vice President and Chief Accounting Officer in October 1994. From 1984 to 1993, Ms. Bruno was with Ernst & Young LLP, in Charlotte, North Carolina, and Anchorage, Alaska, serving as audit manager from 1987 through 1993. She received a BS degree in accounting from the University of North Carolina at Charlotte in 1984. She is a licensed certified public accountant, and is a member of the North Carolina Association of Certified Public Accountants.

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

PART II

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

Market Information and Dividends

Our common stock is traded on the American Stock Exchange under the symbol "BNP." There were approximately 1,375 common shareholders of record and one preferred shareholder on February 23, 2004. The table below shows, for the periods indicated, the range of high, low, and closing sale prices of our common stock as reported by the American Stock Exchange and the dividends paid per share. As of February 20, 2004, the closing price of the company's common stock was $12.40 per share.

	Stock Price			Dividends Paid
	High	Low	Close	Per Share
2003:				
Fourth quarter	$11.75	$10.41	$11.61	$0.25
Third quarter	11.50	10.26	10.55	0.25
Second quarter	11.00	9.68	10.80	0.25
First quarter	10.79	9.00	9.70	0.25
2002:				
Fourth quarter	$10.70	$9.40	$10.15	$0.31
Third quarter	12.65	9.19	9.80	0.31
Second quarter	13.00	11.30	12.60	0.31
First quarter	11.80	10.31	11.42	0.31

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

We have a dividend reinvestment plan that is available to all shareholders of record. Under this plan, as amended in February 2004, the plan administrator, Wachovia Bank, N. A., reinvests dividends on behalf of plan participants in our common stock. Wachovia will either issue new shares or purchase shares on the open market, at our direction. In addition, shareholders who participate in the plan may elect to make direct cash investments or supplement their reinvestment program with additional cash investments of any amount from $25 to $25,000 per quarter. Participants do not pay any commissions on stock purchased under the plan.

Sales of Unregistered Securities

In September 2003, we issued 454,545 shares of our Series B Preferred Stock to a single investor for proceeds of approximately $5.0 million in cash. These shares were issued pursuant to the exemption

from the registration requirements of the Securities Act of 1933 set forth in Section 4(2) of the Act. The investor will have the right to convert each Series B share into one share of the company's common stock beginning December 2004 or in certain circumstances, such as a change of control or the company's calling the Series B stock for redemption. The conversion ratio may be adjusted for certain dilutive issuances, such as stock dividends or issuances of common stock at less than $11.00 per share. The purchaser was an accredited investor, and offers were not accompanied by any form of general solicitation. The managing member of the purchaser is one of our directors.

On November 17, 2003, we issued 19,507 shares of common stock under our dividend reinvestment plan. Of these shares, 14,544 exceeded the number authorized under the plan and under the registration statement registering the plan's shares. On January 22, 2004, our Board of Directors retroactively authorized the issuance of these excess shares. The Board also authorized an increase in the number of shares we can sell under our dividend reinvestment plan and authorized us to file a registration statement registering the sale of those shares. We filed a registration statement on February 6, 2004, registering 1.0 million shares of common stock to be sold pursuant to our dividend reinvestment plan.

On February 23, 2004, we issued 1,175,519 shares of common stock at a price of $11.75 per share to a number of institutional investors and mutual funds pursuant to a private placement for total proceeds of approximately $13,812,000. We expect to file a registration statement for these shares in the near future.

We have included information regarding securities authorized for issuance under equity compensation plans in Part III, Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Annual Report.

ITEM 6. SELECTED FINANCIAL DATA

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

This financial information includes all apartment communities and restaurant properties that we owned for each period shown.

	Year ended December 31			
	2003	2002*	2001*	2000
	(in thousands, except per share and property data			
Operating data: (1)				
Revenue:				
Apartment rental income	$ 37,475	$ 32,890	$ 30,867	$ 29,269
Restaurant rental income	3,908	4,021	4,053	4,162
Other income	1,277	1,253	1,342	427
Total revenue	42,660	38,164	36,262	33,858
Expenses:				
Apartment operations	15,458	12,682	11,182	9,766
Administrative costs	3,907	3,358	2,956	2,391
Depreciation	10,040	8,794	7,828	7,156
Amortization (1)	322	256	596	579
Interest	13,000	11,452	11,100	11,151
Write-off of unamortized loan costs at refinance	-	95	129	-
Costs of terminated equity transaction	-	-	-	237
Total expenses	42,727	36,637	33,792	31,280

	Year ended December 31				
	2003	2002*	2001*	2000	
	(in thousands, except per share and property data				
(Loss) income before minority interest	(66)	1,527	2,470	2,578	
Minority interest in Operating Partnership	(174)	279	567	595	
Net income	107	1,248	1,902	1,983	
Cumulative preferred dividend	661	323	3	-	
(Loss) income available to common shareholders	$ (553)	$ 925	$ 1,900	$ 1,983	
Basic earnings per share - (loss) income available to common shareholders	$ (0.09)	$ 0.16	$ 0.33	$ 0.35	
Diluted earnings per share - (loss) income available to common shareholders	$ (0.09)	$ 0.16	$ 0.33	$ 0.35	
Dividends per common share	$ 1.00	$ 1.24	$ 1.24	$ 1.24	
Balance Sheet data:					
Real estate assets (before accumulated depreciation)					
Apartment communities	$ 299,661	$ 275,713	$ 221,589	$ 217,818	
Restaurant properties	37,405	39,159	39,159	39,702	
Real estate assets, net	281,014	265,423	219,997	224,705	
Total assets	287,200	271,723	225,385	230,691	
Total debt	229,714	211,585	162,330	163,612	
Minority interest	15,895	17,947	18,174	19,737	
Shareholders' equity	38,733	39,271	42,034	44,548	
Apartment Properties data:					
Apartment communities owned at year end	20	18	15	15	
Apartment units owned at year end	4,859	4,427	3,681	3,680	
Average apartment economic occupancy	92.8%	92.8%	93.9%	95.9%	
Average monthly revenue per occupied unit	$ 725	$ 733	$ 744	$ 737	
Other data:					
Earnings before interest, taxes, depreciation and amortization (2)	$ 23,295	$ 22,124	$ 22,123	$ 21,463	
Funds from operations (2)	9,313	9,998	10,702	10,139	
Funds available for distribution (2)	7,904	8,865	9,696	9,243	
Net cash provided by (used in):					
Operating activities	$ 9,807	$ 9,984	$ 10,729	$ 10,854	$
Investing activities	(25,488)	(32,535)	(2,401)	(13,407)	
Financing activities	15,361	22,018	(7,966)	3,177	

	Year ended December 31			
	2003	2002*	2001*	2000
	(in thousands, except per share and property data			
Weighted average number of shares and units outstanding:				
Preferred B shares	601	293	2	-
Common shares	5,868	5,787	5,717	5,708
Operating Partnership minority units	1,843	1,786	1,706	1,711

*2002 and 2001 amounts have been reclassified to conform to FAS 145 - the write-off of unamortized loan costs was previously reported as an extraordinary item, net of minority share.

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

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

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

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

	Year ended December 31			
	2003	2002	2001	2000
(Loss) income before minority interest	$ (66)	$ 1,527	$ 2,470	$ 2,578
Interest	13,000	11,452	11,100	11,151
Depreciation	10,040	8,794	7,828	7,156
Amortization	322	256	596	579
Write-off of unamortized loan costs	-	95	129	-
Earnings before interest, taxes, depreciation and amortization	$23,295	$22,124	$22,123	$21,463

Funds from operations is frequently referred to as "FFO." FFO is defined by the National Association of Real Estate Investment Trusts ("NAREIT") as "net income (computed in accordance with generally accepted accounting principles), excluding gains (losses) from sales of property, plus depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures." Our calculation of FFO is consistent with FFO as defined by NAREIT. Because we hold all of our assets in and conduct all of our operations through the Operating Partnership, we measure FFO at the operating partnership level (i.e., before minority interest). Historical cost accounting for real estate assets implicitly assumes that the value of real estate assets diminishes predictably over time. In fact, real estate values have historically risen or fallen with market conditions. FFO is intended to be a standard supplemental measure of operating performance that excludes historical cost depreciation

from - or "adds it back" to - GAAP net income. We consider FFO to be useful in evaluating potential property acquisitions and measuring operating performance.

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

Funds from operations and funds available for distribution do not represent net income or cash flows from operations as defined by generally accepted accounting principles. You should not consider FFO or FAD to be alternatives to net income as reliable measures of the company's operating performance; nor should you consider FFO or FAD to be alternatives to cash flows as measures of liquidity.

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

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

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

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

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

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

- 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 this discussion in conjunction with the financial statements and notes thereto included in this Annual Report.

Results of Operations

2003 compared to 2002

Revenues

Total revenue in 2003 was $42.7 million, an increase of 11.8% compared to 2002. Apartment related income (apartment rental income plus income from apartment management and investment activities) accounted for 90.8% of our total revenue in 2003 compared to 89.5% in 2002.

Apartment rental income in 2003 totaled $37.5 million, an increase of 13.9%, or $4.6 million, compared to 2002. This increase is attributable to rental income at five apartment communities that we acquired during 2002 and 2003, which offsets a slight decline at other communities. On a same-units basis (for the 3,681 units that we owned throughout all of both 2003 and 2002), apartment rental income declined by 0.4% in 2003 compared to 2002.

On a same-units basis, average economic occupancy was 92.9% in 2003 compared to 92.8% in 2002, and average monthly revenue per occupied unit was $727 in 2003 compared to $730 in 2002. In 2003, average economic occupancy for all apartments was 92.8%, and average revenue per occupied unit was $725.

Restaurant rental income in 2003 totaled $3.9 million, a decline of 2.8% compared to 2002. The decrease in restaurant rental income is due to the sale of two restaurant properties in 2003. We received the minimum rent specified in the lease agreement throughout both years. Under our master lease with Enterprises, restaurant rental income payments are the greater of specified minimum rent or 9.875% of food sales. Minimum rent is set at approximately $8,000 per month, or $96,000 per year, per restaurant property. We currently hold 40 restaurant properties under this lease, and minimum rent is currently set at approximately $319,000 per month, or $3.8 million per year.

Same-stores sales (for the 40 restaurants that were open throughout all of both 2003 and 2002) increased by 2.4% in 2003 compared to 2002. Sales at these stores would have to increase by approximately 10% before we would receive rent exceeding the minimum rent. We do not expect restaurant rental income to exceed the minimum rent in 2004.

In late 2003, we began to see improvements in both apartment rental income and in sales at our restaurant properties, which we discussed in Part I, Item 1. Business - Recent Developments of this Annual Report.

Management fee income in 2003 totaled $873,000, a decline of 20.3% compared to 2002. This decrease is attributable to our acquisition 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. We do not expect any significant increase in management fee income in 2004.

Interest and other income totaled $404,000 in 2003 compared to $158,000 in 2002. This comparison reflects the impact of non-routine income totaling approximately $300,000 offsetting a decline in interest income during 2003.

Expenses

Total expenses, including non-cash charges for depreciation and amortization, in 2003 were $42.7 million, an increase of $6.1 million, or 16.6%, compared to 2002.

Apartment operations expense totaled $15.5 million in 2003, an increase of 21.9%, or $2.8 million, compared to 2002. This increase is primarily attributable to the addition of five apartment communities during 2002 and 2003. On a same-units basis, apartment operations expense increased by 4.2% in 2003 compared to 2002, reflecting higher costs for compensation, contracted services, and turnover costs.

Apartment operations expense includes only direct costs of on-site operations. Apartment operations expense in 2003 represented 41.2% of related apartment rental income, compared to 38.6% in 2002.

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

Apartment administration expense (the costs associated with oversight, accounting, and support of our apartment management activities for both owned and third-party properties) totaled $1.7 million in 2003, an increase of 25.4% compared to 2002. Corporate administration expense totaled $2.2 million in 2003, an increase of 10.1% compared to 2002. These increases reflect the impact of additional executive and corporate support staff and related compensation and increased corporate insurance and software costs.

Interest expense totaled $13.0 million in 2003, an increase of 13.5%, or $1.5 million, compared to 2002. This increase reflects the impact of approximately $69 million in new debt related to apartment acquisitions since June 2002, offset by the effect of lower interest rates on our variable-rate debt. In part because of favorable variable interest rates, we financed the acquisition of The Harrington apartments with a variable-rate loan in August 2003. Variable interest rates have declined approximately 0.3% during 2003. Overall, weighted average interest rates were 5.9% in 2003, compared to 6.2% in 2002.

Depreciation expense totaled $10.0 million, an increase of 14.2%, or $1.2 million, compared to 2002. This increase is attributable to the addition of five apartment communities in 2002 and 2003, as well as the impact of additions and replacements at other apartment communities. We have generally assigned shorter lives to those specifically identifiable additions and replacement assets than the composite lives initially assigned at acquisition.

Amortization expense (of deferred financing costs) totaled $322,000 in 2003, compared to $256,000 in 2002.

Net income

Operating Partnership earnings before non-cash charges for depreciation and amortization totaled $10.3 million, a decrease of 3.5% compared to 2002. After including these non-cash charges, the Operating Partnership loss in 2003 was $66,000, compared to Operating Partnership net income of $1.5 million in 2002. The minority interest in Operating Partnership earnings absorbed $174,000 of the loss in 2003, compared to $279,000 of earnings in 2002.

Net income (before deduction for cumulative preferred dividend) was $107,000 in 2003, compared to $1.2 million in 2002.

17

Because preferred shareholders have priority over common shareholders for receipt of dividends, we deduct the amount of net income that will be paid to preferred shareholders in calculating net income available to common shareholders. In September 2003, we issued 454,545 shares of cumulative preferred stock, which doubled the number of preferred shares outstanding. The cumulative preferred dividend totaled approximately $661,000 for 2003, compared to $323,000 for 2002. The dividend on the Series B shares is $1.10 per year per share. The total cumulative preferred dividend will increase to $1,000,000 for 2004 for the 909,090 shares currently outstanding.

Loss available to common shareholders in 2003 was $553,000, or $.09 on a diluted per share basis, compared to income available to common shareholders in 2002 of $925,000, or $0.16 on a diluted per share basis.

These comparisons reflect the impact of declining margins in apartment operations and the increased cumulative preferred dividend in 2003, offset somewhat by the favorable impact of lower interest rates.

2002 compared to 2001

Reclassifications

In January 2003, we adopted FAS 145, "Rescission of FASB Statements No. 4, 44, and 62, Amendment of FASB Statement No. 13, and Technical Corrections." FAS 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 FAS 4. We have reclassified the extraordinary items for loss on early extinguishment of debt in 2002 and 2001 to conform to FAS 145. While adoption of FAS 145 has no impact on net income, it increases total expenses, reduces income before extraordinary items and eliminates those extraordinary items as previously reported. We have adjusted the 2002 and 2001 comparative amounts in our consolidated financial statements, and in this discussion, to conform to the 2003 presentation.

Revenues

Total revenue in 2002 was $38.2 million, an increase of 5.2% compared to 2001. Apartment related income accounted for 89.5% of our total revenue in 2002 compared to 88.8% in 2001.

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

On a same-units basis, average economic occupancy was 92.8% in 2002 compared to 93.9% in 2001, and average monthly revenue per occupied apartment was $730 in 2002 compared to $744 in 2001. In 2002, average economic occupancy for all apartments was 92.8%, and average revenue per occupied apartment was $733.

Restaurant rental income in 2002 totaled $4.0 million, a decline of 0.8% compared to 2001. The decrease in restaurant rental income is due to the sale of one restaurant property in April 2001. Restaurant rental income during both 2002 and 2001 was the minimum rent specified in the lease agreement.

Same-stores sales (for the 42 restaurants that were open throughout all of both 2002 and 2001) declined by 2.6% in 2002 compared to 2001.

Management fee income in 2002 totaled $1.1 million, a significant increase compared to $0.5 million in 2001. This increase is attributable to a significant increase in the number of managed properties

in the fourth quarter of 2001 and early 2002, offset somewhat by the impact of our acquisition of two of those properties in May 2002.

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

Expenses

Total expenses, including non-cash charges for depreciation and amortization, in 2002 were $36.6 million, an increase of $2.8 million, or 8.4%, compared to 2001.

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

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

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

Apartment administration expense totaled $1.4 million in 2002, an increase of 23.3% compared to 2001. This increase is primarily attributable to a significant increase in the number of managed properties in the fourth quarter of 2001 and early 2002.

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

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

Depreciation expense totaled $8.8 million in 2002, an increase of 12.3%, or $1.0 million, compared to 2001. This increase is primarily attributable to the addition of three apartment communities in 2002, as well as the impact of additions and replacements at other apartment communities.

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

In conjunction with the refinancing of long-term debt, we wrote off unamortized loan costs of $95,000 in 2002 and $129,000 in 2001. As discussed above, we have classified these expenses as charges to operating expenses rather than as extraordinary items, net of minority interests' share, as previously reported.

Net income

Operating Partnership earnings before non-cash charges for depreciation, amortization, and write-off of deferred financing costs totaled

$10.7 million, a 3.2% decrease compared to 2001. After including these non-cash charges, the Operating Partnership net income in 2002 was $1.5 million, compared to $2.5 million in 2001. The minority interest in Operating Partnership earnings totaled $279,000 in 2002, compared to $567,000 in 2001.

Net income (before deduction for cumulative preferred dividend) was $1.2 million in 2002, compared to $1.9 million in 2001.

In late December 2001, we issued 227,273 shares of Series B Cumulative Convertible Preferred Stock. In September 2002, we issued an additional 227,272 shares of this preferred stock. The cumulative preferred dividend totaled approximately $323,000 for 2002, compared to $3,000 for four days in the fourth quarter of 2001.

Income available to common shareholders in 2002 was $925,000, or $0.16 on a diluted per share basis, compared to income available to common shareholders in 2001 of $1.9 million, or $0.33 on a diluted per share basis.

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

Funds from Operations

Funds from operations and funds available for distribution are defined in footnote 2 on page 14. You should read and understand that footnote before reviewing the following discussion.

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

	2003	2002
		(Restated)
(Loss) income before minority interest	$ (66)	$ 1,527
Cumulative preferred dividend	(661)	(323)
Depreciation	10,040	8,794
Amortization of management intangible	-	-
Funds from operations	$ 9,313	$ 9,998

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

	2003	2002
		(Restated)
Funds from operations	$ 9,313	$ 9,998
Amortization of loan costs	322	256
Write-off of unamortized loan costs at refinance	-	95
Recurring capital expenditures	(1,731)	(1,484)
Funds available for distribution	$ 7,904	$ 8,865

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20

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

	2003	2002	
Net cash provided by (used in)			
Operating activities	$ 9,807	$ 9,984	$
Investing activities	(25,488)	(32,535)	
Financing activities	15,361	22,018	
Dividends and distributions paid to			
Preferred shareholder	$ 537	$ 200	$
Common shareholders	5,859	7,163	
Minority unitholders in Operating Partnership	1,845	2,171	
Scheduled debt principal payments	$ 1,172	$ 417	$
Non-recurring capital expenditures			
Acquisition improvements and replacements	$ 1,053	$ 860	$
Apartment property additions and betterments	565	387	
Weighted average Preferred B shares outstanding	601	293	
Weighted average common shares outstanding	5,868	5,787	
Weighted average Operating Partnership minority units outstanding	1,843	1,786	

Funds from operations in 2003 (before deduction for minority interest) totaled $9.3 million, a decrease of 6.9% compared to 2002. Funds from operations in 2002 totaled $10.0 million, a decrease of 6.6%, compared to $10.7 million in 2001. These comparisons are primarily attributable to the impact of declining margins in apartment operations.

Funds available for distribution totaled $7.9 million in 2003, a decrease of 10.8% compared to 2002. Funds available for distribution totaled $8.9 million in 2002, a decrease of 8.6% compared to $9.7 million in 2001. The variance in comparison of FAD and FFO reflects the impact of recurring capital expenditures for operating replacements and major capital replacements at our older communities. Recurring capital expenditures averaged $374 per apartment unit in 2003, $369 per apartment unit in 2002, and $360 per apartment unit in 2001.

Capital Resources and Liquidity

Capital Resources

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

Long-term Debt

As of December 31, 2003, all of our properties were encumbered by or served as collateral for debt. As of December 31, 2003, total long-term debt was $229.7 million, including $168.3 million at fixed interest rates ranging from 5.13% to 8.55%, and $61.4 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding at December 31, 2003, was 5.8%, compared to 6.1% at December 31, 2002. This reduction is primarily due to declines in variable rates during 2003. 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.

21

In December 2003, we modified and extended our previously established line of credit with a bank secured by our restaurant properties. Previously, in December 2002, we modified and expanded our previously established revolving line of credit with a bank secured by Latitudes Apartments; we were able to increase this line based on the lender's estimate of the appreciated fair market value of the property. Our line of credit arrangements are now as follows:

- $25.9 million, secured by a deed of trust and assignment of rents of Latitudes Apartments, due November 2004. Interest-only payments on the outstanding balance are due monthly at a variable interest rate of 30-day LIBOR plus 1.75%. At December 31, 2003, the outstanding balance on this line was $20.0 million, with approximately $5.9 million available under this revolving line of credit.

- $16.3 million, secured by deeds of trust and assignments of rents of 40 restaurant properties, due January 2006. Interest-only payments on the outstanding balance are due monthly at a variable interest rate of 30-day LIBOR plus 1.80%. The available line of credit declines to $15.5 million effective January 2005. At December 31, 2003, the outstanding balance on this line was $16.3 million, the current maximum amount.

We utilized long-term debt, along with draws on our revolving line of credit, to finance acquisitions of apartment communities in 2003 as follows:

- In August 2003, we acquired The Harrington Apartments for a total cost of approximately $17.9 million. We financed this acquisition with a $14.4 million variable-rate note payable, secured by a deed of trust on the community, and draws on our line of credit secured by Latitudes Apartments.

- In March 2003, we acquired The Place Apartments for a total cost of approximately $5.6 million. We financed this acquisition with a $4.6 million fixed-rate note payable, secured by a deed of trust on the community, and draws on our line of credit secured by Latitudes Apartments.

We also utilized our revolving line of credit secured by Latitudes to fund the required $833,000 reduction in our line of credit secured by restaurant properties and to fund capital improvements at our apartment communities.

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

- our revolving line of credit secured by a deed of trust and assignment of rents of Latitudes Apartments, due November 2004 (up to $25.9 million, $20.0 million outstanding at December 31, 2003);

- our deed of trust loan for Oak Hollow Apartments Phase 2, due December 2004 (up to $11.7 million for acquisition and renovation construction, $10.7 million outstanding at December 31, 2003);
- our deed of trust loan for Harris Hill Apartments, due June 2005 ($5.6 million outstanding at December 31, 2003);
- our line of credit secured by deeds of trust and assignments of rents of our restaurant properties, due January 2006 ($16.3 million outstanding at December 31, 2003);
- our deed of trust loans for five apartment communities due in 2007 totaling $47.8 million; and
- our deed of trust loans for six apartment communities due in 2008 totaling $50.6 million.

Our revolving line of credit secured by Latitudes Apartments and the deed of trust loan for Oak Hollow Apartments Phase 2 expire in late 2004. Based on our estimates of the underlying value of the properties securing these loans, we expect to extend or refinance these loans.

Capital Stock and Operating Partnership Units

At December 31, 2003, we had approximately 5.9 million common shares and approximately 909,000 preferred shares outstanding. In addition, there were approximately 1.8 million Operating Partnership minority common units outstanding.

In late December 2001, we issued 227,273 shares of Series B Cumulative Convertible Preferred Stock for net proceeds of approximately $2.3 million. In September 2002, we issued 227,272 shares of this preferred stock for net proceeds of approximately $2.4 million; and in September 2003, we issued 454,545 shares of this preferred stock for net proceeds of approximately $4.9 million. All of the Series B preferred stock is held by a single investor. The preferred shares have a purchase price and liquidation preference of $11.00 per share, an initial dividend yield of 10% through December 2009, and may be converted to our common stock on a one-for-one basis, subject to adjustment, beginning in December 2004. We applied the proceeds of the 2003 issue to reduce our revolving line of credit secured by the Latitudes Apartments.

During 2003, we issued approximately 73,000 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan for net proceeds of approximately $800,000. We generally applied these proceeds to capital expenditures at apartment communities. In addition, we issued approximately 3,000 shares of our common stock in non-cash transactions to redeem a like number of Operating Partnership minority units.

On February 23, 2004, we issued 1,175,519 shares of our common stock at a price of $11.75 per share to a number of institutional investors and mutual funds pursuant to a private placement for a total purchase price of $13,812,000. Cohen & Steers Capital Advisors, LLC acted as placement agent for the transaction. We expect to use the net proceeds to fund future acquisitions, repay bank debt, and for general corporate purposes. We will immediately apply approximately $13.0 million of the net proceeds to reduce our revolving line of credit secured by Latitudes Apartments.

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

Cash Flows and Liquidity

Net cash flows from operating activities were $9.8 million in 2003, $10.0 million in 2002, and $10.7 million in 2001. Investing and financing activities focused primarily on apartment acquisitions and capital expenditures at apartment communities, along with payments of dividends and distributions.

We paid dividends to common shareholders of $0.25 per share per quarter in each quarter of 2003, and $0.31 per share per quarter in each quarter of 2002 and 2001. Our payout ratio (the ratio of common dividends plus distributions paid, divided by Operating Partnership funds from operations) was 82.5% in 2003, 93.4% in 2002, and 86.0% in 2001. We intend to pay dividends quarterly, expect that these dividends will substantially exceed the 90% distribution requirement for REITs, and anticipate that all dividends will be paid from current funds from operations.

We generally expect to meet our short-term liquidity requirements through net cash provided by operations and utilization of credit facilities. We believe that net cash provided by operations is, and will continue to be, adequate to meet the REIT operating requirements in both the short- and the long term. We anticipate funding our future acquisition activities primarily by using short-term credit facilities as an interim measure, to be replaced by funds from equity offerings, long-term debt, or joint venture investments. We expect to meet our long-term liquidity requirements, such as scheduled debt maturities and repayment of short-term financing of possible property acquisitions, through long-term secured and

unsecured borrowings and the issuance of debt securities or additional equity securities. We believe we have sufficient resources to meet our short-term liquidity requirements.

We received approximately 9.2% of our revenue in 2003, 10.5% of our revenue in 2002, and 11.2% of our revenue in 2001, from rent received from Enterprises for the use of our restaurant properties. In addition, Enterprises is responsible for all of the costs associated with the maintenance and operations of these properties. Over time, we expect that restaurant rental income will continue to represent a decreasing percentage of our total revenue.

Enterprises is a privately owned company with total assets exceeding $200 million and net equity exceeding $80 million. Its principal line of business is the operation of approximately 317 Hardee's restaurants. In addition to its Hardee's operations, Enterprises is the owner of Texas Steakhouse and Saloon, a casual dining concept with 29 restaurants. Enterprises also conducts extensive real estate investment and development activities through BNE Land and Development. These activities involve a full range of property types, including land, commercial, retail, office, apartment and single-family properties. We have had extensive discussions with management of Enterprises and have reviewed their financial statements, cash flow analysis, restaurant contribution analysis, sales trend analysis and forecasts. We believe that Enterprises will have sufficient liquidity and capital resources to meet its obligations under the master lease as well as its general corporate operating needs.

Critical Accounting Policies

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

Capital expenditures and depreciation

In general, for apartment properties acquired before 2002, we compute depreciation using the straight-line method over composite estimated useful lives of the related assets, generally 40 years for buildings, 20 years for land improvements, 10 years for fixtures and equipment, and five years for floor coverings.

For the five apartment properties acquired after 2001, we performed detailed analyses of components of the real estate assets acquired. For these properties, we assigned estimated useful lives as follows: base building structure, 45-60 years; land improvements, 7-20 years; short-lived building components, 5-20 years; and fixtures, equipment and floor coverings, 5-10 years.

We generally complete and capitalize acquisition improvements (expenditures that have been identified at the time the property is acquired, and which are intended to position the property consistent with our physical standards) within one to two years of acquisition. We capitalize non-recurring expenditures for additions and betterments to buildings and land improvements. In addition, we generally capitalize recurring capital expenditures for exterior painting, roofing, and other major maintenance projects that substantially extend the useful life of existing assets. For financial reporting purposes, we depreciate these additions and replacements on a straight-line basis over estimated useful lives of 5-20 years. We retire replaced assets with a charge to depreciation for any remaining carrying value. We capitalize all floor covering, appliance, and HVAC replacements, and depreciate them using a straight-line, group method over estimated useful lives of 5-10 years.

Capital expenditures at our apartment communities during 2003 totaled approximately $3.3 million, including $1.0 million for acquisition improvements, $0.6 million for additions and betterments, and $1.7 million in recurring capital expenditures.

We expense ordinary repairs and maintenance costs at apartment communities. Repairs and maintenance at our apartment communities during 2003 totaled approximately $5.6 million, including $2.1 million in compensation of service staff and $3.5 million in payments for materials and contracted services.

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

Impairment of long-lived assets

In accordance with FAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," we periodically review our real estate assets to determine whether our carrying amount will be recovered from their undiscounted future operating cash flows. If the carrying value were to be greater than the undiscounted future operating cash flows, we would recognize an impairment loss to the extent the carrying amount is not recoverable. Our estimates of the undiscounted future operating cash flows expected to be generated are based on a number of assumptions that are subject to economic and market uncertainties, including, among others, demand for apartment units, competition for tenants, changes in market rental rates, and costs to operate each property. As these factors are difficult to predict and are subject to future events that may alter our assumptions, the undiscounted future operating cash flows that we estimate in our impairment analyses may not be achieved, and it is possible that we could be required to recognize impairment losses on our properties at some point in the future.

Valuation of leases in place at property acquisitions

We calculate an estimate of the value of leases in place at the dates of property acquisitions to determine if we should allocate a portion of the purchase price to an intangible asset for the value of these leases. In preparing this calculation, we consider the estimated costs to make an apartment unit rent ready (frequently called turnover costs), the estimated costs and lost income associated with executing a new lease on an apartment unit, and the remaining terms of leases in place, and we compared rental rates on leases in place to our estimate of prevailing market rates in the neighborhood of the acquired property.

Based on our analyses for the two apartment properties that we acquired in 2003, we determined that the net value of leases in place at the dates of acquisition was insignificant to the acquisition costs, and we did not record any intangible asset for leases in place. This result is primarily due to the relatively short-term nature of apartment leases, the regular pattern of turnover of apartment leases, and the relatively gradual movement of prevailing rental rates in the respective neighborhoods. We plan to prepare similar calculations in conjunction with future property acquisitions.

Revenue recognition

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

Inflation

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

Environmental Matters

Phase I environmental studies performed on the apartment communities when we acquired each of them did not identify any problems that we believe would have a material adverse effect on our results of operations, liquidity or capital resources. Environmental transaction screens for each of the restaurant

properties in 1995 did not indicate existence of any environmental problems that warranted further investigation. Enterprises has indemnified us under the master lease for environmental problems associated with the restaurant properties.

Additional Information

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

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

	2003		2002		2001	
	Total	Per unit	Total	Per unit	Total	Per
	(000's)		(000's)		(000's)	
Recurring capital expenditures:						
Floor coverings	$ 772	$167	$ 593	$148	$ 662	
Appliances/HVAC	256	55	212	53	197	
Exterior paint	183	39	182	45	-	
Computer/support equipment	85	18	102	25	54	
Other	436	94	396	98	411	
	$1,731	$374	$1,484	$369	$1,324	
Non-recurring capital expenditures:						
Acquisition improvements	$1,053		$ 861		$ 936	
Additions and betterments	508		303		502	
Computer/support equipment	57		84		50	
	$1,619		$1,248		$1,489	

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A summary of long-term debt as of December 31, 2003 and 2002 is included in the notes to the financial statements in this Annual Report. At December 31, 2003, long-term debt totaled $229.7 million, including $168.3 million notes payable at fixed interest rates ranging from 5.13% to 8.55%, and $61.4 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 5.8% at December 31, 2003, 6.1% at December 31, 2002, and 6.2% at December 31, 2001. At our current level of variable-rate debt, a 1% change in variable interest rates would increase or decrease our annual interest expense by approximately $625,000.

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

	Expected maturity dates					
	2004	2005	2006	2007	2008	Later
Fixed rate notes	$ 986	$ 6,485	$ 992	$48,881	$37,674	$73,260
Average interest rate	6.84%	8.27%	6.62%	6.96%	6.58%	6.70%
Variable rate notes	$ 30,720	$ 833	$15,560	$ 310	$14,013	$ -
Average interest rate	2.95%	2.96%	2.96%	2.91%	2.91%	

26

We estimate the fair value of fixed rate and variable rate notes using discounted cash flow analysis, based on our current incremental borrowing rates for similar types of borrowing arrangements. The fair value of our notes payable at December 31, 2003, totaled approximately $242 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures designed to ensure that information disclosed in our annual and periodic reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. In addition, we designed these disclosure controls and procedures to ensure that this information is accumulated and communicated to our management, including our chief executive officer (our "CEO") and chief financial officer (our "CFO"), to allow timely decisions regarding required disclosure. SEC rules require that we disclose the conclusions of our CEO and CFO about the effectiveness of our disclosure controls and procedures.

We do not expect that our disclosure controls and procedures will prevent all error or fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitation in a cost-effective control system, misstatements due to error or fraud could occur and not be detected.

We evaluate the effectiveness of our disclosure controls and procedures as of the end of each fiscal quarter. Based on our most recent evaluation, our CEO and CFO believe, and have certified, that our disclosure controls and procedures are effective to (1) ensure that material information relating to us and our consolidated subsidiaries is made known to management, including the CEO and CFO, particularly during the period when our periodic reports are being prepared, and (2) provide reasonable assurance that our financial statements fairly present in all material respects our financial condition and results of operations.

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

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The current directors hold office for the terms described below or until their successors are elected and qualified. The current members of our Board of Directors are identified in the following table, followed by biographical information on each member.

Name	Age	Position	Direct
Directors serving until the 2004 annual meeting:			
Philip S. Payne	52	Chairman, Treasurer, Chief Financial Officer	December
Stephen R. Blank	58	Director	May 1999
Peter J. Weidhorn	56	Series B Director	December
Directors serving until the 2005 annual meeting:			
D. Scott Wilkerson	46	Director, President, Chief Executive Officer	December
Paul G. Chrysson	49	Director	December
Directors serving until the 2006 annual meeting:			
B. Mayo Boddie	74	Director, Chairman Emeritus	April 19
W. Michael Gilley	48	Director	December

Philip S. Payne - Chairman of the Board of Directors, Treasurer, Chief Financial Officer. Mr. Payne joined BT Venture Corporation, which was subsequently purchased by the company, in 1990 as Vice President of Capital Markets Activities and became Executive Vice President and Chief Financial Officer in January 1993. He was named Treasurer in April 1995 and a Director in December 1997. In January 2004, Mr. Payne was named Chairman of the Board of Directors and continues in his role as Chief Financial Officer. From 1987 to 1990, he was a principal in Payne Knowles Investment Group, a financial planning firm. From 1983 to 1987, he was a registered representative with Legg Mason Wood Walker. From 1978 to 1983, Mr. Payne practiced law, and he currently maintains his license to practice law in Virginia. He received a BS degree from the College of William and Mary in 1973 and a JD degree in 1978 from the same institution. He is a member of the board of directors of the National Multi Housing Council and is a member of the Urban Land Institute (Multi Family Council - Gold). In addition, he serves on the board of directors of Ashford Hospitality Trust, a REIT focused on the hospitality industry.

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

Stephen R. Blank - Director. Mr. Blank is a Senior Fellow, Finance, with the Urban Land Institute, and an Adjunct Professor at the Columbia University Graduate School of Business. From 1993 to 1998, he was the Managing Director for Real Estate Investment Banking with CIBC Oppenheimer Corp. He is an independent trustee of Ramco-Gershenson Properties Trust and Atlantic Realty Trust, and serves on the boards of directors of WestCoast Hospitality Corporation and MFA Mortgage Investments, Inc. In addition, he serves as a member of the board of advisors of Paloma, LLC, the principal investor in a private multifamily real estate investment trust. Mr. Blank serves as the chair of the audit committees for both Ramco-Gershenson Properties Trust and MFA Mortgage Investments, Inc. He has over 20 years experience as a senior real estate investment banking officer, advising and evaluating a wide array of real estate companies, including publicly reporting companies.

B. Mayo Boddie - Director, Chairman Emeritus. Mr. Boddie was one of our founders and a co-founder of Boddie-Noell Enterprises, Inc. ("Enterprises") in 1961. He serves as Chairman of the Board of Directors of Enterprises. In January 2004, Mr. Boddie retired from his position as Chairman of the Board of Directors

of the company. He was named Chairman Emeritus in recognition of his long and distinguished service to the company. He served as Chairman of our Board from the company's inception until January 2004, and as Chief Executive Officer from inception until April 1995.

Paul G. Chrysson - Director. Mr. Chrysson is President of C.B. Development Company, Inc., a developer of single-family and multi-family residential properties. Mr. Chrysson is a member of the Board of Advisors of Wachovia Bank (Forsyth County). He is a former director of Triad Bank and United Carolina Bank (North Carolina) and has served on the boards of various charitable organizations. He has been a licensed real estate broker since 1974 and has been actively involved in construction since 1978.

W. Michael Gilley - Director. Mr. Gilley is a private real estate investor and developer of single-family and multi-family residential properties. From January 1995 to January 1997, he was Executive Vice President of Greenbriar Corporation. He also served on their board of directors from September 1994 to September 1996. He has been a licensed real estate broker since 1984.

Peter J. Weidhorn - Series B Director. Mr. Weidhorn is a consultant and private real estate investor in the multi-family housing market. From 1998 to 2000, he was Chairman of the Board, President and Director of WNY Group, Inc., a real estate investment trust that owned and operated 8,000 apartment units throughout New Jersey, Pennsylvania, Delaware and Maryland prior to its sale to the Kushner Companies. From 1981 to 1998, he was President of WNY Management Corp. Mr. Weidhorn serves on the boards of directors of Monmouth Real Estate Investment Corporation and The Community Development Trust, and is immediate past president of the New Jersey Apartment Association. Mr. Weidhorn currently serves as the chair of the audit committee of Monmouth Real Estate Investment Corporation and as a member of the audit committee of The Community Development Trust. He has over 30 years of experience in the management, acquisition, and financing of commercial real estate. Mr. Weidhorn is a certified public accountant (inactive). He is active in various professional, civic and charitable activities.

Information about our executive officers is included in Part I, Item X. Executive Officers of the Registrant, in this Annual Report.

Audit Committee Financial Experts

The members of our Audit Committee are Messrs. Blank, Gilley, and Weidhorn. Our Board of Directors has determined that Messrs. Blank and Weidhorn qualify as "audit committee financial experts" as defined by SEC regulations. All three members are considered "independent" as defined by SEC regulations, and "financially literate" under the rules of the American Stock Exchange. Messrs. Blank's and Weidhorn's relevant experience is described above in the biographical information for each.

Section 16(a) Beneficial Ownership Reporting Compliance

Based solely on a review of the copies of the forms in its possession, and on written representations from certain reporting persons, the company believes that during 2003 all of its executive officers and directors filed the reports required under Section 16(a) on a timely basis, except that B. Mayo Boddie failed to file timely one Form 4 covering one transaction.

Code of Ethics

Our Board of Directors has adopted a Code of Conduct and Business Ethics that is applicable to all directors, officers and employees of the company. You may obtain a copy of this document free of charge by mailing a written request to: Investor Relations, BNP Residential Properties, Inc., 301 South College Street, Suite 3850, Charlotte, NC 28202, or by sending an email request to: investor.relations@bnp-residential.com.

29

ITEM 11. EXECUTIVE COMPENSATION

Executive Compensation

The following tables provide information regarding the annual and long-term compensation of our chief executive officer, and the other most highly paid executive officers whose total salary and bonus exceeded $100,000 in 2003. We refer to them as the "named executive officers."

		Annual Compensation	
Name and Principal Position	Year	Salary	Bonu
D. Scott Wilkerson, President,	2003	$225,000	$
Chief Executive Officer	2002	200,000	2
	2001	200,000	
Philip S. Payne, Chairman of the Board of Directors,	2003	$225,000	$
Treasurer, Chief Financial Officer	2002	200,000	2
	2001	200,000	
Eric S. Rohm, Vice President,	2003	$140,000	$
General Counsel, Assistant Secretary			
Pamela B. Bruno, Vice President,	2003	$136,250	$ 1
Chief Accounting Officer, Assistant Secretary	2002	125,000	
	2001	125,000	

No options were granted or exercised during the year ended December 31, 2003. At December 31, 2003, the values of options granted to named executive officers are as follows:

Name	Number of Securities Underlying Unexercised Options at Fiscal Year End Exercisable/Unexercisable	Value of Unexercised In-the Options at Fiscal Year Exercisable/Unexercisable

D. Scott Wilkerson	150,000	-	-
Philip S. Payne	150,000	-	-
Pamela B. Bruno	40,000	-	-

We do not have a long-term incentive plan in place.

Compensation of Directors

During 2003, we paid directors' fees to each director who is not an executive officer of the company. During the year ended December 31, 2003, Messrs. Blank, Boddie, Chrysson, Gilley, and Weidhorn were each paid annual retainers of $10,000 plus fees totaling $3,400 each for participation in board meetings. In addition, Messrs. Blank, Gilley and Weidhorn each received approximately $200 for participation in Audit Committee meetings. Messrs. Wilkerson and Payne did not receive any compensation for their service as directors.

30

Employment Contracts and Termination of Employment and Change-in-Control Arrangements

In July 1997, we entered into substantially identical employment agreements with D. Scott Wilkerson (President and Chief Executive Officer) and Philip S. Payne (Treasurer and Chief Financial Officer). The term of the agreements is four years, subject to automatic annual renewal for additional one-year periods extending the term to a maximum of ten years. The agreements provide for initial annual base salaries of $139,920, annual discretionary bonuses as determined by the Board of Directors and participation in an incentive compensation plan, along with specified death and disability benefits. The agreements provide for severance payments equal to the then current base salary for the remaining term of the contract (excluding any unexercised renewal periods) in the event of termination without cause. In the event of a change in control of the company, the agreements provide for payments of three times base salary then in effect and three times average discretionary bonus and annual bonus over the prior three fiscal years. In addition, the agreements provide for a lump sum cash payment of the benefit the executive would otherwise have received had all stock options and other stock based compensation been fully vested, been exercised and become due and payable.

In July 1997, we entered into an employment agreement with Pamela B. Bruno (Vice President, Chief Accounting Officer). The two-year agreement (with automatic annual renewal periods) is substantially identical to the agreements signed by Messrs. Wilkerson and Payne, except that this agreement provides for an initial annual base salary of $90,000 and limits severance payments to no more than the greater of the then-remaining term of the agreement or one year's total compensation.

In December 2002, we entered into an employment agreement with Eric S. Rohm (Vice President, General Counsel). The two-year agreement (with automatic annual renewal periods) is substantially identical to the agreement signed by Ms. Bruno, except that this agreement provides for an initial annual base salary of $140,000.

Compensation Committee Interlocks and Insider Participation

The members of our Compensation Committee are Messrs. Blank, Chrysson and Weidhorn. All three members are considered "independent" as defined by SEC regulations. Mr. Weidhorn is identified in Item 13. Certain Relationships and Related Transactions in our discussion of "BNP Residential Properties, Inc. and Preferred Investment I, LLC." Mr. Chrysson is identified in Item 13 in our discussion of "BNP Residential Properties, Inc. and the Chrysson Parties."

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

Equity Compensation Plan

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

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

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of s remaining ava future is under e compensati
Equity compensation plans approved by security holders	477,500	$12.12	
Equity compensation plans not approved by security holders	-	-	
Total	477,500	$12.12	

Security Ownership of Certain Beneficial Owners and Management - Common Stock

The following table provides certain information regarding beneficial ownership of common stock as of February 23, 2004, by each of the named executive officers, and by all directors and officers as a group. We do not know of any single person or group who is the beneficial owner of more than 5% of the company's common stock.

Common Shares

Directors and Officers (1)	Beneficially Owned Number	Percent
Philip S. Payne (2)	189,570	2.6%
D. Scott Wilkerson (2)	189,570	2.6%
Stephen R. Blank	1,000	*
B. Mayo Boddie	246,776	3.5%
Paul G. Chrysson (3)	269,073	3.7%
W. Michael Gilley (4)	264,452	3.6%
Peter J. Weidhorn (5)	8,200	*
Eric S. Rohm	-0-	*
Pamela B. Bruno (6)	43,956	*
Douglas E. Anderson (7)	99,771	1.4%
All directors and executive officers as a group (10 persons) (8)	1,312,368	16.3%

* Less than 1 percent.

(1) Address for each person listed herein is 301 South College Street, Suite 3850, Charlotte NC 28202.
(2) Includes exercisable options for 150,000 shares of common stock.
(3) Includes 269,073 shares issuable (at the company's option) in satisfaction of the right to redeem the same number of units owned by Mr. Chrysson in BNP Residential Properties Limited Partnership, the company's Operating Partnership.
(4) Includes 264,452 shares issuable (at the company's option) in satisfaction of the right to redeem the same number of units owned by Mr. Gilley in BNP Residential Properties Limited Partnership, the company's Operating Partnership.
(5) Does not include 909,090 shares of Series B Cumulative Convertible Preferred stock in BNP Residential Properties, Inc. owned by Preferred Investment I, LLC (of which Mr. Weidhorn is the managing director), that will be convertible into shares of common stock in December 2004.
(6) Includes exercisable options for 40,000 shares of common stock.
(7) Includes exercisable options for 60,000 shares of common stock.

32

(8) Includes exercisable options for 400,000 shares and 533,525 shares issuable (at the company's option) in satisfaction of the right to redeem the same number of units in BNP Residential Properties Limited Partnership, the company's Operating Partnership.

Security Ownership of Certain Beneficial Owners and Management - Preferred Stock

The following table provides certain information regarding beneficial ownership of Series B Cumulative Convertible Preferred stock as of February 23, 2004. These shares have limited voting rights.

Name and address of beneficial owner	Series B Preferred Shares Beneficially Owned Number	Percent
Preferred Investment I, LLC 60 Thomas Drive, Manalapan, NJ 07726	909,090	100.0%

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

BNP Residential Properties, Inc. and Preferred Investment I, LLC

In December 2001, we issued 227,273 shares of Series B Cumulative Convertible Preferred Stock to Preferred Investment I, LLC for net proceeds of approximately $2.3 million. In September 2002, we issued 227,272 shares of this preferred stock for net proceeds of approximately $2.4 million; and in September 2003, we issued 454,545 shares of this preferred stock for net proceeds of approximately $4.9 million. We describe and discuss these transactions in the notes to our financial statements and at Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources.

In connection with this investment, we appointed Peter J. Weidhorn, the managing member of Preferred Investment I, LLC to our Board of Directors.

BNP Residential Properties, Inc. and Boddie-Noell Enterprises, Inc.

We lease 40 restaurant properties to Boddie-Noell Enterprises, Inc. ("Enterprises") under a master lease on a triple-net basis. We describe and discuss this relationship in the notes to our financial statements and at Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Cash Flows and Liquidity.

B. Mayo Boddie, Chairman Emeritus of our Board of Directors, is Chairman of the Board of Directors and Chief Executive Officer of Enterprises. Mr. Boddie and certain of his family members are the sole owners of Enterprises.

Douglas E. Anderson has served as Vice President and Secretary of our company since our inception in 1987. He has been with Enterprises since 1977 and is currently a director, executive vice president and secretary of Enterprises. Mr. Anderson is also president of BNE Land and Development Company, the real estate development division of Enterprises.

BNP Residential Properties, Inc. and Boddie Investment Company

We provide fee management for three limited partnerships, of which Boddie Investment Company is the general partner, and the apartment communities owned by those partnerships. We recorded fee revenues totaling $407,000 from these limited partnerships in 2003.

In addition, we are the lender in a participating loan agreement with The Villages of Chapel Hill Limited Partnership, a limited partnership whose general partner is Boddie Investment Company. We describe and discuss this relationship in the notes to our financial statements.

Mr. Boddie is a shareholder and director of Boddie Investment Company. Mr. Anderson is vice president and secretary of Boddie Investment Company.

BNP Residential Properties, Inc. and the Chrysson Parties

In previous years, we have acquired eight apartment communities and have issued approximately 1.5 million Operating Partnership common units to members of a group that we refer to as the Chrysson Parties. In addition, we provide fee management of several apartment communities owned by the Chrysson Parties. We recorded fee revenues totaling $144,000 from these communities in 2003.

As part of the acquisition agreement with the Chrysson Parties, we appointed Mr. Chrysson and Mr. Gilley to our Board of Directors.

Notes Receivable from Management

In 1996 through 1999, Messrs. Wilkerson and Payne each borrowed $70,000 on an interest-free basis from the company. The loans are secured by shares of the company's common stock and are payable in full six months after termination of employment.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Ernst & Young LLP has served as our principal accountant and independent auditor since October 1996.

The Board of Directors, upon the recommendation of the Audit Committee, engaged Ernst & Young LLP to serve as our independent auditors for the fiscal years ending December 31, 2003 and 2002. The Audit Committee also approves in advance all engagements of Ernst & Young LLP for audit-related, tax and other services.

The following table reflects fees billed by Ernst & Young LLP for services rendered to the company and its subsidiaries in 2003 and 2002:

Nature of Services	2003
Audit fees - For audit of our annual financial statements and review of financial statements included in our Forms 10-Q	$117,000
Audit-related fees - For services related to business acquisitions, accounting consultations, SEC registration statements, and audit of the company's 401(k) plan	22,000
Tax fees - For tax compliance, tax advice, and tax planning	108,000
All other fees - For an execu	-