BNP RESIDENTIAL PROPERTIES INC
Form 10-K
March 27, 2002

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, 2001

OR

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

Commission File Number 1-9496

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

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

301 S. College St., Suite 3850, Charlotte, NC	28202-6032
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant at March 15, 2002, was approximately $62,600,000.

The number of shares of Registrant's Common Stock outstanding on March 15, 2002, was 5,761,131.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the 2002 Proxy Statement for the Registrant's Annual

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

Index to exhibits at page 51

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PART I

ITEM 1. BUSINESS

Company Profile

BNP Residential Properties, Inc. is a self-administered and self-managed real estate investment trust with operations in North Carolina, South Carolina and Virginia. Our primary activity is the ownership and operation of apartment communities. We currently manage 31 multi-family communities containing 6,969 units. Of these, we own 15 apartment communities containing 3,681 units. Third parties own the remaining 16 communities, containing 3,288

units, and we manage them on a contract basis. In addition to our apartment communities, we own 42 restaurant properties that we lease to a third party under a master lease on a triple-net basis.

BNP Residential Properties, Inc. is structured as an UpREIT, or "umbrella partnership real estate investment trust." We are the sole general partner and own a controlling interest in BNP Residential Properties Limited Partnership, through which we conduct all of our operations. We refer to this partnership as the Operating Partnership. We refer to the limited partners of the Operating Partnership as "minority unitholders" or "minority interest." We currently own approximately 77% of the outstanding Operating Partnership units.

As of March 15, 2002, we have 5,761,131 shares of common stock and 1,705,897 Operating Partnership minority units outstanding. We have approximately 1,500 shareholders of record. We estimate that there are approximately 6,000 beneficial owners of our common stock. Our shares are listed on the American Stock Exchange, trading under the symbol "BNP." We also have 227,273 shares of preferred stock outstanding, held by one investor.

We have 185 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 28202-6032, and our telephone number is 704/944-0100.

History and Development of BNP Residential Properties, Inc.

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

In 1987, we purchased 47 existing restaurant properties located in North Carolina and Virginia for an aggregate purchase price of $43.2 million. From 1987 through 1992, our assets primarily consisted of these 47 restaurant properties. During this period we operated as an externally administered and externally managed REIT. We leased the restaurants to Boddie-Noell Enterprises, Inc. ("Enterprises"), a Hardee's franchisee, under a master lease on a triple-net basis. A master lease is a single lease that covers multiple properties, while a triple-net lease is one where the lessee pays all operating expenses, maintenance, property insurance and real estate taxes.

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

In 1997, we reincorporated in the state of Maryland and reorganized to our present UpREIT structure. Through our UpREIT structure, we can acquire properties in exchange for Operating Partnership units and trigger no immediate tax obligation for certain sellers. We believe that our conversion to an UpREIT enables us to acquire properties not otherwise available or at lower prices because of the tax advantages to certain property sellers of receiving limited partnership interests instead of cash as consideration. Minority unitholders

will generally be able to redeem their units for cash or, at our option as general partner, for shares of common stock of the company on a one-for-one basis. Distributions of cash from the Operating Partnership are allocated between the REIT and the minority unitholders based on their respective unit ownership.

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

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

Restaurant sales and restaurant rental income have been declining since 1992, reflecting the increased competition and widespread price discounting in the fast food industry. In August 1997, CKE Restaurants, Inc. purchased Hardee's Food Systems, Inc., the restaurant franchisor. CKE operates, franchises, or owns interests in approximately 3,800 restaurants, including Hardee's and Carl's Jr. restaurants. While the rate of decline in restaurant sales has slowed in recent years, we have not seen improvement in restaurant sales to date. During 1999 through 2001, we sold five restaurants to Enterprises, the lessee, under an agreement that allows Enterprises to close up to seven restaurants and buy them back for no less than net carrying value.

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

Recent Developments

Overall, the results for 2001 were quite positive. However, it is important to note that, during the year, lower interest rates and a substantial increase in fee income masked lackluster apartment performance. The impact of over-building, a general economic slowdown, and surprisingly strong sales of modestly priced homes all combined to put persistent pressure on our apartment markets. While we were able to achieve small increases in rental rates during 2001, our economic occupancy declined from near 96% to slightly over 94%.

During the fourth quarter of 2001, we expanded our third-party management activities by entering into contracts to manage 12 multi-family communities. On January 1, 2002, we added a contract to manage one additional community.

In late December 2001, we issued 227,273 shares of Series B Cumulative Preferred Stock for proceeds of $2.5 million.

Business Strategy

Our principal investment objectives are to provide our shareholders with current income and to increase the value of the company's common stock. We focus on increasing long term growth in funds from operations and funds available for distribution per share, and on increasing the value of our portfolio

through effective management, growth, financing, and investment strategies. We expect to implement our strategies primarily through the acquisition, operation, leasing and management of apartment communities.

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

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

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

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

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

ITEM 2. PROPERTIES

Apartment Communities

Through the Operating Partnership, we own and operate 15 apartment communities consisting of 3,681 apartment units. For the fourth quarter of 2001, our average economic occupancy rate was 93.1%, and average monthly revenue per occupied unit was $741. The average age of the apartment communities is approximately 10.5 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 35.4% one-bedroom units, 57.7% two-bedroom units, and 6.9% three-bedroom units. The units average 986 square feet in area and are well equipped with modern appliances and other

conveniences. Our communities generally include swimming pools, tennis courts and clubrooms, and most have exercise facilities. The communities are held subject to loans, discussed in the notes to the financial statements.

The table on page 7 summarizes information about each of our apartment communities.

Restaurant Properties

We lease the 42 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. After December 31, 2007, Enterprises has the right to terminate the lease on up to five restaurant properties per year by offering to purchase them under specified terms. In addition, we entered into a separate agreement that allows Enterprises to purchase, under specified terms, up to seven restaurant properties deemed non-economic for no less than net carrying value.

Since 1999, we have sold five restaurants deemed non-economic to Enterprises. After the sale of the fifth such property in April 2001, the minimum rent on the remaining 42 restaurants is approximately $4.0 million per year.

The average acquisition cost of the original 47 restaurant properties was approximately $920,000 per property. At December 31, 2001, the net carrying value of the 42 restaurant properties was $28.8 million (an average of $685,000 per property).

The restaurant properties are operated by Enterprises as Hardee's restaurants pursuant to franchise agreements with Hardee's Food Systems, Inc. These agreements require that the properties conform to a standard design specified by Hardee's. The current design consists of a one-story brick, stucco or wood building that embodies a contemporary style with substantial plate glass window 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 in non-restaurant applications. Hardee's owns a design patent on certain elements of the building and requires franchisees to make certain exterior modifications if the location is discontinued as a Hardee's restaurant.

Enterprises is responsible for all aspects of the operation, maintenance and upkeep of the restaurant 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 Hardee's building standards.

The locations of our restaurant properties are listed on page 8 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. There are types of losses, however, such as from wars, acts of terrorism 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.

INFORMATION ABOUT APARTMENT COMMUNITIES

Community	Location	No. of Apt. Units	Year Compl	Date Acquired	Total Acreage	Total Rentable Area (Sq. Ft.)	Apartme Unit Ty 1 BR	Apartme Unit Ty 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
Chason Ridge	Fayetteville, NC	252	1994	1/99	29.1	246,886	56	164
Harris Hill	Charlotte, NC	184	1988	12/94	18.4	167,920	67	117
Latitudes	Virginia Beach, VA	448	1989	10/94	24.9	358,700	269	159
Madison Hall	Clemmons, NC	128	1997	8/98	10.5	110,352	42	86
Oak Hollow	Cary, NC	221	1983	7/98	30.0	215,960	56	165
Oak Hollow Ph 2	Cary, NC	240	1986	12/00	26.8	220,840	160	80
Oakbrook	Charlotte, NC	162	1985	6/94	16.4	178,668	32	120
Paces Commons	Charlotte, NC	336	1988	6/93	24.8	322,046	154	142
Paces Village	Greensboro, NC	198	1988	4/96	15.5	167,886	88	110
Pepperstone	Greensboro, NC	108	1992	12/97	10.1	113,076	-	108
Savannah Place	Winston-Salem, NC	172	1991	12/97	15.4	182,196	44	128
Summerlyn Place	Burlington, NC	140	1998	9/98	12.1	156,756	48	84
Waterford Place	Greensboro, NC	240	1997	12/97	20.6	277,296	72	120
Woods Edge	Durham, NC	264	1985	6/98	32.4	268,620	66	198
Chrysson Community under purchase option(2):								
Brookford Place	Winston-Salem, NC	108	2000	-	6.3	103,392	36	72

INFORMATION ABOUT APARTMENT COMMUNITIES

Community	Average Economic Occupancy Percent (1)			Average Monthly Revenue per Occupied Unit		
	2001	2000	1999	2001	2000	1999
Abbington Place	95.9	96.3	92.9	$785	$764	$757
Allerton Place	95.4	95.3	94.9	773	778	788
Chason Ridge	96.0	96.2	95.8	682	659	659
Harris Hill	93.9	94.5	96.7	716	728	733
Latitudes	97.1	97.5	97.8	774	732	684
Madison Hall	92.9	94.4	92.6	605	612	645
Oak Hollow	89.2	96.6	95.5	732	722	717
Oak Hollow Ph 2	89.3	-	-	689	-	-
Oakbrook	92.3	95.6	95.3	783	783	779
Paces Commons	91.1	94.8	95.9	709	717	710
Paces Village	93.0	96.2	93.1	689	666	656
Pepperstone	97.3	96.5	96.9	695	681	681
Savannah Place	93.8	93.3	92.8	712	749	768
Summerlyn Place	93.6	96.1	93.2	803	798	804
Waterford Place	94.2	95.9	95.3	861	857	846
Woods Edge	95.3	97.2	94.4	776	751	731
Chrysson Community under purchase option(2):						
Brookford Place	-	-	-	-	-	-

RESTAURANT PROPERTIES LOCATIONS

Virginia
(28 properties)

Ashland
106 North Washington

Blackstone
North Main Street

Bluefield
701 South College Street

Chester
12401 Jefferson Davis Hwy.

Clarksville
916 Virginia Avenue

Clintwood

U.S. Highway 83

Dublin
208 College Avenue

Franklin
105 North Mechanic Street

Galax
425 Main Street

Hopewell
East City Point Road

Lebanon
Route 1

Lynchburg
8411 Timberlake Road
2231 Langhorne road

Norfolk
3908 Princess Anne Road

Orange
200 Madison Road

Petersburg
1865 Crater Road, South

Richmond
921 Myers Street
6850 Forest Hill Avenue
7917 Midlothian Pike

Roanoke
4407 Abenham Avenue SW
3401 Hollins Road

Rocky Mount
322 Tanyard Road, NE

Smithfield
Smithfield Shopping Center

Staunton
1201 Greenville Avenue

Verona
160 East Route 612

Virginia Beach
4261 Holland Road
1951 Lynnhaven Parkway

Wise
US Highway 23, Business

North Carolina
(14 properties)

Burlington
2712 Alamance Road

Denver
Route 1

Eden
202 West Kings Highway

Fayetteville
3505 Ramsey Street
360 North Eastern Blvd.

Gastonia
816 East Franklin Street

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 2001.

ITEM X. EXECUTIVE OFFICERS OF THE REGISTRANT

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

Name	Age	Position	Office
D. Scott Wilkerson	44	Director, President and Chief Executive Officer	Octob
Philip S. Payne	50	Director, Executive Vice President, Treasurer and Chief Financial Officer	Octob
Pamela B. Bruno	48	Vice President, Controller and Chief Accounting Officer	Octob
Douglas E. Anderson	54	Vice President, Secretary	April

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

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

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

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

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

PART II

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

Market Information and Dividends

Our common stock is traded on the American Stock Exchange under the symbol "BNP." There were approximately 1,500 shareholders of record on March 15, 2002. The table below shows, for the periods indicated, the range of high, low, and closing sale prices of our common stock as reported by the American Stock Exchange and the dividends paid per share. As of March 15, 2002, the closing price of the company's common stock was $11.40 per share.

	Stock Price			Di
	High	Low	Close	Pe
2001				
Fourth quarter	$10.88	$9.75	$10.31	
Third quarter	11.30	9.15	10.00	
Second quarter	10.65	8.75	10.02	
First quarter	9.95	7.75	9.10	
2000				
Fourth quarter	$ 8.75	$7.25	$ 7.50	
Third quarter	9.125	8.00	8.50	
Second quarter	9.25	7.875	8.375	
First quarter	10.625	7.75	7.75	

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 July 1996, the plan administrator, First Union National Bank of North Carolina,

reinvests dividends on behalf of plan participants in our common stock. First Union 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 $10,000 per quarter. Participants do not pay any commissions on stock purchased under the plan.

Sales of Unregistered Securities

In December 2001, we issued 227,273 shares of our Series B Preferred Stock to a single investor. These shares were issued pursuant to the exemption from the registration requirements of the Securities Act of 1933 set forth in Section 4(2) of the Act. The purchaser was an accredited investor, and offers were not accompanied by any form of general solicitation.

ITEM 6. SELECTED FINANCIAL DATA

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

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

	Year ended December 31				
	2001	2000	1999	1998	
	(in thousands, except per share and property data				
Operating data:					
Revenue:					
Apartment rental income	$ 30,867	$ 29,269	$ 28,608	$ 21,925	$
Restaurant rental income	4,053	4,162	4,339	4,500	
Equity and other income	1,342	427	510	715	
Total revenue	36,262	33,858	33,457	27,140	
Expenses:					
Depreciation	7,828	7,156	6,956	5,406	
Amortization	596	579	569	531	
Apartment operations	11,182	9,766	9,395	6,817	
Administrative costs	2,956	2,391	2,380	1,697	
Costs of terminated equity transaction	-	237	-	-	
Interest	11,100	11,151	10,703	8,209	
Total expenses	33,663	31,280	30,003	22,660	
Income before minority interest of Unitholders	2,599	2,578	3,454	4,480	
Minority interest in Operating Partnership	597	595	728	742	
Income before extraordinary item	$ 2,002	$ 1,983	$ 2,726	$ 3,738	$
Net income	$ 1,902	$ 1,983	$ 2,726	$ 3,686	$
Income available to common shareholders	$ 1,900	$ 1,983	$ 2,726	$ 3,686	$
Basic earnings per share	$ 0.33	$ 0.35	$ 0.46	$ 0.62	$

Diluted earnings per share	$ 0.33	$ 0.35	$ 0.46	$ 0.62	$
Dividends per share	$ 1.24	$ 1.24	$ 1.24	$ 1.24	$

	Year ended December 31				
	2001	2000	1999	1998	
	(in thousands, except per share and property data				
Balance Sheet data:					
Real estate assets (before accumulated depreciation)					
Apartment communities	$ 221,589	$ 217,818	$ 203,365	$ 188,539	$
Restaurant properties	39,159	39,702	40,545	43,205	
Real estate assets, net	219,997	224,705	217,984	212,192	
Total assets	225,385	230,691	224,270	221,121	
Total debt	162,330	163,612	150,883	140,524	
Minority interest	18,174	19,737	21,317	20,681	
Shareholders' equity	42,034	44,548	49,896	56,749	
Apartment Property data:					
Apartment communities owned at year end	15	15	15	14	
Apartment units owned at year end	3,681	3,680	3,440	3,188	
Average apartment economic occupancy	93.9%	95.9%	95.1%	94.7%	
Average monthly revenue per occupied unit	$ 744	$ 737	$ 729	$ 737	$
Other data:					
Earnings before interest, taxes, depreciation and amortization (1)	$ 22,123	$ 21,463	$ 21,682	$ 18,626	$
Funds from operations (1)	10,831	10,139	10,816	10,292	
Funds available for distribution (1)	9,696	9,243	9,868	9,660	
Net cash provided by (used in):					
Operating activities	$ 10,729	$ 10,854	$ 10,919	$ 9,420	$
Investing activities	(2,401)	(13,407)	111	(43,862)	
Financing activities	(7,966)	3,177	(11,089)	32,473	
Weighted average number of common shares outstanding	5,717	5,708	5,973	5,924	
Weighted average number of Operating Partnership minority units outstanding	1,706	1,711	1,601	1,192	

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 apartment, 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;
- we may have incorrectly assessed the environmental condition of our properties;
- revenues from our third-party apartment property management activities could decline, or we could incur unexpected costs in performing these activities;
- 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

2001 Compared to 2000

Revenues

Total revenue in 2001 was $36.3 million, an increase of 7.1% compared to 2000. Apartment rental income accounted for 85.1% of our total revenue in 2001 compared to 86.4% in 2000.

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

On a same units basis, average economic occupancy was 94.2% in 2001

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

With the exception of Virginia Beach, Virginia, our apartment markets weakened during 2001, and remain weak. Slight increases in revenue per occupied apartment were insufficient to overcome the impact of declines in occupancy. While we remain confident in the long-term prospects for our markets and our properties, we do not foresee any significant improvement in apartment operations over the near term. The weakness in the markets is largely the result of overbuilding. While construction activity has slowed recently, it will take some time for the excess supply of new apartments to be absorbed. Until then, the competition for residents will remain intense.

Declining interest rates and, more recently, a general economic slowdown have also had an impact on apartment occupancy and rental rates. For those with jobs, lower interest rates have made single-family home ownership far more affordable. On the other hand, the general economic slowdown has led to significant job losses. While the underlying explanation as to why declining interest rates or a general economic slowdown impact apartment operations is quite different, both have the effect of reducing the pool of potential apartment residents, which, in turn, puts negative pressure on occupancy and rental rates.

Restaurant rental income in 2001 was $4.1 million, a decrease of 2.6% compared to 2000. Restaurant rental income accounted for 11.2% of our total revenue in 2001 compared to 12.3% in 2000. The decrease in restaurant rental income is due to the sales of one restaurant property in April 2001 and one restaurant property in June 2000. Through 2001, we have sold five of the original 47 restaurants to Boddie-Noell Enterprises, Inc., the lessee, under the non-economic clause of an agreement that allows Enterprises to close up to seven restaurants and buy them back for no less than net carrying value.

Restaurant rental income during both 2001 and 2000 was the minimum rent specified in the lease agreement. Under our master lease with Enterprises, restaurant rental income payments are the greater of specified minimum rent or 9.875% of food sales. Minimum rent is currently set at $335,000 per month, and is reduced by approximately $8,000 per month, or $96,000 per year, for each restaurant that is sold. "Same store" sales (for the 42 restaurants that were open through all of both years) declined by 3.5% in 2001 compared to 2000. Sales at these restaurants would have to increase by approximately 11% before we

would receive rent exceeding the minimum rent. We do not expect restaurant rental income to exceed the minimum in 2002.

As we discussed in the notes to our financial statements, effective January 1, 2001, we acquired the minority interest in BNP Management, Inc. (the "Management Company"). For 2001, we included the revenues from management services for three third-party owned properties in our consolidated revenue amounts. In 2000, we reported (net) equity income related to activities of the Management Company. This change in basis of presentation has not had a significant impact on our financial position, overall operating results or cash flows.

During the fourth quarter of 2001, we expanded our third-party management activities by entering into contracts to manage 12 multi-family communities. On January 1, 2002, we added a contract to manage one additional

community. We expect that third-party management contracts will generate approximately $1 million in management fee income in 2002.

Management fee income totaled $529,000 in 2001, including $123,000 generated from new contracts during the fourth quarter. If the former Management Company activities had been reflected on a consolidated basis in our 2000 financial statements, equity income as reported would have been replaced with management fee income of approximately $457,000 in 2000.

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

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

Effective July 1, 2001, we modified our participating loan agreement with The Villages of Chapel Hill Limited Partnership. This modification established a $950,000 "fixed portion" of our participation in the increase in value of the property and extended the period for our 25% participation in increased rental revenue and increase in value of the property to the earlier of July 2011 or sale or refinance of the property. We received an initial payment of $325,883 of the fixed portion in July 2001, which we reflected in the financial statements as other income. Required payment of the fixed portion is subject to cash flow from The Villages property, calculated every six months, as defined in the agreement. At December 31, 2001, payment of $25,681 was currently due and was received in January 2002. Interest on the outstanding fixed portion accrues at the greater of a prime rate or 8%, payable monthly. Because the timing of payment of the remaining fixed portion is subject to cash flow and therefore uncertain, we have provided a reserve for collection of this receivable, and we will recognize revenue as it is realized.

Expenses

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

Apartment operations expense was $11.2 million in 2001, an increase of 14.5%, or $1.4 million, compared to 2000. This increase is attributable to the addition of Oak Hollow Apartments Phase 2 ($760,000 in 2001), along with the impact of higher costs for on-site compensation, property taxes and insurance, and property administration and turnover costs.

Apartment operations expense includes only direct costs of on-site operations. Apartment operations expense in 2001 represented 36.2% of related apartment rental income, compared to 33.4% in

2000. During the second half of 2001, we experienced a significant increase in redecoration and turnover expense at our apartment communities. Intense competition due to overbuilding, home purchases, and job losses due to the current economic slowdown have all contributed to higher turnover of residents. As a result, we have spent more in turnover and redecoration, as well as leasing and promotion expense, in an effort to attract and retain residents. We expect that these costs will remain at relatively high levels for as long as current

market conditions persist.

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

We are now able to identify and compare apartment administration expenses for 2001 and 2000. These costs include our property management activities as well as accounting and support activities directly related to apartment management. Prior to 2001, these costs were included in our line item for administrative expenses that included both apartment and corporate administrative costs, and we have reclassified these amounts in the 2000 and 1999 financial statements to conform to the 2001 presentation. In addition, we now include the expenses of our third-party management activities in these consolidated expense amounts.

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

Corporate administration expense totaled $1.8 million in 2001. If the activities of the Management Company had been reflected on a consolidated basis in our 2000 financial statements, corporate administration expense would have been approximately $1.7 million in 2000. The increase in corporate administration expense in 2001 is attributable to increased executive and corporate office staff compensation.

Depreciation expense totaled $7.8 million in 2001, an increase of 9.4%, or $670,000, compared to 2000. This increase is attributable to the addition of Oak Hollow Apartments Phase 2 ($402,000 in 2001) along with the impact of additions and replacements at other apartment communities. We have generally assigned shorter lives to these specifically identifiable assets than the composite lives initially assigned at acquisitions. Amortization expense was essentially the same in 2001 and 2000.

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

In conjunction with a refinance of long-term debt in September 2001, we wrote off unamortized loan costs of $129,000. We have reflected this write-off, net of minority interests' share, with a charge of $100,000 as an extraordinary item in the financial statements.

In late December 2001, we issued 227,273 shares of Series B Cumulative Convertible Preferred Stock. Because preferred shareholders have priority over common shareholders for receipt of dividends, we deduct the amount of net income that has been or will be paid to preferred shareholders in calculating net income available to common shareholders. The cumulative preferred dividend, for four days in the fourth quarter of 2001, totals $2,740. This amount will increase in future periods; the dividend on the Series B shares is $1.10 per share per year.

Net income

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

Income available to common shareholders was $0.33 per share in 2001 compared to $0.35 in 2000. The $0.02 decline in per share amounts resulted from a number of factors, including an increase in non-cash charges for depreciation expense and a non-cash extraordinary charge for write-off of loan costs.

2000 Compared to 1999

Revenues

Total revenue in 2000 was $33.9 million, an increase of 1.2% compared to 1999. Apartment rental income accounted for 86.4% of our total revenue in 2000 compared to 85.5% in 1999.

Apartment rental income in 2000 was $29.3 million, an increase of 2.3% compared to 1999. This increase reflects improvements in both occupancy and average rental rates in 2000. Average economic occupancy for all apartments was 95.9% in 2000 compared to 95.1% in 1999. Average monthly revenue per occupied unit for all apartments was $737 in 2000 compared to $729 in 1999. These comparisons reflect the results for all 3,440 apartments in operation through the entire 12 months of both 2000 and 1999. (Our acquisition of Oak Hollow Apartments Phase 2 took place in late December 2000.)

Apartment rental income was consistent with our expectations in 2000. Our apartment communities continued to show improved occupancy and rental rates despite the fact that we operate in some of the most competitive apartment markets in the United States. With the exception of Virginia Beach, Virginia, significant new apartment construction over the past few years has resulted in an oversupply of apartments in our markets.

Restaurant rental income in 2000 was $4.2 million, a decrease of 4.1% compared to 1999. Restaurant rental income accounted for 12.3% of our total revenue in 2000 compared to 13.0% in 1999. The decrease in restaurant rental income was due to the sales of three restaurant properties in June 1999 and one restaurant property in June 2000. The four restaurants were sold to Boddie-Noell Enterprises, the lessee, under the non-economic clause of an agreement that allows the lessee to close up to seven restaurants and buy them back for no less than net carrying value.

Under the lease, restaurant rental payments are the greater of a specified minimum rent or 9.875% of food sales. Prior to the sales of the four restaurants, the minimum rent was $4,500,000 per year. The minimum rent is reduced by approximately $96,000 per year for each restaurant that is sold. Restaurant rental income in both 2000 and 1999 was the minimum rent specified in the lease agreement.

"Same store" sales (for our 43 restaurants that were open through the entire 12 months of both 2000 and 1999) declined by 3.6% in 2000 compared to 1999.

Interest and other income decreased by 23.7% to $296,000 in 2000 as compared to 1999. This decrease is primarily attributable to a $47,000 reduction in interest income due to repayment in February 2000 of $525,000 in principal on a note receivable from a joint venture partnership. Our interest in the net

income of the Management Company was $131,000 in 2000 compared to $123,000 in 1999.

Expenses

Total expenses, including non-cash charges for depreciation and amortization, in 2000 were $31.3 million, an increase of 4.3% compared to 1999. We have reclassified amounts for apartment operations, apartment administration, and corporate administration expenses to conform to our 2001 presentation.

Apartment operations expense was $9.8 million in 2000, an increase of 3.9% compared to 1999. Apartment operations expense represented 33.4% of related apartment rental income, compared to 32.8% in 1999. This increase was primarily attributable to higher costs for compensation of on-site staff, taxes, and property insurance.

Apartment administration expense was $801,000 in 2000, a decline of 7.6% compared to 1999. Corporate administration expense was $1.6 million in 2000, an increase of 5.1% compared to 1999. These costs were in line with management's expectations.

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

During 2000, we entered into negotiations for a private equity transaction. The company terminated those negotiations during the fourth quarter of 2000, and we recorded a charge of $237,000 for those costs. Because this was a significant and non-recurring charge, we have reported this charge as a separate line item in our statement of operations.

Depreciation and amortization totaled $7.7 million in 2000, an increase of 2.8% compared to 1999. These increases reflect the impact of additions and replacements at apartment communities.

Interest expense was $11.2 million in 2000, an increase of 4.2% compared to 1999. This increase was primarily attributable to the approximate 0.75% increase in variable interest rates during the first half of 2000. Overall, weighted average interest rates were 7.3% in 2000 compared to 7.2% in 1999.

Net income

Income available to common shareholders in 2000 was $2.0 million, a decrease of 27.3% compared to 1999. Operating Partnership earnings before depreciation and amortization in 2000 were $10.3 million, a decrease of 6.1%, while non-cash charges for depreciation and amortization totaled $7.7 million, an increase of 2.8%, compared to 1999. The minority interest in Operating Partnership earnings in 2000 was $595,000, a decrease of 18.3% compared to 1999.

Income available to common shareholders was $0.35 per share in 2000 compared to $0.46 in 1999. The decline in per share amounts was primarily due to increases in interest expense, decrease in restaurant rental income, a significant non-recurring charge for a terminated equity transaction, and increases in non-cash charges for depreciation and amortization.

Funds from Operations

Funds from operations and funds available for distribution are defined in footnote 1 on pages 12 and 13. We calculated funds from operations as follows (all amounts in thousands):

	2001	2000
Income before minority interest and extraordinary item	$ 2,599	$ 2,578
Cumulative preferred dividend	(3)	-
Depreciation	7,828	7,156

	2001	2000
Amortization of management intangible	406	406
Funds from operations - Operating Partnership	$10,831	$10,139

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

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

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

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

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

	2001	2000	
Net cash provided by (used in)			
Operating activities	$ 10,729	$ 10,854	$
Investing activities	(2,401)	(13,407)	
Financing activities	(7,966)	3,177	
Dividends and distributions paid to			
Common shareholders	$ 7,082	$ 7,077	$
Minority unitholders in Operating Partnership	2,116	2,102	
Scheduled debt principal payments	$ 348	$ 332	$
Non-recurring capital expenditures			
Acquisition improvements and replacements	936	297	
Apartment property additions and betterments	553	755	
Weighted average common shares outstanding	5,717	5,708	
Weighted average Operating Partnership minority units outstanding	1,706	1,711	

Funds from operations in 2001 (before deduction for minority interest) totaled $10.8 million, an increase of 6.8% compared to $10.1 million in 2000. The increase is primarily attributable to non-routine revenue received in 2001, while operating results for the two years were essentially flat. Funds from operations in 2000 (before deduction for minority interest) declined 6.3% compared to $10.8 million in 1999. The modest increase in contribution from apartment operations in 2000 was not adequate to offset the increase in interest expense, the decrease in restaurant rental income, or the significant non-recurring costs of a terminated equity transaction.

Funds available for distribution totaled $9.7 million in 2001, an increase of 4.9% compared to 2000. Funds available for distribution totaled $9.2 million in 2000, a decline of 6.3% compared to $9.9 million in 1999. The variance in comparison of funds available for distribution and funds from operations reflects the impact of recurring capital expenditures for major capital maintenance costs at our older communities. Recurring capital expenditures averaged $360 per apartment unit in 2001, $311 per apartment unit in 2000, and $323 per unit in 1999.

Capital Resources and Liquidity

Capital Resources

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

Long-term Debt

As of December 31, 2001, all of our properties were encumbered by or served as collateral for debt. As of December 31, 2001, total long-term debt was $162.3 million, including $122.2 million of notes payable at fixed interest rates ranging from 6.35% to 8.55%, and $40.1 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding at December 31, 2001, was 6.2%, compared to 7.5% at December 31, 2000. This reduction is primarily due to declines in variable rates during 2001. 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 $390,000.

In November 2001, we modified our previously established revolving lines of credit with a bank for lines secured by Latitudes Apartments and our restaurant properties. These line of credit arrangements are now as follows:

- $23.0 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, 2001, the outstanding balance on this line was $12.0 million. Of this line, $2.0 million is reserved, subject to available draws against a variable rate note payable, for acquisition improvements at Oak Hollow Apartments Phase 2, and approximately $9.0 million is available under this revolving line of credit.

- $18.0 million, secured by a deed of trust and assignment of rents of 42 restaurant properties, due January 2004. Interest-only payments on the outstanding balance are due monthly at a variable interest rate of 30-day LIBOR plus 1.80%. The available line of credit declines to $17.2 million effective January 2003. At December 31, 2001, the outstanding balance on this line was $18.0 million.

In September 2001, we issued a $16.25 million note payable, secured by a deed of trust and assignment of rents of Paces Commons Apartments. The note provides for interest at 6.96%, payable in monthly installments, with maturity in October 2011. We applied approximately $10.1 million of these proceeds to retire an existing 8.125% deed of trust note for the same property, and $5.0 million of proceeds to reduce our Latitudes line of credit. Paces Commons was our first apartment community, acquired in June 1993 for an initial acquisition cost of $14.3 million.

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

In replacing the financing on Paces Commons and Oakbrook Apartments, we were able to substantially increase loan amounts based on the lender's estimates of the appreciated fair market values of the properties. We applied excess proceeds of these fixed rate loans to reduce outstanding balances on our variable rate lines of credit.

We utilized long-term debt, along with draws on our lines of credit, to finance acquisitions of apartment communities in 2000 and 1999 as follows:

- In December 2000, we acquired Oak Hollow Apartments Phase 2 for a total

cost of approximately $12.4 million. We financed this acquisition with a $9.7 million initial draw on an $11.7 million variable-rate loan secured by a deed of trust on the community and $2.7 million draws on our lines of credit. We have subsequently drawn approximately $400,000 against this loan, and approximately $1.6 million remains available to fund renovations at this community.

- In January 1999, we acquired Chason Ridge Apartments for a total cost of approximately $12.5 million. We financed this acquisition by assuming long-term debt of $10.7 million and $1.8 million draws on our lines of credit.

We have also utilized our lines of credit to repurchase and retire approximately 300,000 shares of our common stock in 1999 and 2000, to retire a $6.1 million note payable to an affiliate in 1999, 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 line of credit secured by deeds of trust and assignment of rents of 42 restaurants, due January 2004 ($18.0 million outstanding at December 31, 2001);
- our line of credit secured by a deed of trust and assignment of rents of Latitudes Apartments, due November 2004 (up to $23.0 million, $12.0 million outstanding at December 31, 2001);
- our deed of trust loan for Oak Hollow Apartments Phase 2, due December 2004 (up to $11.7 million for acquisition and renovation construction, $10.1 million outstanding at December 31, 2001); and
- our deed of trust loan for Harris Hill Apartments, due June 2005 ($5.9 million outstanding at December 31, 2001).

Capital Stock and Operating Partnership Units

At December 31, 2001, we had approximately 5.7 million common shares and approximately 227,000 preferred shares outstanding. In addition, there were approximately 1.7 million Operating Partnership units, or approximately 23%, held by minority interest owners.

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 to a single investor for proceeds of $2.5 million. We utilized these proceeds to reduce the outstanding balance on our Latitudes line of credit. Under the terms of the investment agreement for this placement, we must issue the remaining 227,272 shares for an additional $2.5 million by December 2002, and the offering may be expanded to $10.0 million on the same terms and conditions through December 2002. The preferred shares have a purchase price and liquidation preference of $11.00 per share, an initial dividend yield of 10% through December 2009, and may be converted to our common stock on a one-for-one basis after three years.

During 1999 through 2001, we issued approximately 67,000 shares of our common stock through our Dividend Reinvestment and Stock Purchase Plan. We generally applied these proceeds to capital expenditures at apartment communities.

All of the Operating Partnership units held by minority interest owners

were issued in 1997 through 1999 in conjunction with acquisitions of apartment communities. Holders of Operating Partnership units generally are able to redeem their units for cash or, at our option, for shares of our common stock on a one-for-one basis after one year from issuance.

Cash Flows and Liquidity

Net cash flows from operating activities were $10.7 million in 2001, and $10.9 million in 2000 and 1999. Investing and financing activities focused primarily on apartment acquisitions and capital expenditures at apartment communities, along with payments of dividends and distributions.

We paid dividends of $0.31 per share per quarter in each quarter of 2001, 2000, and 1999. Our payout ratio (the ratio of dividends plus distributions paid to Operating Partnership funds from operations) was 84.9% in 2001, 90.5% in 2000, and 86.6% in 1999. 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 continue to produce sufficient cash flow to fund our regular dividend. However, any number of unforeseen events, or a combination of such events (for example, a substantial decline in apartment operations, a substantial increase in short-term interest rates, or the sale of the restaurant properties or other assets), might necessitate a reduction in the current dividend.

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

We received approximately 11.2% of our revenue in 2001, compared to 12.3% in 2000 and 13.0% in 1999, from rent received from Boddie-Noell Enterprises for the use of our restaurant properties. In addition, Enterprises is responsible for all of the costs associated with the maintenance and operations of these properties. Over time, we expect that restaurant rental income will continue to represent a decreasing percentage of our total revenue.

Under our current line of credit agreement, Enterprises has the right to purchase, under specified terms, up to two additional restaurants deemed "non-economic," for no less than net carrying value. The annual minimum rent would be reduced by approximately $96,000 for each restaurant sold. We would receive sale proceeds of the greater of net carrying value or fair value. As of December 31, 2001, the average net book value of the restaurant properties was approximately $685,000. As in the past, we would most likely apply sale proceeds to reduce outstanding debt on our line of credit.

Enterprises is a privately owned company with total assets exceeding $224 million and net equity exceeding $73 million. Its principal line of business is the operation of approximately 330 Hardee's restaurants. In addition to its Hardee's operations, Enterprises is the owner of Texas Steakhouse and Saloon, a casual dining concept with 26 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 projections. 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.

Capital expenditures and depreciation

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

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

We expense ordinary repairs and maintenance costs at apartment communities.

During 2001, we capitalized additions and replacements as follows (all amounts in thousands):

Recurring capital expenditures	$1,324
Acquisition improvements	936
Non-recurring additions and betterments	553

Repairs and maintenance at our apartment communities totaled approximately $4.1 million, including $1.5 million in compensation of service staff and $2.6 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.

Inflation

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

Environmental Matters

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

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

Recently Issued Accounting Standards

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual

impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. We will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. We expect that application of the nonamortization provisions of the Statements will result in an increase in net income of approximately $400,000 per year. During 2002, we will perform the first of the required impairments tests of the intangible related to acquisition of management operations, as of January 1, 2002. We do not believe that the effect of these tests will have a significant impact on the earnings and financial position of the company.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective for years beginning after December 15, 2001. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations for a Disposal of a Segment of a Business. We expect to adopt Statement No. 144 as of January 1, 2002, and we do not expect this adoption to have a significant impact on our financial position and results of operations.

Additional Information

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

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

	2001		2000		1999	
	Total	Per unit	Total	Per unit	Total	Per
	(000's)		(000's)		(000's)	
Recurring capital expenditures:						
Floor coverings	$ 662	$180	$ 464	$135	$ 627	
Appliances/HVAC	197	54	164	48	165	
Exterior paint	-	-	-	-	63	
Computer/support equipment	54	15	21	6	-	
Other	411	112	420	122	256	

	$1,324	$360	$1,070	$311	$1,111
Non-recurring capital expenditures:					
Acquisition improvements	$ 936		$ 297		$ 819
Additions and betterments	502		754		486
Computer/support equipment	50		-		-
	$1,489		$1,052		$1,305

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A summary of long-term debt as of December 31, 2001 and 2000 is included in the notes to the financial statements in this Annual Report. At December 31, 2001, adjusted to reflect the subsequent refinancing related to Oakbrook Apartments, total long-term debt was $162.3 million, including $123.9 million notes payable at fixed interest rates ranging from 6.35% to 8.55%, and $38.4 million at variable rates indexed on 30-day LIBOR rates. The weighted average interest rate on debt outstanding was 6.2% at December 31, 2001, and 7.5% at December 31, 2000. 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 $390,000.

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					
	2002	2003	2004	2005	2006	Later
Fixed rate notes	$ 248	$ 409	$ 441	$ 5,899	$ 365	$116,590
Average interest rate	7.69%	7.44%	7.45%	8.46%	7.06%	6.88%
Variable rate notes	-	833	37,545	-	-	-
Average interest rate		3.71%	3.71%			

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, 2001, totaled approximately $161.8 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data are listed under Item 14(a) and filed as part of this Annual Report on the pages indicated.

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

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The section under the heading "Election of Directors" of the Proxy Statement for Annual Meeting of Shareholders to be held May 23, 2002, (the "Proxy Statement") is incorporated herein by reference for information on Directors of the Registrant. See Item X in Part I of this Annual Report for information regarding Executive Officers of the Registrant.

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

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

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

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

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

Index to Financial Statements

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Financial Statements and Notes:	
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Consolidated Statements of Operations for the Years Ended December 31, 2001, 2000, and 1999	31
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Schedules:	
Schedule III - Real Estate and Accumulated Depreciation	47

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

(a) 3. Exhibits

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

Exhibit No.

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

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

on Form 8-K dated December 1, 1997, and incorporated herein by reference)

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

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

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

4.1* Rights Agreement, dated March 18, 1999, between the Company and First Union National Bank (filed as Exhibit 4 to BNP Residential Properties, Inc. Current Report on Form 8-K dated March 17, 1999, and incorporated herein by reference)

4.2* Registration Rights Agreement By and Among BNP Residential Properties, Inc. and Preferred Investment I, LLC, dated December 28, 2001 (filed as Exhibit 4 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)

10.1* Amended and Restated Agreement of Limited Partnership of BNP Residential Properties Limited Partnership (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Annual Report on Form 10-K dated December 31, 1998, and incorporated herein by reference)

10.2* Amendment to Second Amended and Restated Agreement of Limited Partnership of BNP Residential Properties Limited Partnership, dated December 28, 2001 (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)

10.3* Investment Agreement By and Between BNP Residential Properties, Inc. and Preferred Investment I, LLC, dated December 28, 2001 (filed as

Exhibit 10.2 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)

10.4* Amended and Restated Master Lease Agreement dated December 21, 1995, between BNP Residential Properties, Inc. and Boddie-Noell Enterprises, Inc. (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Annual Report on Form 10-K dated December 31, 1995, and incorporated herein by reference)

10.5* BNP Residential Properties, Inc. 1994 Stock Option and Incentive Plan effective August 4, 1994, and amended effective May 15, 1998 (filed as an exhibit in Schedule 14A of Proxy Statement dated April 13, 1998, and incorporated herein by reference)

10.6* Form and description of Employment Agreements dated July 15, 1997, between BNP Residential Properties, Inc. and certain officers (filed as Exhibit 10 to BNP Residential Properties, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, and incorporated herein by reference)

21 Subsidiaries of the Registrant

23 Consent of Ernst & Young LLP

* Incorporated herein by reference

(b) Reports on Form 8-K

We filed a Current Report on Form 8-K as of December 28, 2001, to report the initial closing of an investment agreement to sell 454,545 shares of Series B Cumulative Convertible Preferred Stock.

SIGNATURES

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

BNP RESIDENTIAL PROPERTIES, INC.
(Registrant)

Date: March 26, 2002

/s/ Philip S. Payne
Philip S. Payne
Executive Vice President and
Chief Financial Officer

Date: March 26, 2002

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

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

Signature:	Title:	Date:
/s/ D. Scott Wilkerson D. Scott Wilkerson	President and Chief Executive Officer, Director	March 26, 2002
/s/ Philip S. Payne Philip S. Payne	Executive Vice President, Treasurer and Chief Financial Officer, Director	March 26, 2002
/s/ Pamela B. Bruno Pamela B. Bruno	Vice President, Controller and Chief Accounting Officer	March 26, 2002
/s/ B. Mayo Boddie B. Mayo Boddie	Chairman of the Board of Directors	March 26, 2002
/s/ Stephen R. Blank Stephen R. Blank	Director	March 26, 2002
/s/ Paul G. Chrysson Paul G. Chrysson	Director	March 26, 2002
/s/ W. Michael Gilley W. Michael Gilley	Director	March 26, 2002
/s/ Peter J. Weidhorn Peter J. Weidhorn	Director	March 26, 2002

Report of Independent Auditors

Board of Directors and Stockholders
BNP Residential Properties, Inc.

We have audited the accompanying consolidated balance sheets of BNP Residential Properties, Inc. as of December 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedule listed in the Index at Item 14(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of BNP Residential Properties, Inc. at December 31, 2001 and 2000, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally

accepted in the United States. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ ERNST & YOUNG LLP

Raleigh, North Carolina January 8, 2002, except for Notes 3 and 11 as to which the date is February 4, 2002

BNP RESIDENTIAL PROPERTIES, INC.
Consolidated Balance Sheets

	Dece 2001
Assets	
Real estate investments at cost:	
Apartment properties	$221,218,864
Restaurant properties	39,529,527
	260,748,391
Less accumulated depreciation	(40,751,890)
	219,996,501
Cash and cash equivalents	1,417,616
Prepaid expenses and other current assets	1,693,374
Investment in and advances to Management Company	-
Notes receivable	100,000
Other assets, net of accumulated amortization:	
Intangible related to acquisition of management operations	1,115,088
Deferred financing costs	1,062,069
Total assets	$225,384,648
Liabilities and Shareholders' Equity	
Deed of trust and other notes payable	$162,330,222
Accounts payable and accrued expenses	237,182
Accrued interest on deed of trust and other notes payable	760,586
Prepaid rents and security deposits	648,831
Deferred cable equipment rental revenue	700,324
Deferred credit for interest defeasance	500,032
	165,177,177
Minority interest in Operating Partnership	18,173,557
Shareholders' equity:	

Preferred stock, $.01 par value, 10,000,000 shares authorized, 227,273 shares issued and outstanding at December 31, 2001	2,500,000
Common stock, $.01 par value, 100,000,000 shares authorized, 5,744,873 shares issued and outstanding at December 31, 2001, 5,706,950 shares issued and outstanding at December 31, 2000	57,449
Additional paid-in capital	69,872,958
Dividend distributions in excess of net income	(30,396,493)
Total shareholders' equity	42,033,914
Total liabilities and shareholders' equity	$225,384,648

See accompanying notes.

BNP RESIDENTIAL PROPERTIES, INC.
Consolidated Statements of Operations

	Years ended Decem	
	2001	2000
Revenues		
Apartment rental income	$30,866,890	$29,269,1
Restaurant rental income	4,053,192	4,161,9
Management fee income	528,754	
Equity in income of Management Company	-	131,2
Interest and other income	812,937	295,6
	36,261,773	33,857,9
Expenses		
Apartment operations	11,182,449	9,766,0
Apartment administration	1,106,881	801,4
Corporate administration	1,849,273	1,589,9
Costs of terminated equity transaction	-	237,4
Depreciation	7,828,457	7,155,6
Amortization	595,603	579,2
Interest on notes payable to affiliates	-	
Interest - other	11,100,269	11,150,5
	33,662,932	31,280,4
Income before minority interest and extraordinary item	2,598,841	2,577,5
Minority interest in Operating Partnership	596,854	594,5
Income before extraordinary item	2,001,987	1,982,9
Extraordinary item - loss on early extinguishment of debt	99,577	
Net income	1,902,410	1,982,9
Cumulative preferred dividend	2,740	
Income available to Common Shareholders	$ 1,899,670	$ 1,982,9

Per share data:		
Basic and diluted earnings per share --		
Income before extraordinary item	$0.35	$0.3
Extraordinary item	(0.02)	
Income available to common shareholders	$0.33	$0.3
Dividends declared	$1.24	$1.2
Weighted average common shares outstanding	5,716,811	5,707,5

See accompanying notes.

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

	Preferred Stock		Common Stock		Additional paid-in	Divid distribu in exce
	Shares	Amount	Shares	Amount	capital	net in
Balance December 31, 1998			5,977,930	$59,779	$72,117,636	$(15,428
Common stock issued			29,020	290	324,090	
Common stock retired			(272,044)	(2,720)	(2,480,101)	
Dividends paid			-	-	-	(7,420
Net income			-	-	-	2,726
Balance December 31, 1999			5,734,906	57,349	69,961,625	(20,122
Common stock retired			(27,956)	(280)	(254,470)	
Dividends paid			-	-	-	(7,076
Net income			-	-	-	1,982
Balance December 31, 2000			5,706,950	57,069	69,707,155	(25,216
Preferred stock issued	227,273	$2,500,000	-	-	(225,406)	
Common stock issued	-	-	37,923	380	391,209	
Dividends paid	-	-	-	-	-	(7,082
Net income	-	-	-	-	-	1,902
Balance December 31, 2001	227,273	$2,500,000	5,744,873	$57,449	$69,872,958	$(30,396

See accompanying notes.

BNP RESIDENTIAL PROPERTIES, INC.

Consolidated Statements of Cash Flows

	Years ended Dec	
	2001	2000
Operating activities		
Net income	$ 1,902,410	$ 1,982,98
Adjustments to reconcile net income to		
net cash provided by operating activities:		
Extraordinary item - loss on early extinguishment of debt	99,577	
Minority interest in Operating Partnership	596,854	594,53
Equity in income of Management Company	-	(131,29
Depreciation and amortization of intangibles	8,424,060	7,734,91
Amortization of defeasance credit	(166,656)	(166,65
Changes in operating assets and liabilities:		
Prepaid expenses and other current assets	(216,792)	170,85
Accounts payable and accrued expenses	(133,575)	18,00
Deferred revenue, prepaid rent and security deposits	222,729	651,02
Net cash provided by operating activities	10,728,607	10,854,37
Investing activities		
Acquisitions of apartment properties	(370,606)	(12,324,59
Additions to apartment communities	(2,809,343)	(2,119,91
Sale of restaurant properties	405,860	643,59
Investment in and advances to Management Company	372,939	(131,10
Investment in notes receivable	-	525,00
Net cash (used in) provided by investing activities	(2,401,150)	(13,407,02
Financing activities		
Net proceeds from issuance of preferred stock	2,434,594	
Net proceeds from issuance of common stock	391,589	
Redemption of Operating Partnership minority units	(14,864)	(72,52
Repurchase of common stock	-	(254,75
Distributions to Operating Partnership minority unitholders	(2,115,804)	(2,101,73
Payment of dividends to shareholders	(7,082,741)	(7,076,61
Proceeds from notes payable	22,024,087	13,686,98
Principal payments on notes payable	(23,305,602)	(958,59
Payment of deferred financing costs	(297,152)	(45,58
Net cash (used in) provided by financing activities	(7,965,893)	3,177,17
Net increase (decrease) in cash and cash equivalents	361,564	624,52
Cash and cash equivalents at beginning of year	1,056,052	431,53
Cash and cash equivalents at end of year	$ 1,417,616	$ 1,056,05

See accompanying notes.

BNP RESIDENTIAL PROPERTIES, INC.
Notes to Consolidated Financial Statements
December 31, 2001

Note 1. Summary of Significant Accounting Policies

Basis of presentation
The consolidated financial statements include the accounts of BNP Residential Properties, Inc. (the "company") and BNP Residential Properties Limited Partnership (the "Operating Partnership"). All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

We are a self-administered and self-managed real estate investment trust ("REIT") with operations in North Carolina, South Carolina and Virginia. Our primary activity is the ownership and operation of apartment communities. We currently manage 31 multi-family communities containing 6,969 units. Of these, we own 15 apartment communities, containing 3,681 units. Third parties own the remaining 16 communities, containing 3,288 units, and we manage them on a contract basis. In addition to our apartment communities, we own 42 properties that we lease to a third party under a master lease on a triple-net lease basis (see Notes 5 and 7). The lessee operates these properties as restaurants and, under the terms of the lease, is totally responsible for the operation and maintenance of the properties.

Effective January 2001, the accounts of the Operating Partnership include BNP Management, Inc. (the "Management Company"). Prior to January 2001, the Operating Partnership had a 1% voting interest and 95% economic interest in the Management Company, and used the equity method to account for this investment.

In January 2001, the Operating Partnership acquired the outstanding 99% voting interest and 5% economic interest in the Management Company for approximately $16,000. The impact of this change in basis of presentation on the balance sheet was to increase cash by approximately $373,000 and computer and support equipment, net of depreciation, by approximately $346,000, and to eliminate approximately $715,000 investment in and advances to the Management Company previously reflected on our balance sheet. In addition, we now reflect our third-party management operations, including management fee income and related apartment administration expenses, directly in our statements of operations and cash flows rather than reporting equity in the net income of the Management Company. We do not expect this change in basis of presentation to have a significant impact on our financial position, operating results or cash flows.

UpREIT Structure
We are structured as an UpREIT, or umbrella partnership real estate investment trust. The company is the general partner and owns a majority interest in the Operating Partnership, through which we conduct all of our operations. We currently own approximately 77% of the ownership units of the Operating Partnership. We refer to the limited partners of the Operating Partnership as minority unitholders or as the minority interest. Limited partners will generally be able to redeem their units for cash or, at our option as general partner, for shares of common stock of the company on a one-for-one basis. UpREITs are generally structured so that distributions of cash from the Operating Partnership are allocated between the REIT and the limited partners based on their respective unit ownership.

Segment Reporting
Operating segments are revenue-producing components of the company for which separate financial information is produced internally for our management. Under this definition, we operated, for all periods presented, as a single segment (apartment operations). Our apartment operating activities are located within a

relatively small geographic area, and our chief operating decision maker does not receive or utilize financial information on the basis of geographic areas. We evaluate each community's performance

individually; however, all of these communities are garden-style construction, operate in the mid-market price range, share similar economic characteristics, and provide similar services. We do not conduct any operating activities with regard to restaurant rental income; the triple-net lease arrangement for these properties requires the lessee to pay virtually all of the costs associated with these properties.

Real Estate Investments

Real estate investments are stated at the lower of cost, less accumulated depreciation, or fair value. For acquired properties, we compute depreciation using the straight-line method over the 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. We expense ordinary repairs and maintenance costs at apartment communities. 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. We depreciate these additions and replacements on a straight-line basis over estimated useful lives of five to 20 years. We capitalize all floor covering, appliance, and HVAC replacements, and depreciate them using a straight-line, group method over estimated useful lives of five to 10 years. Costs of repairs and maintenance and capital improvements at restaurant properties are borne by the lessee.

We evaluate our real estate assets from time to time, or upon occurrence of significant adverse changes in operations, to assess whether any impairment indicators are present that affect the recovery of the recorded value. If we considered any real estate assets to be impaired, we would record a loss to reduce the carrying value of the property to its estimated fair value. At December 31, 2001 and 2000, none of our assets were considered impaired.

Cash and Cash Equivalents

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

Deferred Costs

We amortize the intangible asset related to the 1994 acquisition of management operations using the straight-line method over 10 years. Accumulated amortization on this asset was approximately $2.6 million at December 31, 2001, and $2.2 million at December 31, 2000.

We defer financing costs and amortize them using the straight-line method over the terms of the related notes. If we pay down or pay off notes prior to their maturity, we write off the related unamortized financing costs. Accumulated amortization on these assets was $580,000 at December 31, 2001, and $430,000 at December 31, 2000.

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

Fair Values of Financial Instruments

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

Use of Estimates
We are required to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes in order to prepare them in accordance with generally accepted accounting principles. Depreciation amounts included in these financial statements reflect our estimate of the life and related depreciation rates for rental properties. In addition, the carrying amount of the

intangible asset related to acquisition of management operations reflects our evaluation of the continuing value and useful life of this asset. Actual results could differ from these estimates.

Revenue Recognition
We record rental and other revenue as it is earned. Rental payments received prior to the first of a given month are recorded as prepaid rent. Tenant security deposits are held in trust in bank accounts separate from operating cash. Tenant security deposits totaled $192,000 at December 31, 2001, and $229,000 at December 31, 2000; related trust account balances are included in the balance sheet in other current assets.

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

Advertising Costs
We expense advertising costs as they are incurred. Advertising expense totaled $342,000 in 2001, $296,000 in 2000, and $270,000 in 1999.

Stock-Based Compensation
We measure compensation cost for stock option plans in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, no compensation cost has been recognized for our fixed stock option plans.

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

Comprehensive Income
Comprehensive income is defined as changes in shareholders' equity exclusive of transactions with owners (such as capital contributions and dividends). We did not have any comprehensive income items in 2001, 2000, or 1999, other than net income as reported.

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

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets, effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. We will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002. We expect that application of the nonamortization provisions of the Statements will result in an increase in net income of approximately $406,000 per year. During 2002, we will perform the first of the required impairments tests of the intangible related to acquisition of management operations as of January 1, 2002; we do not believe that the effect of these tests will have a significant impact on the earnings and financial position of the company.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, effective for years beginning after December 15, 2001. This Statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supersedes Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of, and the accounting and

reporting provisions of APB Opinion No. 30, Reporting the Results of Operations for a Disposal of a Segment of a Business. We expect to adopt Statement No. 144 as of January 1, 2002, and we do not expect this adoption to have a significant impact on our financial position and results of operations.

Reclassifications
Certain amounts in the 2000 and 1999 financial statements have been reclassified to conform to the 2001 presentation. These reclassifications had no effect on net income, shareholders' equity or cash flows as previously reported.

Note 2. Real Estate Investments

Real estate investments consist of the following:

	2001	2000
Apartment properties		
Land	$ 21,128,897	$ 20,758,291
Buildings and improvements	199,741,313	197,038,755
Computer and support equipment	719,260	21,162
Less accumulated depreciation	(30,374,050)	(23,008,923)
	191,215,420	194,809,285
Restaurant properties		
Land	10,935,813	11,087,892
Buildings and improvements	28,223,108	28,614,168
Less accumulated depreciation	(10,377,840)	(9,806,282)
	28,781,081	29,895,778
	$219,996,501	$224,705,063

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

2000 acquisition:

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

1999 acquisition:

- Chason Ridge Apartments acquired effective January 1, 1999, for a total cost of approximately $12.5 million, including cash payments totaling approximately $1.8 million and assumption of debt.

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

In April 2001, we sold one restaurant property to the lessee for its net carrying value of approximately $406,000. In June 2000, we sold one restaurant property to the lessee for its net carrying value of approximately $644,000. In June 1999, we sold three restaurant properties to the lessee for their net carrying value of approximately $2.1 million. We applied the proceeds from these sales to improvements at apartment communities and to reduce our line of credit that is secured by the restaurant properties.

Note 3. Notes Payable

Notes payable at December 31 consist of the following:

	2001	
Revolving lines of credit with a bank:		
Principal sum of up to $18.0 million, due January 2004 (as modified November 2001), secured by deeds of trust and assignment of rents of 42 restaurant properties. Interest-only payments on the outstanding balance due monthly at a variable interest rate of 30-day LIBOR plus 1.80% (3.71% at December 31, 2001). Prior to the modification, the maximum was $23.3 million, with interest at 30-day LIBOR plus 1.75%.	$ 18,000,000	$ 23
Principal sum of up to $23.0 million, due November 2004 (as modified November 2001), secured by a deed of trust and assignment of rents of Latitudes Apartments. Interest-only payments on the outstanding balance due monthly at a variable interest rate of 30-day LIBOR plus 1.75 % (3.66% at December 31, 2001). At December 31, 2001, with $2.0 million reserved subject to available draws against a variable rate note payable to the same lender, $9.0 million of funds were available under this revolving line of credit. Prior to the modification, the maximum was $17.6 million, with interest at 30-day LIBOR plus 2.0%.	12,031,741	14
Principal sum of up to $2.0 million, secured by a deed of trust and assignment of rents of Latitudes Apartments. Interest-only payments on the outstanding balance due monthly at a variable interest rate of 30-day LIBOR plus 2.0%. Expired January 2002.	-	

Variable rate notes payable:		
Note payable to a bank in the principal amount of up to $11.7 million due December 2004, secured by a deed of trust and assignment of rents of Oak Hollow Apartments Phase 2. Interest-only payments on the outstanding principal balance due monthly at a variable interest rate of 30-day LIBOR plus 1.85% (3.76% at December 31, 2001). At December 31, 2001, $1.6 million is available to fund renovations at this community.	10,122,066	9
Fixed rate notes payable:		
Notes payable comprised of four loans, payable in monthly installments totaling approximately $273,000 including principal and interest at rates ranging from 7.66% to 8.55%, with maturities in 2005 through 2034. Secured by deeds of trust and assignment of rents of four apartment communities. (One of these loans was refinanced in January 2002, discussed below.)	37,687,757	31

	2001	
Notes payable comprised of 10 loans, interest rates ranging from 6.35% to 6.97%, payable in interest-only monthly installments totaling approximately $478,000, with maturities in 2007 and 2008. Secured by deeds of trust and assignment of rents of 10 apartment communities.	84,365,500	84
Notes payable, comprised of 12 loans, payable in monthly installments totaling approximately $3,000 including principal and interest at 7.90% to 7.99%, with maturities in 2005 and 2006. Secured by 12 vehicles.	123,158	
	$162,330,222	$163

We modified the revolving lines of credit with a bank in November 2001, as described above. In conjunction with this modification, we paid and recorded $152,000 in deferred loan costs.

In September 2001, we issued a $16.25 million note payable, secured by a deed of trust and assignment of rents of Paces Common Apartments. The note provides for interest at an effective rate of 6.96%. Interest-only payments of approximately $97,000 are due monthly through October 2002. Beginning November 2002, monthly payments of principal and interest total $106,600, with maturity in October 2011. In conjunction with this transaction, we paid and recorded deferred loan costs of $144,000.

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

with this payoff, we wrote off unamortized loan costs of $129,000. We have reflected this write-off, net of minority interests' share, in the financial statements as an extraordinary item.

We financed the acquisition of Oak Hollow Apartments Phase 2 in December 2000 with a $9.7 million draw on a variable rate deed of trust loan for up to $11.7 million. The note is payable at maturity in December 2004, and provides for monthly interest payments on the outstanding balance at 30-day LIBOR plus 1.85%. Additional draws totaling $2.0 million are available through December 2002 to fund renovations to the apartment community. In conjunction with this financing, we paid and recorded $47,000 in deferred loan costs.

In conjunction with the acquisition of Chason Ridge Apartments in January 1999, we assumed a HUD-insured loan in the amount of $9.7 million, payable in monthly installments of $72,000 including principal and interest at 8.5%. In addition, the note provides for payment of mortgage insurance with a premium of 0.5% of the loan balance. A deed of trust and assignment of rents of Chason Ridge Apartments secure the loan. The interest rate on this loan exceeded current market rates at the time of the acquisition, and the note may not be prepaid until January 2005. Accordingly, the seller gave a $1.0 million credit for defeasance of above-market interest, which we will apply to reduce recorded interest expense monthly through 2004.

Interest payments were as follows:

	2001	2000	1999
Payments to affiliates	$ -	$ -	$ 239,484
Payments to other lenders	11,301,114	11,264,798	10,730,979
	$11,301,114	$11,264,798	$10,970,463

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

In January 2002, we applied a $6.0 million draw against our Latitudes line of credit and operating cash to retire a $6.1 million fixed rate 7.66% note payable secured by a deed of trust for Oakbrook Apartments. In February 2002, we issued a $7.9 million note payable, secured by a deed of trust and assignment of rents of Oakbrook Apartments. The note provides for interest at an effective rate of 7.09%, with monthly payments of principal and interest totaling $53,000, and matures February 2012. We applied these proceeds to reduce our Latitudes line of credit. In conjunction with these transactions, we wrote off unamortized loan costs of approximately $95,000 and have recorded deferred costs of approximately $80,000.

As of December 31, 2001, adjusted to reflect the subsequent refinancing related to Oakbrook Apartments, scheduled principal payments were approximately as follows: 2002, $248,000; 2003, $1,242,000; 2004, $37,986,000; 2005, $5,899,000; 2006, $365,000; and 2007 and thereafter, $116,590,000.

Note 4. Shareholders' Equity

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

In December 2001, the Board of Directors authorized the issuance of up to 454,545 shares of Series B Cumulative Convertible Preferred Stock at a price of $11.00 per share, and we issued 227,273 shares to a single investor for proceeds of $2.5 million. Under the terms of the investment agreement for this placement, we must issue the remaining 227,272 shares for $2.5 million by December 2002, and the parties have the option of expanding the offering to $10 million on the same terms and conditions through December 2002. The preferred shares have a purchase price and liquidation preference of $11.00 per share. The agreement provides for an initial dividend yield of 10% through December 2009, then 12% for two years, and thereafter the greater of 14% or 900 basis points over the 5-year Treasury rate. The investor will have the right to convert each Series B share into one share of the company's common stock after three years or in certain circumstances, such as a change of control or if the company calls the Series B stock for redemption. The holders of preferred shares are generally not entitled to vote on matters submitted to shareholders. Dividends on preferred shares are subject to declaration by the Board of Directors.

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

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

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

	2001	2000	
Numerators:			
Numerator for basic earnings per share -			
Income before extraordinary item	$2,001,987	$1,982,989	$2
Extraordinary item	(99,577)	-	

	2001	2000	
Cumulative preferred dividend	(2,740)	-	
Income available to common shareholders	$1,899,670	$1,982,989	$2
Numerator for diluted earnings per share -			

Income before extraordinary item (1)	$2,598,841	$2,577,523	$3
Extraordinary item (1)	(129,239)	-	
Income available to common shareholders (1)	$2,469,602	$2,577,523	$3
Denominators:			
Denominator for basic earnings per share -			
Weighted average common shares outstanding	5,716,811	5,707,561	5
Effect of dilutive securities:			
Convertible preferred shares	2,491	-	
Convertible Operating Partnership units	1,706,361	1,710,788	1
Stock options (2)	2,987	-	
Dilutive potential common stock	1,711,839	1,710,788	1
Denominator for diluted earnings per share -			
Adjusted weighted average common shares and assumed conversions	7,428,650	7,418,349	7

Stock Option and Incentive Plan

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

The following table summarizes information about stock options outstanding at December 31, 2001.

	Weighted Average Remaining Contractual Life (Years)	Number of Options Outstanding	Nu O Exe
Exercise price $9.25 per share	8.15	47,500	
Exercise price $11.25 per share	6.83	60,000	
Exercise price $13.125 per share	6.50	120,000	
Exercise price $12.25 per share	5.33	110,000	
Exercise price $12.50 per share	2.88	140,000	
All options outstanding	5.37	477,500	

We calculated the fair value of each option grant on the date of grant using the Black-Scholes option-pricing model. No options were granted in 2001 or 1999. We used the following assumptions to estimate the fair value of options granted in 2000:

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

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

Changes in outstanding stock options were as follows:

	2001		2000		1999
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares
Beginning balance	477,500	$12.12	430,000	$12.44	430,000
Granted	-	-	47,500	9.25	-
Exercised	-	-	-	-	-
Repurchased	-	-	-	-	-
Forfeited	-	-	-	-	-
Ending balance	477,500	$12.12	477,500	$12.12	430,000
Exercisable at the end of the year	396,875	$12.33	312,500	$12.43	240,000

Note 5. Rental Operations

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

Restaurant Properties - Master Lease Agreement
The lease agreement with Boddie-Noell Enterprises ("Enterprises") has a primary term expiring in December 2007, but grants Enterprises three five-year renewal options. Enterprises pays annual rent equal to the greater of the specified minimum rent or 9.875% of food sales from the restaurants. Under certain conditions as defined in the agreement, both Enterprises and the company have the right to substitute another restaurant property for a property covered by the lease. After December 31, 2007, Enterprises has the right to terminate the lease on up to five restaurant properties per year by offering to purchase them under specified terms.

In addition, we entered into a separate agreement with Enterprises that, after December 31, 1997, allows Enterprises to purchase, under specified terms, up to seven restaurant properties deemed non-economic. In April 2001, we sold one restaurant to Enterprises, the lessee, under the non-economic clause of the restaurant master lease. We previously sold one restaurant in June 2000, and

three restaurants in June 1999, to Enterprises under this clause. Under the terms of this clause, the lessee may close up to two additional restaurants and buy them back for no less than net carrying value.

The lease requires Enterprises to pay monthly installments of minimum rent and quarterly payments calculated based on the percentage rent, subject to an annual calculation of the greater of minimum or percentage rent. We received the minimum rent in 2001, 2000, and 1999. We expect annual minimum rent will be approximately $4,021,000 in years 2002 through 2007.

Note 6. Income Taxes

We operate as, and elect to be taxed as, a REIT under the Internal Revenue Code. To qualify as a REIT, we must meet a number of organizational and operational requirements, including a requirement that we currently distribute at least 90% (95% in 2000 and 1999) of our adjusted taxable income to our common shareholders. We intend to adhere to these requirements and maintain the company's REIT status. As a REIT, we generally will not be subject to corporate level federal or state income tax on taxable income we distribute currently to our shareholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal and state income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on income and property, and to federal income and excise taxes on undistributed taxable income. In addition, taxable income from non-REIT activities managed through taxable REIT subsidiaries would be subject to federal, state and local income taxes.

The following table reconciles our income as reflected in our financial statements to REIT taxable income. Taxable income differs from income for financial statement purposes, primarily due to differences for tax purposes in the estimated useful lives and methods used to compute depreciation and the carrying value (basis) of the investment in properties. For federal and state income tax purposes, we reported real estate investments with a total cost basis of $235.8 million and accumulated depreciation of $53.1 million as of December 31, 2001.

	2001 Estimate	2000 Actual	
Income before extraordinary item and minority interest	$2,598,841	$2,577,523	$3
Less extraordinary item (including minority share)	(126,240)	-	
Less cumulative preferred dividend	(2,740)	-	
Income subject to income tax (including minority share)	2,469,861	2,577,523	3
Reconciling items:			
Add book depreciation	7,828,457	7,155,697	6
Less regular tax depreciation	(7,156,000)	(6,718,225)	(6
Add amortization of intangible related to acquisition of management operations	406,200	406,200	
Other book/tax differences, net	251,482	173,263	
Adjusted taxable income of the Operating			

Partnership (including minority share)	3,800,000	3,594,458	4
Less minority share of taxable income	(874,000)	(783,904)	
Taxable income subject to dividend requirement	$2,926,000	$2,810,554	$3
Minimum dividend required (90% in 2001, 95% in 2000 and 1999)	$2,633,400	$2,670,026	$3

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

	2001 Estimate	2000 Actual	
Cash dividends paid	$7,082,741	$7,076,618	$7
Less portion designated return of capital	(3,769,846)	(3,714,410)	(3
Dividends paid deduction	$3,312,895	$3,362,208	$3

We paid dividend distributions totaling $1.24 per share to common shareholders each year during 2001, 2000, and 1999. In early January following each year end, we must make an estimate of earnings and profits, and publish an allocation between ordinary dividend income and non-taxable return of capital to common shareholders. The allocation between ordinary dividend income and non-taxable return of capital to common shareholders was as follows:

	2001		2000		19
	$	%	$	%	$
Ordinary income	$0.58	46.8%	$0.62	49.9%	$0.62
Return of capital	0.66	53.2%	0.62	50.1%	0.62
	$1.24	100.0%	$1.24	100.0%	$1.24

Note 7. Related Party Transactions

Certain directors and officers of the company hold similar positions with

Enterprises and Boddie Investment Company. We purchased 47 restaurant properties from BNE Realty Partners, Limited Partnership (an affiliate of Enterprises) for $43.2 million in 1987. We derived approximately 11.2% of our revenue in 2001 from payment of rent from Enterprises for the use of our restaurant properties. In addition, Enterprises is responsible for all taxes, utilities, renovations, insurance and maintenance expenses relating to the operation of the restaurant properties.

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

In connection with the acquisition of BT Venture Corporation, we assumed a note payable to Enterprises in the amount of $6,100,000 and a note payable to Boddie Investment Company in the amount of $956,000. In May 1998, we issued 65,648 shares of our common stock to retire the note payable to Boddie Investment Company. In May 1999, we retired the note payable to Enterprises with a cash payment.

In September 1997, we signed an agreement to acquire a portfolio of seven apartment communities. We refer to these acquisitions as the "Chrysson acquisitions" and to the former owners as the "Chrysson Parties." Certain current directors of the company were shareholders and officers in the Chrysson Parties. We have issued 1,349,954 Operating Partnership units through December 31, 2000, in conjunction with acquisitions of six of the apartment communities. We will issue up to 139,000 units to acquire one remaining Chrysson apartment community when it has reached certain performance standards specified in the agreement.

In February 1997, we signed a participating loan agreement with The Villages of Chapel Hill Limited Partnership, a limited partnership whose general partner is Boddie Investment Company. We made a loan to The Villages of $2.5 million to fund a substantial rehabilitation of its apartment community and guaranteed a $1.5 million bank loan. In exchange, we receive minimum interest on our loan at the greater of 12.5% or the 30-day LIBOR rate plus 6.125% and an annual loan guarantee fee. We also receive 25% participation in increased rental revenue and 25% participation in the increase in value of the property. The Villages subsequently reduced the outstanding principal balance of its note payable to us to $100,000,

which has been outstanding since February 2000. In July 2001, we modified the participating loan agreement to establish a $950,000 "fixed portion" of our participation in the increase in value of the property and extend the period for our 25% participation in increased rental revenue and increase in value of the property to the earlier of July 2011 or sale or refinance of the property. Required payment of the fixed portion is subject to cash flow from The Villages property, as defined in the agreement. Interest on the outstanding fixed portion accrues at the greater of a prime rate or 8%, payable monthly.

We received interest and participation income of $85,000 in 2001, $103,000 in 2000, and $151,000 in 1999. In addition, we received guarantee fees of $37,500 in 2001, 2000, and 1999. We received $325,883 of the fixed portion in July 2001. At December 31, 2001, $25,681 of the fixed portion was currently due, received in January 2002. Because the collectibility of the remaining fixed portion is subject to cash flow and therefore uncertain, we have provided a reserve for collection of this receivable. At December 31, 2001, we have reflected the principal portion of notes receivable from The Villages of Chapel Hill Limited Partnership as follows:

Advances receivable, due February 2004	$100,000

Fixed portion of shared appreciation	598,436
Less reserve for collection of fixed portion	(598,436)
	$100,000

We have made loans totaling $180,000 to certain officers of the company. In addition, the company has guaranteed a note payable to a bank by one officer by agreeing to redeem up to 39,570 shares of our common stock at an imputed value of approximately $435,000 in the event of a default.

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

Note 8. Profit Sharing Plan

The employees of the company are participants in a profit sharing plan pursuant to Section 401 of the Internal Revenue Code. We make limited matching contributions based on the level of employee participation as defined in the plan. We made contributions to the plan totaling $68,000 in 2001, $48,000 in 2000, and $44,000 in 1999.

Note 9. Commitments and Contingencies

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

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

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

Note 10. Quarterly Financial Data (Unaudited)

We present below selected financial data (unaudited) for the years ended December 31, 2001 and 2000:

	Revenues	Income before Extraordinary Item Total	Per Share (1)	Ne
2001				
First quarter	$ 8,957,270	$ 470,159	$0.08	$
Second quarter	9,239,333	481,480	0.09	
Third quarter (2)	9,152,535	595,851	0.10	
Fourth quarter	8,912,635	454,497	0.08	
	$36,261,773	$2,001,987	$0.35	$1

2000				
First quarter	$ 8,480,489	$ 690,789	$0.12	$
Second quarter	8,456,528	379,653	0.07	
Third quarter	8,454,495	566,749	0.10	
Fourth quarter (3)	8,466,453	345,798	0.06	
	$33,857,965	$1,982,989	$0.35	$1

Note 11. Subsequent Events

The Board of Directors declared a regular quarterly dividend of $0.31 per share on January 18, 2002, payable on February 15, 2002, to shareholders of record on February 1, 2002. The Board of Directors also authorized the payment of dividends totaling $2,740 to Series B Preferred shareholders in accordance with the investment agreement for those shares.

During the first quarter of 2002, we refinanced long-term debt secured by deeds of trust and assignment of rents of Oakbrook Apartments, discussed in Note 3.

BNP RESIDENTIAL PROPERTIES, INC.

Schedule III - Real Estate and Accumulated Depreciation
Year ended December 31, 2001

Description	Encumb.	Initial Costs		Costs Capitalized Subsequent to Acquisition
		Land	Buildings & Improvem'ts	
Apartment Properties:				
North Carolina:				
Abbington Place, Greensboro	$15,785,250	$2,302,000	$23,598,676	$601,70
Allerton Place, Greensboro	10,270,000	1,384,000	14,650,428	226,57
Chason Ridge, Fayetteville	9,552,805	624,000	11,790,472	710,57
Harris Hill, Charlotte	5,790,554	1,003,298	7,867,857	924,98
Madison Hall, Clemmons	4,245,000	303,000	6,054,307	218,50
Oak Hollow, Cary	8,385,000	1,480,000	10,808,689	513,59
Oak Hollow - Phase 2, Cary	10,122,066	1,914,000	10,485,239	993,71
Oakbrook, Charlotte	6,094,398	848,835	8,523,384	899,77
Paces Commons, Charlotte	16,250,000	1,430,158	12,871,424	1,330,79
Paces Village, Greensboro	7,000,000	1,250,000	9,416,580	573,61
Pepperstone, Greensboro	3,883,750	552,000	5,015,153	334,06
Savannah Place, Winston-Salem	7,312,500	790,000	10,032,721	395,03
Summerlyn Place, Burlington	6,645,000	837,000	9,559,115	124,00
Waterford Place, Greensboro	11,089,000	1,686,000	16,745,972	262,81
Woods Edge, Durham	9,750,000	994,000	13,061,195	1,397,49
Computer and support equipment	123,158	-	-	719,26
	132,298,481	17,398,291	170,481,211	10,226,51

Virginia:				
Latitudes, Virginia Beach	12,031,741	3,360,000	18,606,667	1,521,26
Total Apartment Properties	144,330,222	20,758,291	189,087,878	11,747,77
Restaurant Properties:				
North Carolina:				
Bessemer City		152,079	391,060	
Burlington	(1)	162,411	417,629	
Denver	(1)	275,484	708,387	
Eden	(1)	253,282	651,296	
Fayetteville (Ramsey)	(1)	260,135	668,919	
Fayetteville (N.Eastern)	(1)	308,271	792,696	
Gastonia (E. Franklin)	(1)	230,421	592,511	
Hillsborough	(1)	290,868	747,948	

Description	Gross Amount at Which Carried at Close of Period (2)			
	Land	Buildings & Improvem'ts	Total	Accumulated Depreciation
Apartment Properties:				
North Carolina:				
Abbington Place, Greensboro	$2,302,000	$24,200,380	$26,502,380	$3,834,403
Allerton Place, Greensboro	1,384,000	14,877,003	16,261,003	1,735,724
Chason Ridge, Fayetteville	994,606	12,130,442	13,125,048	1,147,572
Harris Hill, Charlotte	1,003,298	8,792,846	9,796,144	1,897,495
Madison Hall, Clemmons	303,000	6,272,810	6,575,810	674,516
Oak Hollow, Cary	1,480,000	11,322,282	12,802,282	1,143,956
Oak Hollow - Phase 2, Cary	1,914,000	11,478,949	13,392,949	402,238
Oakbrook, Charlotte	848,835	9,421,498	10,270,333	2,028,437
Paces Commons, Charlotte	1,430,158	14,202,216	15,632,374	3,425,878
Paces Village, Greensboro	1,250,000	9,990,199	11,240,199	1,756,203
Pepperstone, Greensboro	552,000	5,349,222	5,901,222	800,394
Savannah Place, Winston-Salem	790,000	10,427,755	11,217,755	1,490,129
Summerlyn Place, Burlington	837,000	9,683,123	10,520,123	1,015,160
Waterford Place, Greensboro	1,686,000	17,008,784	18,694,784	2,661,940
Woods Edge, Durham	994,000	14,458,688	15,452,688	1,551,139
Computer and support equipment	-	719,260	719,260	353,980
	17,768,897	180,335,457	198,104,354	25,919,164
Virginia:				
Latitudes, Virginia Beach	3,360,000	20,125,116	23,485,116	4,454,886
Total Apartment Properties	21,128,897	200,460,573	221,589,470	30,374,050
Restaurant Properties:				
North Carolina:				
Bessemer City	-	-	-	-
Burlington	162,411	417,629	580,040	153,565
Denver	275,484	708,387	983,871	260,479
Eden	253,282	651,296	904,578	239,486
Fayetteville (Ramsey)	260,135	668,919	929,054	245,967
Fayetteville (N.Eastern)	308,271	792,696	1,100,967	291,480
Gastonia (E. Franklin)	230,421	592,511	822,932	217,870
Hillsborough	290,868	747,948	1,038,816	275,025

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Description	Encumb.	Initial Costs		Costs Capitalized Subsequent to Acquisition
		Land	Buildings & Improvem'ts	
Kinston (W. Vernon)	(1)	237,135	609,777	
Kinston (Richlands)	(1)	231,678	595,743	
Newton	(1)	223,453	574,594	
Siler City	(1)	268,312	689,945	
Spring Lake	(1)	218,925	562,949	
Thomasville (E. Main)	(1)	253,716	652,411	
Thomasville (Randolph)	(1)	327,727	842,726	
		3,693,897	9,498,591	
Virginia:				
Ashland	(1)	296,509	762,452	
Blackstone	(1)	275,565	708,596	
Bluefield	(1)	205,700	528,947	
Chester	(1)	300,165	771,852	
Clarksville	(1)	211,545	543,972	
Clintwood	(1)	222,673	572,588	
Dublin	(1)	364,065	936,168	
Franklin	(1)	287,867	740,230	
Galax	(1)	309,578	796,057	
Hopewell	(1)	263,939	678,701	
Lebanon	(1)	266,340	684,876	
Lynchburg (Langhorne)	(1)	249,865	642,509	
Lynchburg (Timberlake)	(1)	276,153	710,107	
Norfolk	(1)	325,822	837,829	
Orange	(1)	244,883	629,699	
Petersburg	(1)	357,984	920,531	
Richmond (Forest Hill)	(1)	196,084	504,216	
Richmond (Midlothian)	(1)	270,736	696,179	
Richmond (Myers)	(1)	321,946	827,861	
Roanoke (Hollins)	(1)	257,863	663,076	
Roanoke (Abenham)	(1)	235,864	606,507	
Rocky Mount	(1)	248,434	638,829	
Smithfield	(1)	223,070	573,608	
Staunton	(1)	260,569	670,035	
Verona	(1)	191,631	492,765	

Description	Gross Amount at Which Carried at Close of Period (2)			
	Land	Buildings & Improvem't's	Total	Accumulated Depreciation

Kinston (W. Vernon)	237,135	609,777	846,912	224,21
Kinston (Richlands)	231,678	595,743	827,421	219,05
Newton	223,453	574,594	798,047	211,28
Siler City	268,312	689,945	958,257	253,69
Spring Lake	218,925	562,949	781,874	207,00
Thomasville (E. Main)	253,716	652,411	906,127	239,89
Thomasville (Randolph)	327,727	842,726	1,170,453	309,87
	3,541,818	9,107,531	12,649,349	3,348,90
Virginia:				
Ashland	296,509	762,452	1,058,961	280,36
Blackstone	275,565	708,596	984,161	260,55
Bluefield	205,700	528,947	734,647	194,49
Chester	300,165	771,852	1,072,017	283,81
Clarksville	211,545	543,972	755,517	200,02
Clintwood	222,673	572,588	795,261	210,54
Dublin	364,065	936,168	1,300,233	344,23
Franklin	287,867	740,230	1,028,097	272,18
Galax	309,578	796,057	1,105,635	292,71
Hopewell	263,939	678,701	942,640	249,56
Lebanon	266,340	684,876	951,216	251,83
Lynchburg (Langhorne)	249,865	642,509	892,374	236,25
Lynchburg (Timberlake)	276,153	710,107	986,260	261,11
Norfolk	325,822	837,829	1,163,651	308,07
Orange	244,883	629,699	874,582	231,54
Petersburg	357,984	920,531	1,278,515	338,48
Richmond (Forest Hill)	196,084	504,216	700,300	185,40
Richmond (Midlothian)	270,736	696,179	966,915	255,98
Richmond (Myers)	321,946	827,861	1,149,807	304,41
Roanoke (Hollins)	257,863	663,076	920,939	243,81
Roanoke (Abenham)	235,864	606,507	842,371	223,01
Rocky Mount	248,434	638,829	887,263	234,90
Smithfield	223,070	573,608	796,678	210,92
Staunton	260,569	670,035	930,604	246,37
Verona	191,631	492,765	684,396	181,19

Description	Encumb.	Initial Costs		Costs Capitalized Subsequent to Acquisition
		Land	Buildings & Improvem'ts	
Virginia Beach (Lynnhaven)	(1)	271,570	698,322	
Virginia Beach (Holland)	(1)	277,943	714,710	
Wise	(1)	219,471	564,355	
		7,433,834	19,115,577	
Total Restaurant Properties	18,000,000	11,127,731	28,614,168	
Total Real Estate	$162,330,222	$31,886,022	$217,702,046	$11,747,77

Description	Gross Amount at Which Carried at Close of Period (2)			
	Land	Buildings & Improvem'ts	Total	Accumulated Depreciation
Virginia Beach (Lynnhaven)	231,731	698,322	930,053	256,778
Virginia Beach (Holland)	277,943	714,710	992,653	262,804
Wise	219,471	564,355	783,826	207,515
	7,393,995	19,115,577	26,509,572	7,028,936
Total Restaurant Properties	10,935,813	28,223,108	39,158,921	10,377,840
Total Real Estate	$32,064,710	$228,683,681	$260,748,391	$40,751,890

BNP RESIDENTIAL PROPERTIES, INC.

Schedule III - Real Estate and Accumulated Depreciation

	2001	2000
Real estate investments:		
Balance at beginning of year	$ 257,520,268	$ 243,910,146
Additions during year		
Acquisitions by merger	-	-
Other acquisitions	370,605	12,399,239
Effect of consolidation (1)	593,833	-
Improvements, etc.	2,809,344	2,121,154
Deductions during year	(545,659)	(910,271)
Balance at close of year	$ 260,748,391	$ 257,520,268
Accumulated depreciation:		
Balance at beginning of year	$ 25,926,208	$ 19,552,177
Effect of consolidation (1)	248,026	
Provision for depreciation	7,828,457	7,155,697
Deductions during year	(139,798)	(266,700)
Balance at close of year	$ 40,751,890	$ 32,815,205

INDEX TO EXHIBITS

Exhibit No.	
2.1*	Master Agreement of Merger and Acquisition by and among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, Paul G. Chrysson, James G. Chrysson, W. Michael Gilley, Matthew G. Gallins, James D. Yopp, and the partnership and limited liability companies listed therein, dated September 22, 1997 (filed as Exhibit 2.1 to Registration Statement No. 333-39803 on Form S-2, December 16, 1997, and incorporated herein by reference)
2.2*	Amendment to Master Agreement of Merger and Acquisition dated September 22, 1997, b and among BNP Residential Properties, Inc., BNP Residential Properties Limited Partnership, Paul G. Chrysson, James G. Chrysson, W. Michael Gilley, Matthew G. Gallins, James D. Yopp, and the partnerships and limited liability companies listed therein, dated November 3, 1997 (filed as Exhibit 2.3 to BNP Residential Properties Inc. Current Report on Form 8-K dated December 1, 1997, and incorporated herein by reference)
3.1*	Articles of Incorporation (filed as Exhibit 3.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated March 17, 1999, and incorporated herein by reference)
3.2*	Articles Supplementary, Classifying and Designating 909,090 Shares of Series B Cumulative Convertible Preferred Stock, dated December 28, 2001 (filed as Exhibit 3.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
3.3*	Amended and Restated By-Laws (filed as Exhibit 3.2 to BNP Residential Properties, Inc., Current Report on Form 8-K dated December 28, 2001, and incorporated herein b reference)
4.1*	Rights Agreement, dated March 18, 1999, between the Company and First Union Nationa Bank (filed as Exhibit 4 to BNP Residential Properties, Inc. Current Report on Form 8-K dated March 17, 1999, and incorporated herein by reference)
4.2*	Registration Rights Agreement By and Among BNP Residential Properties, Inc. and Preferred Investment I, LLC, dated December 28, 2001 (filed as Exhibit 4 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, an incorporated herein by reference)
10.1*	Amended and Restated Agreement of Limited Partnership of BNP Residential Properties Limited Partnership (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Annual Report on Form 10-K dated December 31, 1998, and incorporated herein by reference)
10.2*	Amendment to Second Amended and Restated Agreement of Limited Partnership of BNP Residential Properties Limited Partnership, dated December 28, 2001 (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
10.3*	Investment Agreement By and Between BNP Residential Properties, Inc. and Preferred Investment I, LLC, dated December 28, 2001 (filed as Exhibit 10.2 to BNP Residentia Properties, Inc. Current Report on Form 8-K dated December 28, 2001, and incorporated herein by reference)
10.4*	Amended and Restated Master Lease Agreement dated December 21, 1995, between BNP Residential Properties, Inc. and Boddie-Noell Enterprises, Inc. (filed as Exhibit 10.1 to BNP Residential Properties, Inc. Annual Report on Form 10-K dated December 31, 1995, and incorporated herein by reference)
10.5*	BNP Residential Properties, Inc. 1994 Stock Option and Incentive Plan effective

August 4, 1994, and amended effective May 15, 1998 (filed as an exhibit in Schedule 14A of Proxy Statement dated April 13, 1998, and incorporated herein by reference)

10.6*	Form and description of Employment Agreements dated July 15, 1997, between BNP Residential Properties, Inc. and certain officers (filed as Exhibit 10 to BNP Residential Properties, Inc. Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, and incorporated herein by reference)
21	Subsidiaries of the Registrant
23	Consent of Ernst & Young LLP

* Incorporated herein by reference