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BRE PROPERTIES INC /MD/
Form 10-Q
November 09, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2001 OR

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

Commission file number 0-5305

BRE PROPERTIES, INC.

(Exact name of registrant as specified in its charter)

Maryland

94-1722214

(State or other jurisdiction of
incorporation or organization)

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

44 Montgomery Street
36/th/ Floor
San Francisco, CA

94104-4809

(Address of principal office)

(Zip Code)

(415) 445-6530

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last
report)

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

Number of shares of common stock
outstanding as of October 26, 2001

45,607,595

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BRE PROPERTIES, INC.

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PART I FINANCIAL INFORMATION

ITEM 1 - Financial Statements

BRE Properties, Inc.

Consolidated Balance Sheets (unaudited)

(Dollar amounts in thousands, except per share data)

September 30,
2001

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Assets

Real estate portfolio:

Direct investments in real estate:

Investments in rental properties	\$ 1,703,884
Construction in progress	66,809
Less: accumulated depreciation	(148,902)

	1,621,791

Equity interests in and advances to real estate joint ventures:

Investments in rental properties	30,189
Construction in progress	44,457

	74,646

Land under development	25,310

Total real estate portfolio	1,721,747
-----------------------------	-----------

Cash	3,671
Other assets	52,905

Total assets	\$ 1,778,323
	=====

Liabilities and Shareholders' Equity

Liabilities

Unsecured senior notes	\$ 483,000
Mortgage loans	211,243
Unsecured line of credit	194,000
Accounts payable and accrued expenses	29,758

Total liabilities	918,001

Minority interest	59,190

Shareholders' equity

Preferred stock; \$.01 par value; 10,000,000 shares authorized, liquidation preference \$25 per share. Issued and outstanding:	
2,150,000 8 1/2% Series A cumulative redeemable shares.	53,750
Common stock; \$.01 par value; 100,000,000 shares authorized.	
Shares issued and outstanding: 46,279,096 at September 30, 2001 and 45,895,281 at December 31, 2000.	463
Additional paid-in capital	705,346
Accumulated net income in excess of cumulative dividends	44,110
Stock purchase loans to executives	(2,537)

Total shareholders' equity	801,132

Total liabilities and shareholders' equity	\$ 1,778,323
	=====

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See notes to consolidated financial statements

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Consolidated Statements of Operations (unaudited)

(Amounts in thousands, except per share data)

	For the Three Months Ended September 30,	
	2001	
Revenues		
Rental income	\$ 61,926	\$
Partnership and ancillary income	4,267	
Other income	595	
Total revenues	66,788	
Expenses		
Real estate	17,867	
Depreciation	10,426	
Interest	12,000	
General and administrative	2,212	
Losses from Internet business	-	
Total expenses	42,505	
Income before net gain (loss) on sales of investments in rental properties, minority interest and dividends attributable to preferred stock	24,283	
Net gain (loss) on sales of investments in rental properties	(327)	
Minority interest	(1,048)	
Net income (loss)	\$ 22,908	
Dividends attributable to preferred stock	1,142	
Net income (loss) available to common shareholders	\$ 21,766	
Net income (loss) per outstanding common share:		
Income before net gain (loss) on sales of investments in rental properties less minority interest	\$ 0.48	\$
Net gain (loss) on sales of investments in rental properties	(0.01)	
Net income (loss) per share - basic	\$ 0.47	
Income before net gain on sales of investments in rental properties and minority interest	\$ 0.47	\$
Net gain (loss) on sales of investments in rental properties	(0.01)	
Net income (loss) per share - assuming dilution	\$ 0.46	

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	=====	=====
Weighted average common shares outstanding - basic	46,470	
	=====	=====
Weighted average common shares outstanding - assuming dilution	48,810	
	=====	=====
Dividends declared and paid per common share	\$ 0.465	\$
	=====	=====

See notes to consolidated financial statements

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Consolidated Statements of Operations (unaudited)

(Amounts in thousands, except per share data)

	For the Nine Months End September 30,	
	2001	2000
	-----	-----
Revenues		
Rental income	\$ 182,883	\$ 17
Partnership and ancillary income	11,898	
Other income	3,590	
	-----	-----
Total revenues	198,371	19
	-----	-----
Expenses		
Real estate	52,808	5
Depreciation	29,585	2
Interest	36,207	3
General and administrative	7,127	
Losses from Internet business	7,163	
	-----	-----
Total expenses	132,890	12
	-----	-----
Income before net gain (loss) on sales of investments in rental properties, minority interest and dividends attributable to preferred stock	65,481	6
Net gain (loss) on sales of investments in rental properties	(327)	(3)
Minority interest	(3,143)	(
	-----	-----
Net income	62,011	2
Dividends attributable to preferred stock	3,426	
	-----	-----
Net income available to common shareholders	\$ 58,585	\$ 2
	=====	=====

Net income per outstanding common share:

Income before net gain (loss) on sales of investments in rental

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properties less minority interest	\$ 1.27	\$
Net gain (loss) on sales of investments in rental properties	(\$0.01)	(
	-----	-----
Net income per share - basic	\$ 1.26	\$
	=====	=====
Income before net gain (loss) on sales of investments in rental properties and minority interest	\$ 1.27	\$
Net gain (loss) on sales of investments in rental properties	(\$0.01)	(
	-----	-----
Net income per share - assuming dilution	\$ 1.26	\$
	=====	=====
Weighted average common shares outstanding - basic	46,360	4
	=====	=====
Weighted average common shares outstanding - assuming dilution	48,720	4
	=====	=====
Dividends declared and paid per common share	\$ 1.40	\$
	=====	=====

See notes to consolidated financial statements

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Consolidated Statements of Cash Flows (unaudited)

(Dollar amounts in thousands)

	For the Nine Septemb

	2001

Cash flows from operating activities:	
Net income	\$ 62,011
Adjustments to reconcile net income to net cash flows generated by operating activities:	
Depreciation	29,585
Minority interest	3,143
Losses from Internet business	7,163
Net loss on sales of investments in rental properties	327
Increase in other assets	(3,187)
Increase in accounts payable and accrued expenses	5,536

Net cash flows generated by operating activities	104,578

Cash flows from investing activities:	
Multifamily properties purchased	(21,628)
Proceeds from sales of investments in rental property, net	20,535
Rehabilitation and other expenditures	(15,285)
Capital expenditures	(3,683)
Additions to direct investment construction in progress	(43,764)
Advances to joint ventures-construction in progress	(37,056)
Reimbursements of construction in progress from joint ventures	30,221
Additions to land under development	(7,553)
Investment in other joint ventures	(2,386)

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Distributions from joint ventures, net	1,003
Investment in and advances to Internet business	(1,719)

Net cash flows (used in) generated by investing activities	(81,315)

Cash flows from financing activities:	
Issuance of unsecured senior notes, net	246,586
Principal payments on unsecured senior notes and mortgage loans	(20,551)
Proceeds from new mortgage loans	7,541
Line of credit:	
Advances	214,000
Repayments	(388,000)
Renewal fees	(3,770)
Dividends paid	(68,376)
Repurchase of common shares	(8,873)
Proceeds from exercises of stock options, net	4,805
Distributions to minority members	(3,216)
Contributions from minority members	-

Net cash flows used in financing activities	(19,854)

Increase (decrease) in cash	3,409
Balance at beginning of period	262

Balance at end of period	\$ 3,671
	=====

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Consolidated Statements of Cash Flows (unaudited) (continued)

(Dollar amounts in thousands)

	For the Nine Months September 30	
	2001	
	-----	-----
Supplemental disclosure of non cash activity:		
Transfers of direct investments in real estate-construction in progress to investment in rental properties	\$ 40,405	\$
	=====	==
Transfers of land under development to direct investment in real estate-construction in progress	\$ 5,489	\$
	=====	==
Transfers of land under development to investment in real estate joint ventures-construction in progress	\$ 6,898	\$
	=====	==
Transfers of real estate joint ventures-construction in progress to investments in rental properties	\$ 3,715	\$
	=====	==
Minority interest unit conversions to common shares	\$ 10,449	\$
	=====	==
Distribution of 87% of Internet business to shareholders	\$ --	\$
	=====	==

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See notes to consolidated financial statements

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

September 30, 2001

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with instructions to Form 10-Q. Accordingly, certain information and footnote disclosures normally included in consolidated financial statements have been omitted. These consolidated financial statements should be read in conjunction with the Annual Report of BRE Properties, Inc. (the "Company" or "BRE") on Form 10-K for the year ended December 31, 2000. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring adjustments only) necessary for a fair presentation of the Company's consolidated financial statements for the interim periods presented.

Certain reclassifications have been made from the prior period's presentation to conform to the current period's presentation.

NOTE B - REPORTABLE SEGMENTS

BRE has determined that it has one operating and reportable segment, multifamily communities, which comprised approximately 97% of BRE's assets and 99% of BRE's revenues for the three months ended September 30, 2001. All multifamily communities owned by the Company are located in the Western United States, in three general markets that it defines as Coastal, Desert and Mountain states.

BRE's business focus is the ownership and operation of multifamily communities and it evaluates performance and allocates resources primarily based on the net operating income ("NOI") of each individual multifamily community. NOI is defined by the Company (and generally by the real estate industry) as the excess of all revenue generated by the community (primarily rental revenue) less direct operating expenses (primarily, but not limited to, payroll, property taxes, insurance and maintenance expense). Accordingly, NOI excludes depreciation, capitalized expenditures and interest expense. NOI from multifamily communities totaled \$48,326,000 and \$45,008,000 for the three months ended September 30, 2001 and 2000, respectively.

All BRE revenues are from external customers. There are no tenants that contributed 10% or more of BRE's total consolidated revenues in the three months ended September 30, 2001 or 2000. Interest income is not separately reported, as it is immaterial. Interest expense on debt is not allocated to individual properties, even if such debt is secured. Further, minority interest in consolidated subsidiaries is not allocated to the related properties. There is no provision for income tax as the Company is organized as a real estate investment trust under the Internal Revenue Code of 1986, as amended.

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NOTE C - COMMITMENTS AND CONTINGENCIES

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BRE agreed to provide VelocityHSI, Inc. ("VelocityHSI") with up to \$10,000,000 to be used for general corporate purposes through September 30, 2001. BRE also agreed to provide VelocityHSI with funds through September 30, 2001 to finance the installation of equipment at properties owned by BRE. Installation of equipment at the Company's apartment communities was suspended during the fourth quarter of 2000 pending VelocityHSI's development of a new operating and capital plan, and assessment of strategic alternatives. During the quarter ended September 30, 2001, VelocityHSI filed for bankruptcy protection. Under the terms of BRE's funding arrangements with VelocityHSI, VelocityHSI was to repay advances on or before September 30, 2001, together with interest on periodic unpaid balances at a rate of 9% per year. Balances under these two agreements were approximately \$7,500,000 and \$1,200,000, respectively, at September 30, 2001, which had been written down to zero. BRE's investment in VelocityHSI was recorded under the equity method of accounting, with losses being recorded on a 90-day lag basis. BRE was required to record 100% of VelocityHSI's losses to the extent of its investment and advances until VelocityHSI secured an independent source of financing or BRE's investment was reduced to zero. As of June 30, 2001, BRE's investment, including advances, in VelocityHSI had been reduced to zero under the equity method of accounting. BRE reduced the funds available to VelocityHSI for general corporate purposes by \$2,400,000, to reserve against potential BRE liabilities related to VelocityHSI. BRE provided for the \$2,400,000 reserve as part of its \$2,855,000 charge in the second quarter. No losses related to VelocityHSI were recorded in the quarter ended September 30, 2001. The \$3,076,000 loss for the nine months ended September 30, 2000 relates to losses incurred prior to the spinoff.

BRE is defending various claims and legal actions. While it is not feasible to predict or determine the ultimate outcome of these matters, in the opinion of management, none of these actions will have a material adverse effect on BRE's consolidated results of operations or financial position.

NOTE D - SUBSEQUENT EVENT

During the third quarter of 2001, BRE's board of directors authorized the purchase of BRE's common stock in an amount up to \$60 million. The timing of repurchase activity is dependent upon the market price of BRE's shares, and other market conditions and factors. As of October 26, 2001, BRE has repurchased a total of \$28,946,000 million of common stock representing 1,003,000 shares, at an average purchase price of \$28.86 per share.

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ITEM 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations

September 30, 2001

Overview

BRE Properties, Inc. is a self-administered equity real estate investment trust or "REIT" focused on the acquisition, development, and management of multifamily apartment communities in nine metropolitan markets of the Western United States. At September 30, 2001, our portfolio had real estate assets with a book value of approximately \$1.7 billion that included 71 wholly or majority-owned apartment communities, aggregating 19,959 units; 3 apartment communities that we manage and own in partnerships or other joint venture arrangements, comprised of 780 apartment units; and 10 apartment communities in various stages of construction and development totaling 2,339 units.

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In addition to historical information, we have made forward-looking statements in this report on Form 10-Q. These forward-looking statements pertain to, among other things, our capital resources, portfolio performance and results of operations. Forward-looking statements involve numerous risks and uncertainties. You should not rely on these statements as predictions of future events because there is no assurance that the events or circumstances reflected in the statements can be achieved or will occur. Forward-looking statements are identified by words such as "believes," "expects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "pro forma," "estimates," or "anticipates" or in their negative form or other variations, or by discussions of strategy, plans or intentions. Forward-looking statements are based on assumptions, data or methods that may be incorrect or imprecise or incapable of being realized. The following factors, among others, could affect actual results and future events: defaults or non-renewal of leases, increased interest rates and operating costs, failure to obtain necessary outside financing, difficulties in identifying properties to acquire and in effecting acquisitions, failure to successfully integrate acquired properties and operations, risks and uncertainties affecting property development and construction (including construction delays, cost overruns, inability to obtain necessary permits and public opposition to such activities), failure to qualify as a real estate investment trust under the Internal Revenue Code as of 1986, as amended, environmental uncertainties, risks related to natural disasters, financial market fluctuations, changes in real estate and zoning laws and increases in real property tax rates. Our success also depends upon economic trends, including interest rates, income tax laws, governmental regulation, legislation, population changes and other factors. Do not rely solely on forward-looking statements, which only reflect management's analysis. We assume no obligation to update forward-looking statements.

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Liquidity and Capital Resources

At September 30, 2001, BRE's net real estate investments totaled approximately \$1,722,000,000, which included 71 wholly or majority-owned apartment communities, three apartment communities that we manage and own in partnerships or other joint venture arrangements, and 10 apartment communities under various stages of construction and development.

Depending upon the availability and cost of external capital, BRE anticipates making additional investments in apartment communities. New investments are funded from temporary borrowings under our revolving line of credit, internally generated cash and the proceeds derived from asset sales. Permanent financing for future investments, which replaces funds drawn under the revolving line of credit, is expected to be provided through a combination of public and private offerings of debt and equity securities and the assumption of secured debt. BRE believes its liquidity and various sources of available capital are sufficient to fund operations, meet debt service and dividend requirements, and finance future investments.

In December 2000, we amended and restated our unsecured line of credit, which was scheduled to mature in August 2001. The new unsecured credit facility funded on January 12, 2001, matures in December 2003, and expands the credit capacity to \$450,000,000, with an option to expand the credit facility to \$500,000,000. Borrowings under the line of credit bear interest at LIBOR plus 0.70% plus a fee of 0.20% payable on the unused portion of the credit facility.

Borrowings under our line of credit totaled \$194,000,000 at September 30, 2001, compared to \$368,000,000 at December 31, 2000. Drawings on the line of credit are available to fund our investment activities and general corporate purposes.

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BRE typically reduces its outstanding balance on the line of credit with available cash balances.

On January 12, 2001, we issued \$250,000,000 of 10-year senior unsecured notes, under our shelf registration, at a 7.45% coupon to yield 7.5%. The net proceeds from the sale of notes were used to repay a portion of the borrowings under our existing credit facility.

At September 30, 2001, senior unsecured indebtedness totaled \$483,000,000, consisting of the following: (i) \$53,000,000 of unsecured senior notes with an interest rate of 7.44% per annum on \$35,000,000 and 7.88% per annum on \$18,000,000, to be repaid through scheduled principal payments annually from 2002 to 2005; (ii) \$50,000,000 principal amount of unsecured senior notes due 2007, with an effective interest rate of approximately 7.8%, (iii) \$130,000,000 principal amount of unsecured notes due 2013, with an effective interest rate of 7.3%, and (iv) \$250,000,000 principal amount of unsecured notes due 2011, with a 7.45% coupon rate to yield 7.5%. In addition, at September 30, 2001, BRE had mortgage indebtedness totaling \$211,243,000 at interest rates ranging from 4.4% to 9.3%, with remaining terms of less than one to 16 years.

As of September 30, 2001, BRE had total outstanding debt balances of approximately \$888,000,000 and total outstanding shareholders' equity and minority interest of approximately \$860,000,000, representing a debt to total book capitalization ratio of 51%.

Our indebtedness contains financial covenants as to minimum net worth, interest coverage ratios, maximum secured debt and total debt to capital, among others. BRE was in compliance with all such financial covenants during the quarter ended September 30, 2001.

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BRE anticipates that it will continue to require outside sources of financing to meet its long-term liquidity needs beyond 2001, such as scheduled debt repayments, construction funding and property acquisitions. At September 30, 2001, BRE had an estimated cost of \$119,400,000 to complete existing direct investment and joint venture construction in progress and land under development, with funding estimated from 2001 through 2003. A portion of the land under development may be contributed to joint ventures, which may lower BRE's required funding.

During the third quarter 2001, BRE updated its shelf registration statement. BRE now has an effective shelf registration on file with the Securities and Exchange Commission under which we may issue up to \$700,000,000 of securities including debt, convertible debt, common and preferred stock. Depending upon market conditions, we may issue securities under such shelf registration to invest in additional multifamily communities and to repay borrowings under our line of credit.

BRE continues to consider other sources of possible funding, including further joint ventures and additional secured construction debt. BRE owns unencumbered real estate assets that could be sold, contributed to joint ventures or used as collateral for financing purposes (subject to certain lender restrictions) and has encumbered assets with significant equity that could be further encumbered should other sources of capital not be available.

During the third quarter of 2001, BRE's board of directors authorized the purchase of BRE's common stock in an amount up to \$60 million. The timing of repurchase activity is dependent upon the market price of BRE's shares, and other market conditions and factors. As of September 30, 2001 BRE had repurchased a total of \$8.9 million of common stock representing 312,400 shares,

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at an average purchase price of \$28.36 per share.

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Results of Operations

Comparison of the Quarters Ended September 30, 2001 and 2000

Revenues

Total revenues were \$66,788,000 for the three months ended September 30, 2001, compared to \$64,613,000 for the same period in 2000. This increase was primarily due to increases in average monthly rental rates from "same-store" properties as compared with the same period in 2000. We define same-store properties as stabilized apartment communities owned by the company for at least five full quarters. Of the 19,959 apartment units owned by BRE, same-store units totaled 17,974 for the quarter ended September 30, 2001. Multifamily rental revenues from same-store communities increased \$2,986,000, or 6%, for the three months ended September 30, 2001 compared to the same period in 2000. The increase in same-store revenues was due primarily to an increase in average monthly rental rates, which was offset by a reduction in average occupancy in certain markets. Most notably, in the San Francisco Bay Area, which represents approximately 30% of our NOI, average occupancy for the quarter dropped from 98% in third quarter 2000 to 93% for the same quarter 2001.

Same-store revenue growth for the quarter ended September 30, 2001 as compared to the quarter ended September 30, 2000 was offset by a decrease of \$338,000 in non same-store and partnership income, due to our continued efforts to reinvest proceeds received from a strategic portfolio sale that occurred in the third quarter 2000. Over the past 12 months, we have sold 22 apartment communities in our Desert markets for \$280 million. As of September 30 2001, we have only reinvested approximately \$162 million of the proceeds derived from the sale in our targeted markets. As a result, non-same store and partnership income has decreased 3% as compared with the prior period in 2000, which included revenues from the communities sold. Additionally, non-recurring development fees recorded as other income have decreased below the prior year due to the stage of completion of our joint venture development pipeline.

A summary of the components of revenue for the quarters ended September 30, 2001 and 2000 follows (dollars in thousands):

	Three months ended September 30, 2001		Three months ended September 30, 2000	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
Same-store	\$56,859	85%	\$53,873	83%
Non same-store and partnership income	9,334	14%	9,672	15%
Other income	595	1%	1,068	2%
Total revenue	\$66,788	100%	\$64,613	100%

Multifamily communities' average physical occupancy rates for the quarter ended September 30, 2001 and 2000 were as follows:

	2001
Multifamily: Same-store	95%
Multifamily: All	95%

Portfolio occupancy is calculated by dividing the total occupied units by the total units in the portfolio. Apartment units are generally leased to residents for rental terms that do not exceed one year.

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Expenses

Real Estate Expenses

Real estate expenses for multifamily properties for the quarter ended September 30, 2001 decreased 4% to \$17,867,000 from \$18,537,000 in the comparable period in 2000. Same-store expenses increased only 1%, while non same-store expenses decreased 26%. The third quarter 2000 non same-store number includes expenses from the 22 communities we sold in the past twelve months, while the third quarter 2001 non same-store number includes expenses from the 10 communities we have acquired or developed in the past 12 months.

A summary of the categories of real estate expenses for the quarters ended September 30, 2001 and 2000 follows (dollars in thousands):

	Three months ended September 30, 2001		Three months ended September 30, 2000	
	Expense	% of Total Revenue	Expense	% of Total Revenue
Same-store	\$15,410		\$15,204	
Non same-store	2,457		3,333	
Total real estate expense	\$17,867	26.8%	\$18,537	28.7%

Depreciation Expense

Depreciation expense increased by \$545,000 to \$10,426,000 for the quarter ended September 30, 2001 from the comparable period in 2000. The increase in 2001 resulted primarily from an increased depreciable basis on newly developed and acquired properties.

Interest Expense

Interest expense was \$12,000,000 (net of interest capitalized to the cost of apartment communities under development of \$3,473,000) for the quarter ended September 30, 2001, an increase of \$846,000 or 8% from the comparable period in 2000. Interest expense was \$11,154,000 for the same period in 2000 and was net of \$3,755,000 of interest capitalized to the cost of apartment communities under

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construction. The increase in interest expense was due to higher fixed rate debt balances in 2001 and a slightly lower level of capitalized interest. The proceeds from our portfolio sale in 2000 were used in the short term to pay down variable rate debt.

General and Administrative

General and administrative costs were \$2,212,000 or approximately 3.3% of total revenues for the third quarter in 2001 and \$2,042,000 or approximately 3.2% of total revenues, for the third quarter in 2000. The slight increase in general and administrative costs as a percentage of total revenues is primarily the result of the additions of new positions in senior management and increased office rent.

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Net Gain (Loss) on Sales of Investments in Rental Properties

During the third quarter 2001, BRE sold two Tucson communities with 445 units for an aggregate sales price of \$11,000,000, pursuant to an agreement with G&I III Residential One, LLC, an affiliate of DRA Advisors, Inc. The Tucson sale completes a \$280,000,000 portfolio sale of apartment communities we initiated in the third quarter of 2000. In addition, BRE sold its minority interest in a nonmultifamily asset for \$1,115,000. The transactions resulted in an aggregate net loss of \$327,000.

Minority Interest

Minority interest was \$1,048,000 and \$1,220,000 for the quarters ended September 30, 2001 and 2000, respectively. The decrease in the third quarter of 2001 is due to lower distributions paid to BRE Property Investors LLC operating company unit holders as several members of the limited liability company exchanged their operating company units for shares of BRE common stock over the past 12 months.

Dividends Attributable to Preferred Stock

Dividends attributable to preferred stock represent the dividends on BRE's 8 1/2% Series A Cumulative Redeemable Preferred Stock.

Net Income Available to Common Shareholders

As a result of the various factors mentioned above, net income available to common shareholders for the three months ended September 30, 2001, was \$21,766,000, or \$0.46 per diluted share, as compared with a net loss of (\$13,332,000), or (\$0.29) per diluted share, for the comparable period in 2000.

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Results of Operations

Comparison of the Nine Months Ended September 30, 2001 and 2000

Revenues

Total revenues were \$198,371,000 for the nine months ended September 30, 2001 compared to \$191,652,000 for the same period in 2000. This increase was primarily due to increases in average monthly rental rates from "same-store" properties as compared with the same period in 2000. We define same-store properties as stabilized apartment communities owned by the company for at least seven full quarters. Of the 19,959 apartment units owned by BRE, same-store

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units totaled 17,782 for the nine months ended September 30, 2001. Multifamily rental revenues from same-store communities increased \$11,891,000, or 8%, for the nine months ended September 30, 2001 compared to the same period in 2000. This increase in same-store revenues was due primarily to an average increase in monthly rental rates.

Same-store revenue growth for the nine months ended September 30, 2001 as compared to the nine months ended September 30, 2000 was offset by a decrease of \$4,849,000 in non same-store and partnership income, due to our continued efforts to reinvest proceeds received from a strategic portfolio sale that occurred in the third quarter 2000. Over the past 12 months, we have sold 22 apartment communities in our Desert markets for \$280 million. To date, we have only reinvested approximately \$162 million of the proceeds derived from the sale in our targeted markets. As a result, non same-store and partnership income has decreased 15% as compared with the prior period in 2000, which included revenues from the communities sold.

A summary of the components of revenue for the nine months ended September 30, 2001 and 2000 follows (dollars in thousands):

	Nine months ended September 30, 2001		Nine months ended September 30, 2000	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
Same-store	\$166,635	84%	\$154,744	
Non same-store and partnership income	28,146	14%	32,995	
Other income	3,590	2%	3,913	
Total revenue	\$198,371	100%	\$191,652	100%

Expenses

Real Estate Expenses

Real estate expenses for multifamily properties for the nine months ended September 30, 2001 decreased 4% to \$52,808,000 from \$55,155,000 in the comparable period in 2000. Same-store expenses increased by only 3%, while non same-store expenses decreased 32%. The nine months ended September 30, 2000 non same-store number includes expenses from the 22 communities we sold in the past twelve months, while the nine months ended September 30, 2001 number includes expenses from the 11 communities we acquired or developed after January 1, 2000.

A summary of the categories of real estate expenses for the nine months ended September 30, 2001 and 2000 follows (dollars in thousands):

	Nine months ended September 30, 2001	Nine months ended September 30, 2000
	-----	-----

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	Expense	% of Total Revenue	Expense	% of Total Revenue
	-----	-----	-----	-----
Same-store	\$ 45,022		\$ 43,654	
Non same-store	7,786		11,501	
	-----		-----	
Total real estate expense	\$ 52,808	26.6%	\$ 55,155	28.8 %
	=====		=====	

Depreciation Expense

Depreciation expense increased by \$1,044,000 to \$29,585,000 for the nine months ended September 30, 2001 from the comparable period in 2000. The increase in 2001 resulted primarily from an increased depreciable basis on newly developed and acquired properties.

Interest Expense

Interest expense was \$36,207,000 (net of interest capitalized to the cost of apartment communities under development of \$10,271,000) for the nine months ended September 30, 2001, an increase of \$1,325,000 or 4% from the comparable period in 2000. Interest expense was \$34,882,000 for the same period in 2000 and was net of \$11,885,000 of interest capitalized to the cost of apartment communities under construction. The change in interest expense was due to a greater level of fixed rate debt and a reduced level of capitalized interest during 2001.

General and Administrative

General and administrative costs were \$7,127,000 or approximately 3.6% of total revenues for the nine months ended September 30, 2001 and \$5,999,000 or approximately 3.1% of total revenues, for the nine months ended September 30, 2000. The increase in general and administrative costs as a percentage of total revenues is primarily the result of the additions of new positions in senior management and increased office rent.

Losses from Internet business

Losses from Internet business total \$7,163,000 during the first nine months of 2001 and represent the net losses of VelocityHSI, Inc., our non real-estate investment, which was spun off on August 15, 2000, including a \$2,400,000 provision for potential future losses related to VelocityHSI. Subsequent to the spin-off, VelocityHSI was recorded under the equity method of accounting, with losses being recorded on a 90-day lag basis. We were required to record 100% of VelocityHSI's losses to the extent of our investment, including advances, until it secured an independent source of financing or our investment and advances were reduced to zero. As of September 30, 2001, VelocityHSI has filed for bankruptcy protection and BRE's investment in VelocityHSI has been reduced to zero. The \$3,076,000 loss for the nine months ended September 30, 2000 relates to losses incurred prior to the spinoff.

Net Gain (Loss) on Sales of Investments in Rental Properties

During the nine months ended September 30, 2001 BRE sold three Tucson communities with 621 units for an aggregate sales price of \$19,420,000, pursuant to an agreement with G&I III Residential One, LLC, an affiliate of DRA Advisors, Inc. The Tucson sale completes a \$280,000,000 portfolio sale of apartment

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communities initiated by the company in the third quarter of 2000. In addition BRE sold its minority interest in a nonmultifamily asset for \$1,115,000. The transactions resulted in an aggregate net loss of \$327,000.

Minority Interest

Minority interest was \$3,143,000 and \$4,002,000 for the nine months ended September 30, 2001 and 2000, respectively. The decrease is due to lower distributions paid to BRE Property Investors LLC operating company unit holders as several members of the limited liability company have exchanged their operating company units for shares of BRE common stock in the last 12 months.

Dividends Attributable to Preferred Stock

Dividends attributable to preferred stock represent the dividends on BRE's 8 1/2% Series A Cumulative Redeemable Preferred Stock.

Net Income Available to Common Shareholders

As a result of the various factors mentioned above, net income available to common shareholders for the nine months ended September 30, 2001, was \$58,585,000, or \$1.26 per diluted share, as compared with \$23,860,000, or \$0.53 per diluted share, for the comparable period in 2000.

Construction in progress and land under development

Land acquired for development is capitalized and reported as "land under development" until the development plan for the land is formalized. Once the development plan is determined, the costs are transferred to the balance sheet line item, "construction in progress." Land acquisition, development and carrying costs of properties under construction are capitalized and reported as "direct investments in real estate" or "equity interests in and advances to real estate joint ventures", as appropriate, in "construction in progress." BRE transfers the capitalized costs for each building in a community under construction to the balance sheet line item, "investments in rental properties," once the building receives a final certificate of occupancy and is ready to lease.

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The following table presents data with respect to properties included in "construction in progress" and "land under development" at September 30, 2001, for both direct investment and equity interest properties. Completion of these properties is subject to a number of risks and uncertainties, including construction delays and cost overruns. No assurance can be given that these properties will be completed or, if completed, that they will be completed by the estimated dates or for the estimated amounts or that they will contain the number of units proposed in the table below.

COMMUNITIES	Number of Units	Estimated Cost	Cost Incurred	Balance Comple
(Dollar amounts in millions)				
Directly Owned Development				
Pinnacle on Lake Washington				
Renton, WA	180	\$ 28.2	\$ 25.2	\$ 3.
Pinnacle at Otay Ranch II				

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Chula Vista, CA	204	27.6	22.4	5.
Pinnacle at Otay Ranch I				
Chula Vista, CA	160	22.1	9.4	12.
Pinnacle at Denver Tech Center				
Greenwood Village, CO	420	45.2	24.4	20.
Subtotal	964	\$123.1	\$ 81.4 (2)	\$ 41.
Joint Venture Development (3)				
Pinnacle at Stone Creek				
Paradise Valley, AZ	226	\$ 24.4	\$ 24.0	\$ 0.
Pinnacle at MacArthur Place				
Santa Ana, CA	253	57.6	47.3	10.
Pinnacle Galleria				
Roseville, CA	236	24.9	22.9	2.
Pinnacle at the Creek				
Aurora, CO	216	21.1	10.9	10.
Subtotal	931	\$128.0	\$105.1 (4)	\$ 22.
Land Under Development (5)				
Pinnacle at Fullerton				
Fullerton, CA	192	\$ 37.9	\$ 9.7	\$ 28.
Pinnacle at Talega				
San Clemente, CA	252	42.2	15.6	26.
Subtotal	444	\$ 80.1	\$ 25.3	\$ 54.
Total	2,339	\$331.2	\$211.8	\$119.

- (1) "Completion" is defined as our estimate of when an entire project will have a final certificate of occupancy issued and be ready for occupancy. Completion dates have been updated to reflect our current estimates of receipt of final certificates of occupancy, which can change based on several factors, including construction delays and the inability to obtain necessary public approvals.
- (2) Reflects all recorded and allocated costs incurred as of September 30, 2001, consisting of \$66.8 million recorded on our consolidated balance sheet as "direct investments in real estate - construction in progress" and \$14.6 million of costs for completed buildings located on listed properties, reflected on our consolidated balance sheet as "direct investments in real estate-investments in rental properties."
- (3) With respect to our aggregated joint ventures, we currently expect to maintain 35-40% leverage and contribute approximately 30% of the remaining equity.
- (4) Consists of \$44.5 million recorded on our consolidated balance sheet as "equity interest in advances to real estate joint ventures-construction in progress" displayed net of \$60.6 million in construction loan balances and members' equity contributions.
- (5) "Land under development" represents projects in various stages of predevelopment, development and initial construction, for which construction or supply contracts have not yet been finalized. As these contracts are finalized, projects are moved to construction in progress.

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DIVIDENDS AND DISTRIBUTIONS TO MINORITY MEMBERS

A cash dividend has been paid to common shareholders each quarter since our inception in 1970. On February 20, 2001, we increased our annual dividend on our common shares to \$1.86 per share from \$1.70 per share. Total dividends paid to common shareholders for the nine months ended September 30, 2001 and 2000 were \$64,950,000 and \$57,478,000, respectively. In addition, we paid \$3,426,000 in dividends on our 8 1/2% Series A Cumulative Redeemable Preferred Stock in the nine months ended September 30, 2001 and 2000.

Total distributions to minority members of our consolidated subsidiaries were \$3,216,000 and \$6,172,000 for the nine months ended September 30, 2001 and 2000, respectively.

ITEM 3: Quantitative and Qualitative Disclosures About Market Risk

Information concerning market risk is incorporated herein by reference from Item 7A of our Form 10-K for the year ended December 31, 2000. There has been no material change in the quantitative and qualitative disclosure about market risk since December 31, 2000.

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PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings

As of September 30, 2001, there were no pending legal proceedings to which we are a party or of which any of our properties is the subject, the adverse determination of which we anticipate would have a material adverse effect upon our consolidated financial condition and results of operations.

ITEM 2. Changes in Securities and Use of Proceeds

None.

ITEM 3. Defaults upon Senior Securities

None.

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

None.

ITEM 5. Other Information

None.

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ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- 10.1 Form of Indemnification Agreement
- 10.2 Employment Agreement of Deirdre A. Kuning
- 11 Statement Re Computation of Per Share Earnings
- 99.1 Other Exhibits - Statement of Computation of Ratio of Earnings to Fixed Charges

(b) Reports on Form 8-K:

None.

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SIGNATURES

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

BRE PROPERTIES, INC.
(Registrant)

Dated: November 7, 2001

/s/ Edward Lange

Edward F. Lange, Jr.
Executive Vice President,
Chief Financial Officer and Secretary